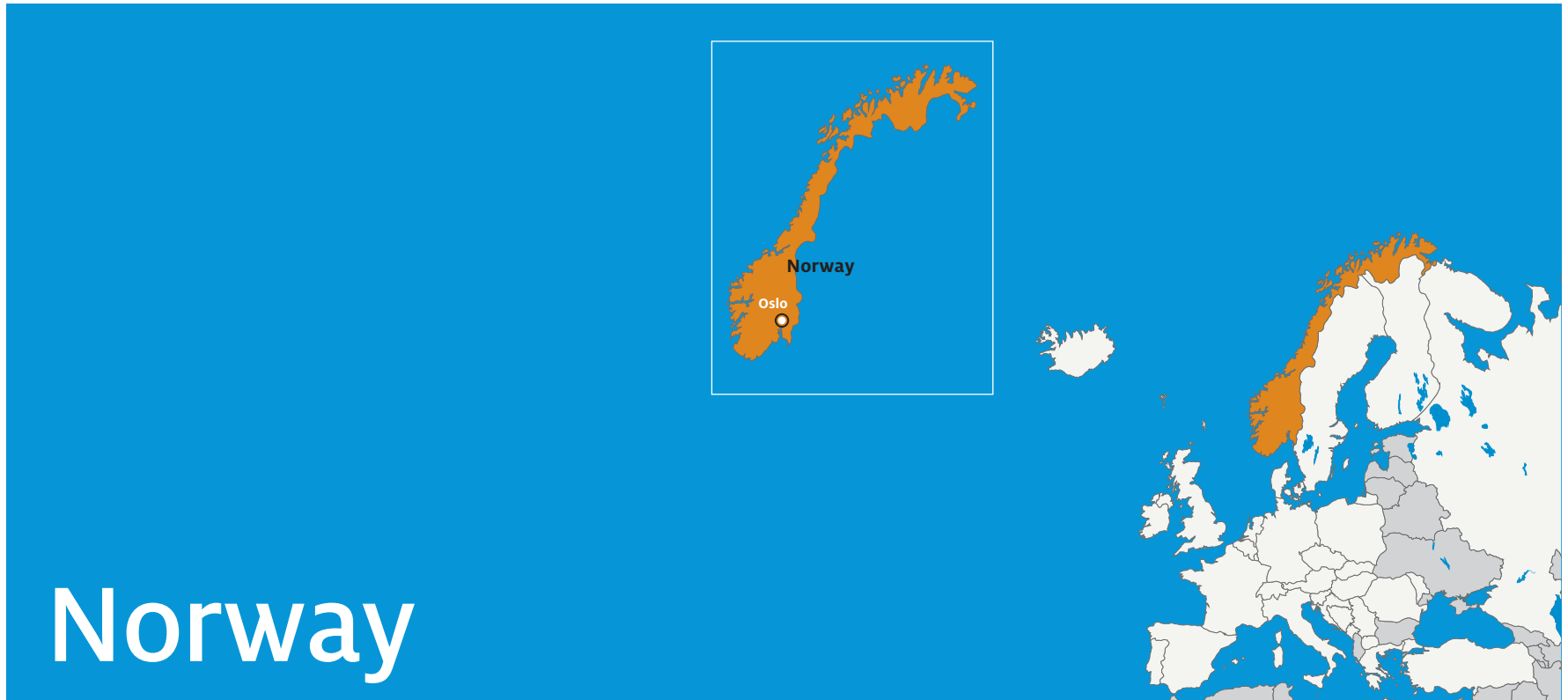


## Natural Resource Funds



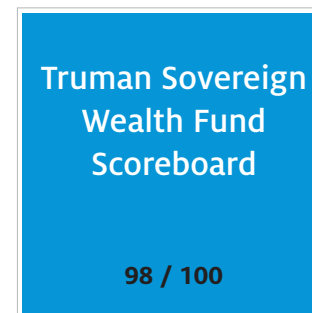
# Norway

## Government Pension Fund Global



Market Value

**Government Pension Fund Global**  
\$670 billion



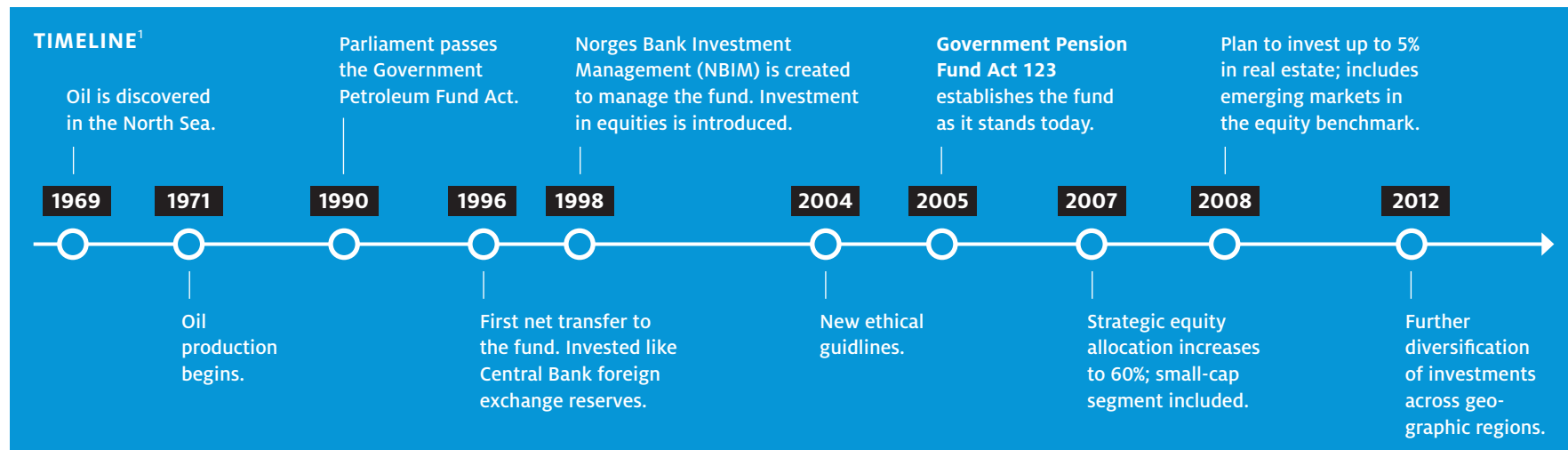
Good Governance Fundamentals	
Clear Deposit Rules	yes
Clear Withdrawal Rules	yes
Clear Investment Rules	yes
Transparent	yes
Publicly Available Audits	yes
Effective Oversight	yes

**Fund Highlights**

- Norway’s Government Pension Fund Global was established in 1990 to stabilize the flow of oil revenue into the budget and save for future generations.
- Despite its name, the fund currently has no formal pension obligations.
- The Ministry of Finance owns the fund on behalf of all Norwegians, however the Norges Bank Investment Management, a branch of the Central Bank, manages it.

- Withdrawals from the fund reflect a fiscal rule, agreed in 2001, that limits the non-oil structural deficit to 4 percent.
- The fund is fully integrated into the government’s annual budget; parliament must approve all withdrawals.
- Control and supervisory bodies exist at all levels of fund management.

# Timeline and Fund Objectives



## Fund Inception

- A fund was originally established in 1990 as the Government Petroleum Fund through the **Government Petroleum Fund Act**.<sup>2</sup>
- The Government Pension Fund Global in its current form was reconstituted and renamed in 2005 through the Government Pension Fund Act (Act 123), which clarifies objectives and management responsibilities.<sup>3</sup>

## Fund Objectives

- To operate as a **stabilization and savings fund**.<sup>4</sup>
- To act as a fiscal policy tool that manages the gradual and sustainable long-term integration of oil revenue into the Norwegian economy.<sup>5</sup>
- To enable government to adapt fiscal policy in response to:
  - Volatile petroleum revenue;
  - Federal budget deficits;
  - Domestic economic uncertainty; and
  - Financial challenges of an aging population.<sup>6</sup>

