

□ OSLO  
□ LONDON

□ SINGAPORE

# 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

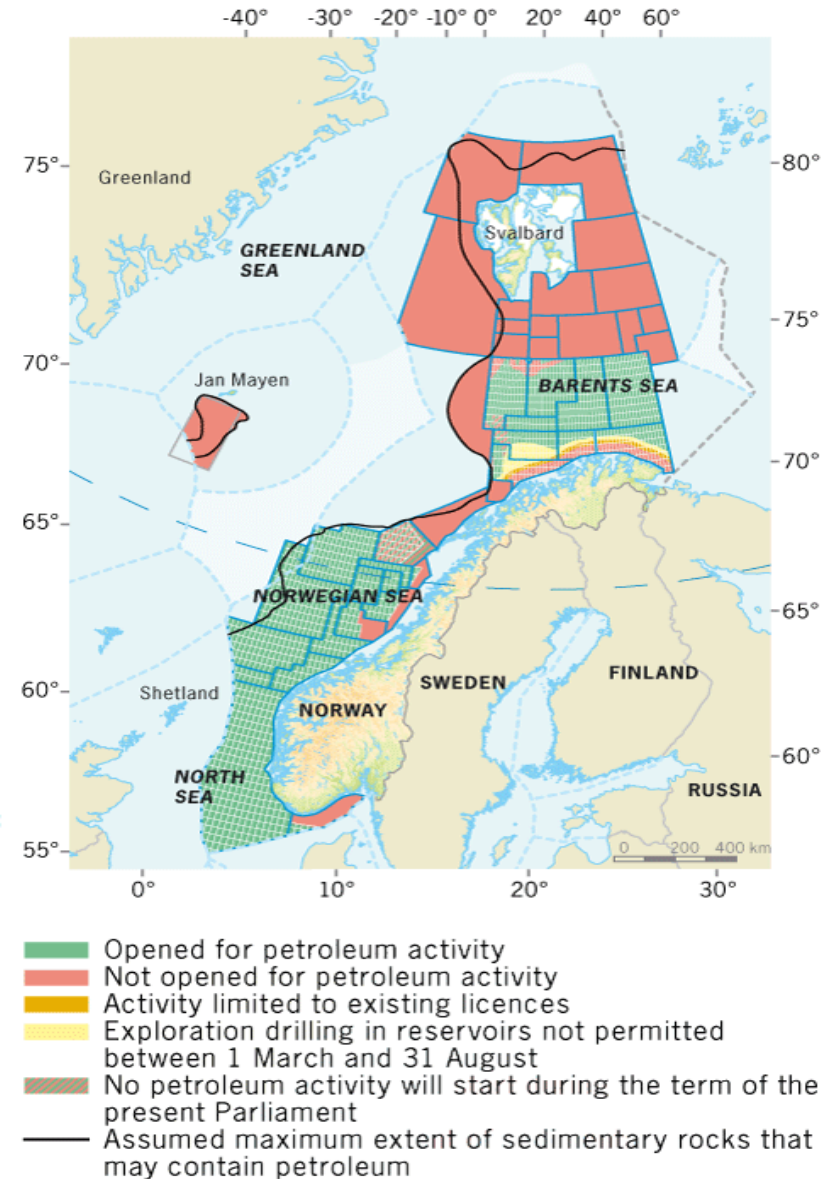
# History and Structure

# Historical context

- *"One may disregard the possibility of discovering coal, oil or sulphur on the Norwegian Continental Shelf"*

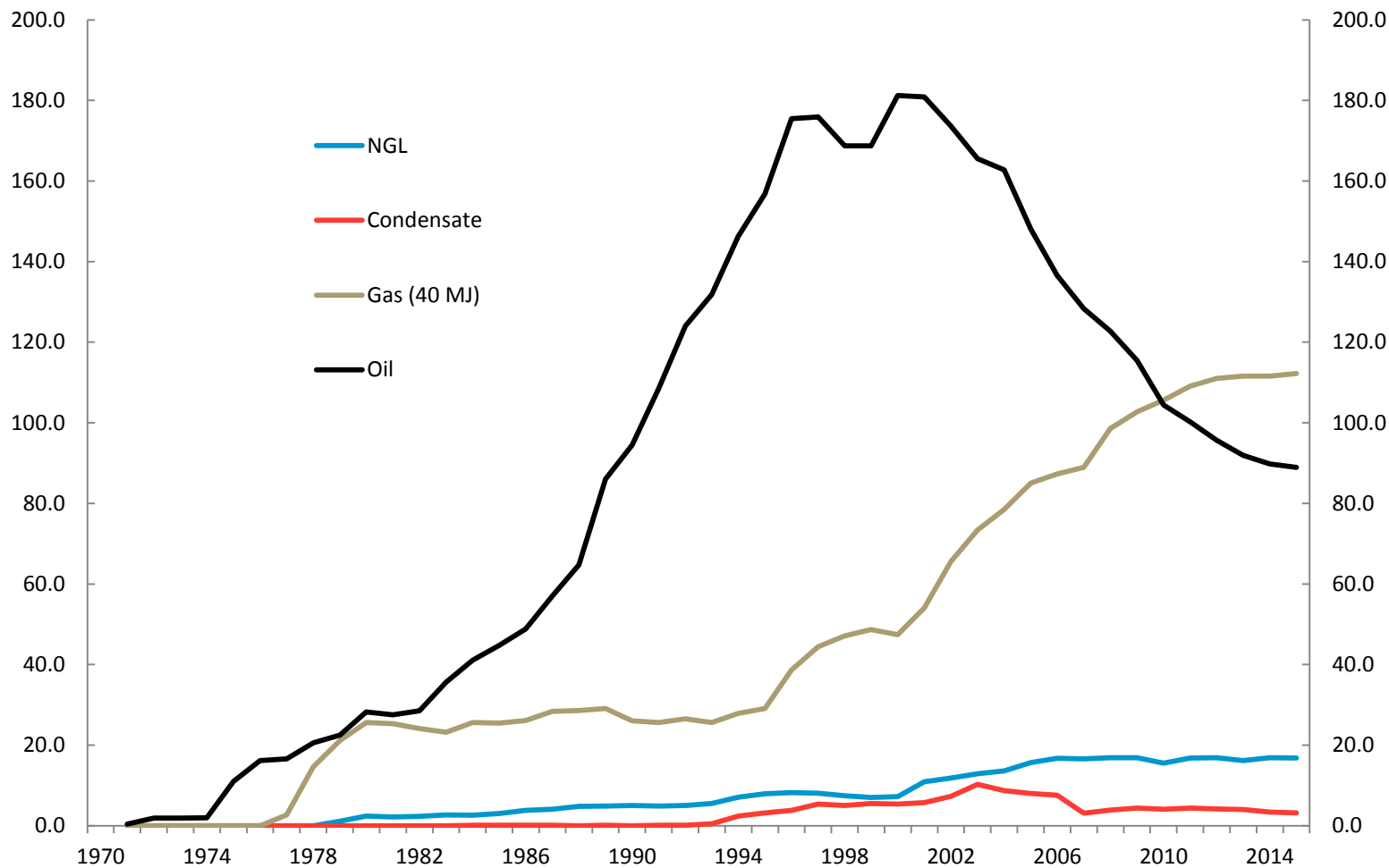
(Letter from the Geological Survey of Norway to the Ministry of Foreign Affairs, 1958)

- 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

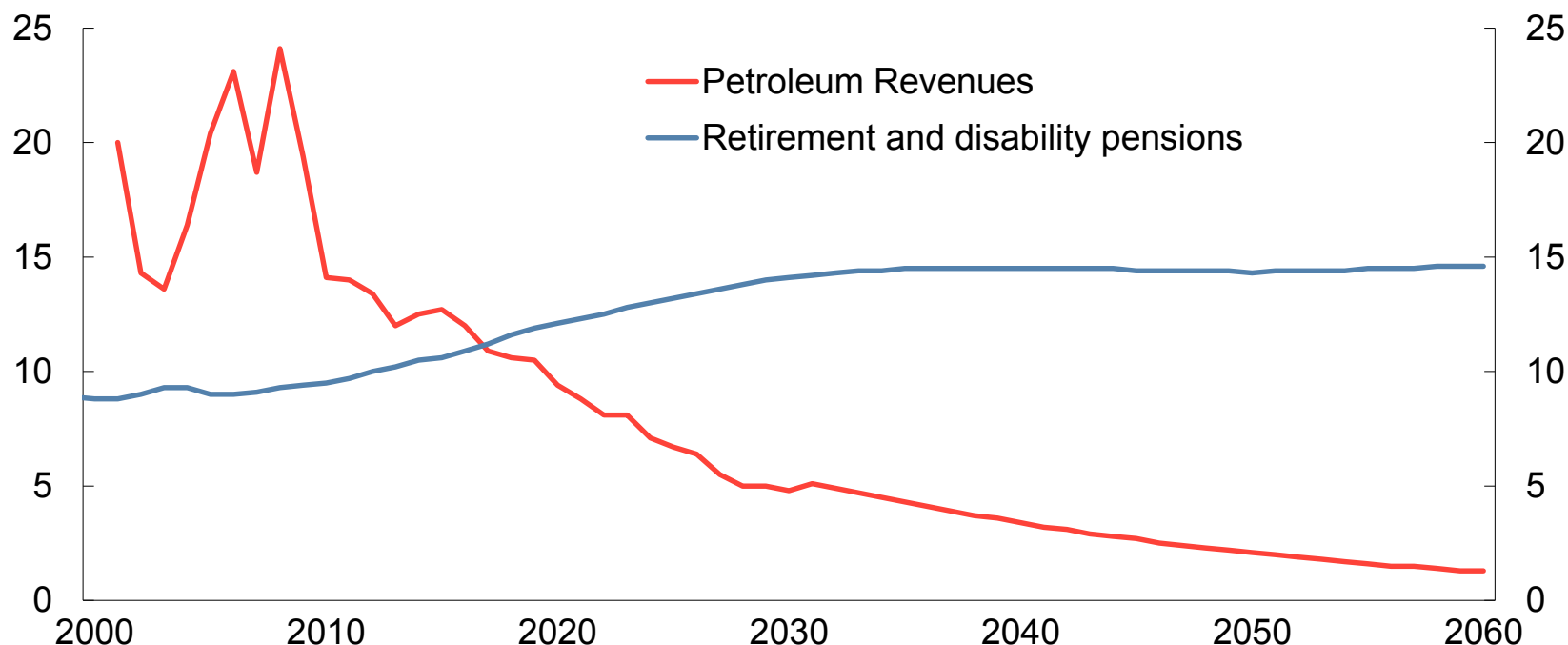
Million of scm o.e. per year [1 scm = 6.29 barrels]



Source: Norwegian Petroleum Directorate

# The national challenge

Mainland GDP, percent

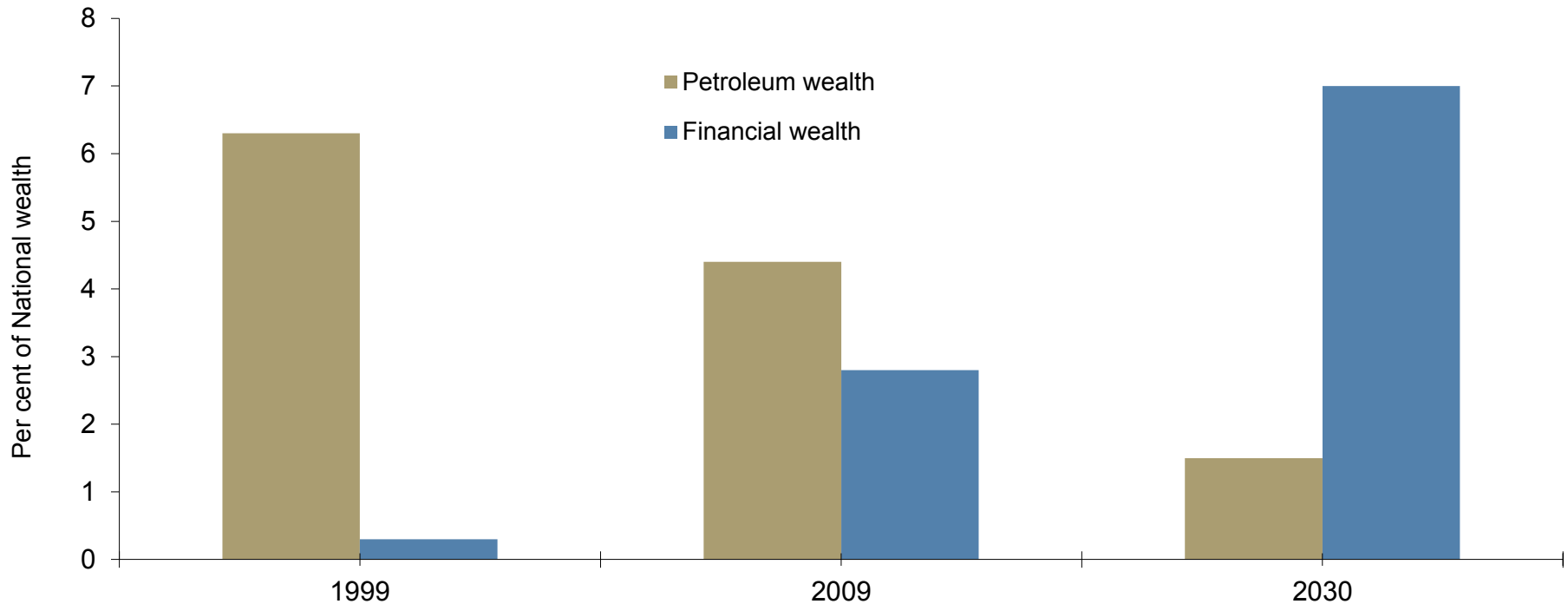


- Ensure a fair distribution of oil wealth across generations
- Avoid pronounced cyclical fluctuations in the mainland economy due to variations in oil revenues

