

Long-term investments: Norway's Government Pension Fund Global

Presentation for the delegation from North Dakota

4 June 2012

Dag Dyrdal, Global Head of External Relations

NBIM

Norges Bank Investment Management



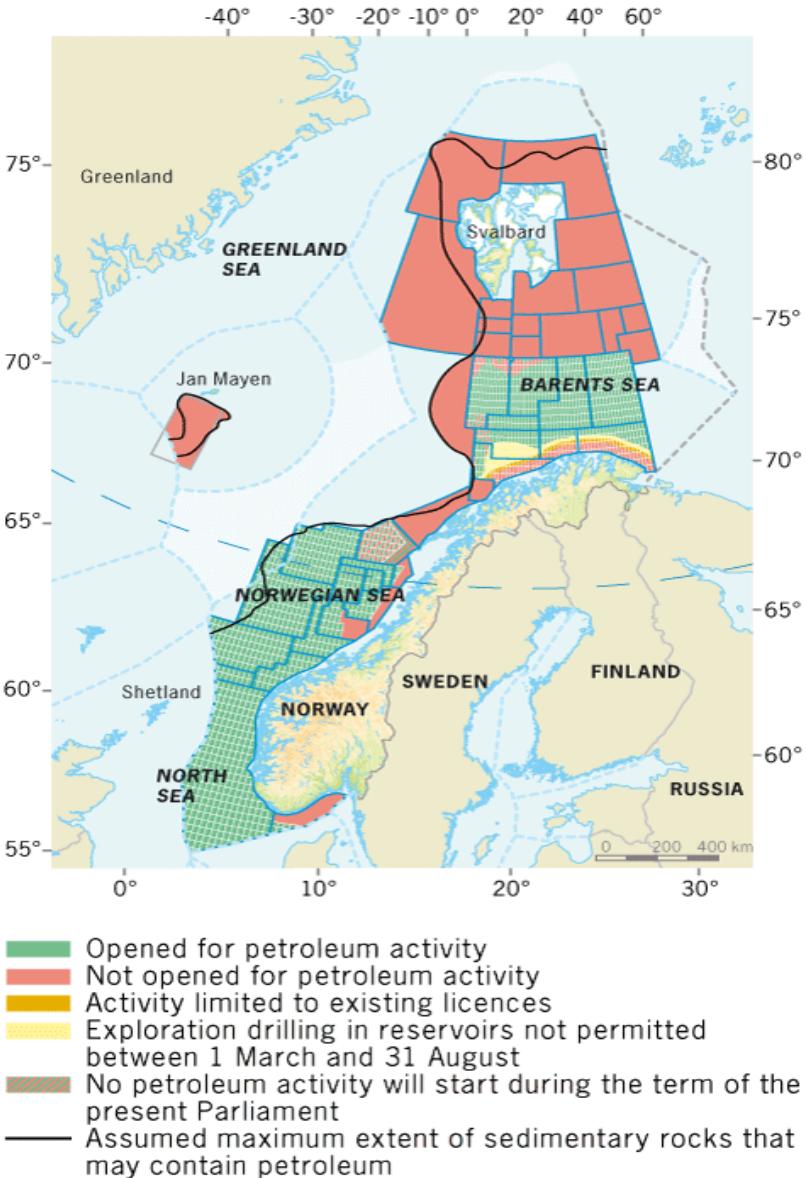
Outline

- History and Structure
- Investment Mandate and Management Role
- Organisation
- Performance
- Ownership Policies

History and Structure

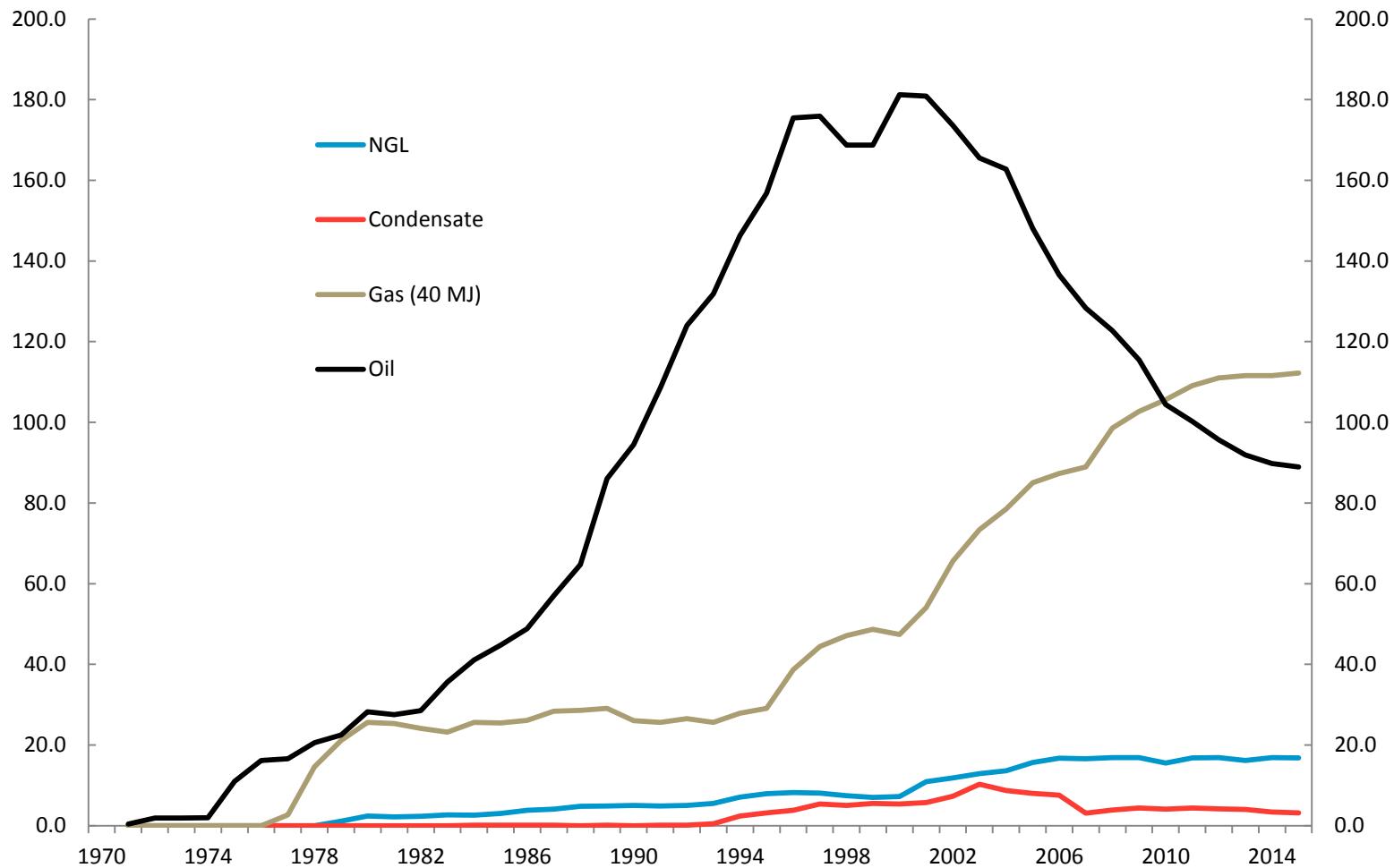
Historical context

- *"One may disregard the possibility of discovering coal, oil or sulphur on the Norwegian Continental Shelf"*
(Letter from the Geological Survey of Norway to the Ministry of Foreign Affairs, 1958)
- 1962: Phillips Petroleum applies for exclusive exploration and production rights (Not granted)
- 1963: Norway proclaims sovereignty over the Norwegian Continental Shelf
- 1965: Agreements with the UK and Denmark on dividing the North Sea according to the median line principle
- 1965: Norway's first offshore licensing round
- 1969: First major petroleum discovery (Ekofisk Field)
- 1971: Production started



Norway's oil and gas production

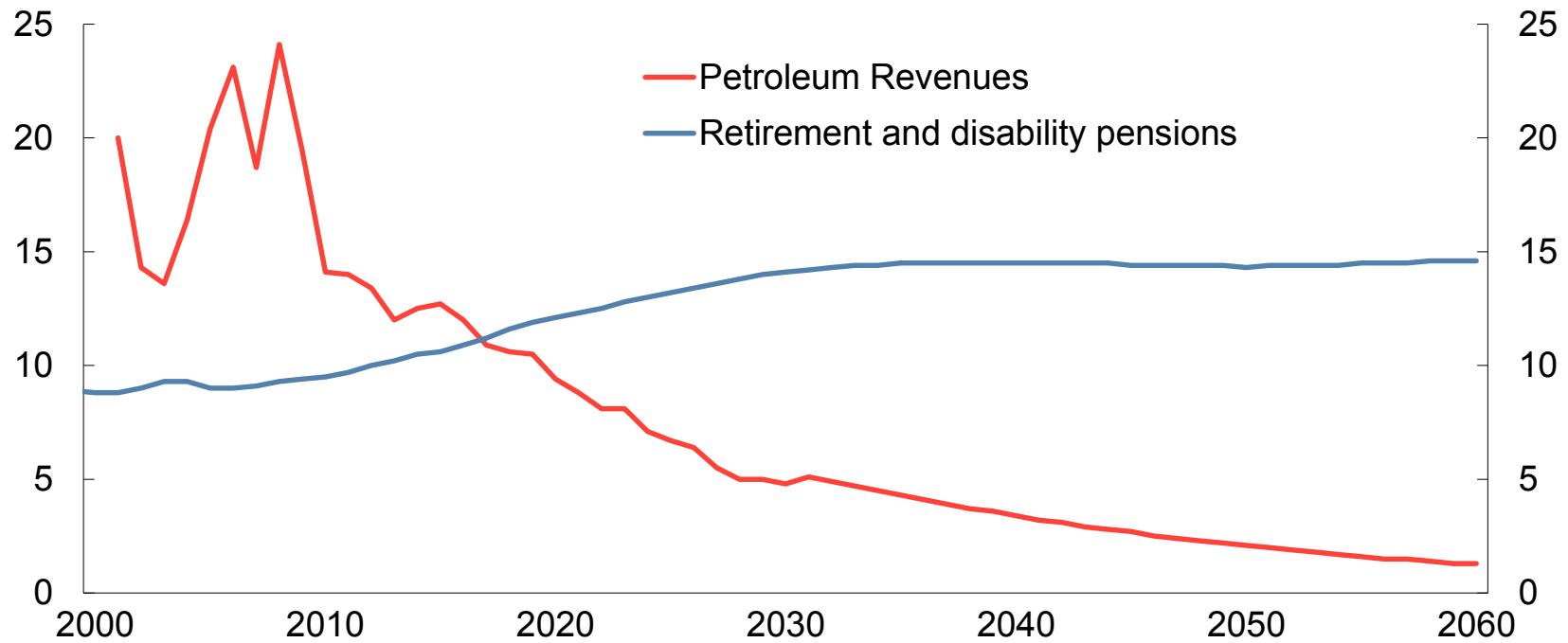
Million of scm o.e. per year [1 scm = 6.29 barrels]



Source: Norwegian Petroleum Directorate

The national challenge

Mainland GDP, percent

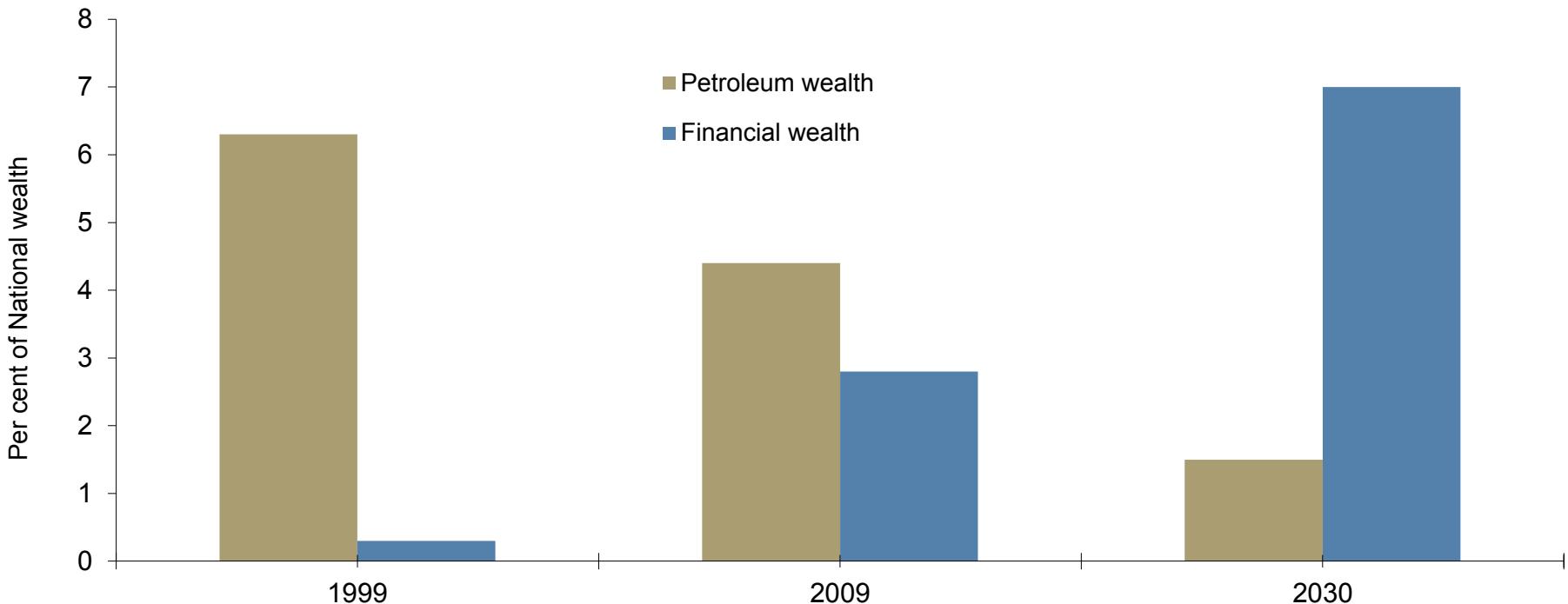


- Ensure a fair distribution of oil wealth across generations
- Avoid pronounced cyclical fluctuations in the mainland economy due to variations in oil revenues