To make petroleum funds available on a long-term basis.<sup>7</sup>

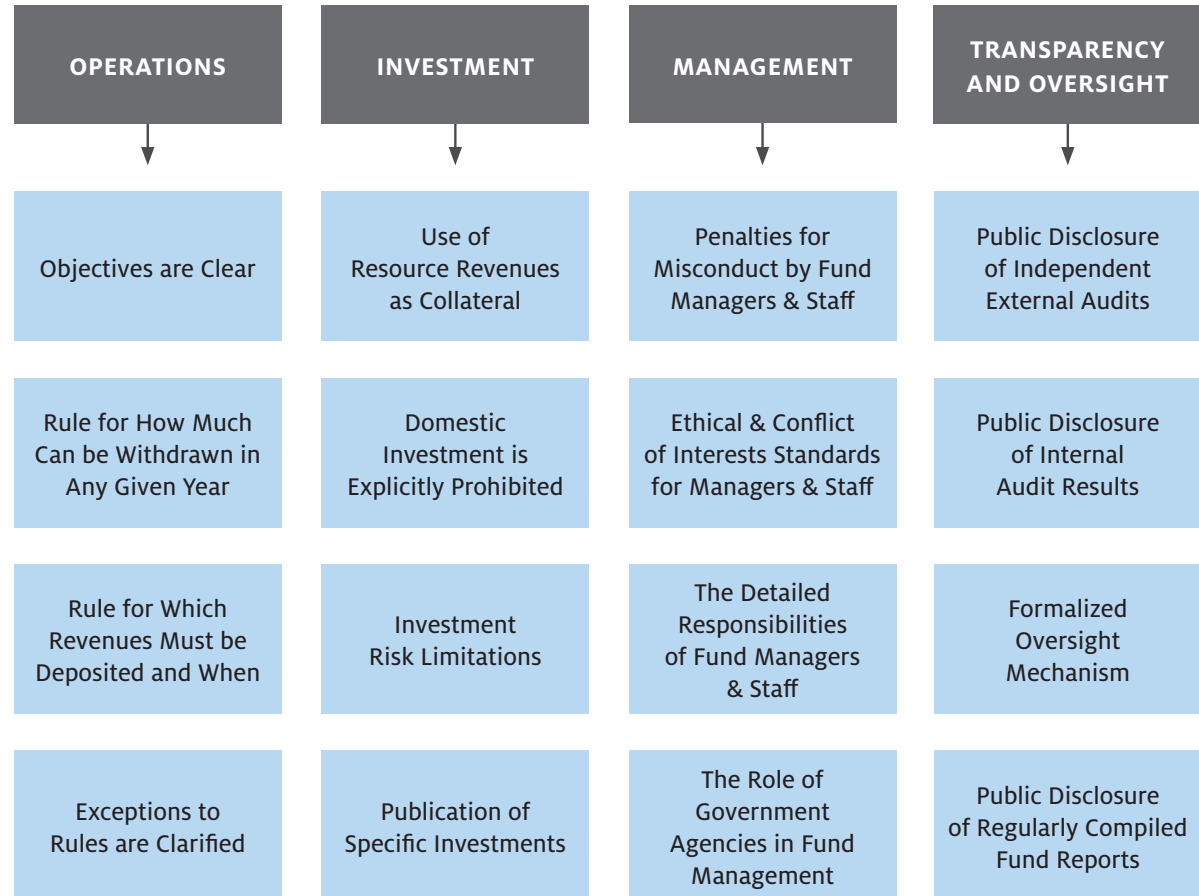
# NORWAY


Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.