Sources: Ministry of Finance, NBIM

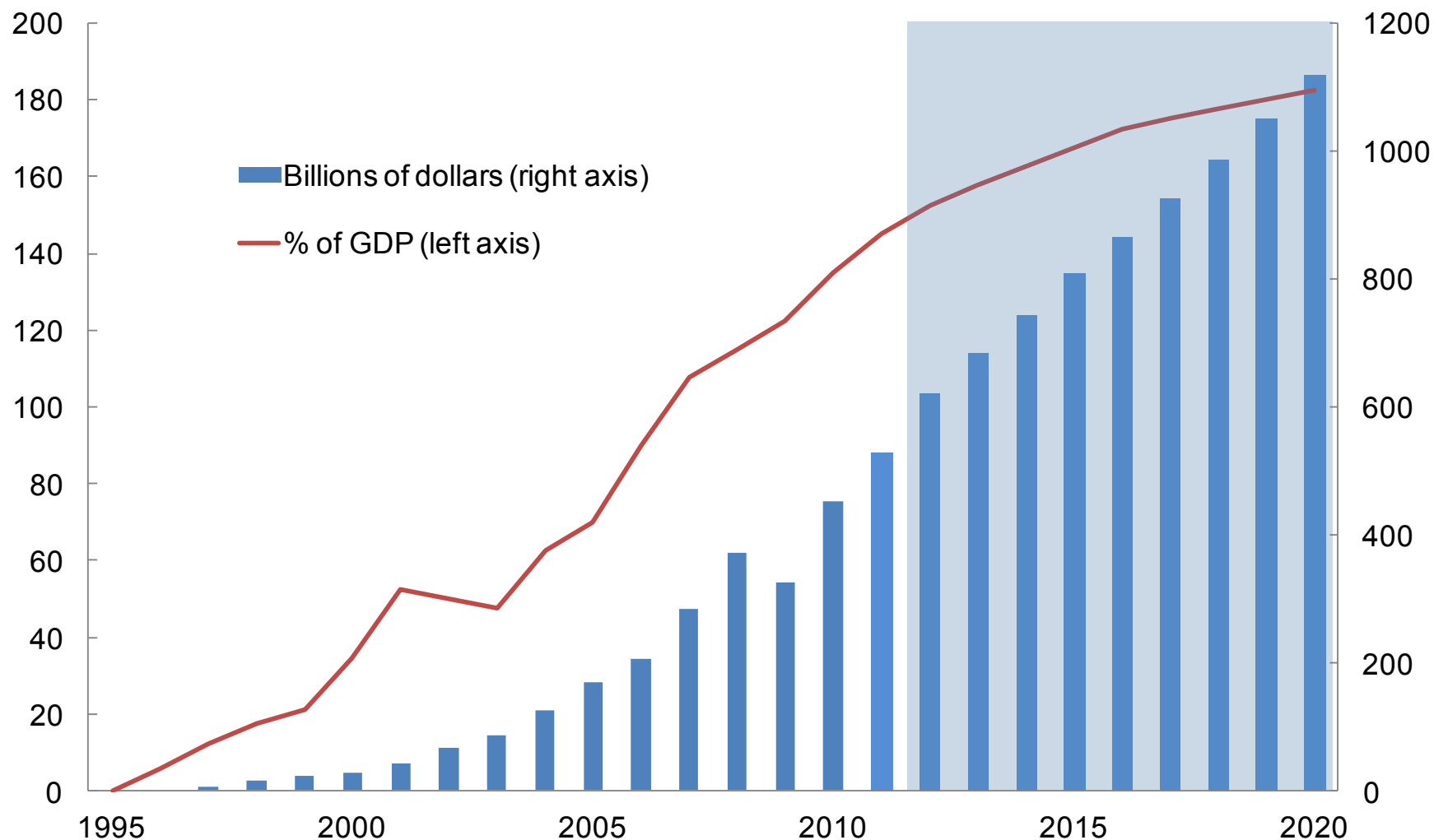
# Transforming the petroleum wealth into an international financial wealth

Percent of national wealth



Sources: Statistics Norway , Ministry of Finance, NBIM

# Projected Fund Size

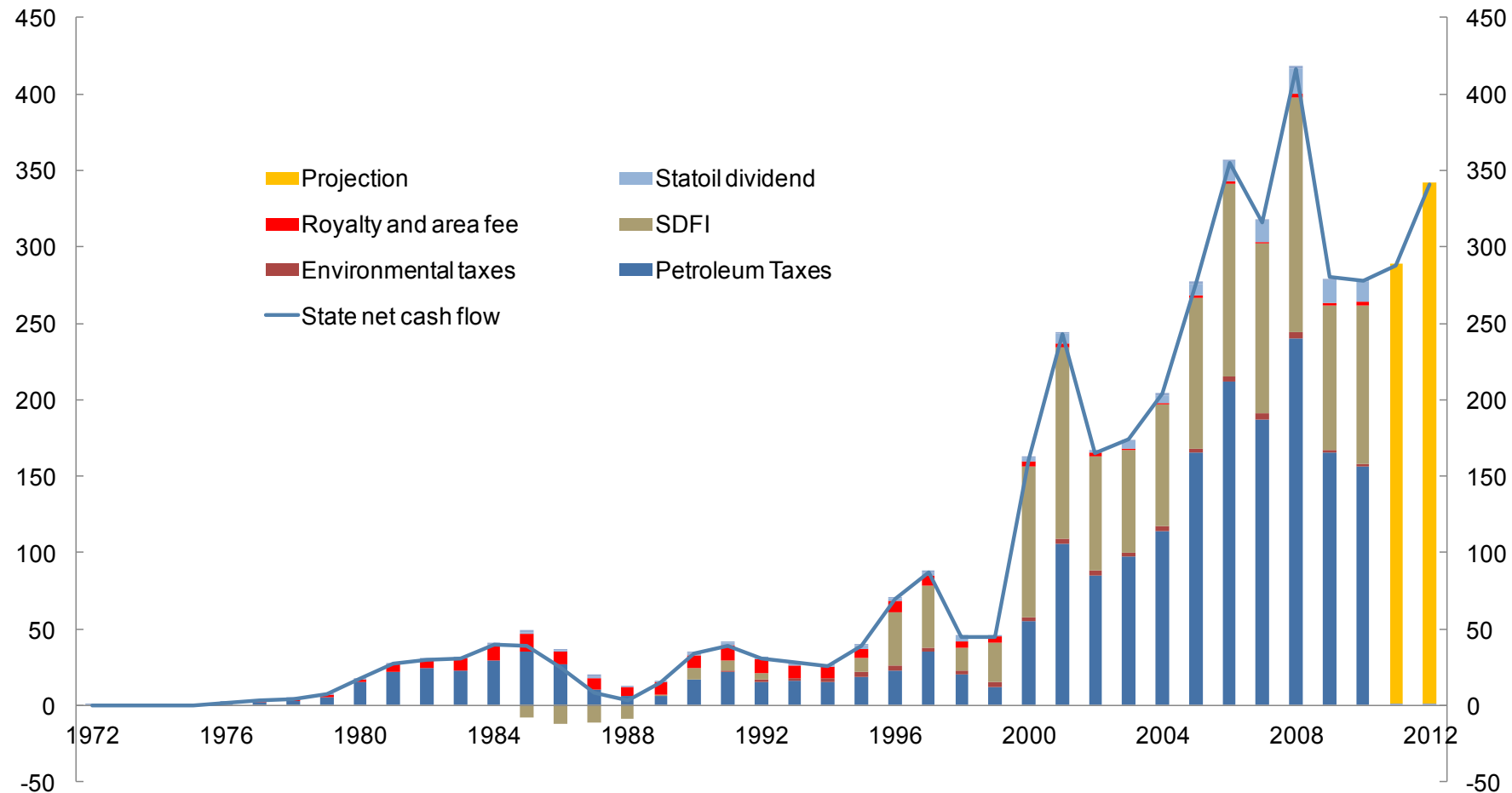


Sources: Ministry of Finance, National Budget 2012 and Norges Bank



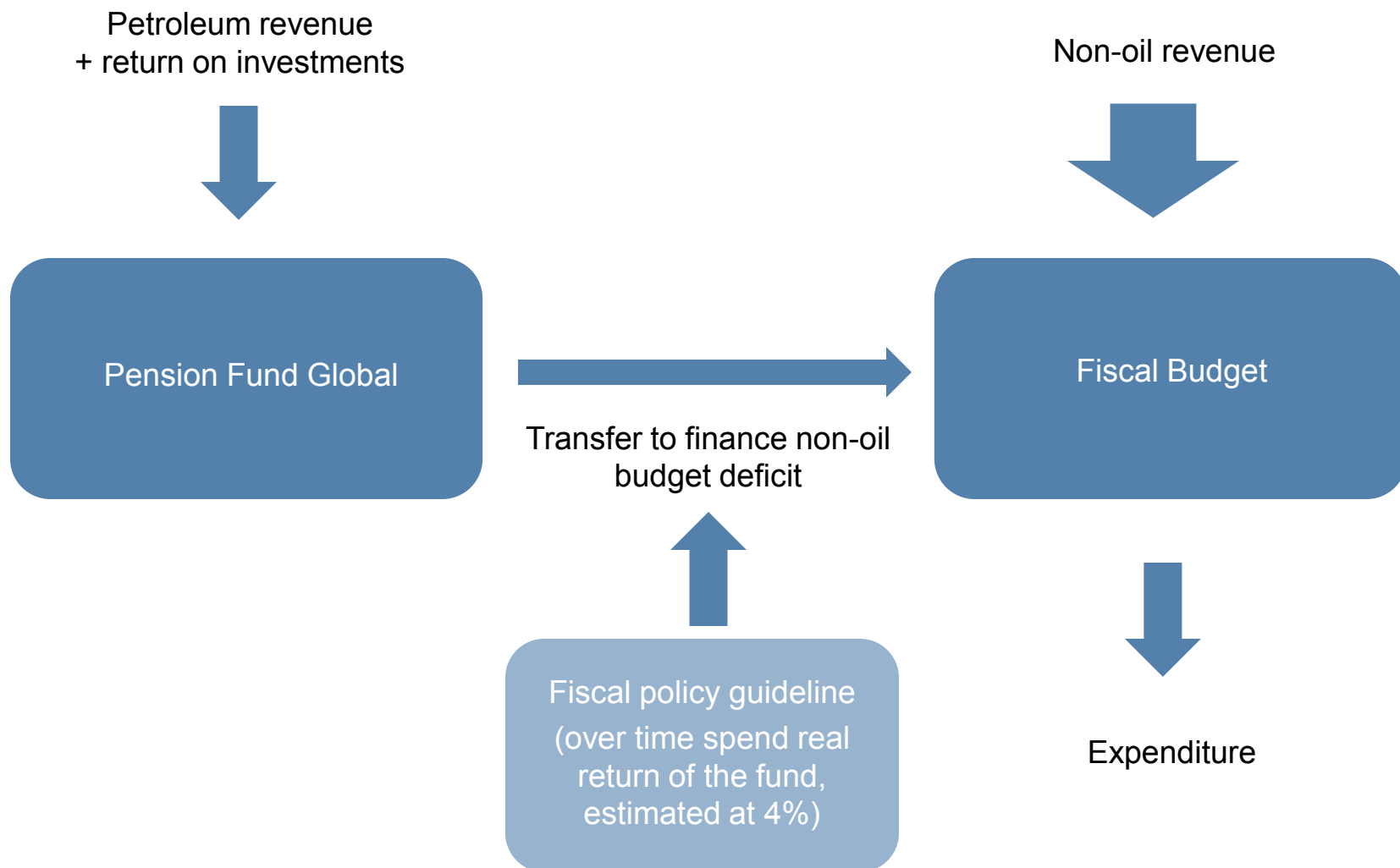
# Net government cash flow from petroleum

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

1990

- The Norwegian Government Petroleum Fund established by law

1996

- Initial capital transfer

1998

- Fund to consist of 40% equities and 60% fixed income after equities added to investment universe