Sources: Ministry of Finance, NBIM

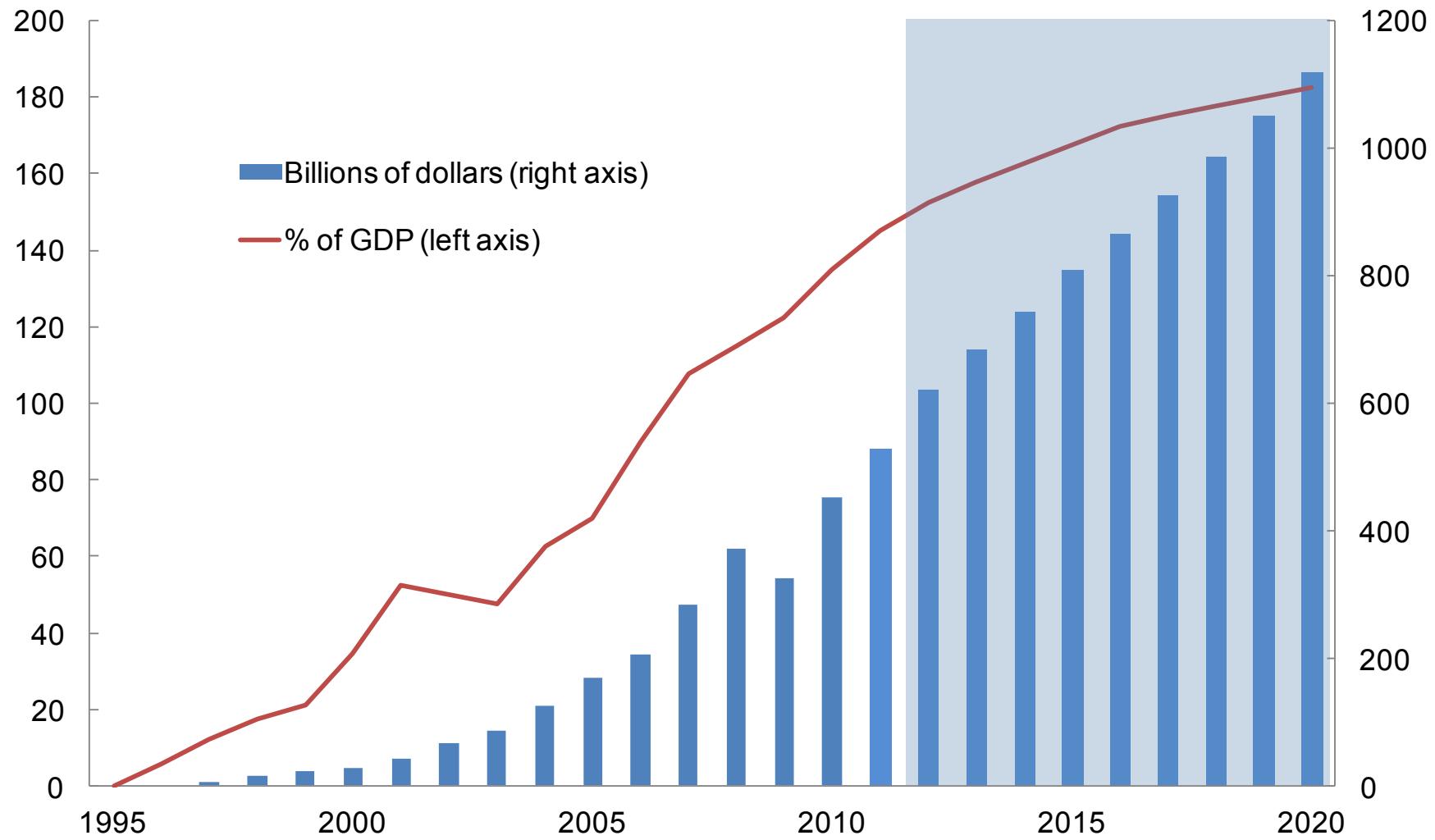
Transforming the petroleum wealth into an international financial wealth

Percent of national wealth



Sources: Statistics Norway , Ministry of Finance, NBIM

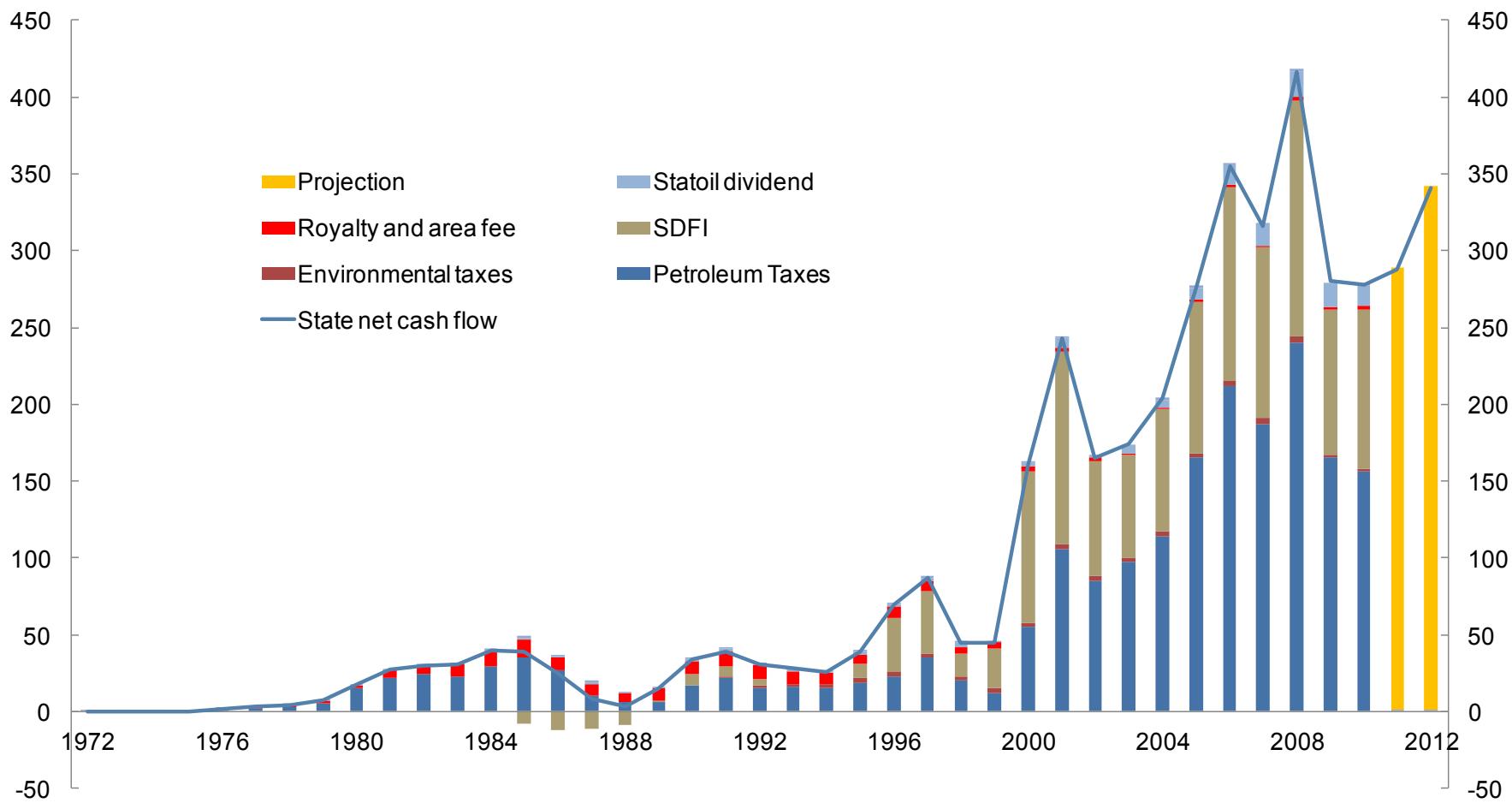
Projected Fund Size



Sources: Ministry of Finance, National Budget 2012 and Norges Bank

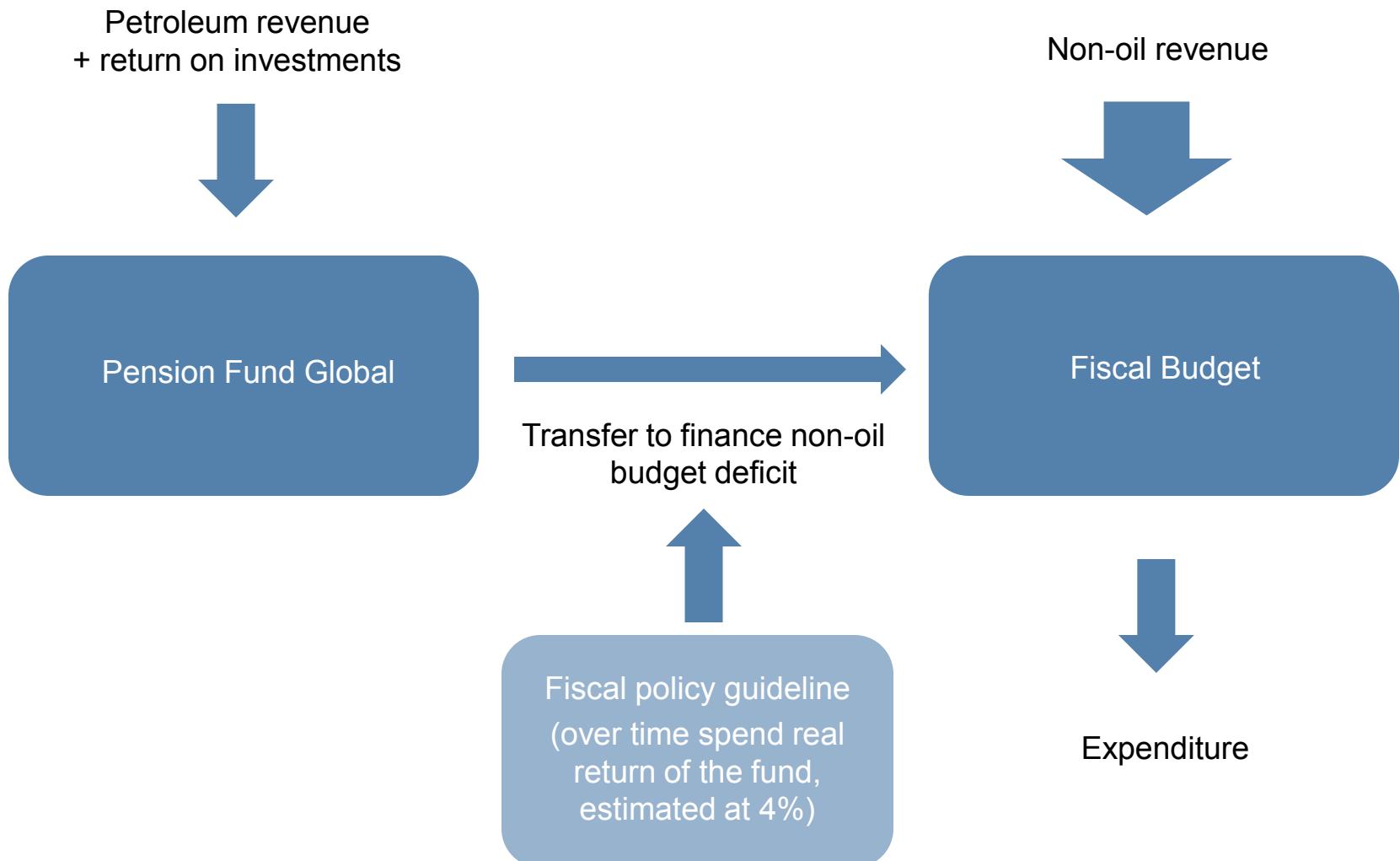
Net government cash flow from petroleum

Billions of kroner

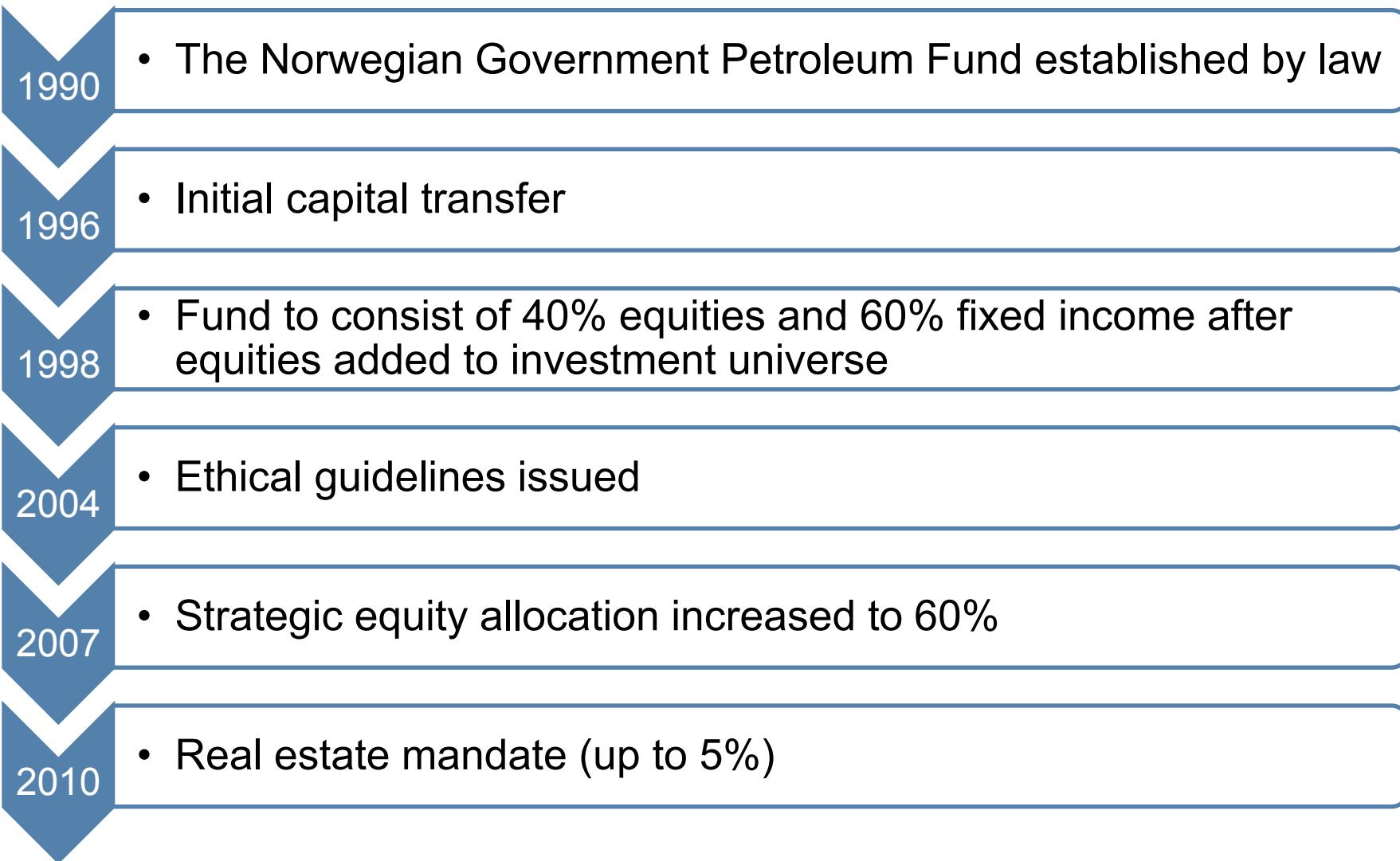


Sources: Facts – The Norwegian Petroleum Sector 2011, Ministry of Petroleum and Energy; National Budget 2012, Ministry of Finance