## 16/16

Good Governance Standards Met

## Good Governance Standards and Gaps in Regulation



 Presence of Regulation

 Absence of Regulation

*Norway's fiscal rule determines the size of withdrawals from the Fund.*

## Operational Laws, Rules and Policies

### Fund Deposit Rules

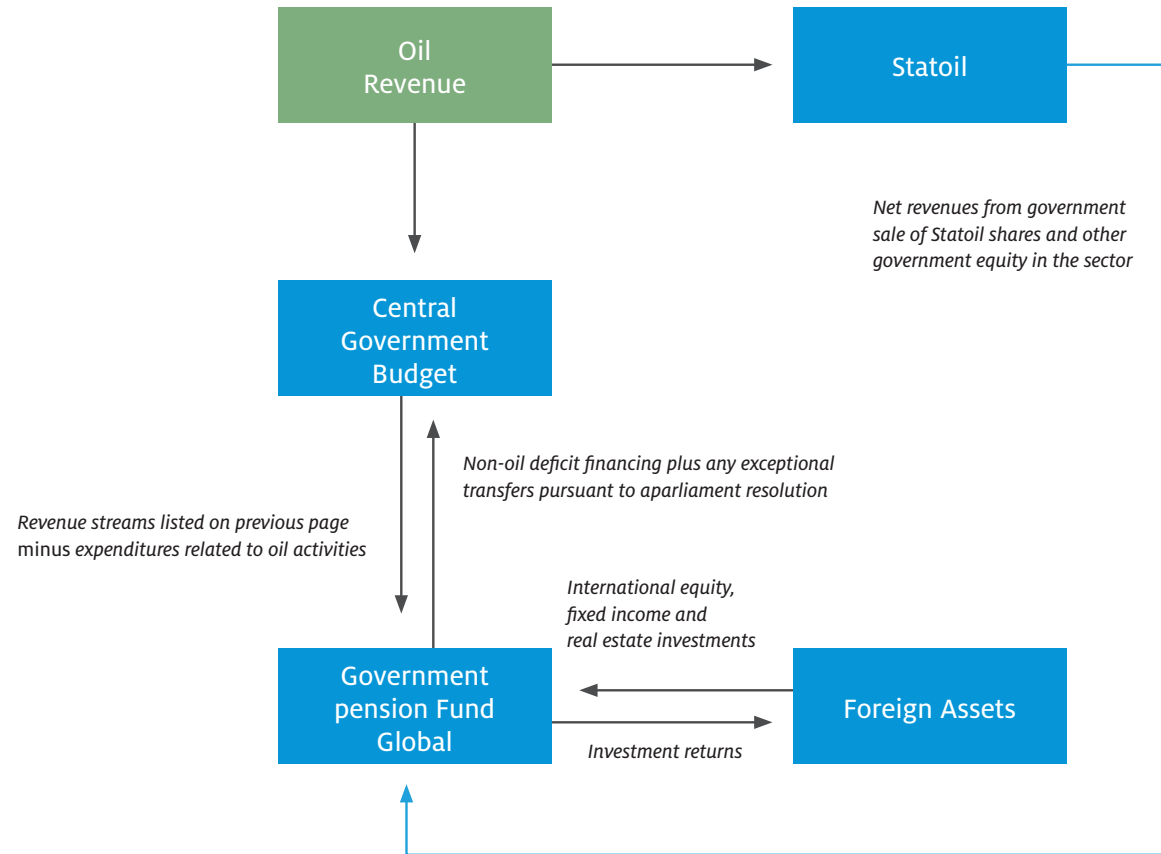
- Income deposited into the Government Pension Fund Global consists of:
  1. Gross petroleum revenues including tax revenues, royalties, operating income from the state's direct financial interest, dividends, and transfers from the Petroleum Insurance Fund, minus expenses including the government's direct investments in commercial activities, operating costs related to the state's direct interest and expenses in the Petroleum Insurance Fund.
  2. Net revenues from government sale of shares in Statoil, the national oil company, and other government equity in the sector.
  3. Return on fund investments.<sup>8</sup>

