



# INVESTMENT MANDATE - GOVERNMENT PENSION FUND GLOBAL

ISSUED BY NORGES BANK'S EXECUTIVE BOARD TO THE CHIEF EXECUTIVE OFFICER OF NORGES BANK INVESTMENT MANAGEMENT, LAST AMENDED 6 FEBRUARY 2019

*The Investment Mandate incorporates applicable investment provisions from the Management Mandate for the Government Pension Fund Global, issued by the Ministry of Finance. These provisions are quoted below and marked in Italic and highlighted in grey in this document. In the case of inconsistencies between the Investment Mandate and the Management Mandate the latter will prevail.*

## 1. MANAGEMENT ASSIGNMENT

### 1.1 General provisions

*The Bank shall make investment decisions and exercise ownership rights independently of the Ministry.*

*The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket, see Ministry Mandate section 4-2 first paragraph, and within the applicable management framework.*

NBIM CEO is through this investment mandate ("the Investment Mandate") granted the responsibility for management of the Government Pension Fund Global (the Fund" or the "investment portfolio").

The Fund shall be managed subject to the constraints set out below and in accordance with the Executive Board's principles for risk management and responsible investments laid down for the management of the Fund and in accordance with the strategy plan.

### 1.2 Investment Advice

*Advice may be provided on the initiative of the Bank or on request from the Ministry.*

NBIM CEO is responsible for providing well-founded and documented advice on investment strategy and other aspects of the investment management of the Fund to Norges Bank Executive Board, including but not limited to matters concerning strategic asset allocation, benchmark indices, investment limits and investment risk.



Advice can be provided on the initiative of NBIM CEO or on request from the Executive Board.

### 1.3 Asset allocation

The Fund is to be invested in equities, fixed income instruments and non-listed real estate.

NBIM CEO is delegated the responsibility for management of the Fund's overall exposure towards different asset classes, segments and countries. NBIM CEO shall manage the overall currency exposure of the Fund.

NBIM CEO shall provide funding to non-listed real estate investments according to set guidelines.

The Ministry of Finance has set the benchmark index for the Fund. The strategic and actual benchmark indices applicable to this mandate are described in appendix 1.

### 1.4 Delegation of investment mandate

Responsibility for investment management may be delegated subject to applicable restrictions and in accordance with the strategy plan.

Formal investment mandates are to be issued for all internally and externally managed portfolios. These mandates must, as a minimum, contain a specification of the investment universe and risk limits. The overall mandate structure shall ensure the diversification of the Fund.

Investment activities shall at all times comply with relevant laws and regulations in the markets where the Fund is invested invests.

### 1.5 External managers

*The Bank may use external managers and outsource operational functions, cf section 5 of regulation no. 1630 of 17 December 2009 on risk management and internal control in Norges Bank. The fee structure in agreements with external managers shall be designed to reflect the objectives for the management of the investment portfolio, taking into account the time horizon of the relevant investment strategies. The individual management agreements on performance-based fees shall be structured so that a major proportion of the positive excess return is retained, including provisions for caps on fees. (See Chapter 3, Management restrictions set by the Executive Board.)*



## 2. RESPONSIBLE INVESTMENT MANAGEMENT

### 2.1 Responsible investment management

*The Bank shall integrate its responsible management efforts into the management of the GPFG, cf. chapter 2. A good long-term return is considered dependent on sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and efficient markets.*

*The Bank shall establish a broad set of principles for the responsible management of the investment portfolio. In designing the principles pursuant to the first paragraph, the Bank shall emphasise the long-term horizon for the management of the investment portfolio and that the investment portfolio shall be broadly diversified across the markets included in the investment universe. The principles shall be based on the considerations of good corporate governance and environmental and social conditions in the investment management, in accordance with internationally recognised principles and standards such as the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises. In its management of the unlisted real estate portfolio, the Bank shall, within the environmental field, consider, among other matters, energy efficiency, water consumption and waste management.*