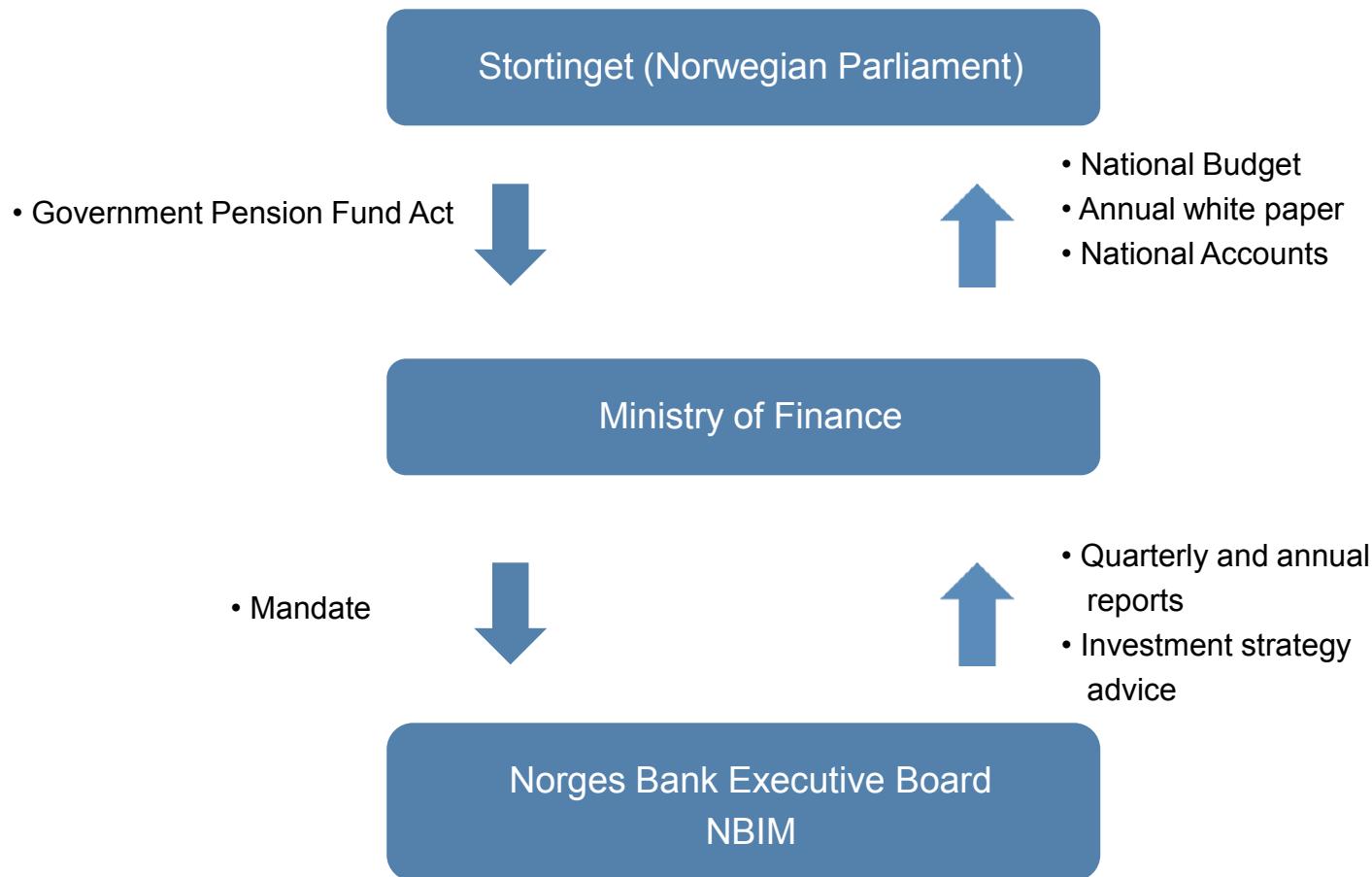
The fund mechanism



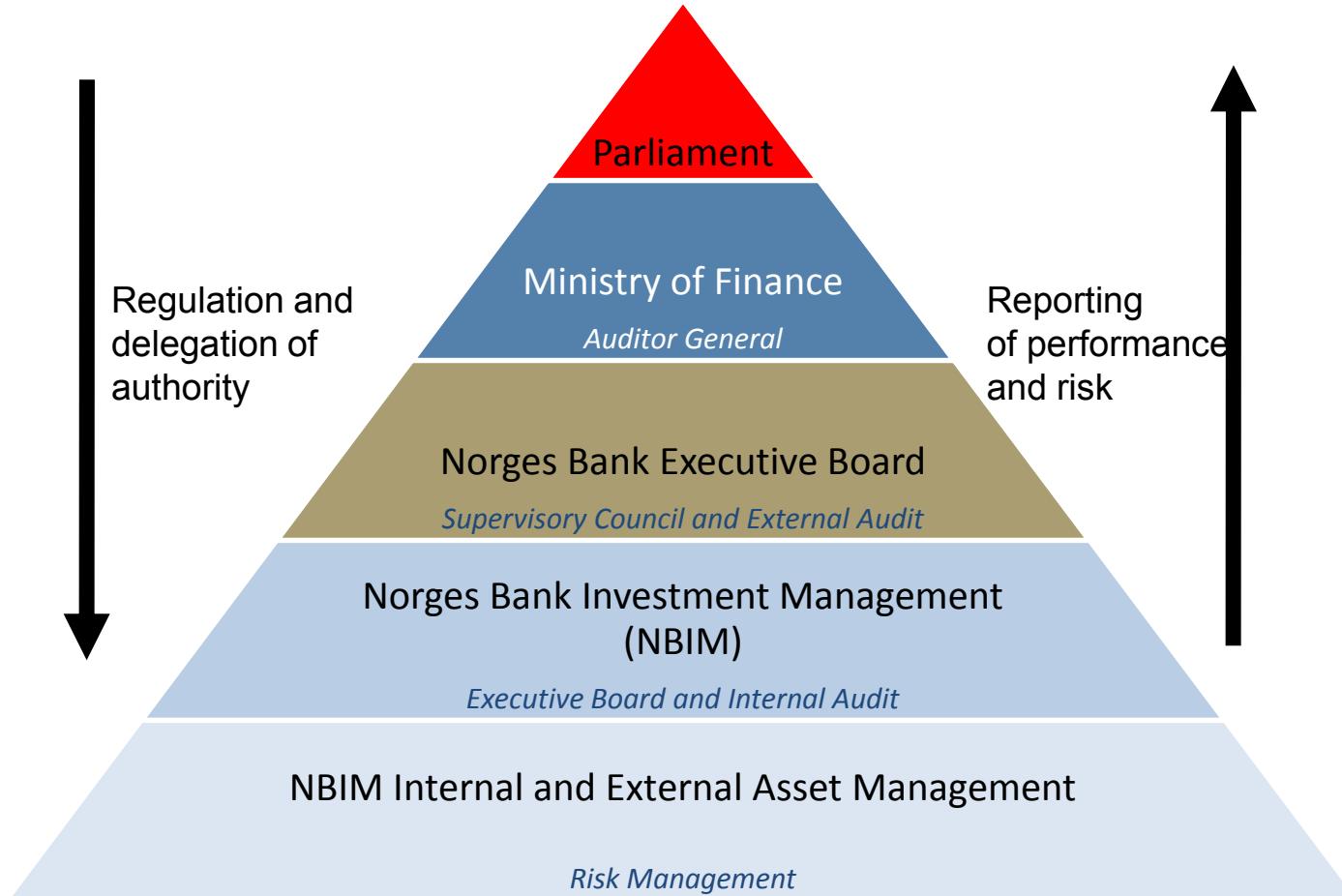
Important milestones



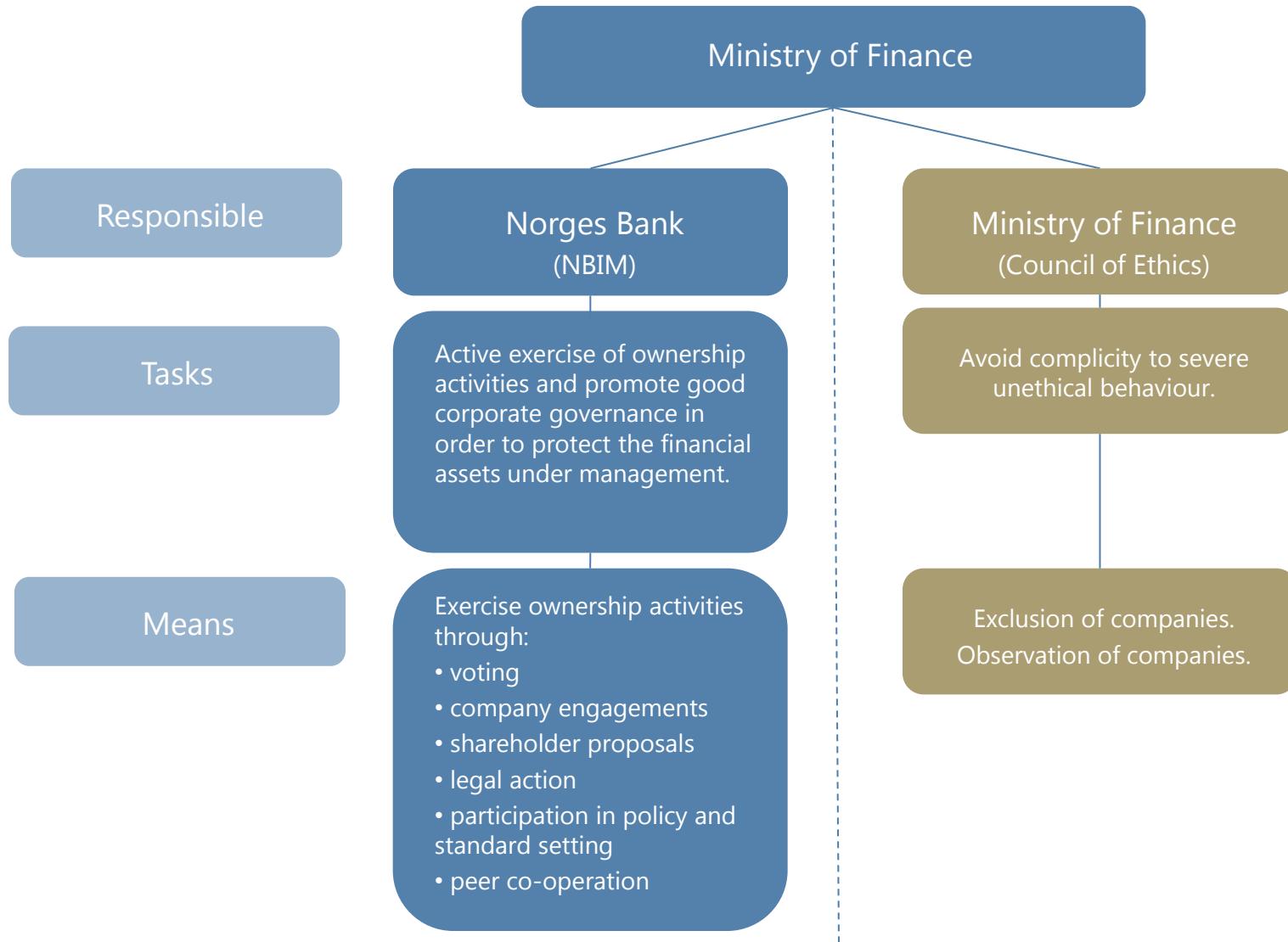
Governance structure



Supervision and control



Ethical guidelines and responsibilities



Investment Mandate and Management Role

“To safeguard and build financial
wealth for Norway’s future generations”