### Fund Withdrawal Rules

- Since 2001, Norway's major political parties have agreed that the non-oil structural deficit cannot exceed 4 percent, which is the expected long-run real return on the fund's investments. Although it has no legal standing, the balanced budget rule limits withdrawals in practice. The fiscal guidelines allow temporary deviations from the rule under specific circumstances.<sup>9</sup>
- Fund capital may only be transferred to the central government budget pursuant to a resolution by Stortinget (Norwegian Parliament).<sup>10</sup>
- The Ministry of Finance can issue supplementary provisions to implement the Government Pension Fund Act 123.<sup>11</sup>

# Operational Laws, Rules and Policies

## Flow of Funds



## Investment Laws, Rules and Policies

### Investment Authority

The Ministry of Finance is responsible for establishing the fund's investment rules.

### Investment Objectives

"Management of the Fund's capital shall be based on the goal of achieving the highest possible return . . . dependent upon sustainable development in economic, environmental and social terms as well as well-functioning, legitimate and effective markets."<sup>12</sup>

### Investment Allocation

- Investments are allocated and diversified by asset class and geography.
- Allocation by asset class:
  - 40% fixed income, 60% equities, less real estate.<sup>13</sup>
    - Fixed income: 70% government bonds, 30% corporate bonds.<sup>14</sup>
    - Equities: Benchmark based on the FTSE Global All Cap Index.<sup>15</sup>
    - Real Estate: Up to 5% of the fund's capital.<sup>16</sup>

### Investment Strategy

- External investment managers may be used. Selection procedures are regulated by the Norges Bank and the list of external managers is made public.<sup>17</sup>
- The main characteristics of the fund's investment strategy are:
  - Long-term investment horizon
  - Wide diversification of investments across asset classes and geography
  - Ethical investment guidelines
  - Limit 10 percent ownership in any single company
  - Strict risk-taking guidelines and strong oversight of investment managers<sup>18</sup>

### Ethical Investment Guidelines

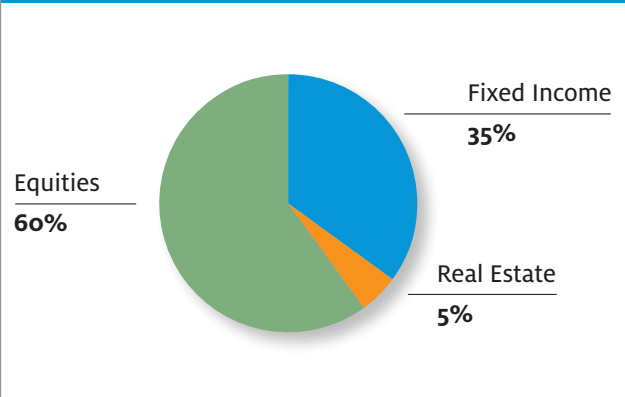
- Exercise ownership rights to promote long-term financial returns based on UN Global Compact and OECD Guidelines for Corporate Governance.
- Negative screening of companies that produce weapons, which "through normal use may violate humanitarian principles."
- Exclusion of investments that risk systematic human rights violations, individuals' rights, severe environmental damages and gross corruption.<sup>19</sup>

### Policy on In-State Investments

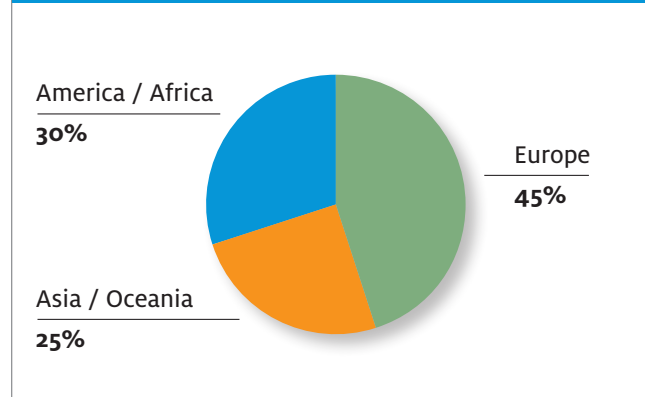
Fund assets may not be invested in Norway.<sup>20</sup>