*The Bank shall make decisions on the observation or exclusion of companies, and on the revocation of such decisions, in accordance with the Guidelines for observation and exclusion from the GPFG. The Bank shall inform the Ministry about decisions on exclusion of companies and the revocation of such decisions, cf section 3-1, third paragraph.*

### 2.2 Environment-related investments

*The Bank shall establish environment-related mandates within the limits defined in section 3-4. The market value of the environment-related investments shall normally be in the range of NOK 30-60 billion.*

## 3. MANAGEMENT OF THE INVESTMENT PORTFOLIO

### 3.1 Investment universe

*1. The Bank may invest the investment portfolio in financial instruments, real estate and cash deposits that are approved in accordance with section 4-10, but with the following restrictions:*

- a) The equity portfolio may be invested in equities listed on a regulated and recognised market place, listed securities that are equivalent to listed equities, depository receipts for such equities, and unlisted companies where the board has expressed an intention to seek a listing on a regulated and recognized market place;*



- b) *The bond portfolio may be invested in tradable bonds and other tradable debt instruments, and depository receipts for such bonds;*
- c) *The unlisted real estate portfolio may be invested in real estate or in equity and interest-bearing instruments issued by non-listed companies, fund structures and other legal entities whose primary business is the acquisition, development and management or financing of real estate. These investments may be made through Norwegian or other legal entities. Real estate means rights to land and any buildings thereon.*
- d) *Financial derivatives and fund units only when naturally linked to investments in the equity, bond and unlisted real estate portfolios;*
- e) *Other financial instruments only when passed to the investment portfolio as a result of corporate actions.*

2. *The Bank may not invest the investment portfolio in:*

- a) *Securities issued by Norwegian enterprises, securities denominated in Norwegian kroner, real estate located in Norway or real estate companies, real estate funds or similar structures where the primary purpose is to invest in Norway. The same applies to covered bonds secured against assets in Norway. Norwegian enterprises mean enterprises whose head office is in Norway.*
- b) *Securities that the Bank has excluded from the investment portfolio, cf. Guidelines on observation and exclusion from the GPFG section 2-5.*
- c) *Fixed income instruments issued by governments or government-linked entities in the exceptional cases where the Ministry has barred such investments based on particularly large-scale UN sanctions or other international initiatives of a particularly large scale that are aimed at a specific country and where Norway supports the initiatives.*
- d) *Unlisted companies and fund structures in a country with which Norway does not have a tax treaty or in a country from which Norway cannot request information relating to tax matters in accordance with other international agreements.*
- e) *Unlisted infrastructure such as roads, railways, harbours, airports and other basic infrastructure.*

### 3.2 Management restrictions set by the Ministry of Finance

- 1. *The equity portfolio, cf. section 3-1, first paragraph letter a, shall constitute between 50 and 80 per cent of the investment portfolio.*
- 2. *The bond portfolio, cf. section 3-1, first paragraph, letter b, shall constitute between 20 and 50 per cent of the investment portfolio.*
- 3. *The unlisted real estate portfolio, cf. section 3-1, first paragraph, letter c, may constitute up to 7 per cent of the investment portfolio.*



4. Net market value shall be used to calculate the respective shares in the first to third paragraphs. In such calculations, derivatives shall be depicted with the underlying economic exposure.
5. The Bank shall organise the management with the aim that the expected annualised standard deviation for the relative return between the investment portfolio and the actual benchmark index (expected tracking error) does not exceed 1.25 per cent, cf section 4-3, second paragraph.
6. The equity and bond portfolios shall be composed in such a way that the expected relative return is exposed to several systematic risk factors.
7. The Bank shall seek to take account of differences in fiscal strength between countries in the composition of government bond investments.
8. The Bank shall organise the management with the aim that high-yield bonds (credit rating lower than investment grade) do not exceed 5 per cent of the market value of the bond portfolio.
9. A credit rating is required for investments in debt instruments. All internal credit rating assessments shall be documented.
10. The equity portfolio may not be invested in more than 10 per cent of the voting shares in an individual company. Ownership in listed and unlisted real estate companies is exempt from this rule.
11. The unlisted real estate portfolio shall be well diversified geographically, across sectors and individual properties.
12. Leverage may be used with a view to performing the management assignment in an effective manner, but not with a view to increasing the investment portfolio's exposure to risky assets in the equity and bond portfolios. Leverage may also be used in fund structures and by other legal entities with the aim of performing the management assignment in an effective manner, but such leverage may not be with a view to increasing the investment portfolio's exposure to risky assets.
13. Reinvestment of cash collateral shall not take place with a view to increasing the investment portfolio's financial exposure to risky assets.
14. Short selling is only permitted if the Bank has access to the securities through an established borrowing arrangement.