Fund’s mission statement

Investment objectives

Maintain international purchasing power



High return and moderate risk

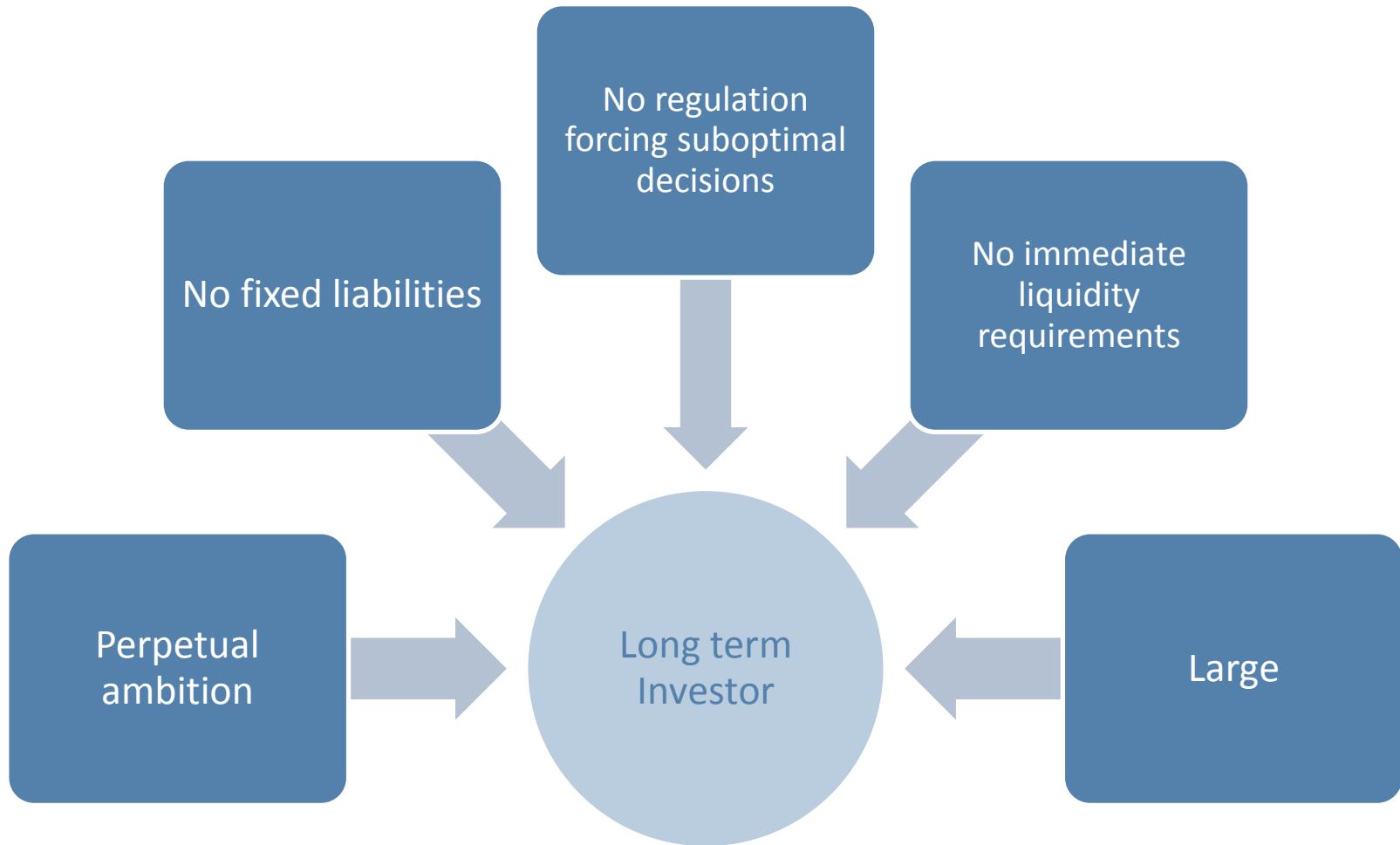


Diversification

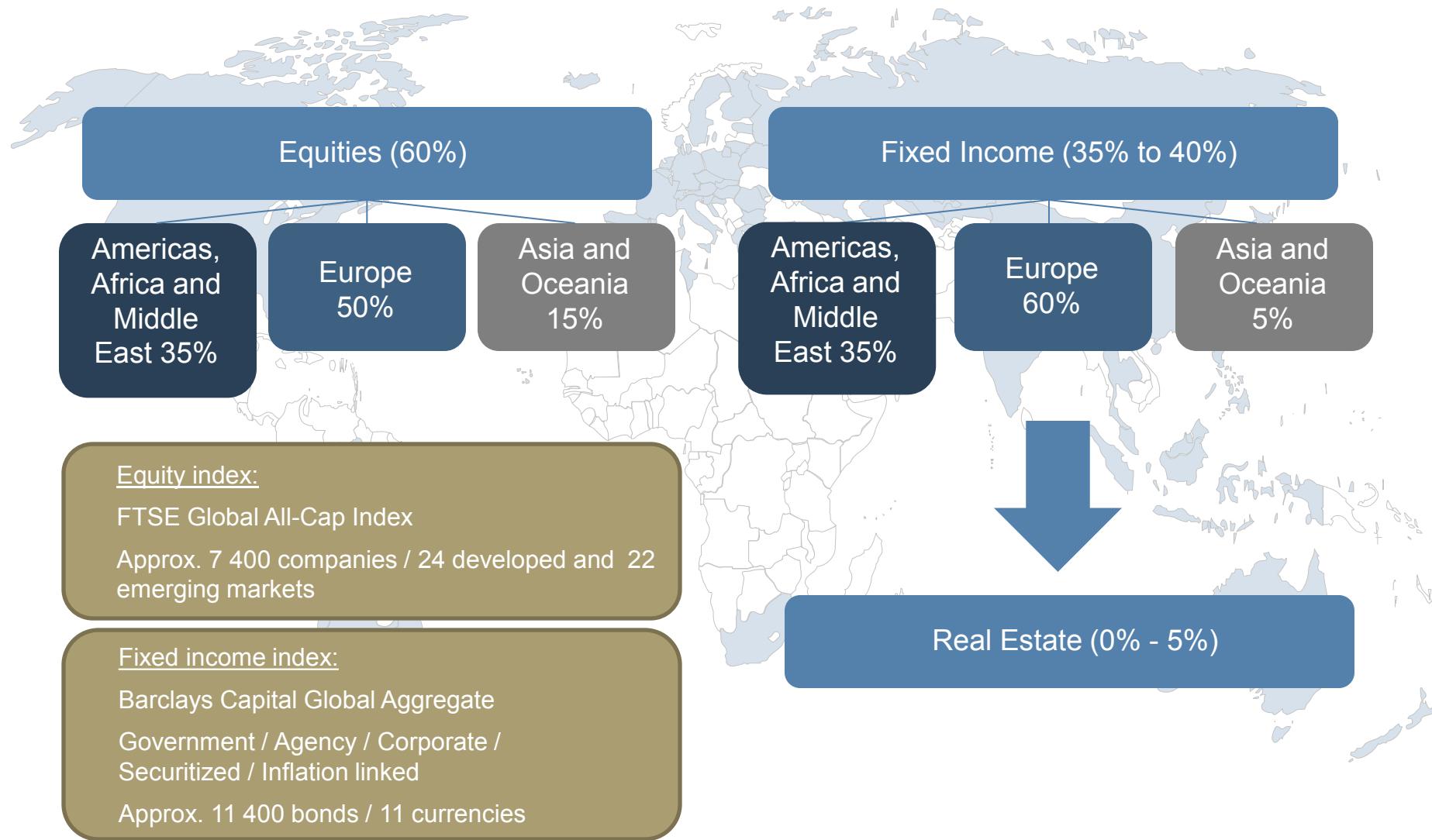


Financial investor

Investment characteristics

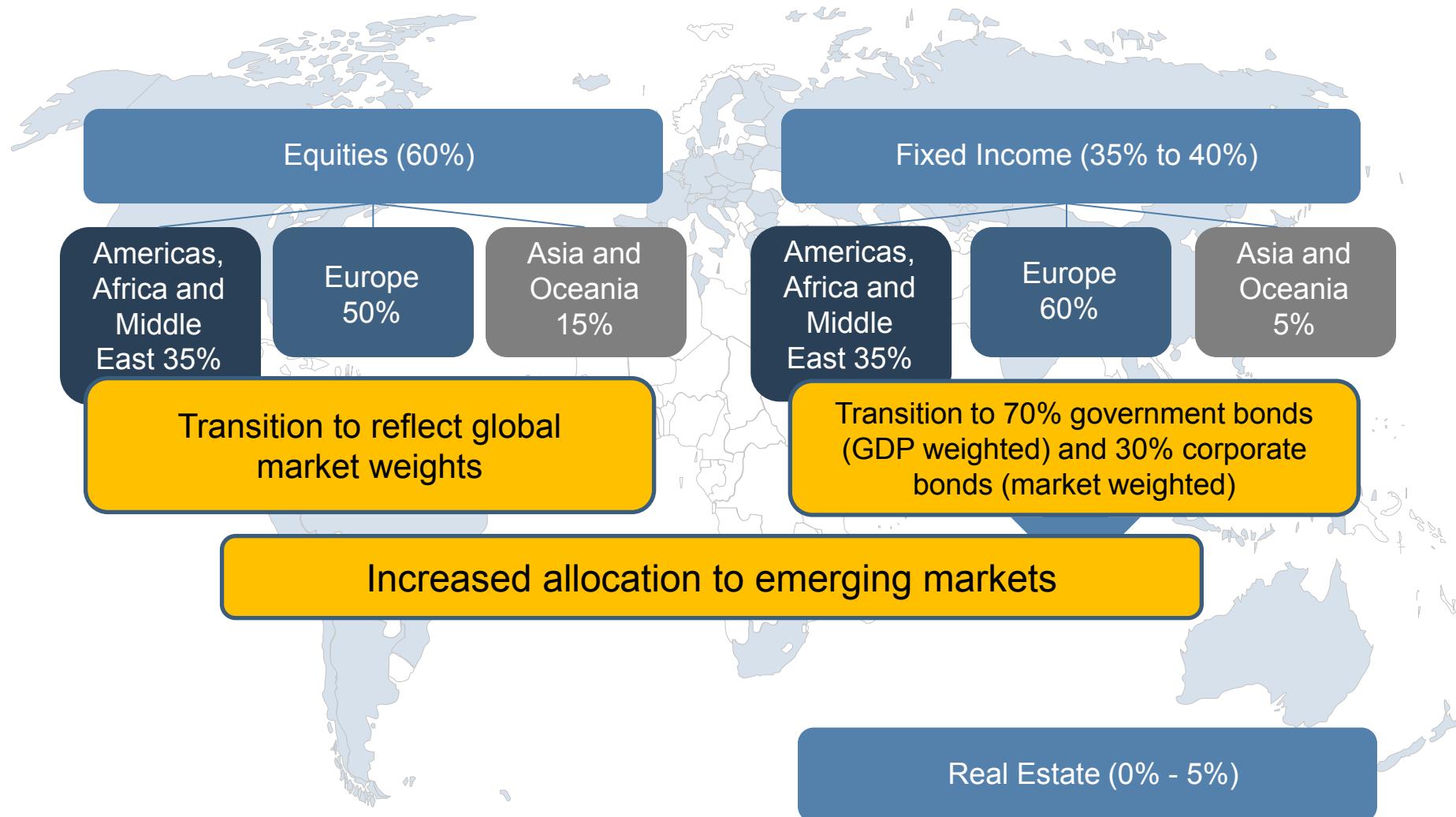


Strategic asset allocation



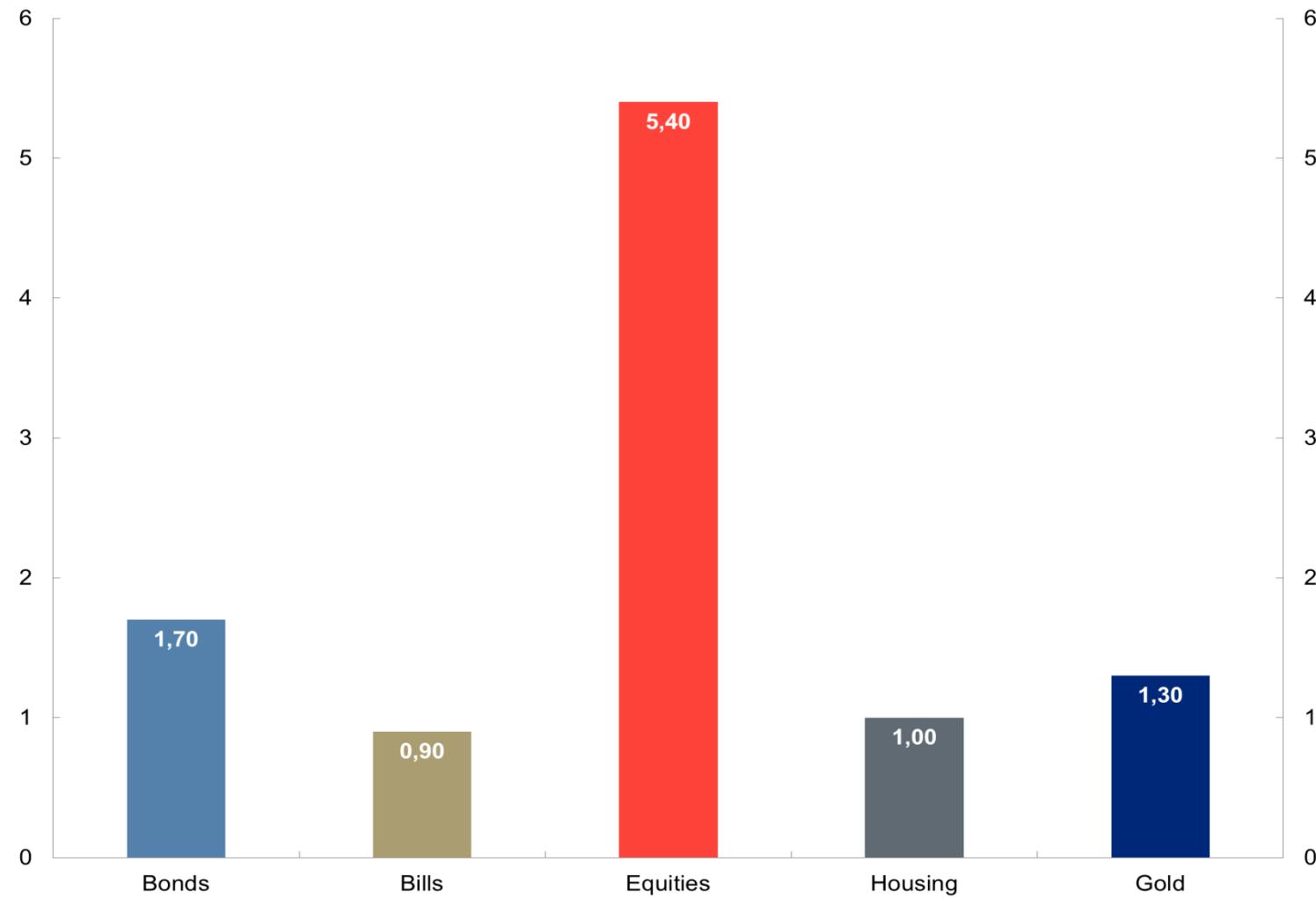
Strategic asset allocation revised

Report no. 17 (2011-2012) – to be discussed by Parliament on 12 June 2012



Financial markets real returns 1900-2011

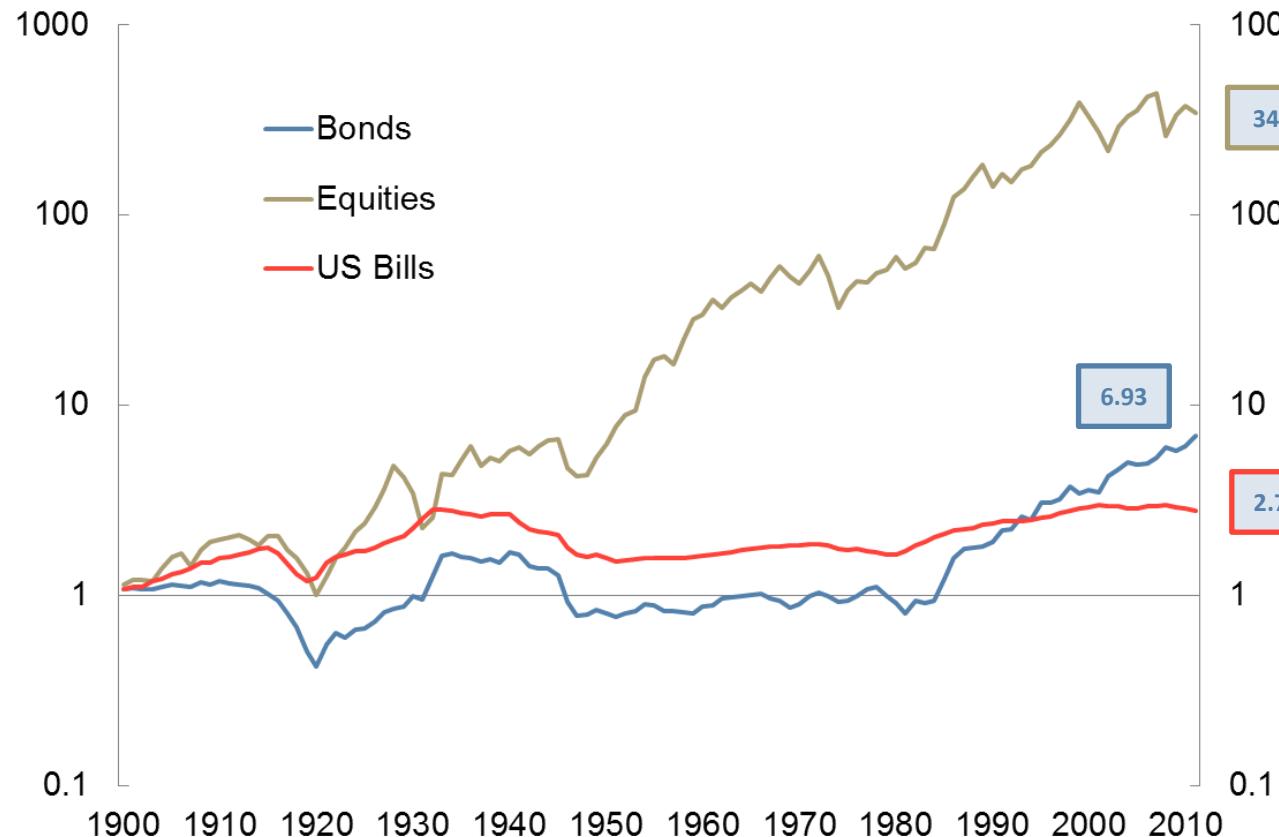
Percent, annualised



Source: Dimson, Marsh, Staunton

Long-term returns in financial markets

31.12.2011 real value of 1 unit of *) invested in the year 1900



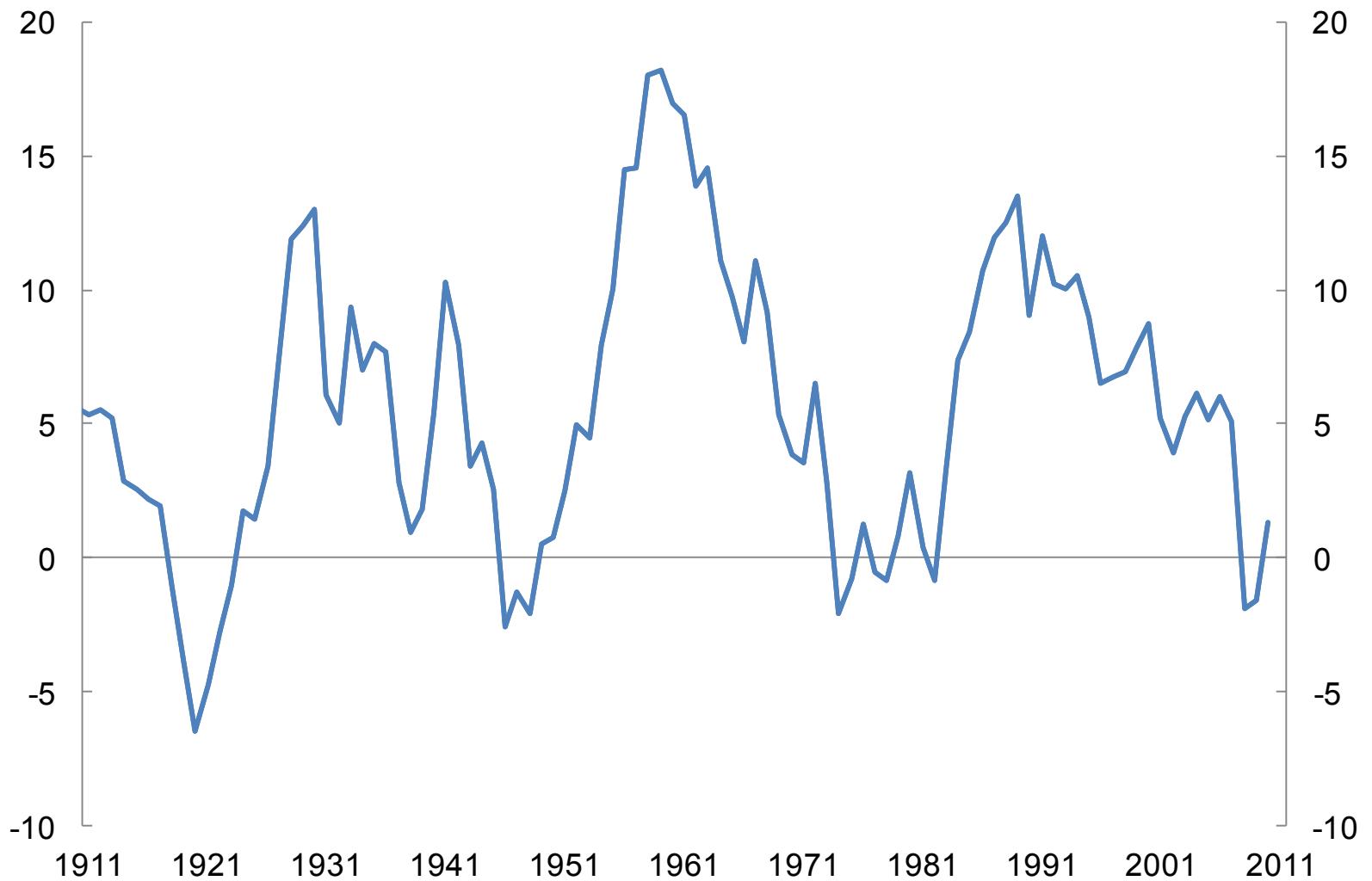