## Investment Laws, Rules and Policies

Allocation by Asset Class



Allocation by Geographic Region



Investment Returns <sup>21</sup>	2011	Since 1998
Annual Gross	-2.54%	4.48
Annual Net/ Real Return	-5.25%	2.42



# Management and Accountability

## Management and internal accountability

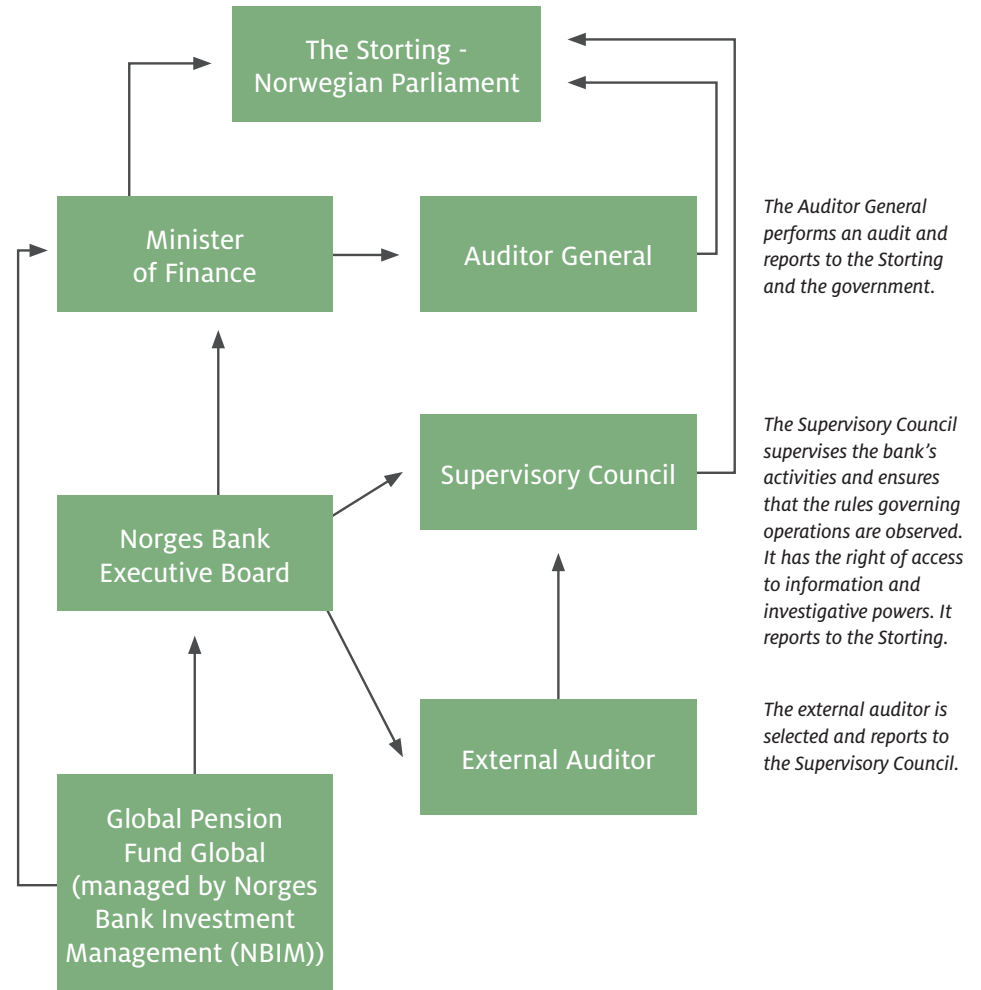
The Storting passes legislation governing the fund, approves the annual budget, appoints the Supervisory Council members and reviews reports (see next page for details).