2004

- Ethical guidelines issued

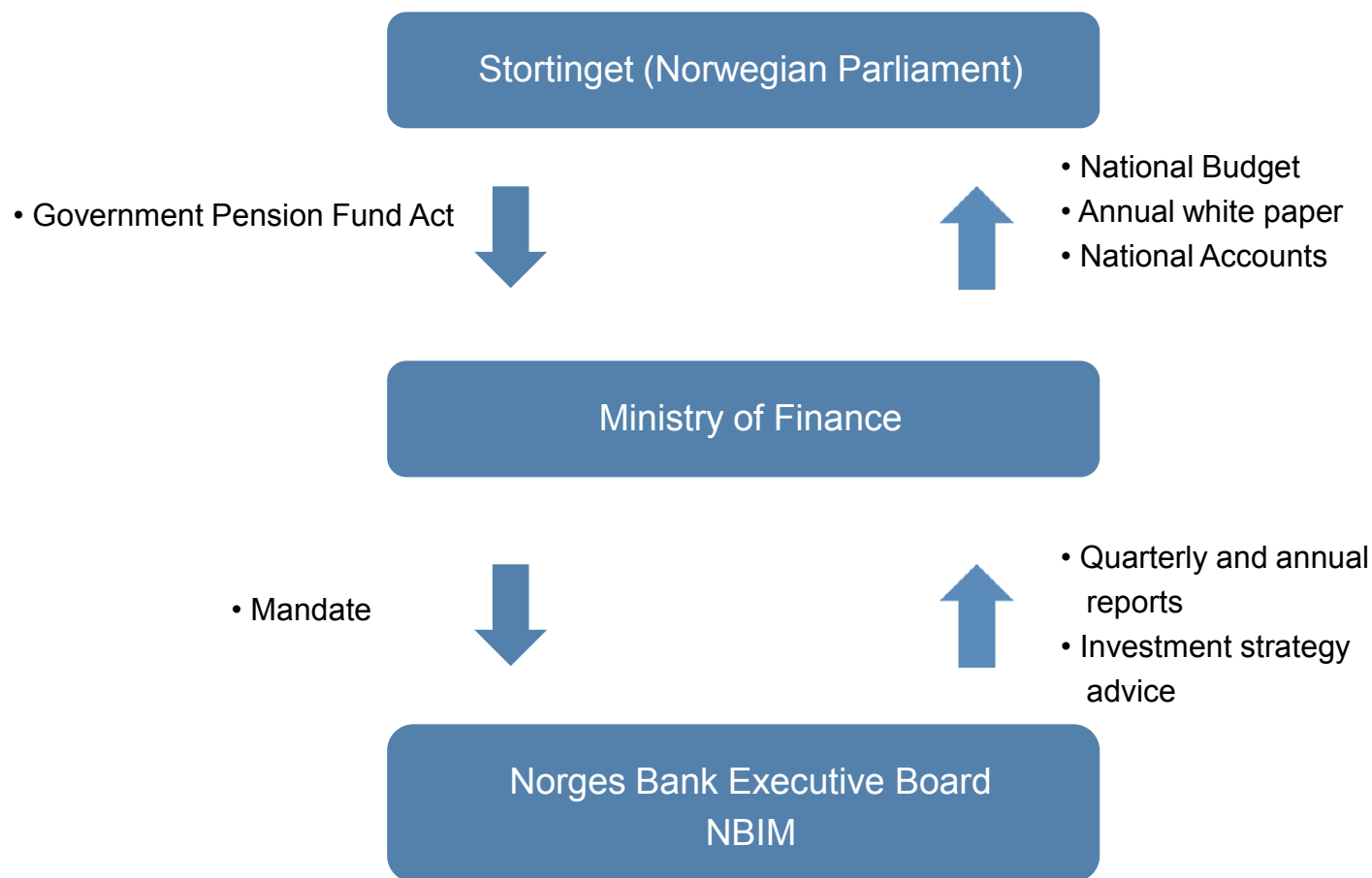
2007

- Strategic equity allocation increased to 60%

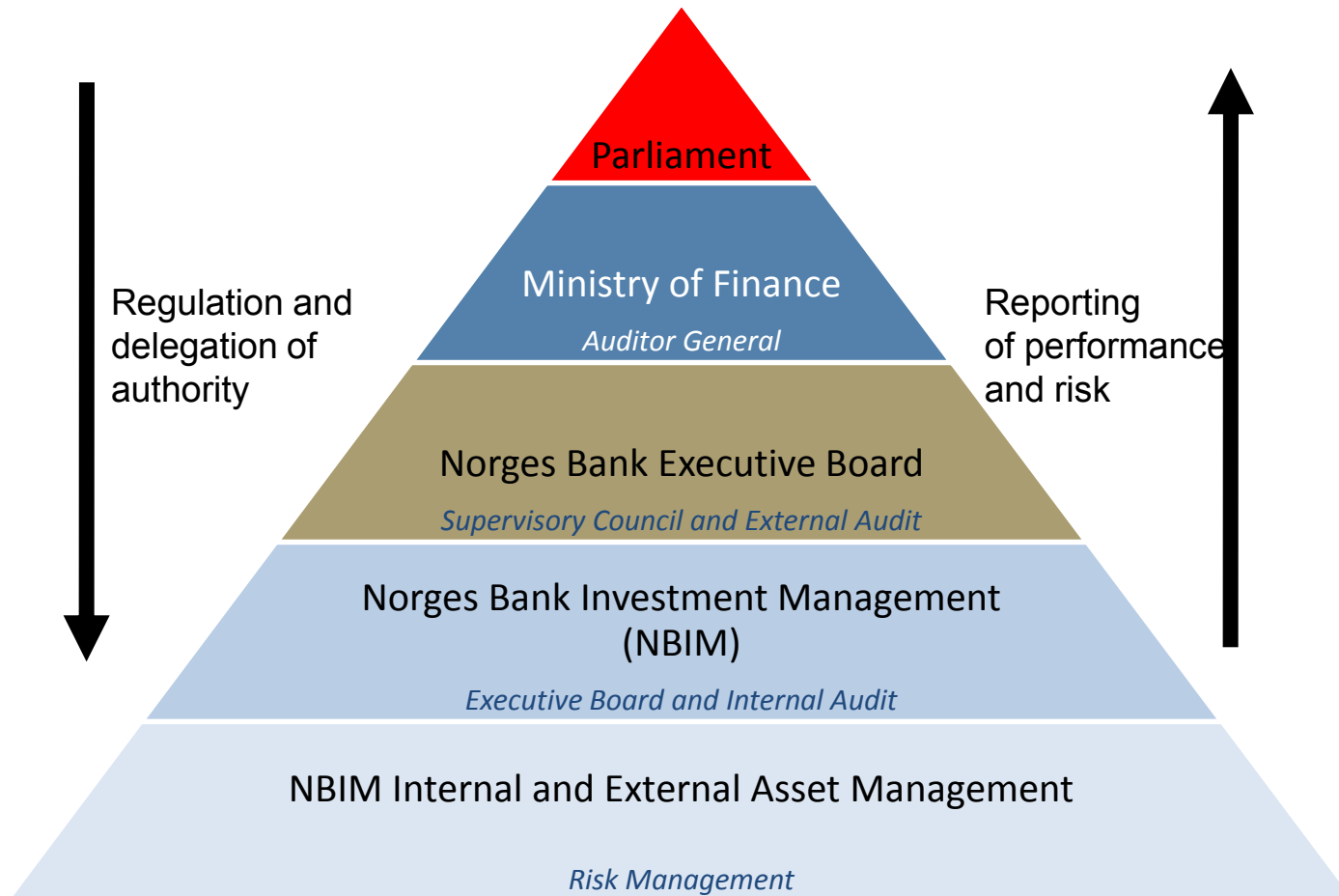
2010

- Real estate mandate (up to 5%)