111 year – 1900-2011 (p.a.)		
Real return	Equities	5,4 %
	Bonds	1,7 %
	US Bills	0,9 %
Nominal return	Equities	8,5 %
	Bonds	4,8 %
	US Bills	3,9 %
Standard deviation	Equities	17,7
	Bonds	10,4
	US Bills	4,7

*) For stocks weighted by market capitalisation annually for 19 countries, for bonds weighted by annual GDP ratio of 19 countries

Source: Dimson, Marsh and Staunton

Strategy: Equity real return

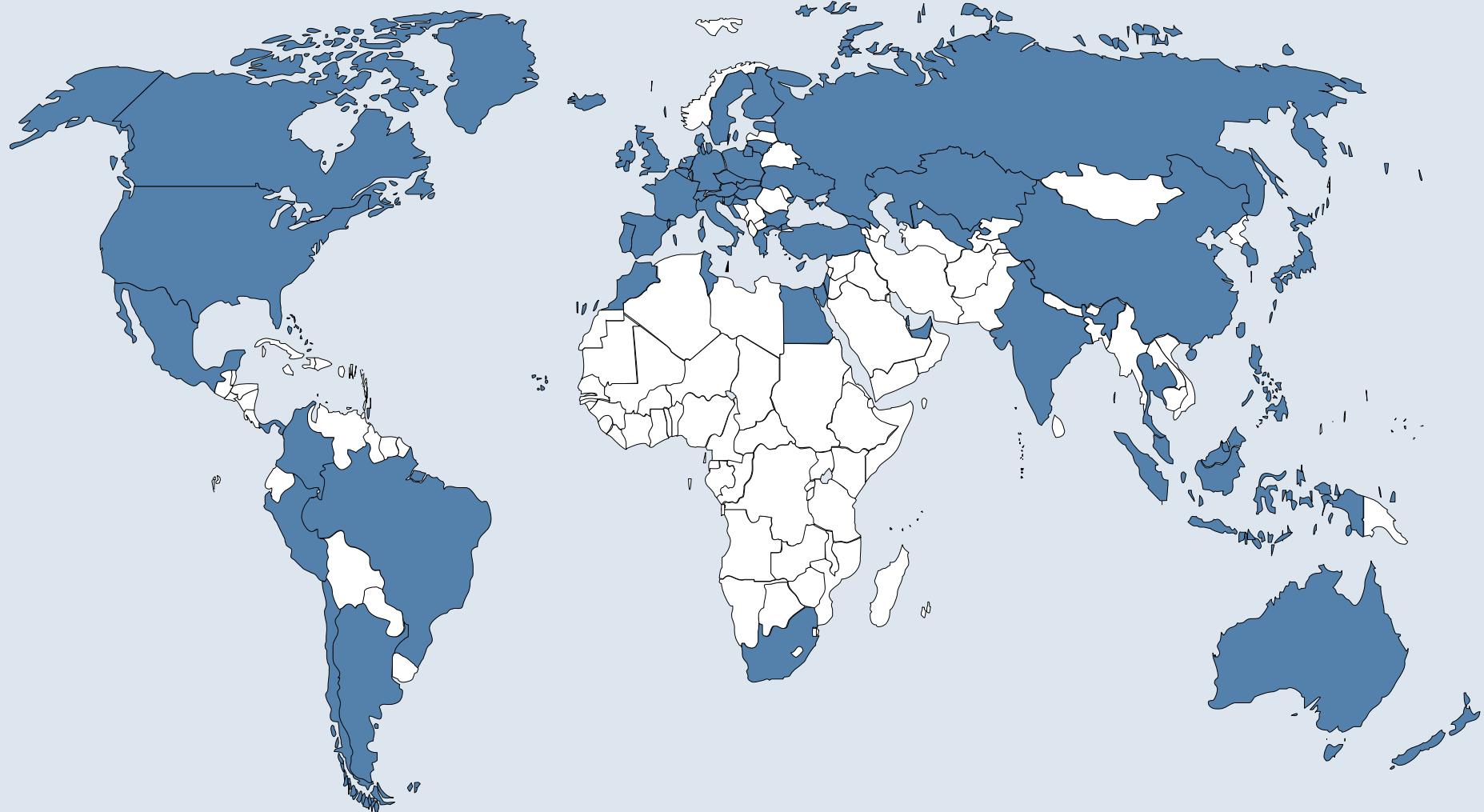
10 years rolling periods, percent



Source: Dimson, Marsh and Staunton

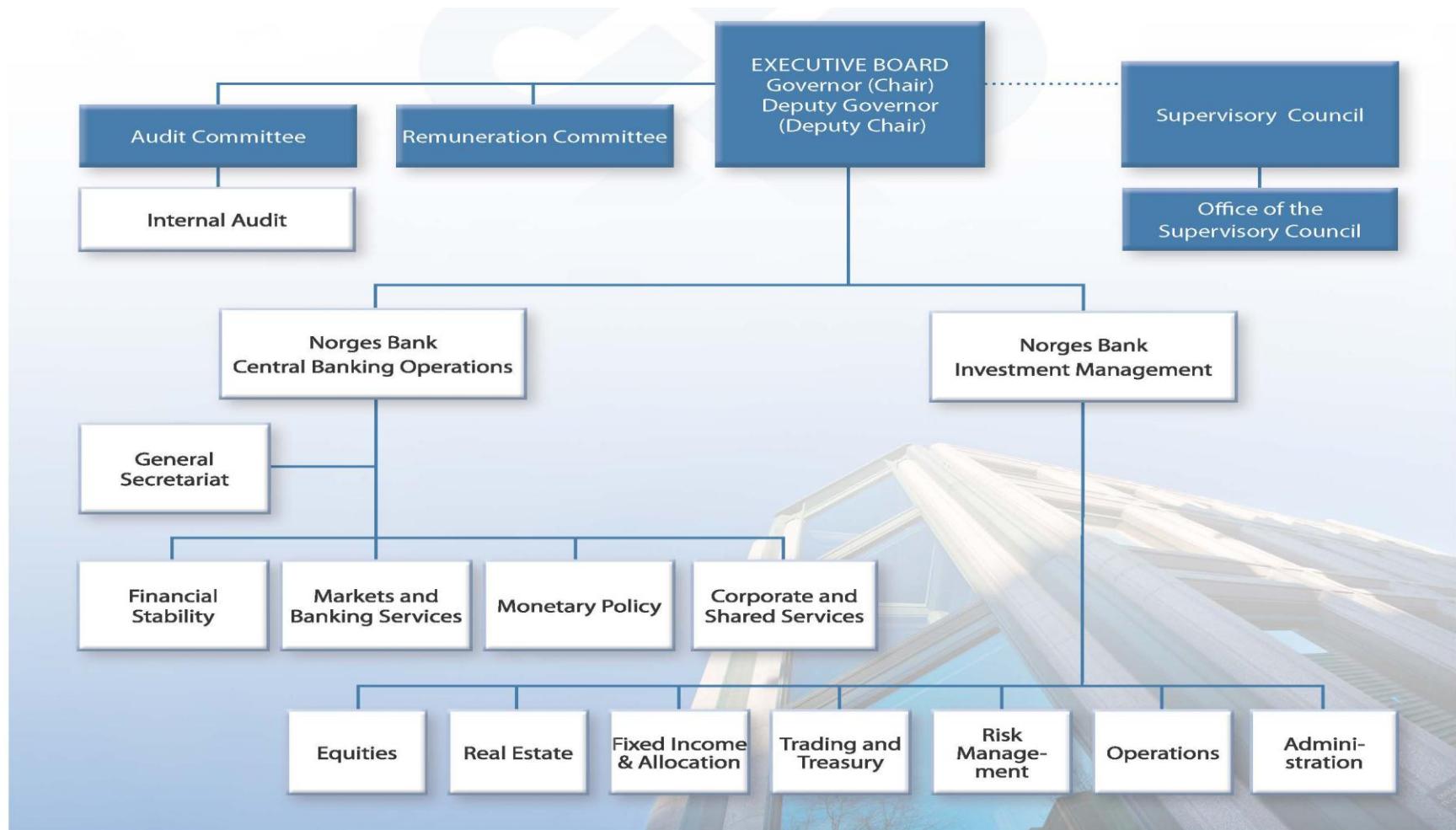
Markets the fund is invested in

End of 2011



Organisation

Norges Bank organisational chart



A global organisation



- Offices in
 - Oslo (1998)
 - New York (1998)
 - London (2000)
 - Shanghai (2007)
 - Singapore (2010)
- 315 employees from 26 countries