The Minister of Finance acts as fund "owner." It delegates operational management to the Norges Bank within a mandate that includes investment guidelines, ethical management, risk management and internal control. It monitors and evaluates fund performance.

The Central Bank Executive Board is the fund's operational manager. It generates the investment mandate for the fund and outlines principles of risk management, asset allocations and internal management for the NBIM. It is subject to an internal audit.

NBIM is a department within the Norges Bank and is the day-to-day fund manager. It implements investment strategy and exercises active management. NBIM's strategic plan submitted directly to the Minister of Finance. NBIM Risk Management and Compliance is the internal oversight body that monitors activities and ensures compliance with rules.

## External accountability



*Norway's Fund is subject to some of the world's strongest safeguards.*

## Oversight and Safeguards

### Oversight Mechanisms

- The Central Bank Supervisory Council, elected by Norway's parliament, is mandated to monitor Norges Bank activities and ensure that the rules governing operations are observed, including the management of the Government Pension Global Fund.<sup>22</sup>
- Finances are subject to regular and comprehensive internal audits.
- Parliament must approve all withdrawals.
- Funds are managed separately from the country's international reserves.
- Fund finances are subject to a regular and independent external audit that meets international standards.
- The IMF routinely monitors fund performance through their Article IV consultations which are annual reports that evaluate macroeconomic policy.

## Transparency Laws, Rules and Policies

**There is public disclosure of the following:**

When or how often Fund reports are published and made publicly available	yes	
Which individuals or organizations are responsible for publishing Fund reports	yes	
Size of the Fund(s)	yes	
Deposit and withdrawal amounts	yes	
Returns on investments	yes	
Detailed asset allocation – geographic location	yes	
Detailed asset allocation – asset class	yes	
Detailed asset allocation – specific assets	yes	
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules		no

# Implementation of Laws, Rules and Policies

(as of March 2013)

## Supervisory Council's Overall Conclusion

- The Council received all information it requested.
- Executive Board exercised satisfactory management and control of Norges Bank in accordance with the mandate and guidelines for the management of the Government Pension fund Global.

## Specific Remarks

- Executive Board complied with changes in the mandate from the Ministry of Finance regarding weighting of developed and emerging markets in the equity portfolio benchmark index.
- There is a high level of transparency in the management of the Fund compared to other funds, both nationally and internationally.
- Established guidelines have been carried out in line with requirements for responsible and ethical investment.

## Supervisory Council's Stated Priorities Going Forward

- The Council will continue to monitor the Board's oversight of the governance system focusing on risk reduction and management, internal control and compliance with laws and regulations.
- Supervision of investment management is a high priority, particularly in the system for risk management, responsible investment, tax issues and real estate investments through subsidies.

Supervisory Council (2013)

*Norges Bank's Supervisory Council Report for 2012.*

Online at: <http://www.norges-bank.no/>

## Annex

### List of Applicable Laws

#### **Government Pension Fund**

##### **Act No. 123 of December 21, 2005**

[www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605](http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605)

#### **Management mandate for the Government Pension Fund Global**

[www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605#\\_Toc329682554](http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605#_Toc329682554)