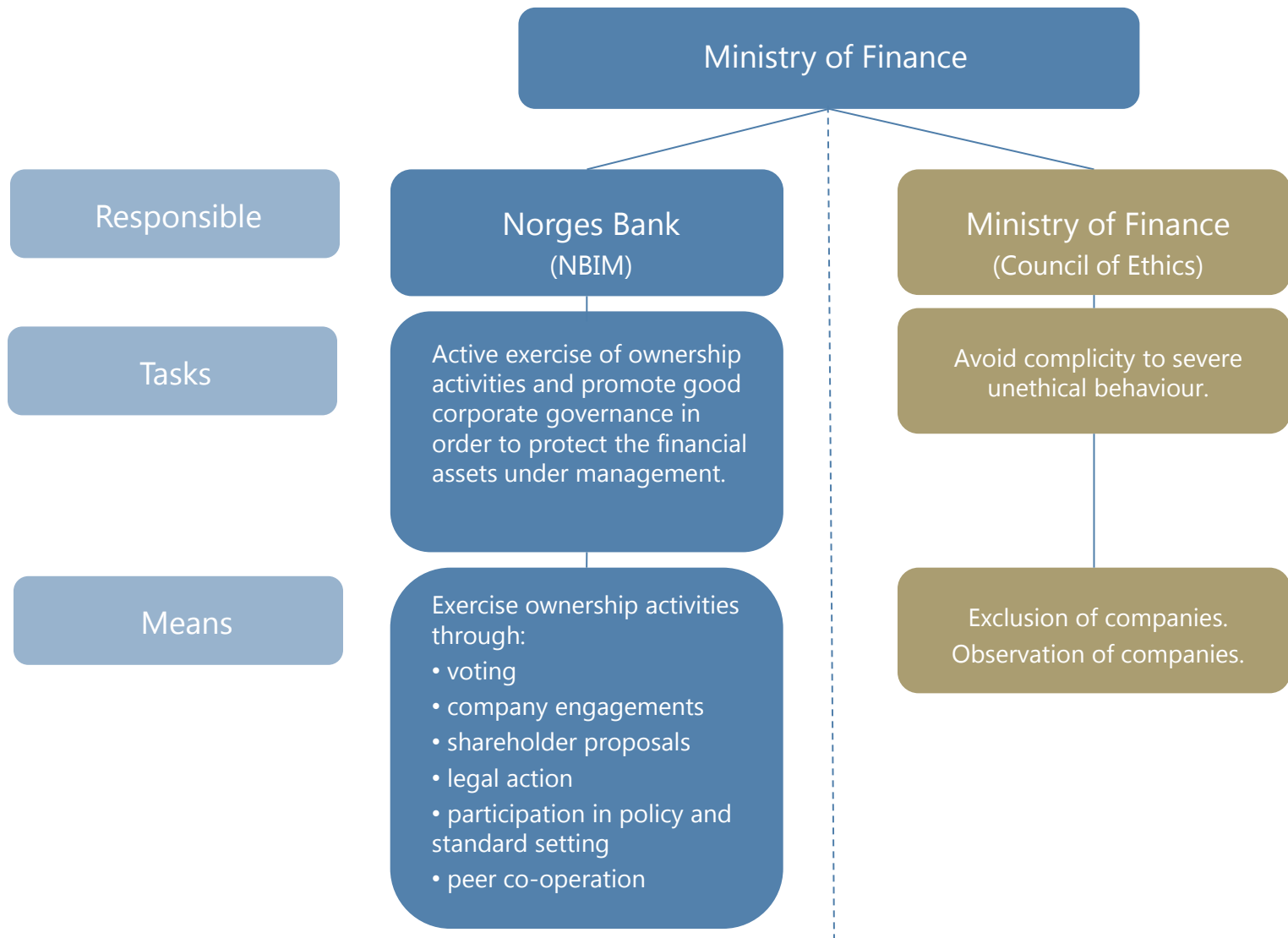
# Governance structure



# 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

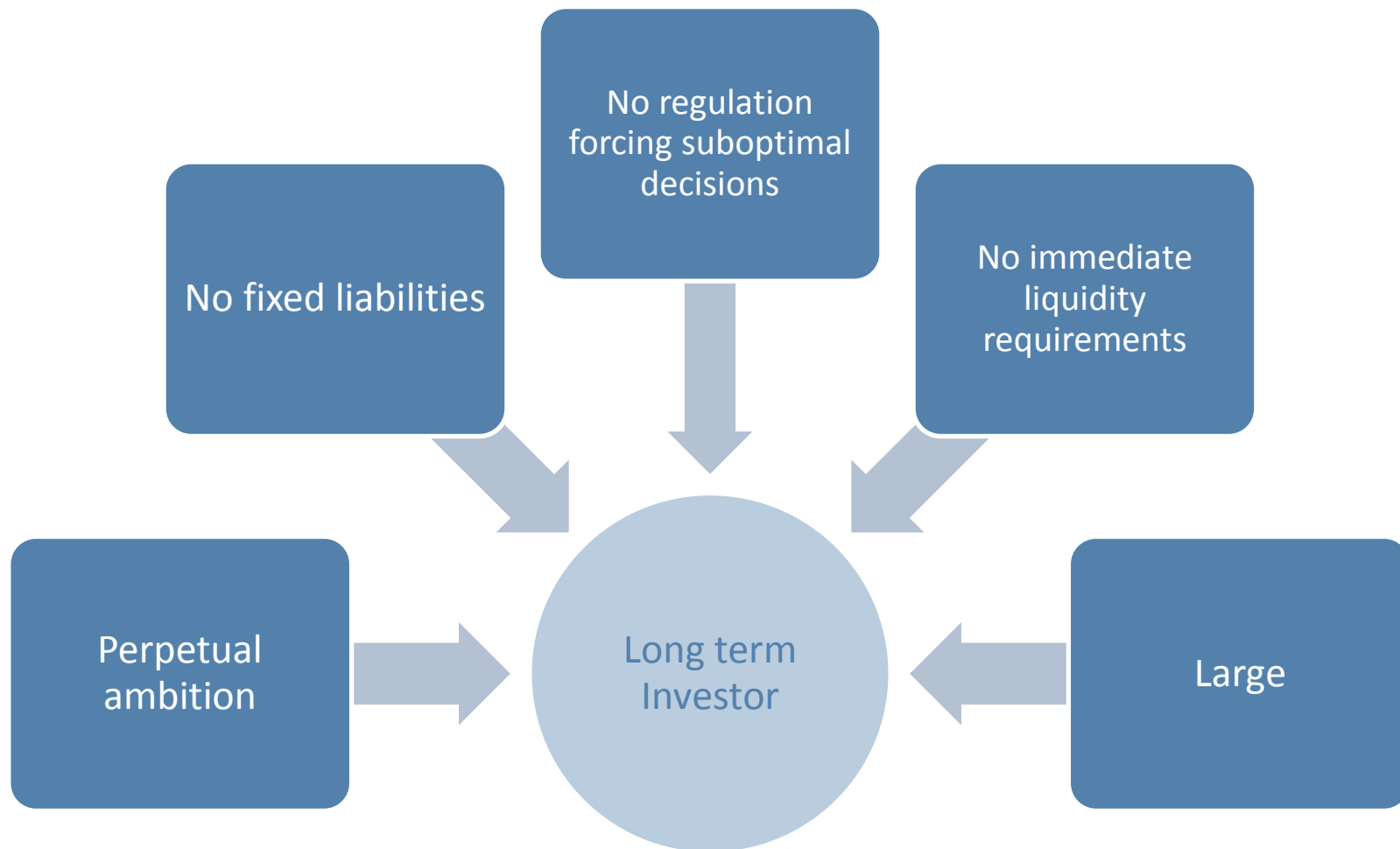
High return and moderate risk

Diversification

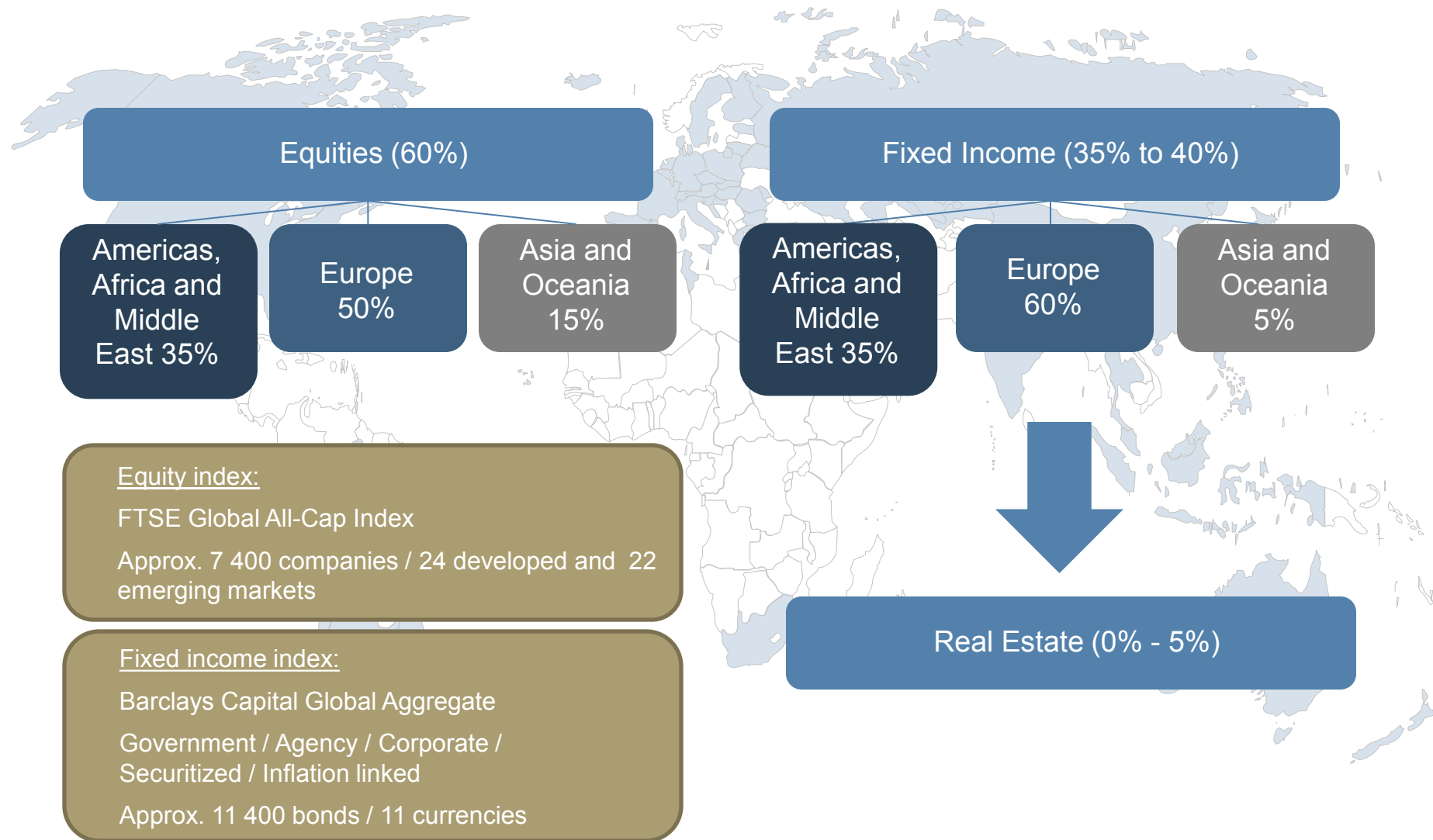
Financial investor



# Investment characteristics

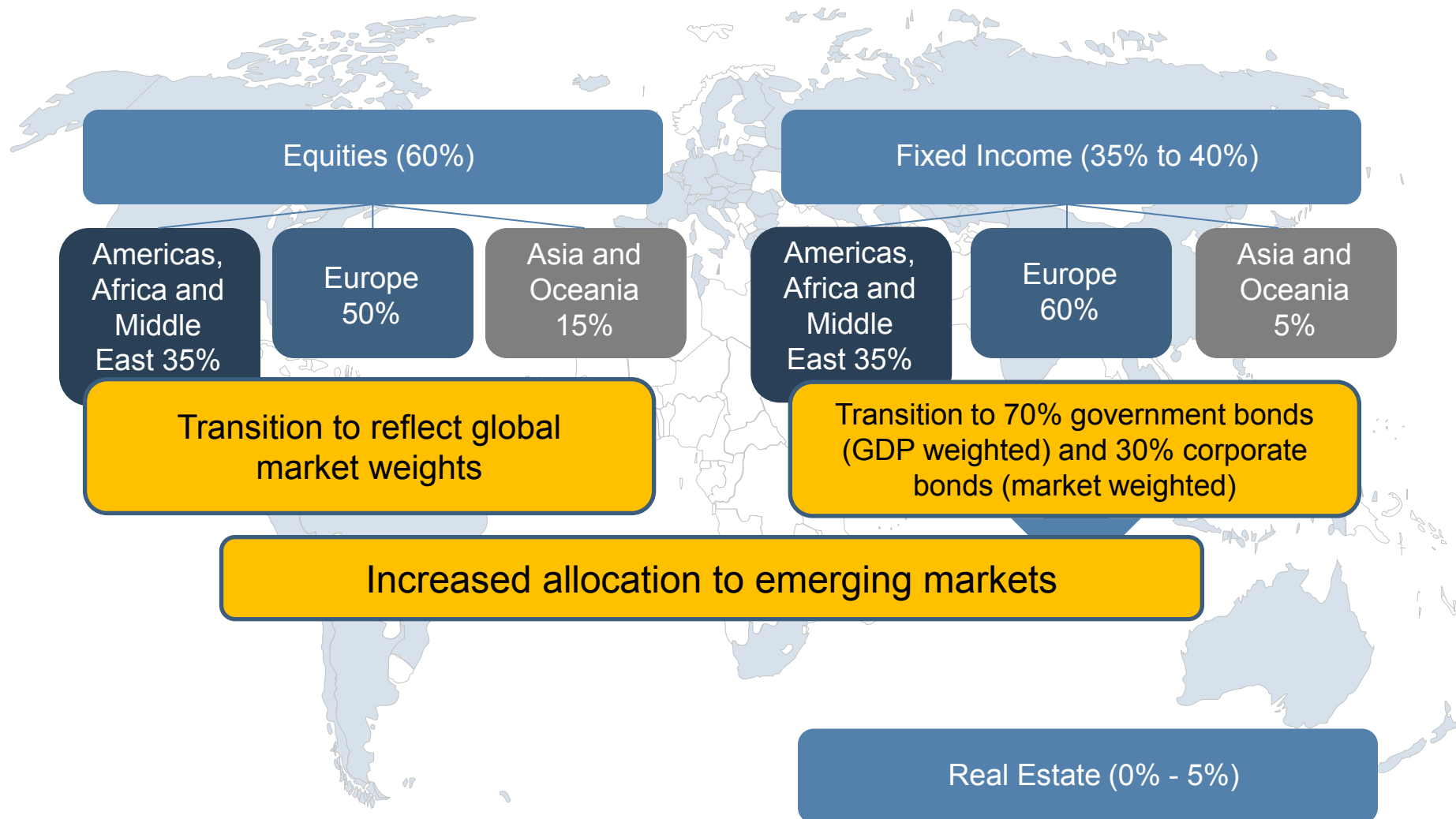


# Strategic asset allocation



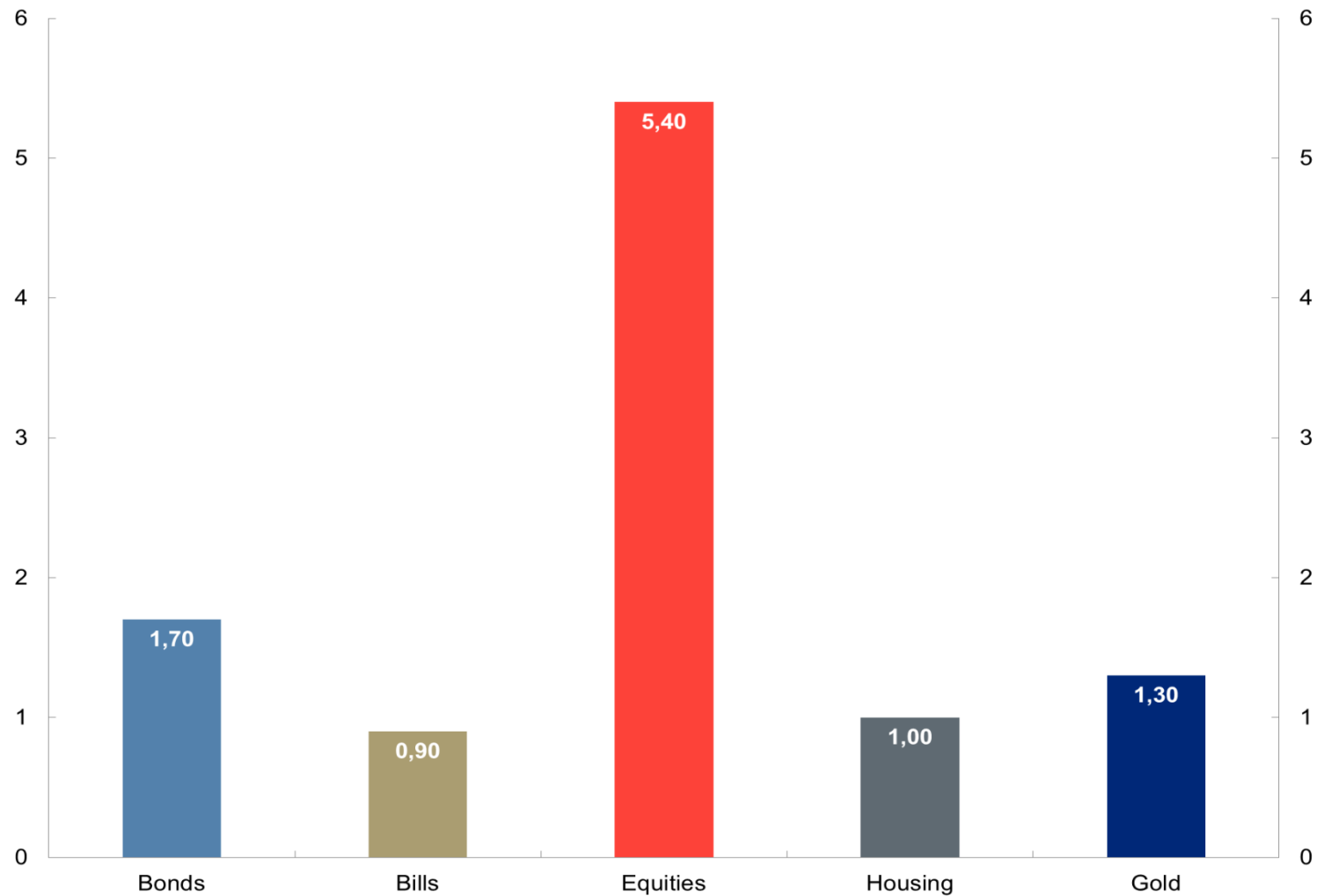
# Strategic asset allocation revised

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