External management

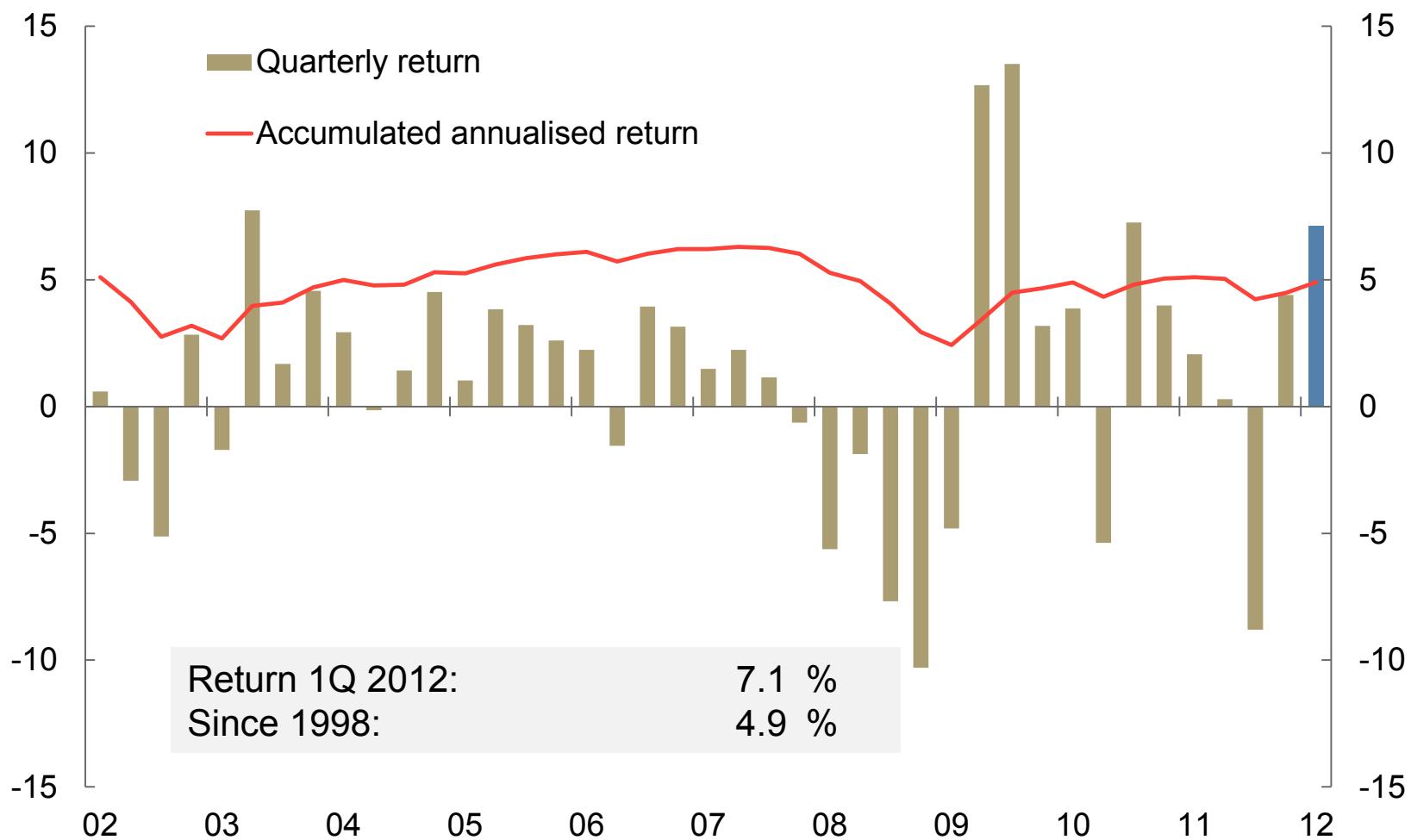


Source: NBIM

Performance

Quarterly and annualised absolute returns

Percent, measured in international currency



Source: NBIM

Fund's real return

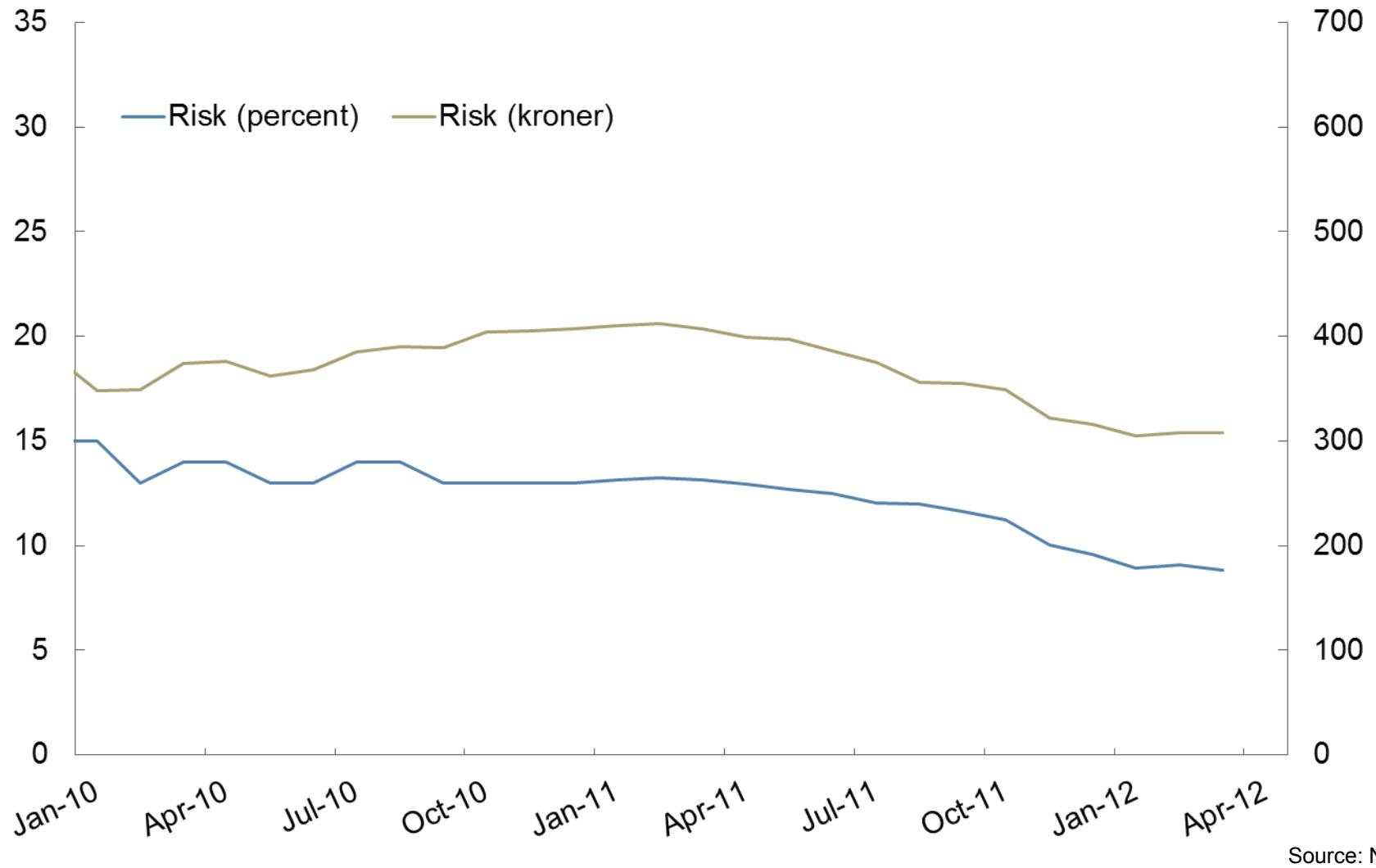
Percent, annualized



Source: NBIM

The fund's market risk

Expected absolute volatility in percent and billions of kroner

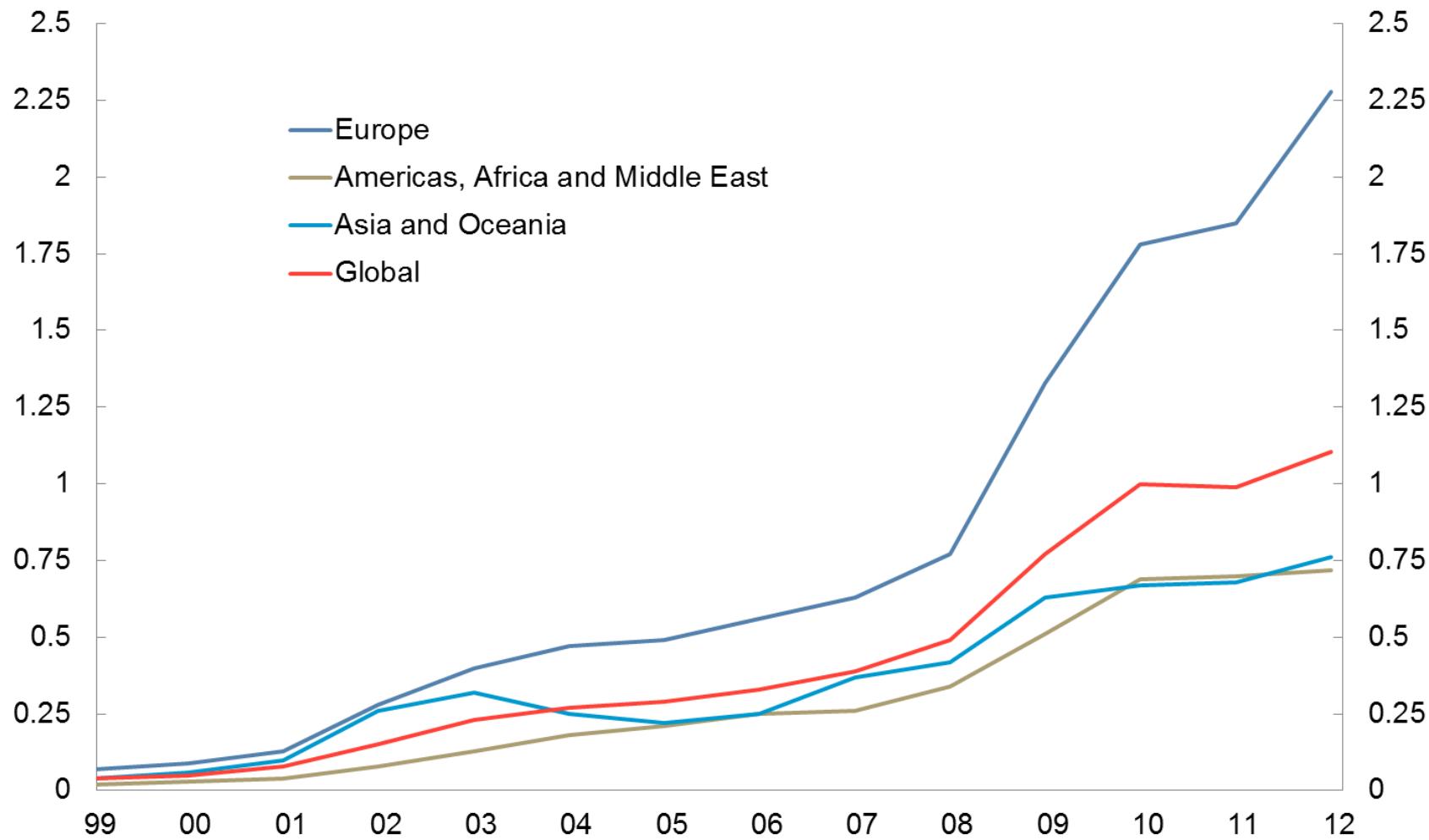


Source: NBIM

Ownership Policies

Ownership interest in equity markets

Percent of FTSE All Cap Index's market capitalisation

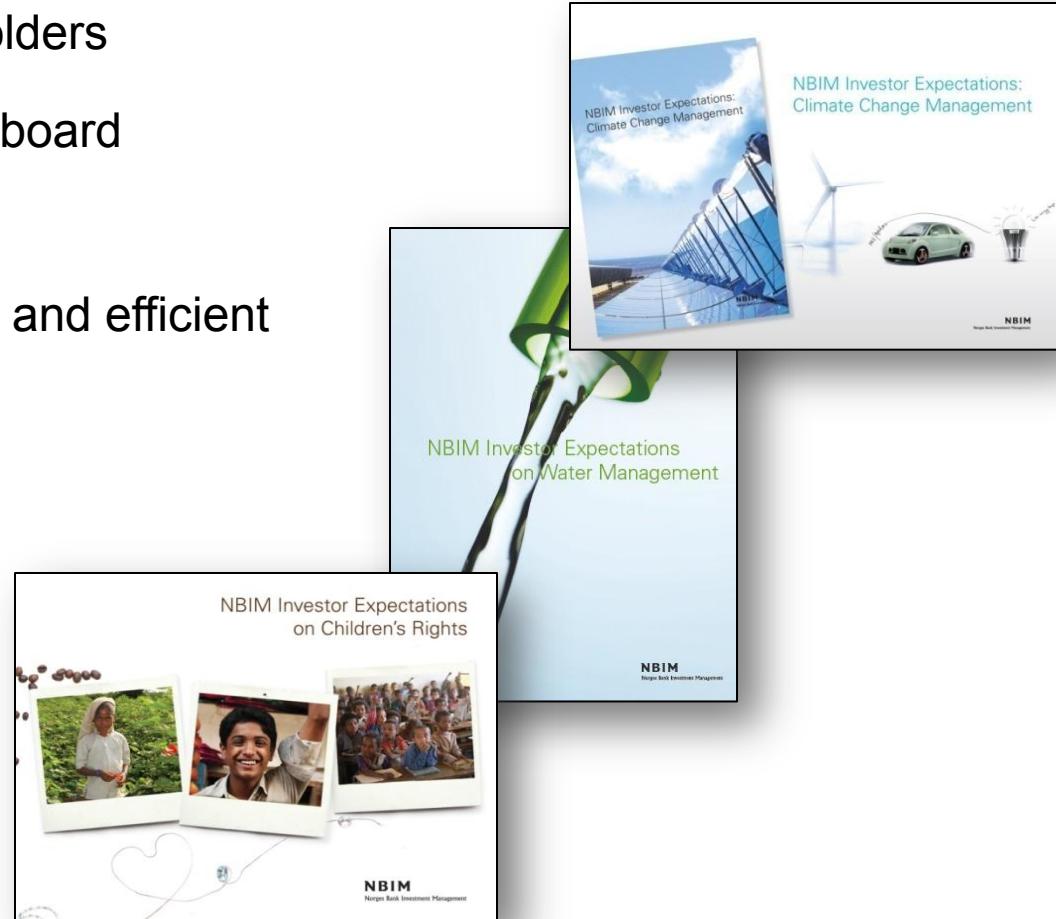


Source: FTSE, NBIM

Ownership focus areas

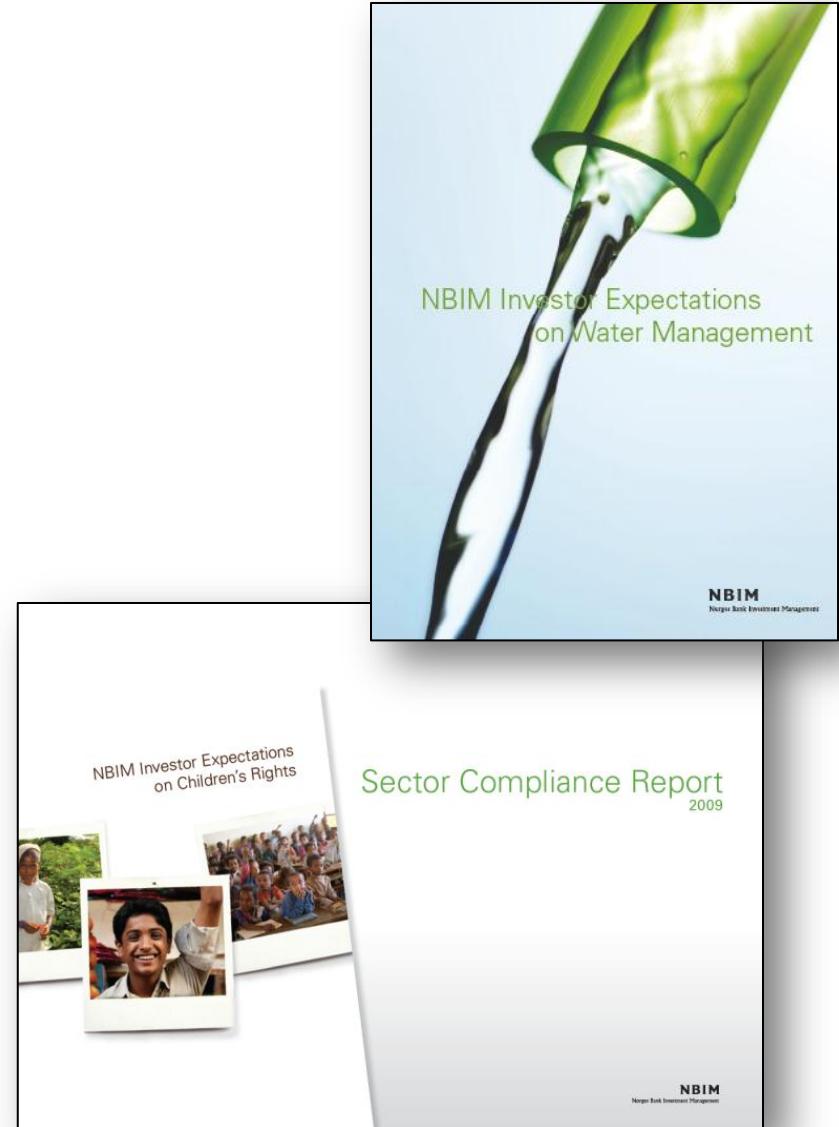
Determined by the Executive Board

1. Equal treatment of shareholders
2. Shareholder influence and board accountability
3. Well-functioning, legitimate and efficient financial markets
4. Climate change
5. Water management
6. Children's rights