#### **Central Bank Law**

##### **Act of 24 May 1985 relating to Norges Bank and the Monetary System**

<http://www.regjeringen.no/pages/1719656/NorgesBankAct.pdf>

1. [www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf](http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf)
2. [www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf](http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf)
3. Government Pension Fund Act No. 123 of 21 December 2005. Available at: <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605> , and, [www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf](http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf)
4. [www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf](http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf), and, Government Pension Fund Global Annual Report 2011. Available at: [http://www.nbim.no/Global/Reports/2011/Annual%20report%202011/Arsrapport\\_11\\_ENG\\_web.pdf](http://www.nbim.no/Global/Reports/2011/Annual%20report%202011/Arsrapport_11_ENG_web.pdf)
5. [www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf](http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf)
6. <http://www.nbim.no/en/About-us/Government-Pension-Fund-Global/>, and, [www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf](http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf)
7. [www.nbim.no/en/About-us/Government-Pension-Fund-Global/](http://www.nbim.no/en/About-us/Government-Pension-Fund-Global/)
8. <http://www.regjeringen.no/pages/37984857/FactSheetGPF3Q2012.pdf>
9. Government Pension Fund Act No. 123 Section 3. and 4. of 21 December 2005. Available at: <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605>
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11. Government Pension Fund Act No. 123 Section 7. of 21 December 2005. Available at: <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605>
12. Management mandate for the Government Pension Fund Global, Chapter 2 Responsible investment Section 2 – 1 Laid down by the Ministry of Finance on November 8 2010 pursuant to Act No. 123. Available at: <http://www.nbim.no/en/About-us/governance-model/management-mandate/> , and, [http://www.regjeringen.no/pages/1719656/mandate\\_gpfg.pdf](http://www.regjeringen.no/pages/1719656/mandate_gpfg.pdf)
13. Management mandate for the Government Pension Fund Global, Chapter 1 General provisions Section 1 – 4 (2), Laid down by the Ministry of Finance on November 8 2010 pursuant to Act No. 123. Available at: <http://www.nbim.no/en/About-us/governance-model/management-mandate/>
14. Management mandate for the Government Pension Fund Global, Chapter 3 Management Section 3 – 2, Laid down by the Ministry of Finance on November 8 2010 pursuant to Act No. 123. Available at: <http://www.nbim.no/en/About-us/governance-model/management-mandate/>
15. Management mandate for the Government Pension Fund Global, Chapter 3 Management Section 3 – 3, Laid down by the Ministry of Finance on November 8 2010 pursuant to Act No. 123. Available at: <http://www.nbim.no/en/About-us/governance-model/management-mandate/>
16. Issued by the Ministry of Finance 24 February 2010 with the Act of 21 December 2005 No. 123. Available at: [http://www.regjeringen.no/nb/dep/fin/dok/lover\\_regler/forskrifter/2010/regler-om-forvaltning-av-eiendomsporte.html?id=594210](http://www.regjeringen.no/nb/dep/fin/dok/lover_regler/forskrifter/2010/regler-om-forvaltning-av-eiendomsporte.html?id=594210) , and, <http://www.nbim.no/en/About-us/governance-model/management-mandate/>
17. Management mandate for the Government Pension Fund Global, Chapter 1 General provisions Section 1 – 7, Laid down by the Ministry of Finance on November 8 2010 pursuant to Act No. 123. Available at: <http://www.nbim.no/en/About-us/governance-model/management-mandate/>
18. The Management of the Government Pension Fund in 2011, Reports to the Storting, 2010 - 2011 2 Investment strategy of the Government Pension Fund Global, 2.1.2. Available at: <http://www.regjeringen.no/en/dep/fin/Documents-and-publications/propositions-and-reports/Reports-to-the-Storting/2011-2012/meld-st-17-20112012-2/2.html?id=680517>
19. Government Pension Fund Global, Council on Ethics, issued 22 December 2005. Available at: <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/the-ethical-guidelines.html?id=434894>
20. Management mandate for the Government Pension Fund Global, Chapter 1 General provisions Section 1 – 2 (1), Laid down by the Ministry of Finance on November 8 2010 pursuant to Act No. 123. Available at: <http://www.nbim.no/en/About-us/governance-model/management-mandate/> , and, [http://www.regjeringen.no/pages/1719656/mandate\\_gpfg.pdf](http://www.regjeringen.no/pages/1719656/mandate_gpfg.pdf)
21. <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/government-pension-fund-global-gpfg/fund-performance.html?id=696854>
22. [http://www.norges-bank.no/Upload/Om%20Norges%20Bank/Organisasjon/Representantskapet/supervisory-council\\_AnnualReport\\_2011.pdf](http://www.norges-bank.no/Upload/Om%20Norges%20Bank/Organisasjon/Representantskapet/supervisory-council_AnnualReport_2011.pdf)