# Financial markets real returns 1900-2011

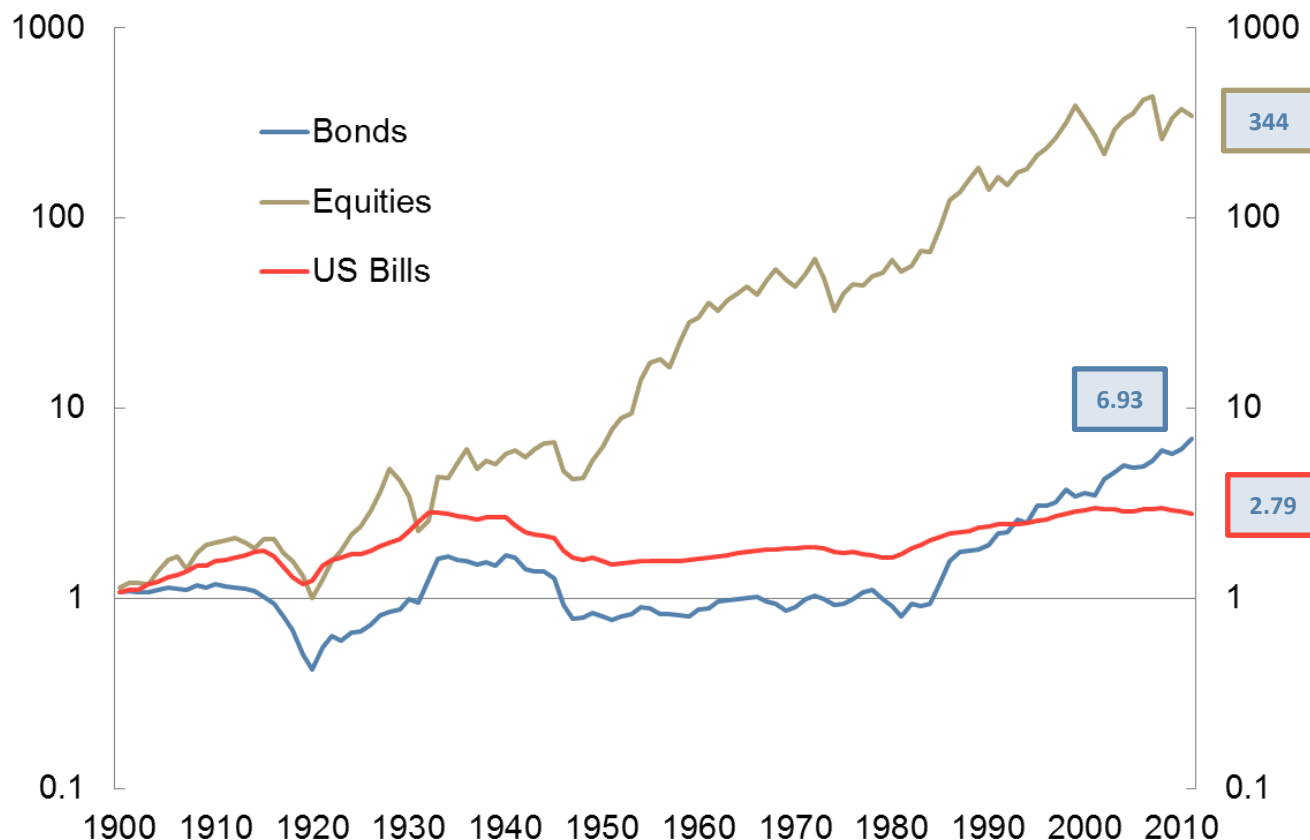
Percent, annualised



Source: Dimson, Marsh, Staunton

# Long-term returns in financial markets

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



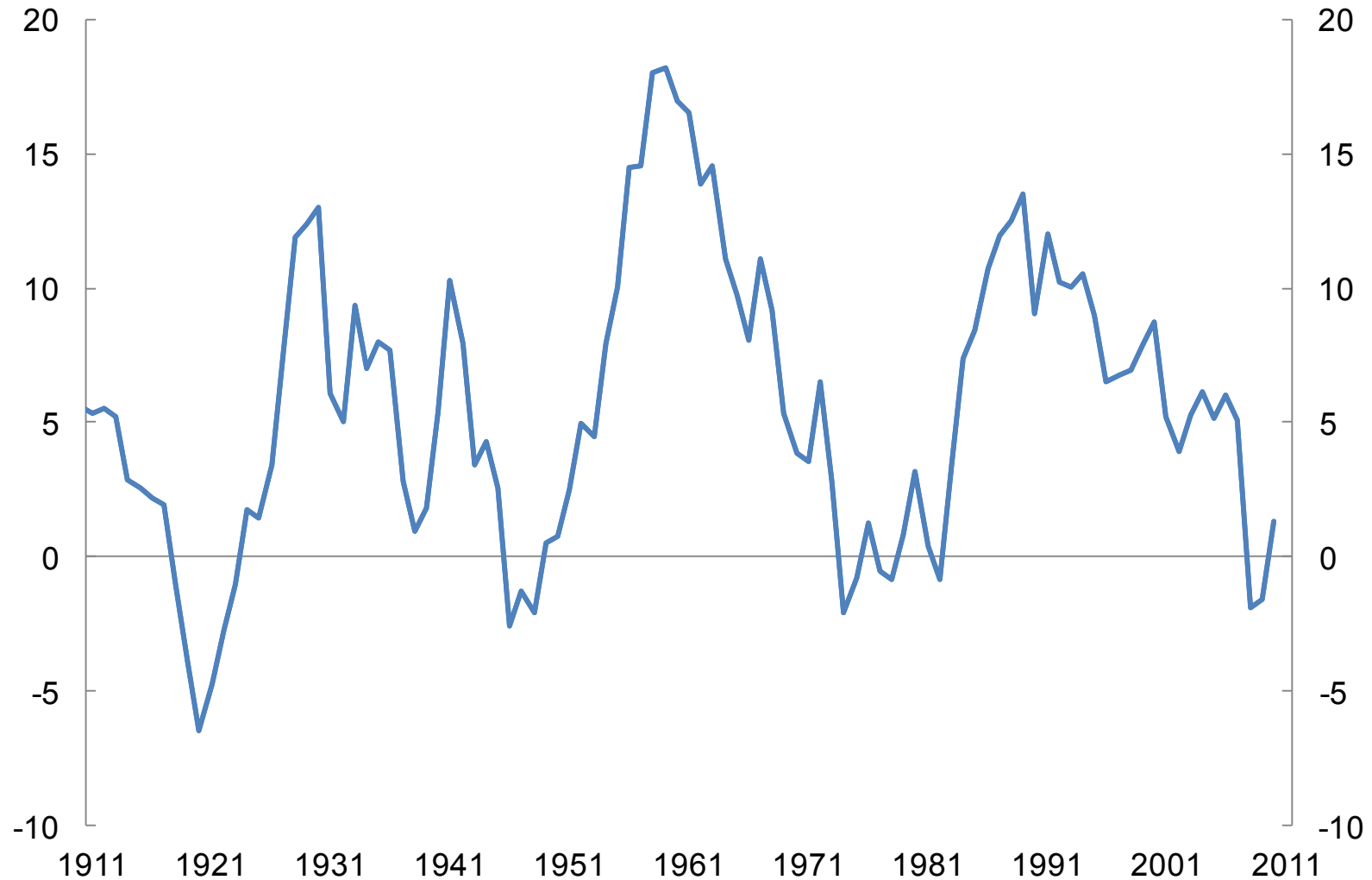
111 year – 1900-2011 (p.a.)		
Real return	Equities	5,4 %
	Bonds	1,7 %
	US Bills	0,9 %
Nominal return	Equities	8,5 %
	Bonds	4,8 %
	US Bills	3,9 %
Standard deviation	Equities	17,7
	Bonds	10,4
	US Bills	4,7