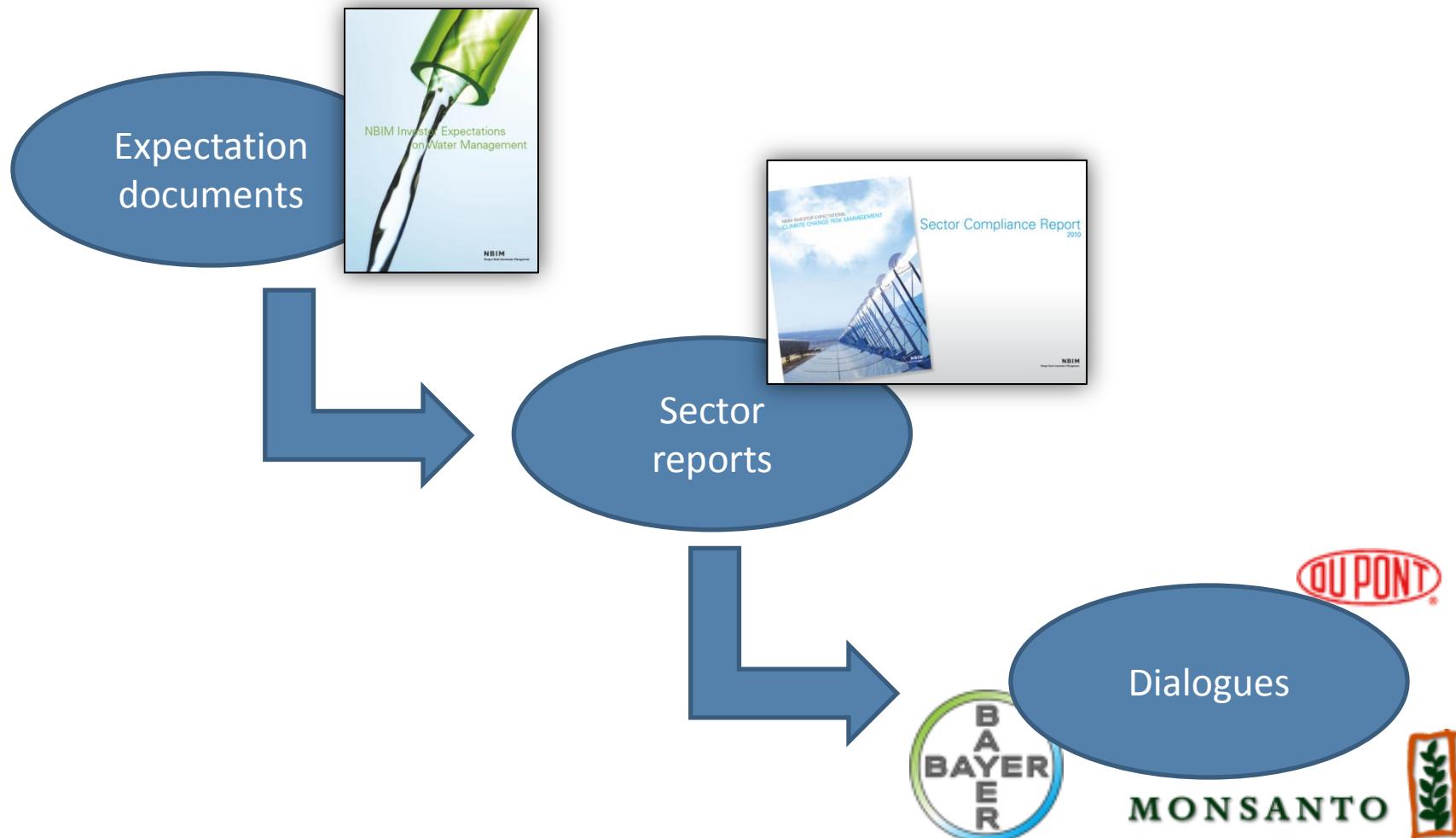


Ownership tools

1. Expectation documents
2. Dialogue with companies
3. Voting rights
4. Shareholder proposals
5. Contact with regulatory authorities
6. Public views
7. Legal action

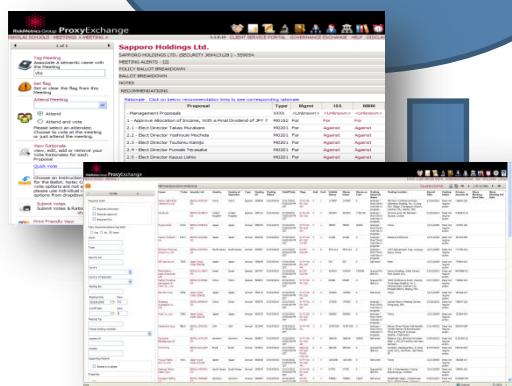


Ownership tools - engaging with companies



Ownership tools - exercising shareholder rights

(Proxy) Voting



Shareholder
proposals



Legal action



PORSCHE

Further information

- Annual and quarterly reports including financial reporting and notes
- Complete holding lists and voting records published annually
- Real-time update on market value on website
- All public information published on www.nbim.no

The image contains three screenshots of NBIM's annual report and website. The top right screenshot shows the cover of the 'GOVERNMENT PENSIONFUND GLOBAL ANNUAL REPORT 2011', featuring a man in a headset and a bridge at night. The middle screenshot shows the cover of the 'GOVERNMENT PENSION FUND GLOBAL THIRD QUARTER 2011' report, showing a screen with financial data and a city skyline. The bottom screenshot shows the NBIM website homepage, which includes a world map, news sections, and a sidebar with contact information and a red circle highlighting the 'Holdings and voting 2011' section.

GOVERNMENT PENSIONFUND GLOBAL ANNUAL REPORT
2011

GOVERNMENT PENSION FUND GLOBAL THIRD QUARTER 2011

NBIM
Norges Bank Investment Management

Fund market value in NOK
3 495 988 854 963

A global investment organisation with more than 300 employees from 25 nations

Government Pension Fund Global
Norges Bank Investment Management (NBIM) manages the Norwegian Government Pension Fund Global. We look to select and build financial wealth for future generations through responsible management of the fund. We use our influence to promote good corporate governance and high social and environmental standards at companies in our portfolio.

Stock Declines Push Down Results in 2011
The Government Pension Fund Global returned -2.5 percent, or -86 billion kroner, in 2011 as global stock markets slumped.

Holdings and voting 2011

Open search (fast)