### 3.3 Management restrictions set by the Executive Board

#### 3.3.1 Investment portfolio

*The Executive Board shall set supplementary limits for risks that, based on experience, are not captured well by expected tracking error, including:*

- a. *Limits for the minimum overlap between the equity and bond portfolios and the corresponding actual benchmark indices;*

The overlap between actual portfolio and actual benchmark index must be at least 60 per cent for the equity portfolio and at least 60 per cent for issuers in the bond portfolio.

- b. *Credit risk limits at the individual issuer level and aggregated for the investment portfolio;*

NBIM CEO shall organize the management with the aim that the maximum holding of a single issuer non-investment grade government bond does not exceed 2 per cent and that the maximum holding of other single issuer non-investment grade bonds does not exceed 0.5 per cent of the net asset value of the bond portfolio.

NBIM CEO shall organize the management with the aim that high yield bonds (credit rating lower than “investment grade”) do not exceed 5 per cent of the market value of the bond portfolio.

- c. *Liquidity risk limits;*

A minimum of 7.5 per cent of the net asset value of the investment portfolio shall be held in treasury bonds issued by the governments of France, Germany, Japan, the United Kingdom and the United States of America.

- d. *Counterparty risk limits;*

- I. Potential future counterparty exposure shall not exceed 0.75 per cent of the net asset value of the investment portfolio for any single counterparty.
- II. Counterparts to unsecured deposits shall have a minimum long-term rating of minimum “A” or the equivalent. Counterparts to collateralised instruments or contracts, other than central clearing counterparties, shall have a minimum long-term rating of at least “BBB” or the equivalent. Counterparts for pre-initial public offerings (pre-IPO) and central clearing counterparties need CEO approval.



III. All securities financing transactions and trading in OTC derivatives shall be subject to adequate collateral criteria. Netting agreements shall be in place before trading takes place.

e. *Leverage limits;*

Leveraging the equity and bond portfolio is not permitted beyond what is necessary to minimise transaction costs or is a normal part of investment management, and not in excess of 5 per cent of the net asset value of the combined equity and bond portfolios.

f. *Limits for the reinvestment of cash collateral received;*

Cash collateral received can only be invested in cash equivalent instruments.

g. *Limits for securities borrowing;*

The borrowing of securities may not exceed 5 per cent of the net asset value of the investment portfolio.

h. *A limit for large expected negative deviations between the return on the investment portfolio and the actual benchmark index (expected extreme deviation risk);*

NBIM shall organise the management with the aim that the annualised expected shortfall measured at 97.5% confidence level for the relative return between the investment portfolio and the benchmark index does not exceed 3.75 per cent.

The methodology for calculation of the expected shortfall shall be approved by the Executive Board.

In situations with extreme market volatility which may provoke a breach of the limit, NBIM CEO shall without undue delay recommend measures to be decided upon by the Executive Board.

- i. Lending of securities is permitted, provided that NBIM ensures that adequate security is provided for the loan. Securities lent, including obligations to lend, shall not exceed 20 per cent of the net asset value of the investment portfolio.
- j. Gross exposure of contracts for difference (CfD) shall not exceed 5 per cent of the net asset value of the investment portfolio.
- k. When lending securities from the investment portfolio, one voting share in each company shall, as a minimum, always be retained to ensure that ownership rights can be exercised.