\*) 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

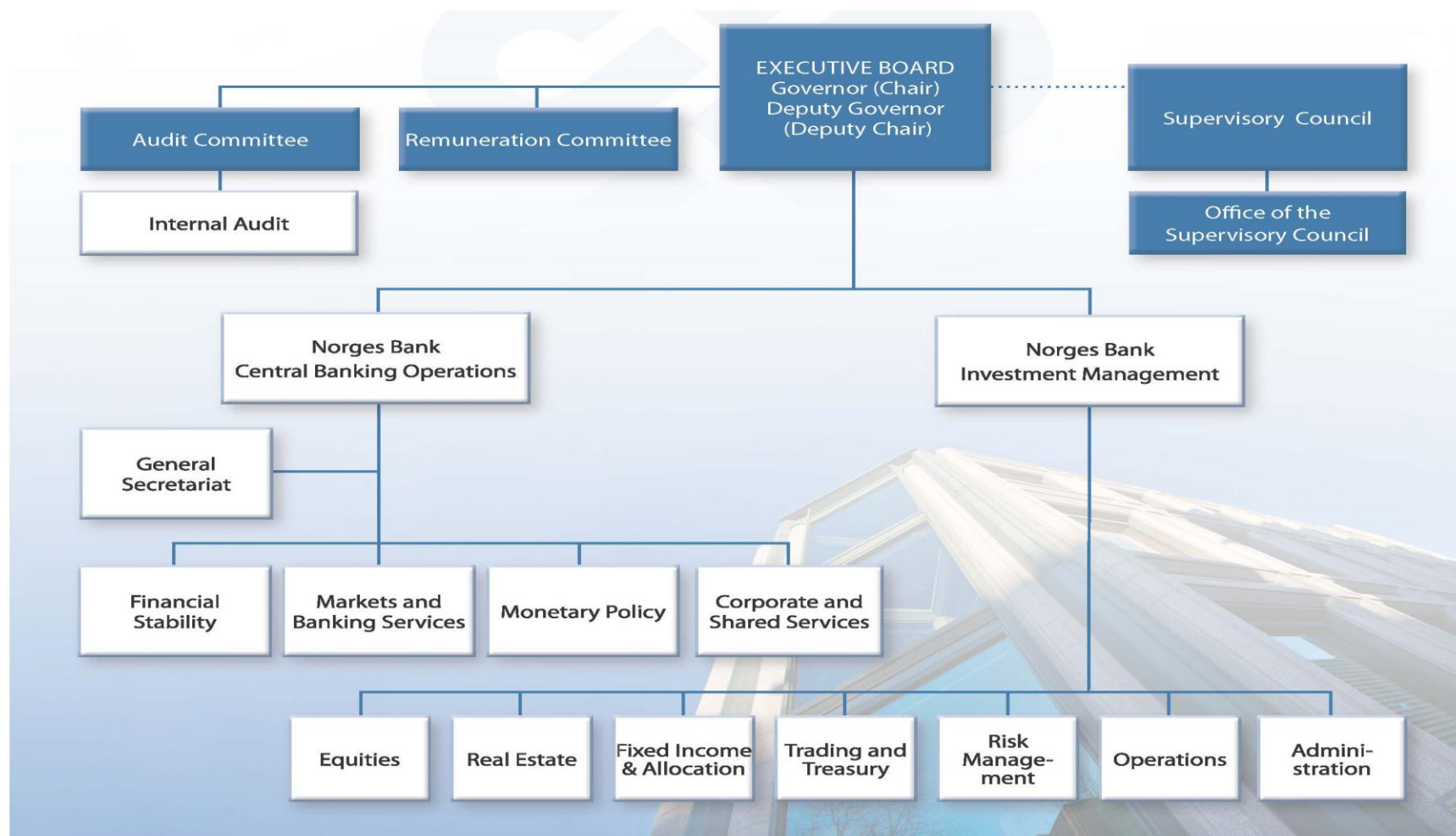
End of 2011





# 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

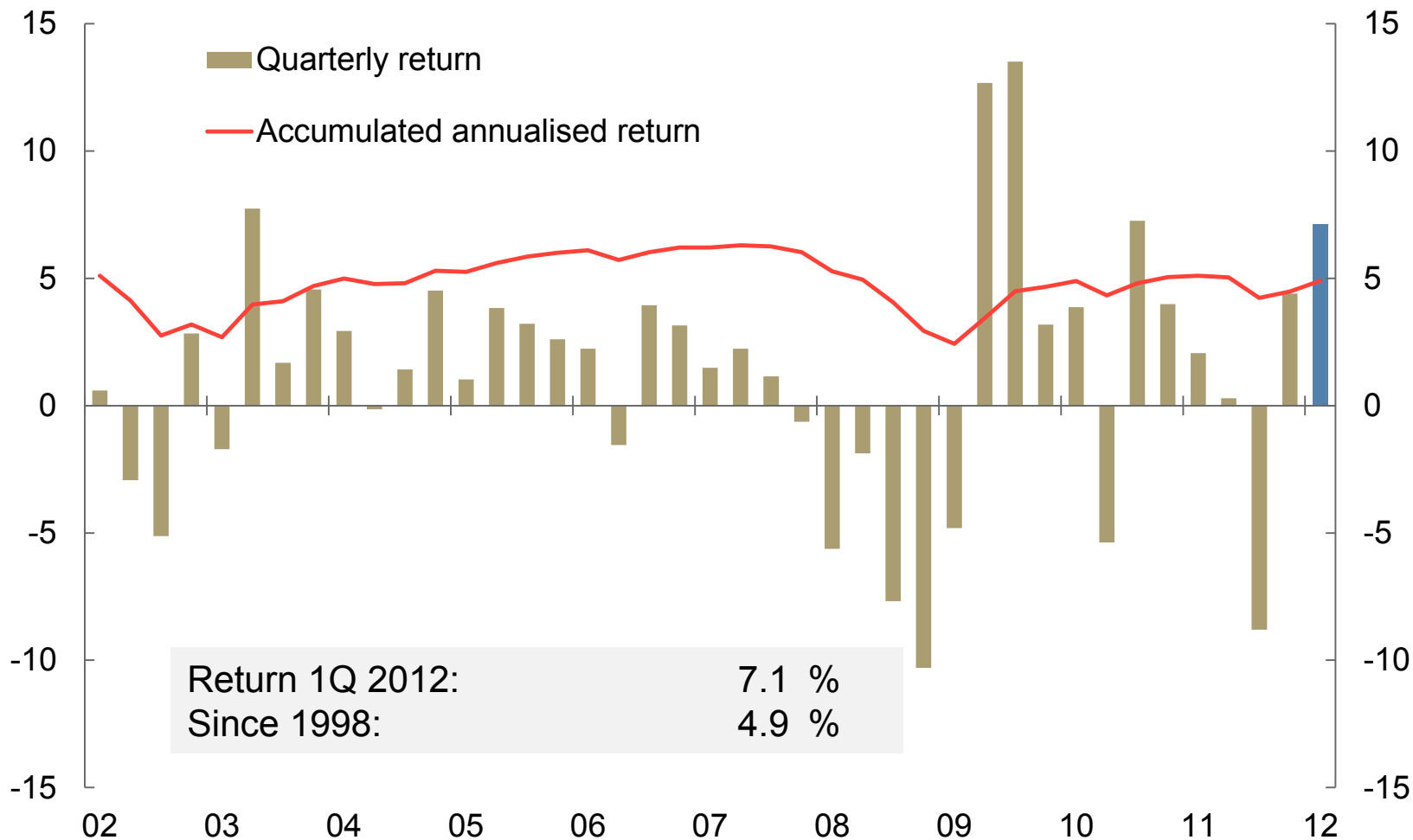


Source: NBIM

# Performance

# Quarterly and annualised absolute returns

Percent, measured in international currency



Source: NBIM

# Fund's real return

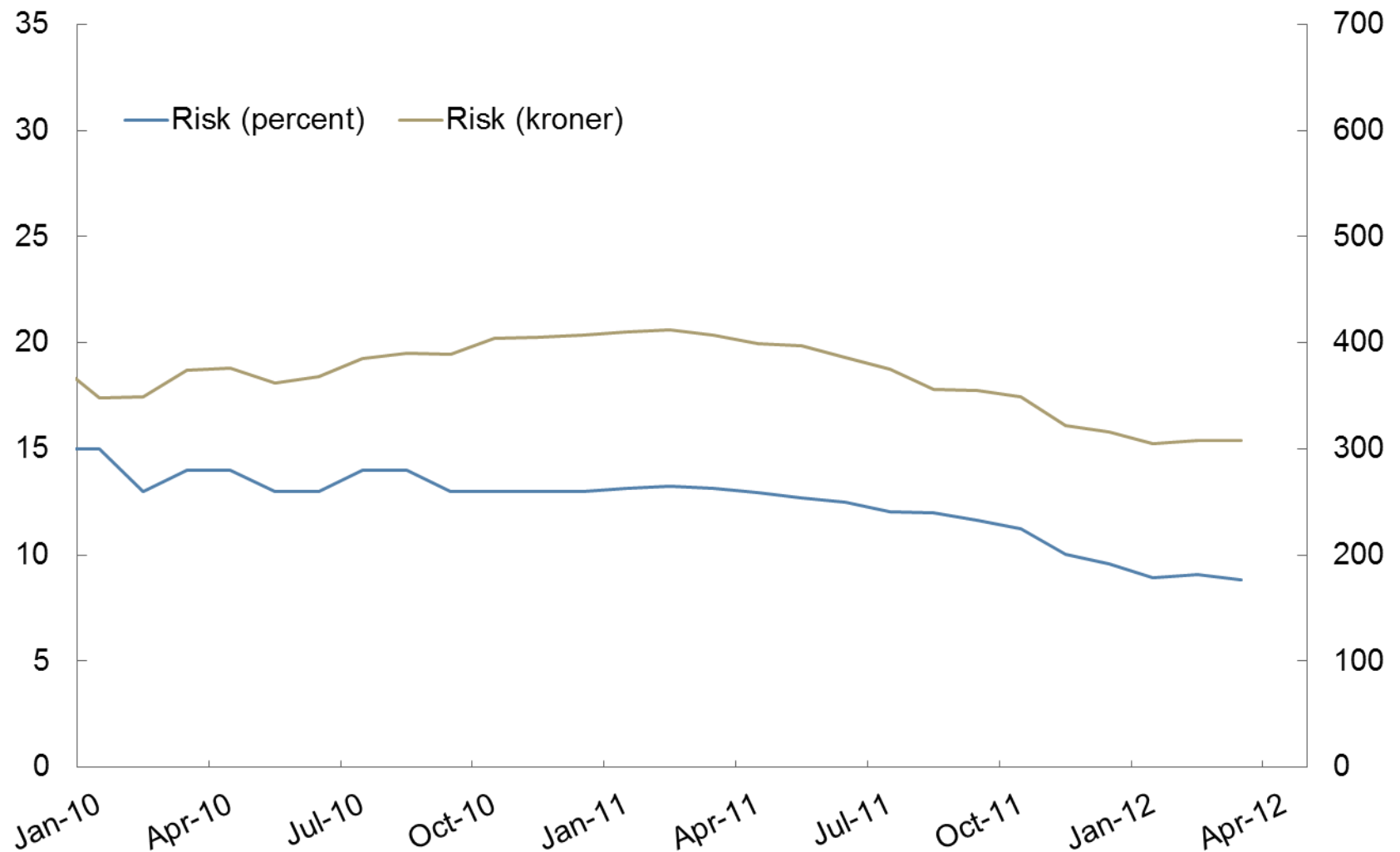
Percent, annualized



Source: NBIM

# The fund's market risk

Expected absolute volatility in percent and billions of kroner



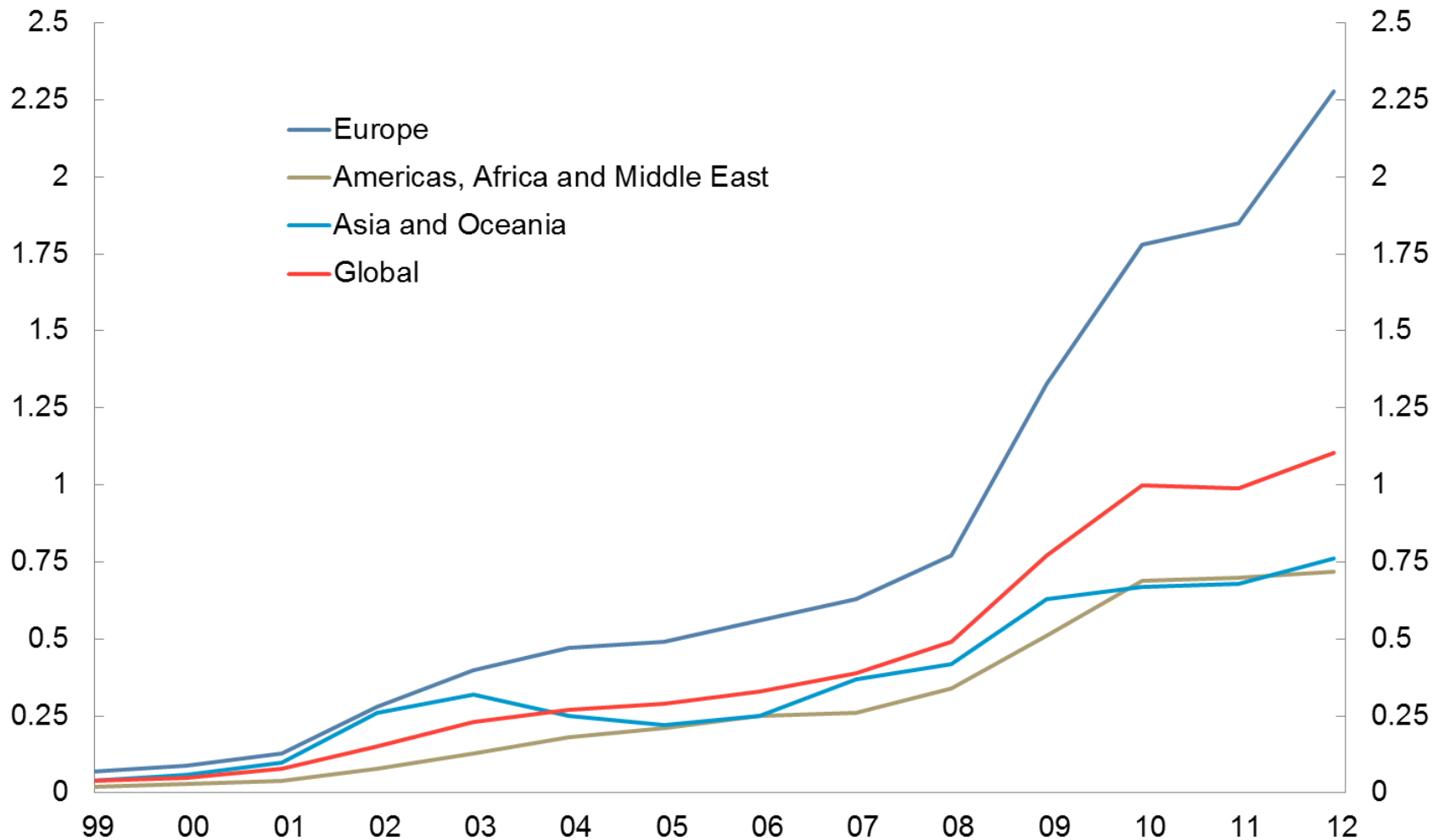
Source: NBIM



# Ownership Policies

# Ownership interest in equity markets

Percent of FTSE All Cap Index's market capitalisation

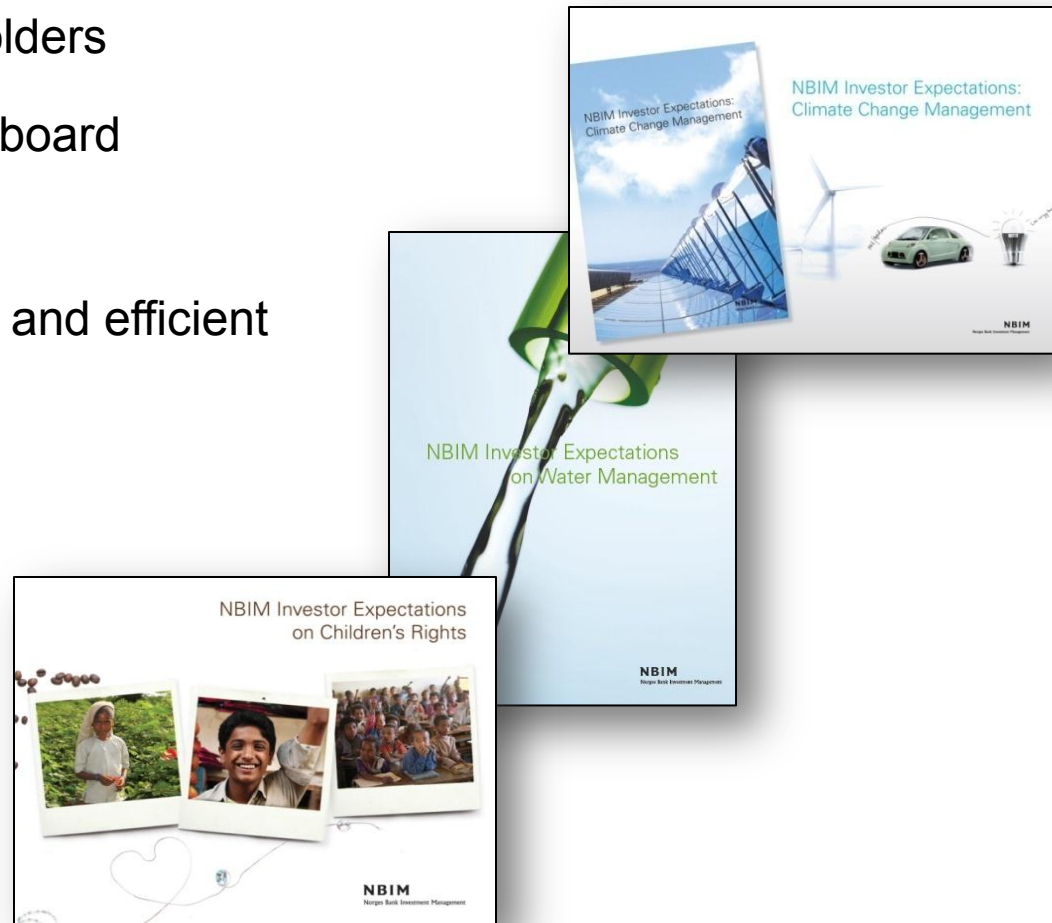


Source: FTSE, NBIM

# 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

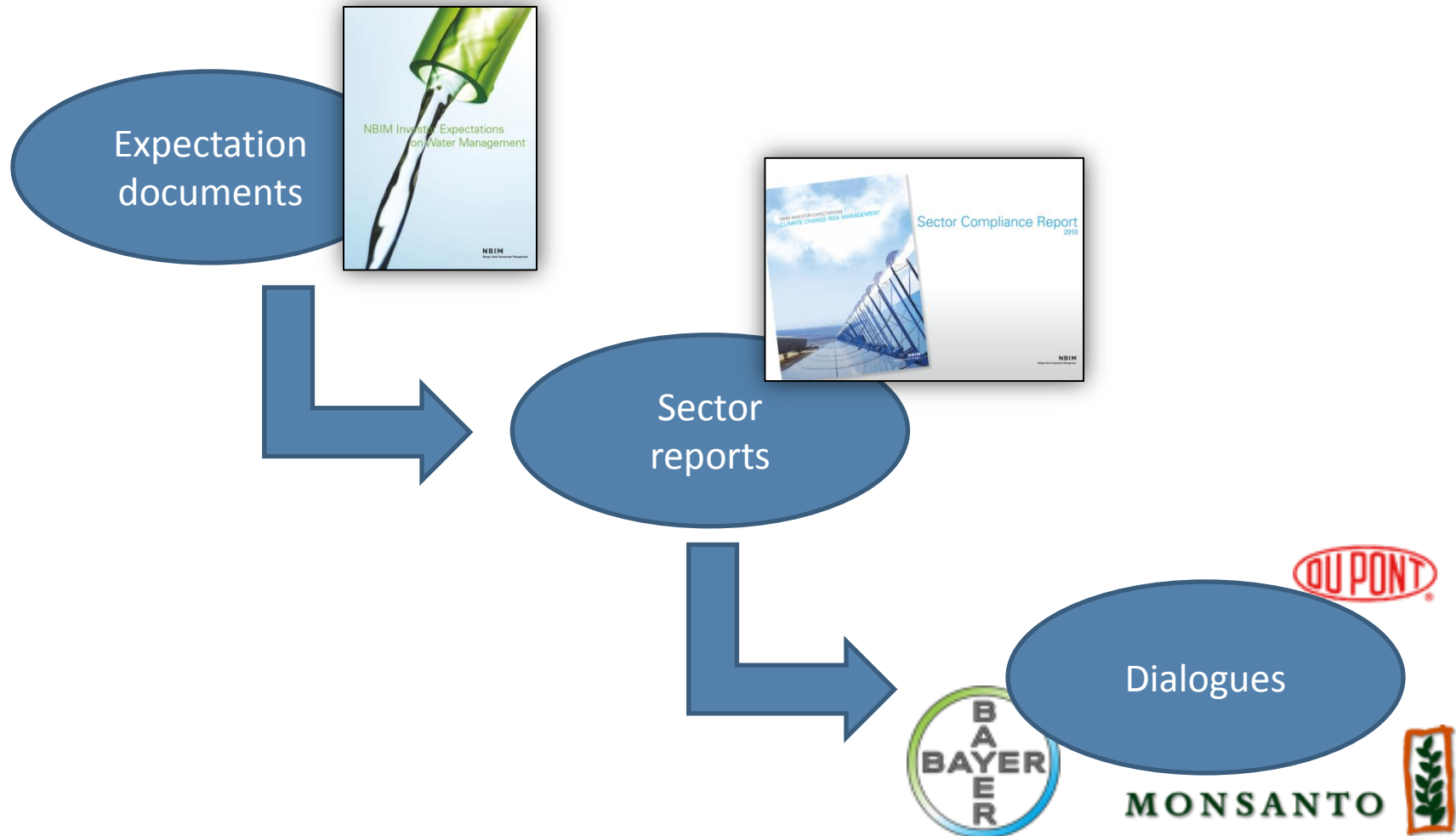


# Ownership tools

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

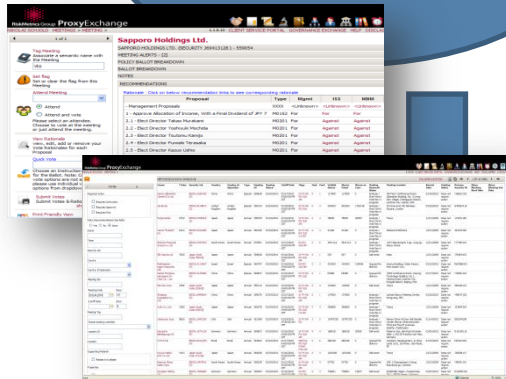


