

# The Government Pension Fund – Global

(formerly known as the Government Petroleum Fund)

## History

- 1969: Petroleum discovered in the North Sea (Ekofisk), production started in 1971.
- 1990: Parliament passed the Government Petroleum Fund law.
- 1996: First net transfer to the Fund. Invested like Central Bank currency reserves.
- 1998: Investment in equities introduced in the benchmark (40% allocation).
- 2000: Five emerging market countries added to the equity benchmark.
- 2002: Non-government bonds added to the fixed income benchmark.
- 2004: New ethical guidelines.
- 2006: The Government Petroleum Fund renamed the Government Pension Fund – Global.
- 2007: Strategic equity allocation increased to 60%, small-cap stocks included in benchmark.
- 2008: Plan to invest over time up to 5% in real estate (at the expense of bond allocation), all emerging countries included in equity benchmark.

## Purpose

The Petroleum Fund was established in 1990 as a fiscal policy tool to support a long-term management of the petroleum revenues. Renaming the Fund to the Pension Fund - Global in 2006 was part of a broader pension reform, highlighting also the Fund's role in facilitating government savings necessary to meet the rapid rise in public pension expenditures in the coming years. The Fund is not earmarked for pension expenditures.

## “The Norwegian petroleum fund model” in a nutshell

- The Fund is fully integrated into the state budget. It functions as a tool to strengthen the budget process and builds on existing institutions.
- The Fund is only invested abroad in financial assets. This ensures risk diversification and good financial returns, and helps to protect the non-oil economy.
- There is a high degree of transparency and disclosure of information. This helps build public support for a wise management of petroleum revenues, and reduces the risk of bad governance.

## Key Design Features

- The Fund's inflow consists of all state petroleum revenues, net financial transactions related to petroleum activities, as well as the return on the Fund's investments.
- The outflow from the Fund is the sum needed to cover the non-oil budget deficit.

This means that the Fund is fully integrated into the state budget and that net allocations to the Fund reflect the total budget surplus (including petroleum revenues). Fiscal policy, which regulates the outflow from the Fund, is anchored in the guideline that over time the structural, non-oil budget deficit shall correspond to the real return on the Fund, estimated at 4%.

## Governance

- There is a clear division of roles and responsibilities between the political authorities and the operational management.
- The Ministry sets guidelines, including benchmark and risk limits, and exercises oversight.
- The operational management is carried out by Norges Bank (the Central Bank).
- Key changes to investment guidelines are presented to Parliament before implemented.
- The Ministry receives advice on the investment guidelines from Norges Bank, the Ministry's advisory council on investment strategy and external consultants.
- The Ministry uses external consultants for independent performance measurement and benchmarking of performance and costs.

### Investment Guidelines

- The investment strategy is to achieve high financial returns subject to moderate risk.
- The Fund is only invested abroad in financial instruments. The fund is a financial investor with a diversified portfolio of small holdings in a range of companies. The average ownership share in listed companies is less than 1%, the upper limit is set at 10%.
- The Fund's financial results are primarily assessed in international currency terms, in order to gauge the development in the Fund's international purchasing power.
- Equities account for 60% of the Fund's strategic benchmark portfolio, consisting of equities listed on exchanges in Europe (50%), America/Africa (35%) and Asia/Oceania (15%). All emerging markets are included, as defined by index provider FTSE.
- Fixed income instruments account for 35% of the strategic benchmark portfolio, consisting of fixed income instruments issued in currencies from Europe (60%), America/Africa (35%) and Asia/Oceania (5%), while real estate investments take up the remaining 5%.

### Ethical Guidelines

The ethical guidelines for the Fund are based on the recommendations of the Graver Commission (NOU 2003:22). The guidelines have two main elements:

- The Fund is an instrument for ensuring that a reasonable portion of the country's petroleum wealth benefits future generations, and it is an ethical obligation for present generations to manage it so as to generate a sound return.
- The Fund should not make investments which constitute an unacceptable risk that the Fund may contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages.

To implement the ethical guidelines, the following mechanisms are employed:

- Manage the Fund well so as to achieve high returns subject to moderate risk.
- Exercise the ownership rights associated with the equity holdings (done by Norges Bank). Is based on internationally accepted principles (UN Global Compact, OECD Guidelines).
- Exclude some companies from the investment universe (decided by the Ministry based on advice from Council on Ethics; p.t. 27 companies excluded). Exclude some government bonds from the investment universe (decided by the Ministry; p.t. Burma excluded).

### Transparency

The management of petroleum revenues in general and the Fund in particular is characterised by a high degree of transparency and disclosure of information.

- The Ministry reports to Parliament on all important matters relating to the Fund, such as the size of petroleum revenues and the Fund; the outlook for fiscal sustainability; changes to the investment strategy; the Fund's performance, risk and costs.
- The Ministry publishes advice and reports received from Norges Bank, the Strategy Council and external consultants.
- Norges Bank publishes quarterly reports on the management of the Fund, as well as an annual report and an annual listing of all investments.

More information is available at the websites of the Ministry of Finance at

[www.government.no/gpf](http://www.government.no/gpf) and Norges Bank at [www.nbim.no](http://www.nbim.no).

### Key numbers

	Since 1.1.98	10-year avg	5-year avg	3-year avg	2008
Size in NOK bn					2 275
Size in USD bn					325
Total return in % (in FX basket)	2.9	2.3	0.9	-4.8	-23.3
...of which manager excess return	0.0	-0.1	-0.6	-1.4	-3.4
Net real return in %	1.0	0.3	-1.4	-6.8	-24.4