- l. The issue of call options on individual securities that are not held in the Fund is not permitted. Issuing of put and call options (measured as notional value) is limited to 2.5 per cent of the net asset value of the investment portfolio.
- m. A maximum of 1.5 per cent of the net asset value of the investment portfolio may be invested in a single company's equity.
- n. The Fund may only invest in government bonds from issuers approved by the Executive Board and as listed in Appendix 2. Changes to the list of approved issuers is subject to approval by the Executive Board according to the Executive Board's framework for the approval of issuers of government bonds. NBIM CEO shall inform the Executive Board without undue delay and recommend measures to be taken in situations where issuers no longer fulfil the requirements in the framework.
- o. *The Executive Board shall establish a limit for how large a part of the voting shares in a single, listed real estate company the Fund may own.*

Ownership in a single listed real estate company shall not exceed 30 per cent.

### 3.3.2 *Non-listed real estate portfolio*

The management of the non-listed real estate portfolio, ref. section 3.1.1. c) shall be well diversified in geography, sectors and properties. All weights shall be calculated by the use of net asset value of the non-listed real estate portfolio, unless otherwise is specified below.

*The Executive Board shall also limit risk in the unlisted real estate portfolio by setting restrictions for:*

#### *a. Investments in countries;*

The non-listed real estate portfolio shall be diversified in accordance with the following regional allocation:

1. United States of America: 30-70 per cent
2. United Kingdom: 10-40 per cent
3. Germany: 0-20 per cent
4. France: 0-30 per cent
5. Japan: 0-20 per cent
6. Other individual countries: 0-10 per cent

#### *b. Investments in sectors;*

The non-listed real estate portfolio shall be diversified in accordance with the following sector allocation:





- I. Office: 40-80 per cent
- II. Retail: 0-40 per cent
- III. Logistics: 0-30 per cent
- IV. Other: 0-10 per cent

**c. *Investment in emerging markets;***

Investments in emerging markets shall not exceed 10 per cent.

**d. *Investments in real estate under development;***

Investments in property under development shall not exceed 10 per cent of the net asset value of the investment in the non-listed part of the real estate portfolio.

**e. *Total debt ratio and the maximum debt ratio for individual investments;***

The debt ratio of the non-listed real estate portfolio shall not exceed 35 per cent. No single investment shall have a debt ratio of more than 70 per cent.

- f. Counterparts used for real estate daily cash management can be approved with a minimum rating requirement of BBB. Counterparts related to the acquisition of non-listed real estate needs separate approval. Guidelines should be in place to ensure that a documented credit and operational risk assessment has been performed.
- g. The average economic vacancy rate shall not exceed 15 per cent. Properties under development shall be excluded from this calculation.
- h. Investment in interest bearing instruments shall not exceed 25 per cent.
- i. Net investment in one calendar year shall not exceed 0.2 per cent of the net asset value of the investment portfolio

**3.3.3 *The Executive Board shall establish a limit for how large a part of the investment portfolio a single external manager may manage:***

Investment with a single external manager shall not exceed 0.5 per cent of the net asset value of the investment portfolio.

3.3.4 Co-investment with a single real estate investment partner shall not exceed 0.5 per cent of the net asset value of the investment portfolio.

3.3.5 Agreements with external managers shall contain provisions to ensure that the total annual fee paid per year per external mandate does not exceed a maximum amount, which shall not be above USD 30 million. Performance fees accrued above the maximum amount may be paid the following years, subject to the maximum annual pay out limit and excess return over the relevant time period.



3.3.6 Agreements with real estate asset management organisations or investment partners shall contain provisions to ensure that the total annual fee paid per year does not exceed a maximum amount, which shall not be above USD 30 million. Performance fees accrued above the maximum amount may be paid the following years, subject to the maximum annual pay out limit and excess return over the relevant time period.