# Ownership tools - engaging with companies



# Ownership tools - exercising shareholder rights

(Proxy) Voting



Shareholder proposals



**citibank**

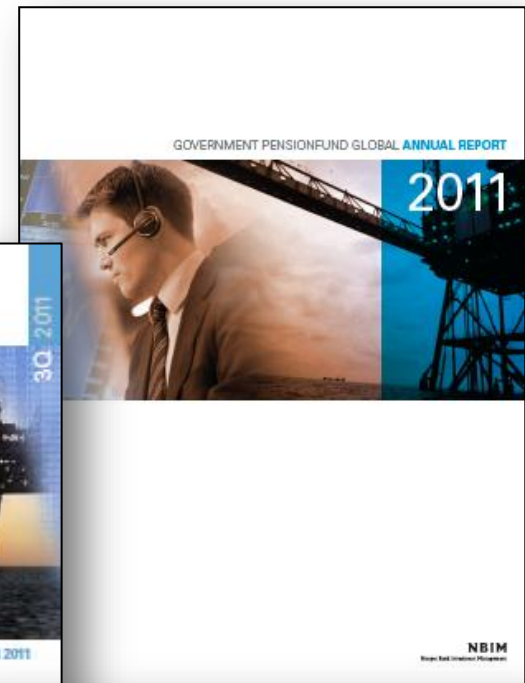
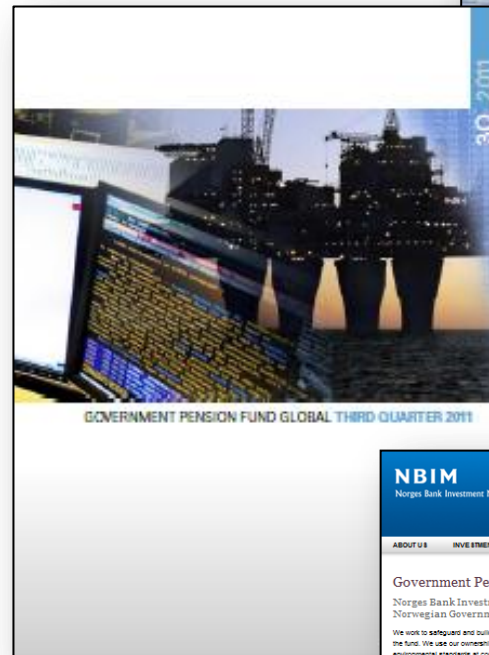
Legal action



**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](http://www.nbim.no)



The image is a screenshot of the NBIM (Norges Bank Investment Management) website. The header includes the NBIM logo and navigation links for ABOUT US, INVESTMENTS, EXTERNAL MANDATES, PRESS AND PUBLICATIONS, CAREERS, and CONTACT US. The main content area features the 'Government Pension Fund Global' title, a description of the fund, and a large green box displaying the 'Fund market value in NOK' as 3 495 988 854 963. Below this, there are sections for 'News from NBIM' (including articles on Adidas, Nestle, and stock declines) and 'Stock Declines Push Down Results in 2011'. A red circle highlights the 'Holdings and voting 2011' section, which lists 'Equity', 'Fixed income', and 'Voting' categories. The footer contains contact information for NBIM in Oslo, Norway.