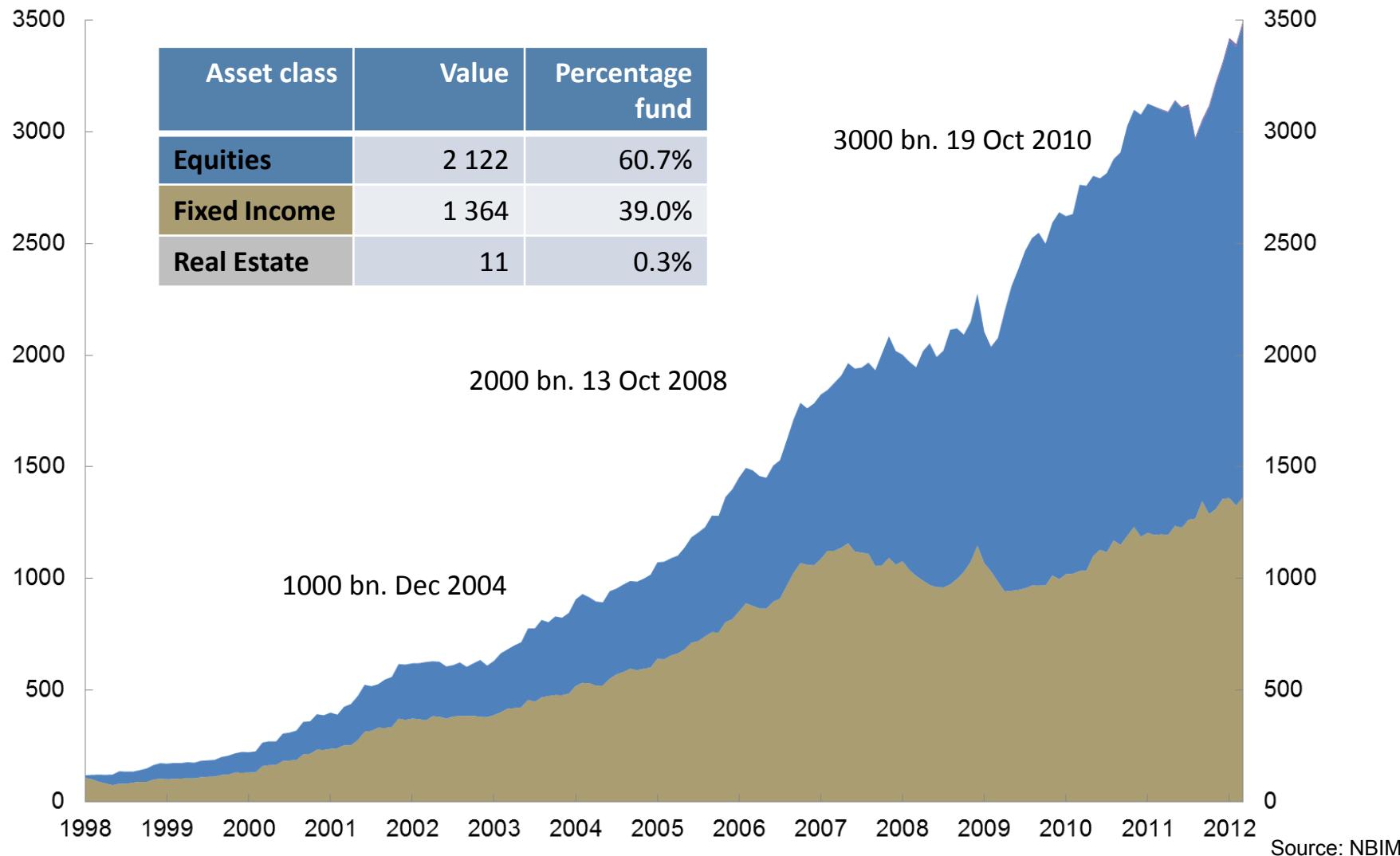
NBIM

Norges Bank Investment Management

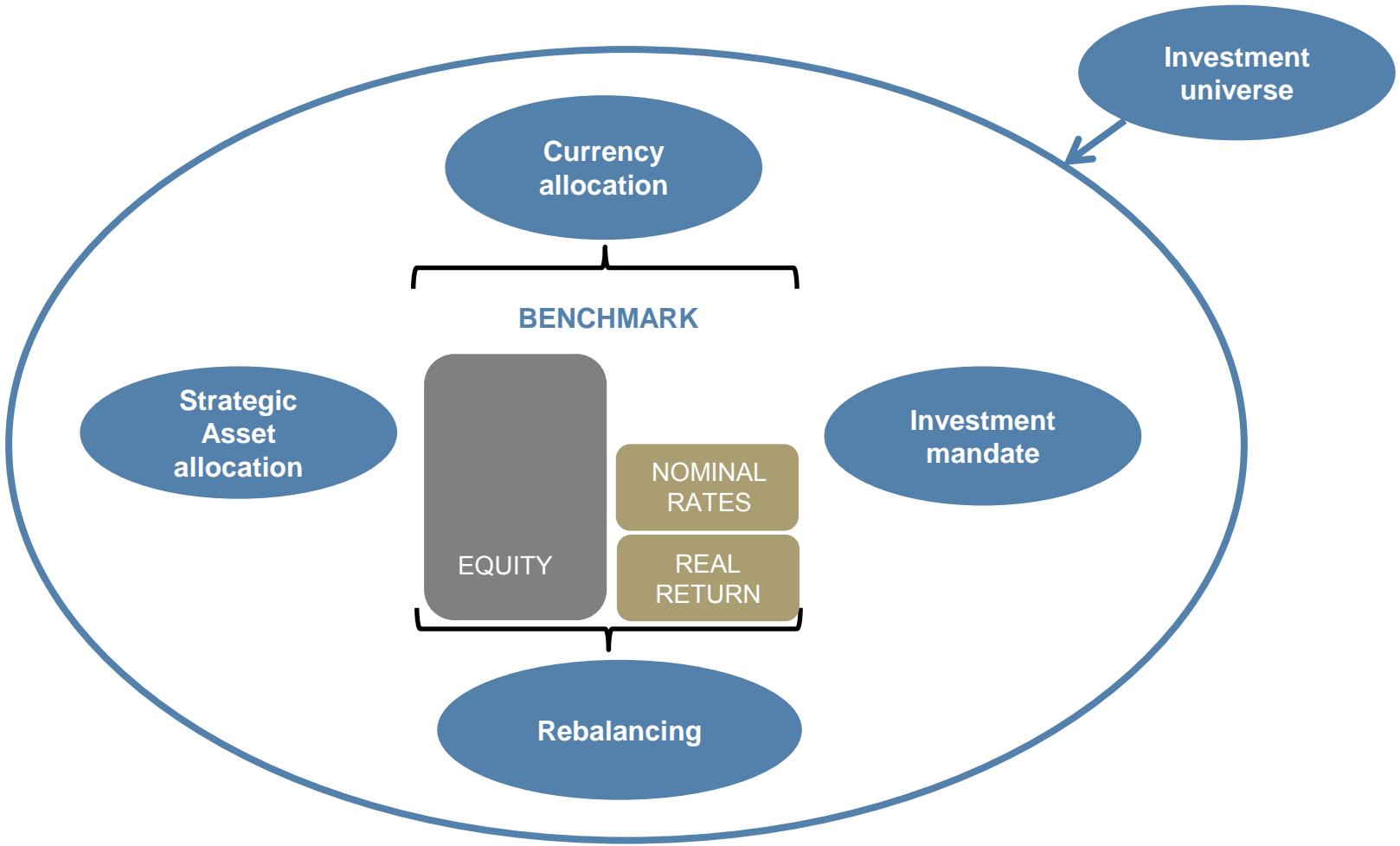


The fund's market value

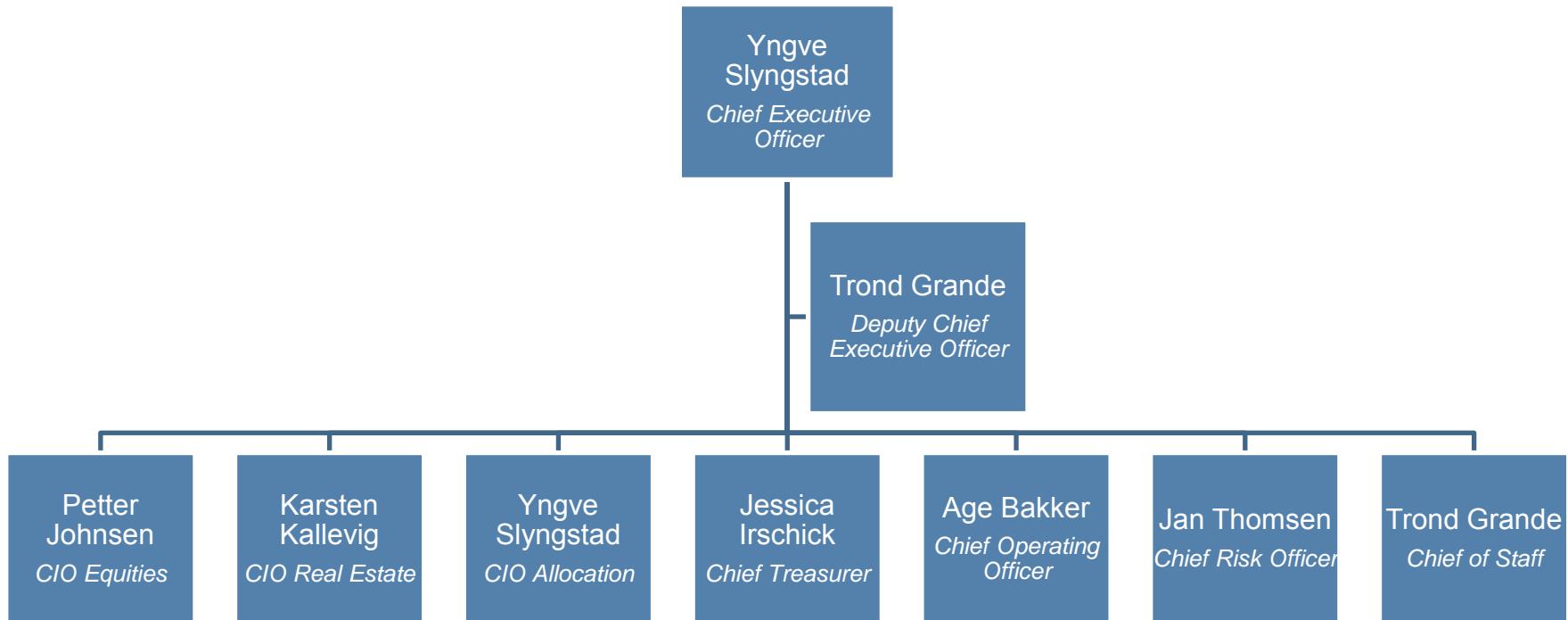
Billions of kroner, as of 30 March 2012



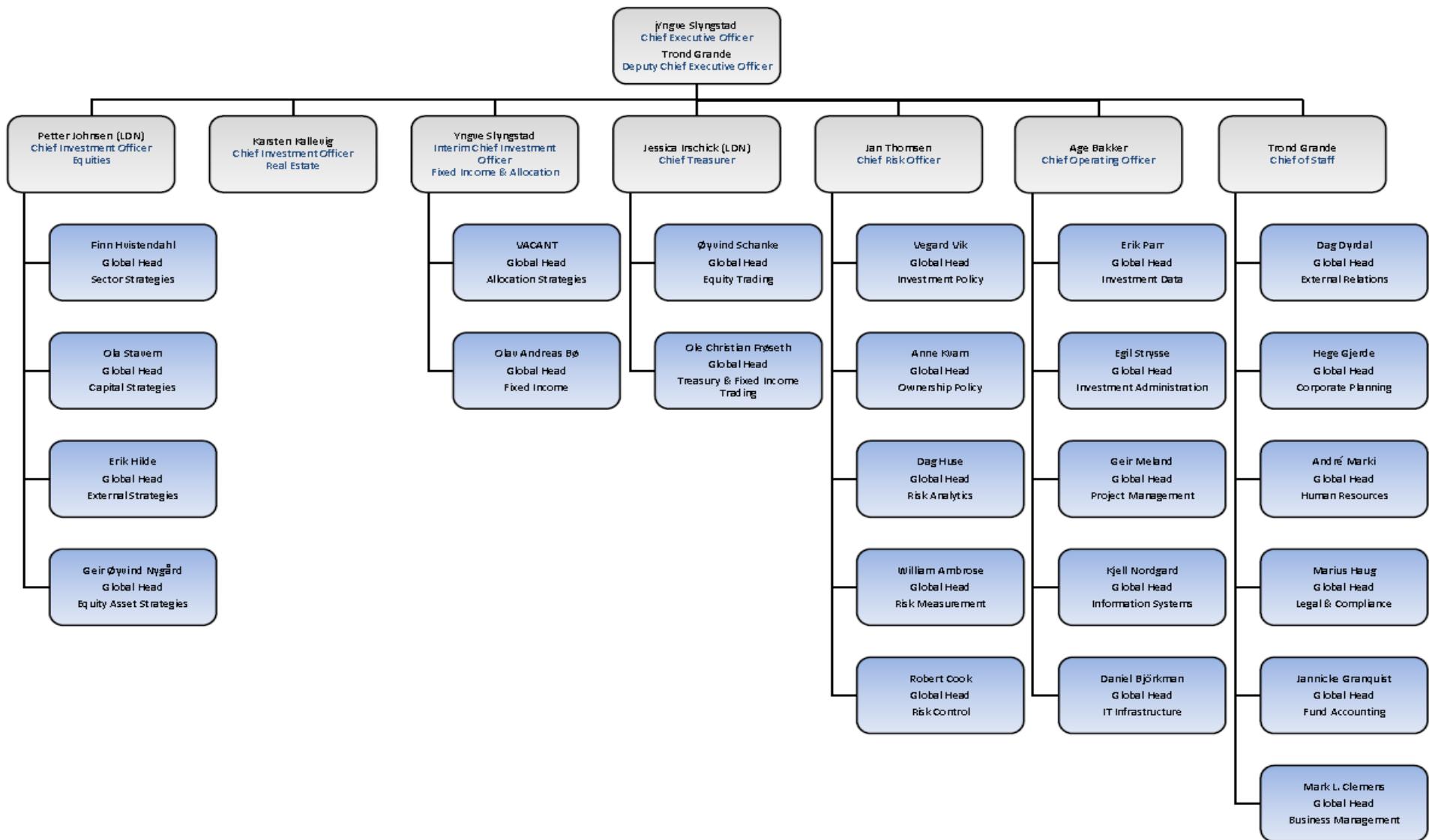
Investment strategy framework



NBIM Organisation chart



NBIM Organisation chart



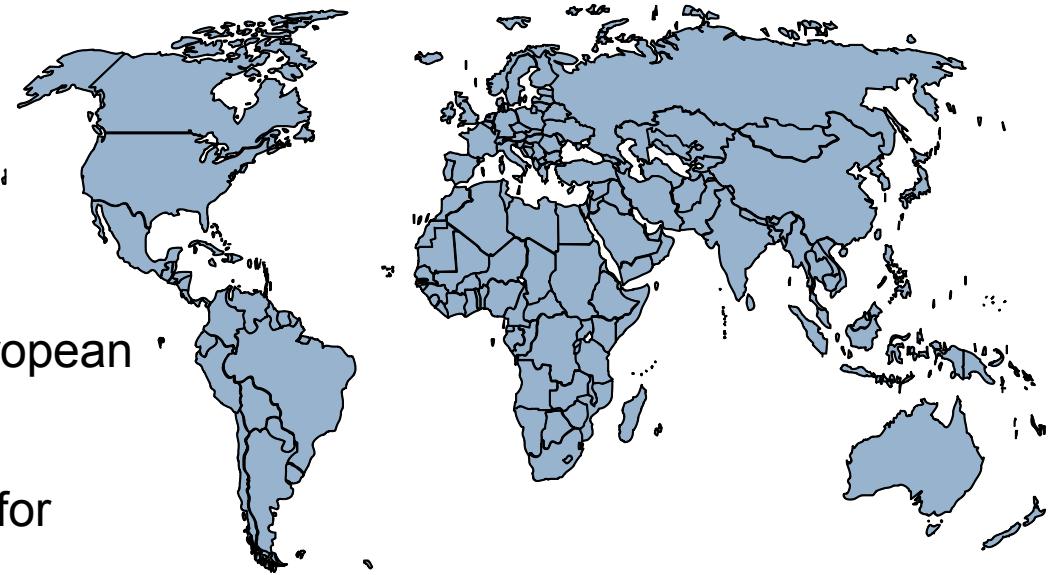
NBIM Committees



Committee	Purpose	Committee	Purpose
Business Policies Committee	The Business Policies Committee is the advisory forum for development of NBIM's internal governance framework, as well as new and revised guidelines and policies governing NBIM's activities.	Valuation Committee	The Valuation Committee is the forum for development of policies, models and methods for valuation of financial instruments and is also the forum for review and assessments of key issues and challenges in the valuation process, including pricing disputes and discrepancies.
Instrument Universe Committee	The Instrument Universe Committee acts as advisory forum for CEO in the approval of new instruments and countries, as set out in CEO Policy for Approval of Instruments in NBIM.	Real Estate Ratification Committee	The Real Estate Ratification Committee acts as an advisory forum for CEO in: <ul style="list-style-type: none"> • risk analysis of new real estate instruments prior to entering new markets and utilizing new instruments • approval of individual private market transactions as part of NBIM real estate investments and • development of governance framework including policies and guidelines relating to real estate investments
Credit & Counterparty Committee	The Credit & Counterparty Committee is the advisory forum in the development of NBIM's framework for management of credit and counterparty risk.		
Market Risk Committee	The Market Risk Committee handles: <ul style="list-style-type: none"> • Proposals for investment advice to the Executive Board and the Ministries • NBIM's market risk policy • Annual investment strategy document and the quarterly risk allocation document • Investment mandates and quarterly review of investment mandate breaches • Annual inventive structures and issues relating to investment performance. 	Operational Risk Committee	The Operational Risk Committee acts as an advisory forum for CEO in development of the operational risk framework and in reviews of operational risk NBIM wide.
		Remuneration Committee	The Remuneration Committee acts as an advisory forum for CEO in fulfilling the responsibilities and requirements relating to the remuneration system in NBIM.

Real Estate investment strategy

- First investments in major European markets
- Big cities – important centres for offices
- Retail space in densely populated areas
- Investments with partners through joint ventures



Norwegian Finance Initiative

Incentive schemes

- Co-finance professorships
- Reward outstanding research contributions
- Support PhD students and a nationally coordinated PhD programme

Host annual *NBIM Financial Research Conference* and regular seminars

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Norwegian Finance Initiative (NFI)

The Norwegian Finance Initiative (NFI) shall support NBIM's mission to safeguard and build financial wealth for future generations by strengthening financial economic research and education in areas relevant to the long-term management of the Government Pension Fund Global.

Main objectives

The initiative shall provide long-term incentives to promote excellence in financial economic research and teaching at academic institutions in Norway. It shall also be a catalyst for sustainable and long-term improvements in the research output at these institutions.

NFI shall strengthen the scientific foundation of NBIM's management of the Government Pension Fund Global by emphasising areas within financial economics of particular relevance to the fund's management. These may include asset pricing and portfolio theory, corporate finance and corporate governance, and market microstructure.

Supporting academic research in Norway

The NFI will provide an incentive-based scheme to help academic institutions in Norway attract talent by co-financing professorships in financial economics at these academic institutions when presented with funding requests. The initiative may reward excellent research output by faculty members at institutions in Norway. It will also support PhD students at top-ranked international programmes, while also aiming to support a nationally coordinated PhD programme in financial economics.

Strengthening ties with the academic community

NBIM aims to strengthen its ties with the academic community through various initiatives. These may include a visiting scholar programme at NBIM, research seminars, research conferences and occasional academic courses that will be organised under the NFI. NBIM will also expand its internal research capacity to support the development of investment processes that are long-term oriented and scalable.

The NFI was officially announced on 30 August 2011 at the NBIM Financial Research Conference.

Yngve Strømstad
NBIM CEO
"New insight from financial economic research may have important implications for the fund's management, so it's important for us to support such research," says NBIM CEO Yngve Strømstad. "We hope that the establishment and the establishment of the NFI will strengthen NBIM's ties with the academic community."

NBIM Financial Research Conference
The annual NBIM Financial Research conference is part of the Norwegian Finance Initiative (NFI). It aims to bridge the gap between the challenges faced by investment professionals and academic researchers in the field of financial economics.

→ READ MORE

Norwegian Finance Initiative:
www.nbim.no/en/About-us/nfi/



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Stoltenberg's 2nd Government

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- The National Budget
- The Government Pension Fund
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- Sustainable development

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The Government Pension Fund

Large petroleum revenues have resulted in substantial financial assets in the Government Pension Fund. The purpose of the Government Pension Fund is to facilitate government savings necessary to meet the rapid rise in public pension expenditures in the coming years, and to support a long-term management of petroleum revenues.



The Government Pension Fund was established in 2006 and consists of two parts: 'The Government Pension Fund Global', which is a continuation of the Petroleum Fund, and 'The Government Pension Fund Norway', which was previously known as the National Insurance Scheme Fund. Revenues in the Government Pension Fund Global consist of the Government's total income from petroleum activities, and the return on the Fund's investments. The Ministry of Finance is responsible for the management of the Fund. The operational management of the Government Pension Fund Global is delegated to Norges Bank. The operational management of the Government Pension Fund Norway is delegated to the National Insurance Scheme Fund. The management is carried out in accordance with regulations laid down by the Ministry of Finance.

**Tobacco producer excluded from the Government Pension Fund Global**

[News story, Ministry of Finance, 24.08.2011]

The Ministry of Finance has excluded the Mexican company Grupo Carso SAB de CV from the investment universe of the Government Pension Fund Global on account of its tobacco production.

**The Norwegian Government Pension Fund's adherence with the Santiago principles**

[Guidelines and brochures, Ministry of Finance, 06.05.2011]

Norway supports the international guidelines for sovereign wealth funds, the so called Santiago-principles or Generally Accepted Practices and Principles for Sovereign Wealth Funds (GAPP). The principles represent minimum standards which the management framework for the Government Pension Fund already fulfills.

**A robust investment strategy with good results**

[Press release, Ministry of Finance, 08.04.2011]

"The returns on the Government Pension Fund Global (GPFG) in 2010 were good. The overall results of the last years show that the large losses during the financial crisis has been more than compensated by the gains made in the subsequent market upswing. One important reason is that we held on firmly to the long-term investment strategy," says Minister of Finance Sigbjørn Johnsen.

**Tobacco company excluded from the Government Pension Fund Global**

[News story, Ministry of Finance, 15.03.2011]

The Ministry of Finance has excluded the Chinese company Shanghai Industrial Holdings Ltd. from the investment portfolio of the Government Pension Fund Global on account of its tobacco production. The Ministry has also decided to revoke its decision to exclude a US company that no longer produces components for cluster bombs.

**Lingui Development Berhad Ltd. excluded from the GPFG**

[News story, Ministry of Finance, 16.02.2011]

On the recommendation of the Council on Ethics, the Ministry of Finance has decided to exclude the Malaysian company Lingui Developments Berhad from the Government Pension Fund Global's (GPFG) investment portfolio. The divestment from the company has been completed.

**Report on climate and capital return**

Ministry of Finance

Council of Ethics

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► Council's Activities
► Recommendations and other documents
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Council on Ethics
Norwegian Government Pension Fund Global

The Council on Ethics was established by Royal Decree 19th November, 2004.



The members of the Council are (from left):

- Managing Director Ylva Lindberg
- Professor Dag Olav Hessen
- MBA Bentte Bahne
- Associate Professor Dr. Julie Giro Nystrøm (Chair of the Council)
- Professor dr. Julie Ola Mørk

The role of the Council on Ethics for the Government Pension Fund Global is to provide evaluations of whether or not investment in specified companies is inconsistent with the established ethical guidelines. The Ministry of Finance makes decisions on the exclusion of companies from the Fund's investment universe based on the Council's recommendations. Both the Ministry's decisions and the Council's recommendations will be made publicly available on this website.

The Council has its own [secretariat](#) which provides research for the Council.

More information:
[The Ethical Guidelines](#)
[List of Excluded Companies](#)

COUNCIL ON ETHICS

THE GOVERNMENT PENSION FUND GLOBAL

RECOMMENDATIONS
[Recommendations](#)
[Other documents](#)

www.regjeringen.no/gpf

NBIM Norges Bank Investment Management

www.etikkraadet.no