3.3.7 *The limits stated in the management restrictions set by the Executive Board according to the Management Mandate section 3-5 and subsequent changes to these limits shall be presented to the Ministry at least four weeks prior to their planned implementation, unless special circumstances indicate a shorter time limit.*

### 3.4 Investment approvals of non-listed real estate

Investments and divestments above USD 500 million shall be approved by the Executive Board.

### 3.5 Duties in the event of limits being exceeded

*In the event that the limits and constraints defined in sections 3-4 and 3-5 are breached, the Bank shall without undue delay assess how its management can be brought back within the limits in an appropriate and cost-effective manner.*

*The Ministry shall be informed of any material breaches of the limits in the Ministry Mandate sections 3-4 and 3-5.*

The Fund shall be invested in such a way that it is possible, with a reasonable degree of assurance, to manage the Fund within the quantitative risk limits as laid down by the Ministry of Finance and this Investment Mandate. In the event that investment restrictions in section 3.3 are exceeded, NBIM CEO shall notify the Executive Board and assess how the portfolio may be brought within the limits in an appropriate and cost-effective manner.

## 4. ENTRY INTO FORCE

This Investment Mandate enters into force 1 April 2019.

This Investment Mandate shall be submitted to the Executive Board for review annually.

## APPENDIX 1

Applicable benchmarks information as reflected in the management mandate for the GPFG issued by the Ministry of Finance.

### **Section 1-5 Strategic benchmark index**

(1) *The strategic benchmark index for the investment portfolio consists of:*

a) *The benchmark index for the equity portfolio, cf. section 3-3*

b) *The benchmark index for the bond portfolio, cf. section 3-2*

(2) *The benchmark index for the equity portfolio constitutes 62.5 per cent of the strategic benchmark index. The benchmark index for the bond portfolio constitutes 37.5 per cent of the strategic benchmark index.*

(3) *The Ministry establishes a plan for increase of the equity share in the strategic benchmark to 70 percent.*

### **Section 1-6 Actual benchmark index**

(1) *The share of equities and bonds in the actual benchmark index is calculated daily and fluctuates with the return on the benchmark indices for the equity and bond portfolios.*

(2) *The value of the actual benchmark index shall be equivalent to the total market value of the investment portfolio at each month-end.*

(3) *Transfers to and from the krone account, cf. section 1-2, first paragraph, will normally take place on the last trading day of each month. The Ministry shall specify the transfer amount in Norwegian kroner by the fourth-to-last trading day of the month. Transfers do not affect the ratio between equities and bonds in the actual benchmark index. The Bank shall inform the Ministry on the second trading day of the subsequent month as to the composition of the new actual benchmark index.*

(4) *If the equity share of the actual benchmark index exceeds 74 percent, or is more than four percentage points lower than the weight in the strategic benchmark index, rebalancing shall take place on the last trading day of the following month. The Ministry sets more detailed provisions on the rebalancing of the actual benchmark index.*

(5) *The Bank shall inform the Ministry immediately if the criteria for rebalancing in the fourth paragraph are met. The Bank shall report on the implementation of rebalancing, including estimated costs.*

### **Section 3-2 Benchmark index for the bond portfolio**

(1) *The benchmark index for the bond portfolio has fixed weights with monthly rebalancing to the following sub-indices:*

a) *Government bonds: 70 per cent*



b) Corporate bonds: 30 per cent

(2) The government bond sub-index of the benchmark index for the bond portfolio comprises:

- a) all securities included in the Bloomberg Barclays Global Inflation-Linked (Series-L) Bond Index
- b) all securities included in the Bloomberg Barclays Global Treasury GDP Weighted by Country Index
- c) all securities included in the supranational sub-segment (of the government-related segment) of the Bloomberg Barclays Global Aggregate Bond Index.

(3) Bonds issued by supranational organisations are allocated to countries in the government bond sub-index based on the underlying currency denomination. Bonds issued by supranational organisations in euros are allocated to the category “Supranationals (EUR)”.