**NBIM**

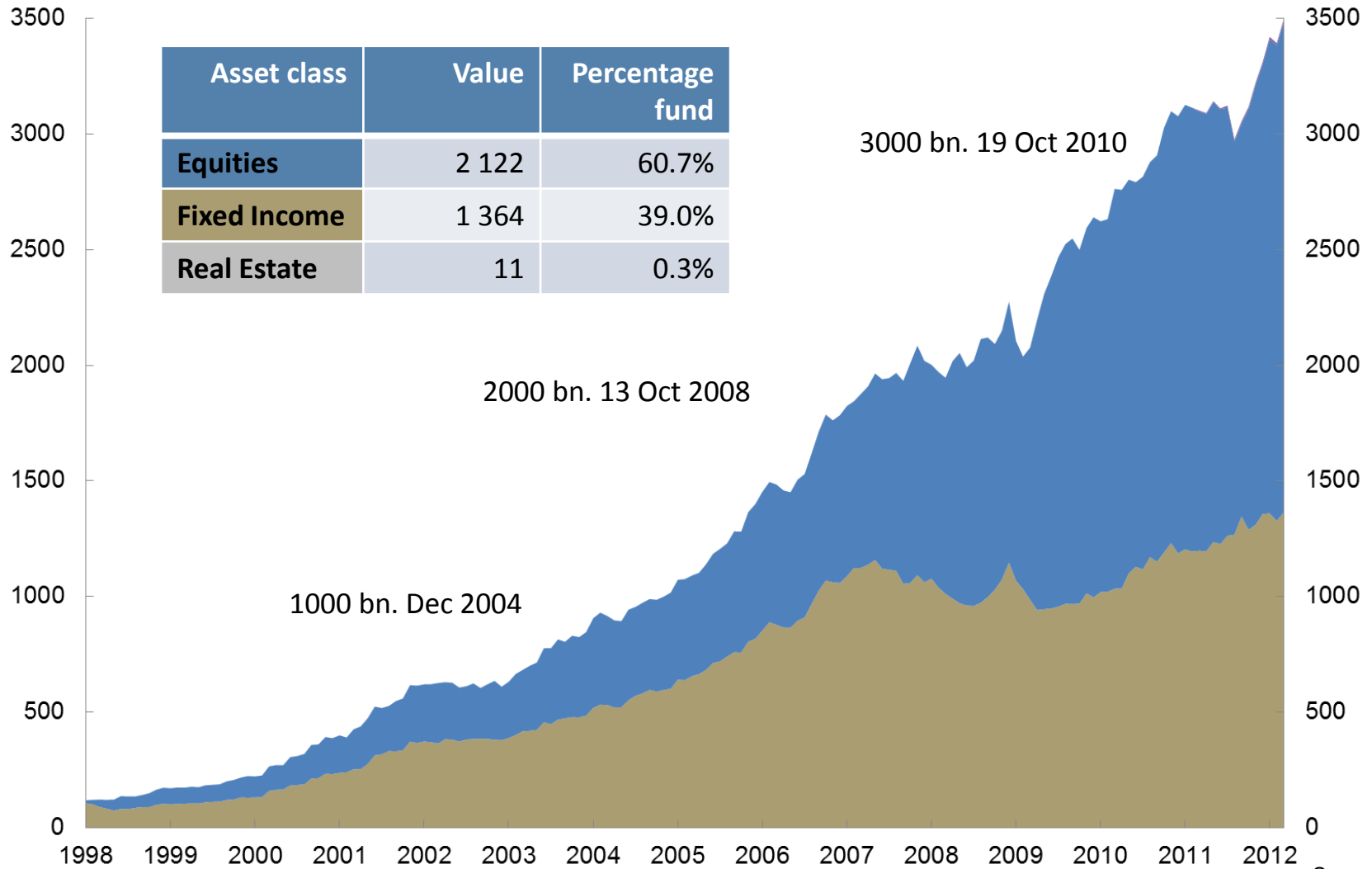
Norges Bank Investment Management



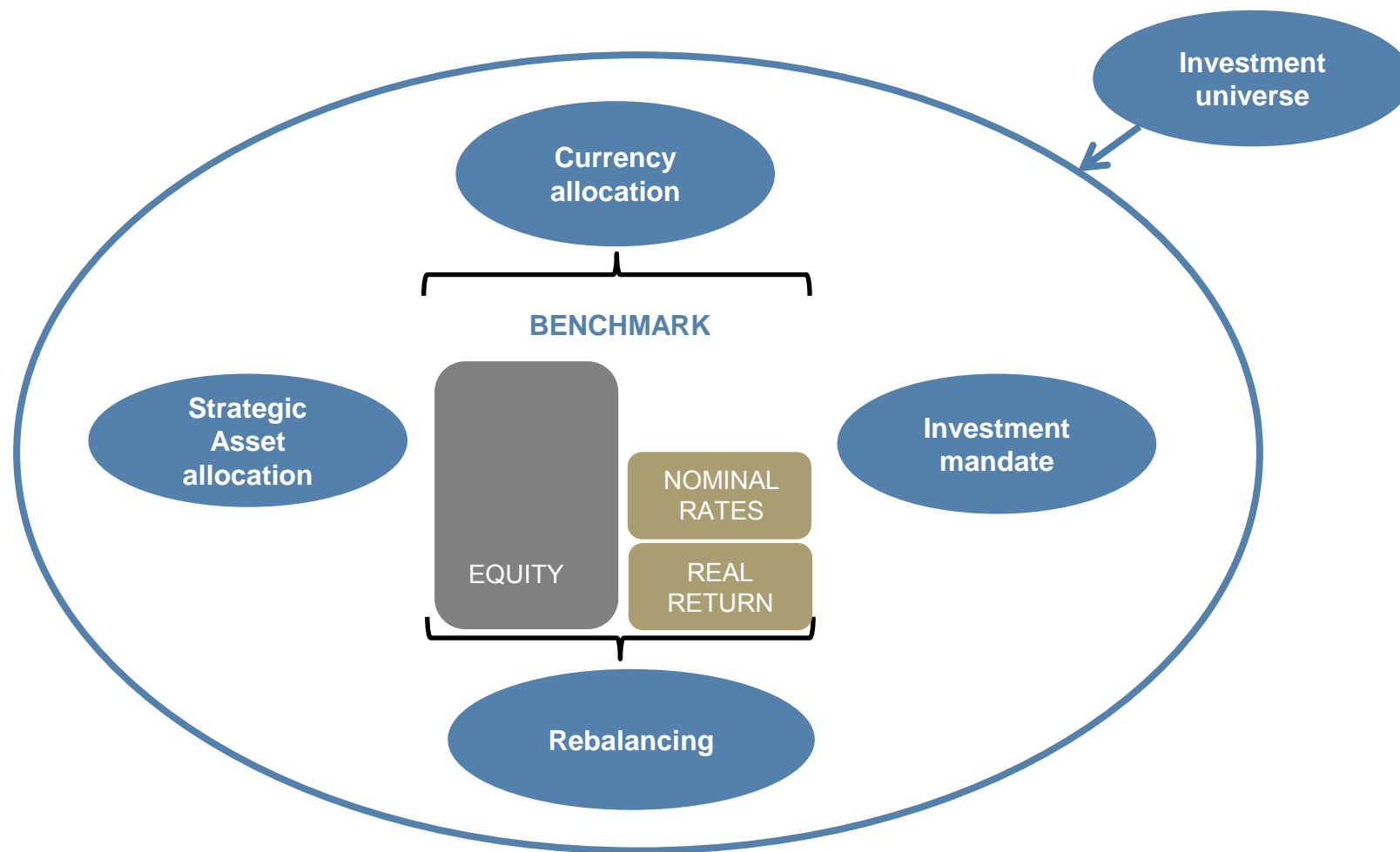


# The fund's market value

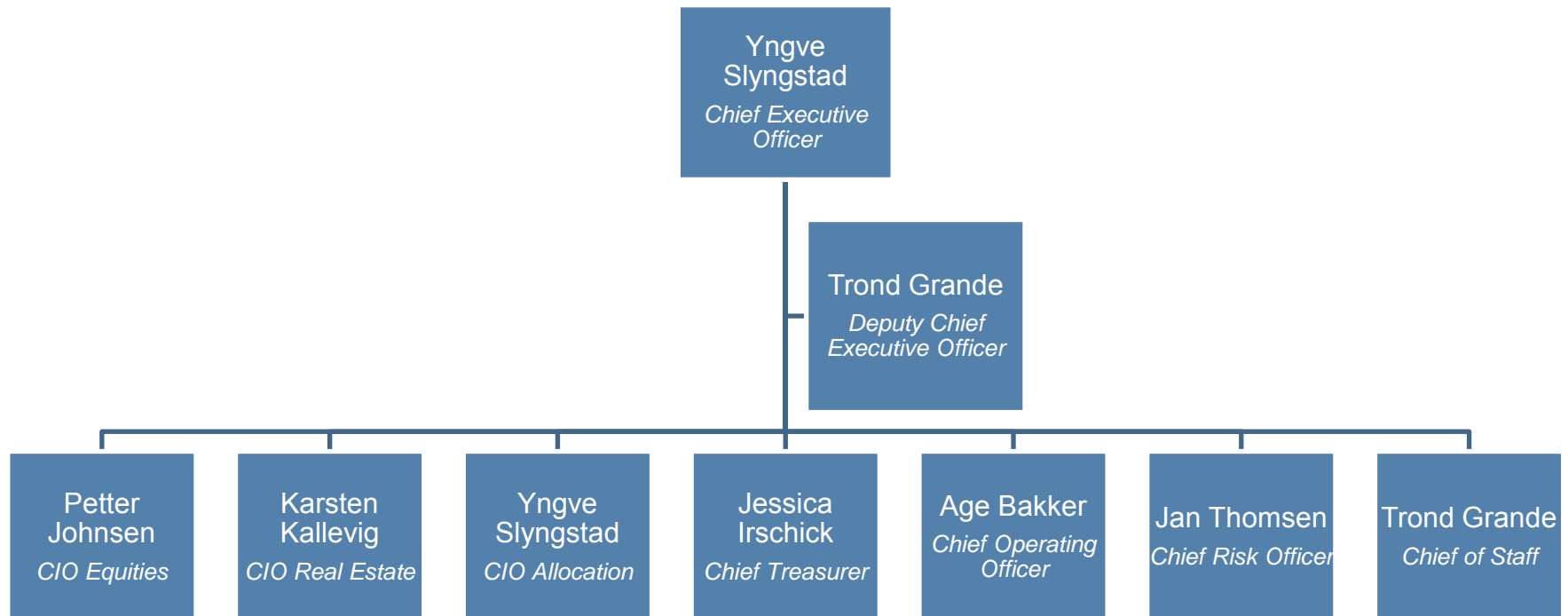
Billions of kroner, as of 30 March 2012



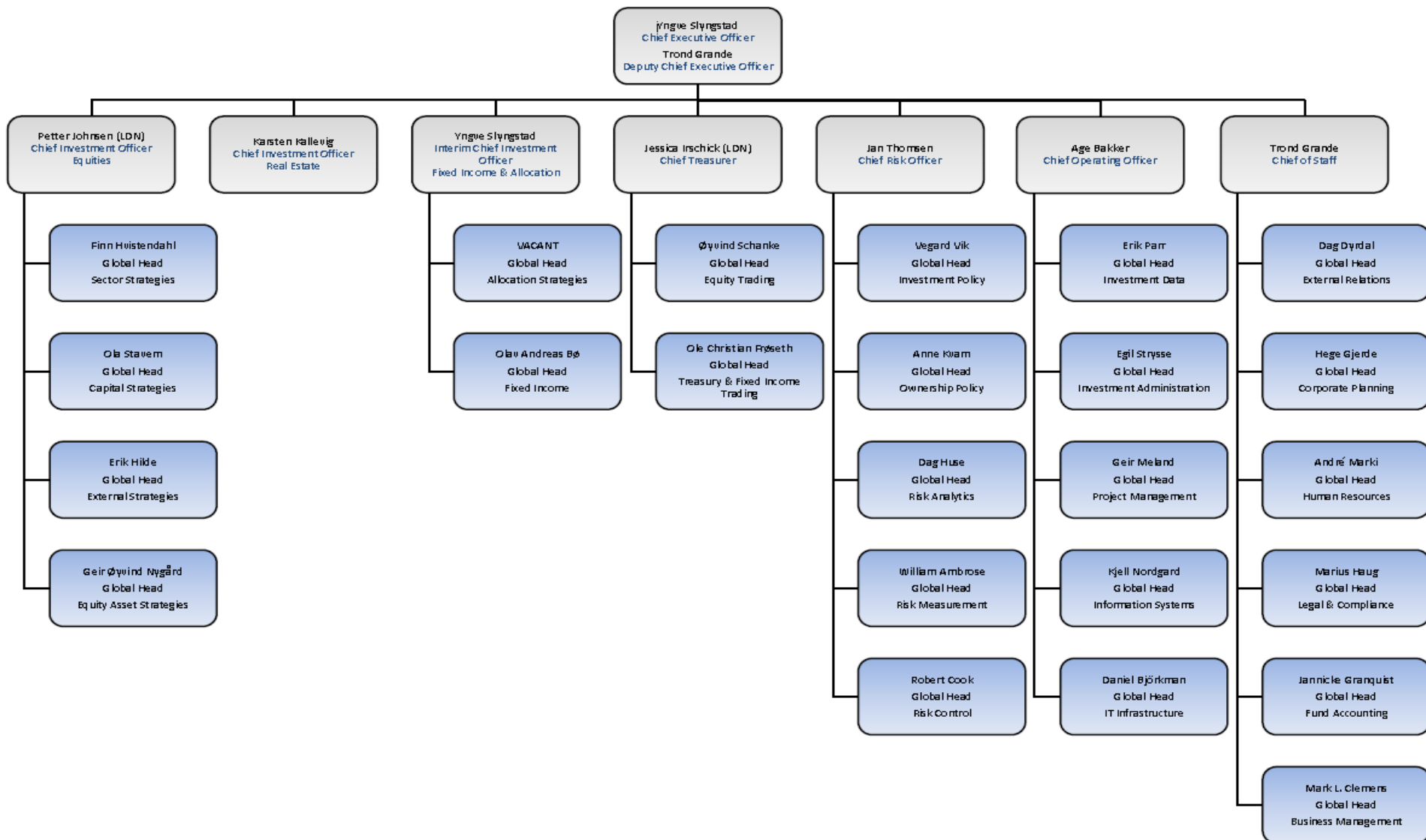
# Investment strategy framework



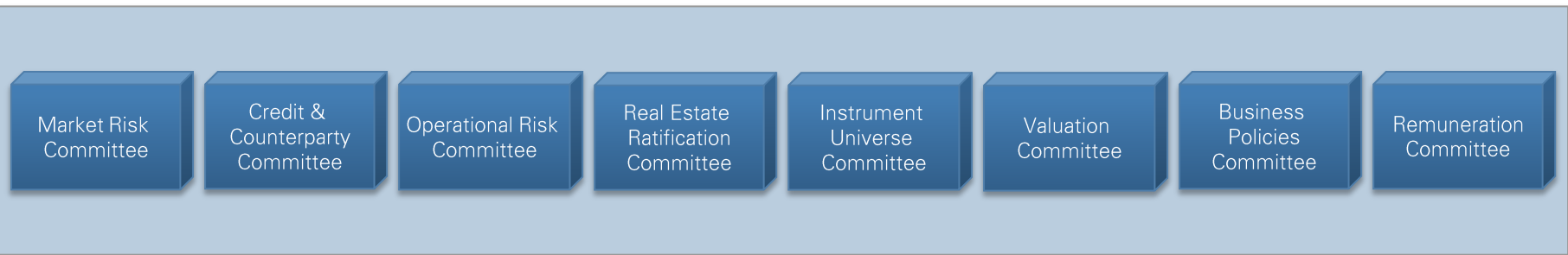
# NBIM Organisation chart



# NBIM Organisation chart



# NBIM Committees



Committee	Purpose	Committee	Purpose
<b>Business Policies Committee</b>	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 NBIMs activities.	<b>Valuation Committee</b>	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.
<b>Instrument Universe Committee</b>	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.	<b>Real Estate Ratification Committee</b>	<p>The Real Estate Ratification Committee acts as ad advisory forum for CEO in:</p> <ul style="list-style-type: none"> <li>• risk analysis of new real estate instruments prior to entering new markets and utilizing new instruments</li> <li>• approval of individual private market transactions as part of NBIM real estate investments and</li> <li>• development of governance framework including policies and guidelines relating to real estate investments</li> </ul>
<b>Credit &amp; Counterparty Committee</b>	The Credit & Counterparty Committee is the advisory forum in the development of NBIM's framework for management of credit and counterparty risk.	<b>Operational Risk Committee</b>	The Operational Risk Committee acts as an ad advisory forum for CEO in development of the operational risk framework and in reviews of operational risk NBIM wide.
<b>Market Risk Committee</b>	<p>The Market Risk Committee handles:</p> <ul style="list-style-type: none"> <li>• Proposals for investment advice to the Executive Board and the Ministries</li> <li>• NBIM's market risk policy</li> <li>• Annual investment strategy document and the quarterly risk allocation document</li> <li>• Investment mandates and quarterly review of investment mandate breaches</li> <li>• Annual inventive structures and issues relating to investment performance.</li> </ul>	<b>Remuneration Committee</b>	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



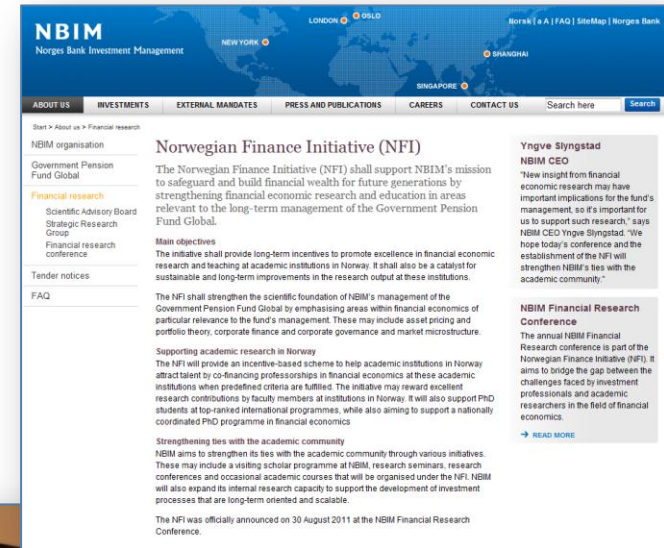
- First investments in major European markets
- Big cities – important centres for offices
- Retail space in densely populated areas
- Investments with partners through joint ventures

# 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





government.no Støttenberg's 2nd Government Ministries Topics A-Z Site Map Help Contact

MINISTRY OF FINANCE

Search the Ministry of Finance  
Search all of government.no

Share/Send Print Listen to the text

You are here: [Government.no](#) / [Ministry of Finance](#) / [Selected Topics](#) / [The Government Pension Fund](#)

### 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 (GAPPP). 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 (GPGF) 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 GPGF

[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 (GPGF) investment portfolio. The divestment from the company has been completed.

#### Report on climate and capital return

### Council on Ethics

Provisions on the management of the Government Pension Fund

- Companies excluded from the investment universe
- Press releases and news
- Fact sheet Pension Fund Global
- Reports and Budget Bills
- Pension Fund Global's investments by region and country

### REPORTS:

- Report No. 15 The Management of the...
- Report no. 10 (2009-2010) to the Storting The Management of the...
- Government Pension Fund Global. Annual report 2010
- Holdings of equities as of 31 December 2010
- Holdings of fixed-income as of 31 December 2010
- Geographical spread

### INSTITUTIONS LINKED TO THE MINISTRY:

- Norges Bank Investment Management (NBIM)
- The National Insurance Scheme Fund
- Council on Ethics

### CONTACT INFORMATION

[Asset Management](#)

Ministry of Finance

Council of Ethics


Portal home

- Council on Ethics
  - Ethical Guidelines
  - Council's Activities
  - Recommendations and other documents
  - Annual Reports
  - Frequently Asked Questions
  - History
  - Contact

### 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 Yvonne Lindberg](#)
- [Professor Dag Ole Hansen](#)
- [MBA Ragna Rønne](#)
- [Associate Professor Dr. Jørn Giv Nystuen \(Chair of the Council\)](#)
- [Professor Dr. Jørn Ole Mestad](#)

The role of the Council on Ethics for the Government Pension Fund Global is to provide evaluation on 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](http://www.regjeringen.no/gpf)

[www.etikkraadet.no](http://www.etikkraadet.no)