(4) Country weights in the government bond sub-index are calculated on the basis of the rules for the Bloomberg Barclays Global Treasury GDP Weighted by Country Bond Index. GDP weights shall subsequently be adjusted in accordance with the following weighting factors:

- a) Chile, Hong Kong and Russia shall be assigned a factor of 0.25
- b) Indonesia shall be assigned a factor of 0
- c) China shall be assigned a factor of 0
- d) Other countries shall be assigned a factor of 1.

All weights in the government bond sub-index shall be standardised (sum of all weights equals 1). In addition, special provisions apply to countries in the eurozone as described in the fifth paragraph.

(5) Country weights shall be adjusted for the allocation to “Supranationals (EUR)” in accordance with the following rules:

- a) Proportion of “Supranationals (EUR)” in the eurozone = X
- b) Allocation to “Supranationals (EUR)” = X \* total GDP weight for countries in the eurozone based on weights calculated using the method specified in the fourth paragraph.
- c) For all countries in the eurozone: Country weight = (1-X)\*GDP weight for the country based on weights calculated using the method specified in the fourth paragraph.

X is determined for a period of twelve months effective from the index provider’s annual reset of GDP weights as the relationship between the market value of “Supranationals (EUR)” and the market value of all euro-denominated bonds included in the government bond sub-index. The market values are calculated as at the end of October, one month prior to the index provider’s annual reset of GDP weights, based on index data published by Bloomberg L.P.

(6) Within each country in the government bond sub-index, the bonds included are weighted using the methodology for the Bloomberg Barclays Global Treasury GDP Weighted by Country Bond Index.

(7) The corporate bond sub-index of the benchmark index for the bond portfolio comprises all securities included in the corporate sub-sector and the covered bond sub-segment (of the securitised segment) of the Bloomberg Barclays Global Aggregate Bond Index. The corporate bond sub-index is restricted to the following approved currencies: USD, CAD, EUR, GBP, SEK, DKK and CHF.

(8) Within the corporate bond sub-index, the bonds are weighted using the methodology for the Bloomberg Barclays Global Aggregate Bond Index.

(9) Securities denominated in Norwegian kroner or classified by Bloomberg L.P. as issued in Norway shall be excluded from the benchmark index for the bond portfolio. The same applies to securities issued by companies excluded by the Bank pursuant to the Guidelines for observation and exclusion from the GPF. When bonds are excluded from the benchmark index, the remaining bonds in the sub-index in question shall be weighted up. When a company is reincluded under the aforementioned guidelines, the securities shall be reincluded in the benchmark index, cf. section 3-1, third paragraph.

### **Section 3-3 Benchmark index for the equity portfolio**

(1) The benchmark index for the equity portfolio is composed on the basis of the FTSE Global All Cap Index.

(2) The equities in the benchmark index are assigned the following factors based on their country of origin:

- a) European developed markets excluding Norway: 2.5
- b) USA and Canada: 1
- c) Other developed markets: 1.5
- d) Emerging markets: 1.5

The allocation to countries and regions and the distinction between developed and emerging markets are based on the FTSE Global All Cap Index. Markets included in FTSE Global All Cap Index with effect from 1 January 2019 shall be assigned a factor of 0.

(3) Each country is included in the benchmark index with a weight based on the following formula:

$$\frac{\text{market capitalisation}_i \times \text{factor}_i}{\sum_i \text{market capitalisation}_i \times \text{factor}_i}$$

where *i* represents the countries with the factor in question, cf. section 3-3, second paragraph. The calculation of market capitalisation is based on the methodology for the FTSE Global All Cap Index and adjusted for free float.

(4) The benchmark index is adjusted for the Bank's tax position.

(5) Securities issued by companies excluded by the Bank pursuant to the Guidelines for observation and exclusion from the GPF shall not be included in the benchmark index for the equity portfolio. When a company is reincluded under the aforementioned guidelines, the securities shall be reincluded in the benchmark index, cf. section 3-1, third paragraph.

## APPENDIX 2

List of issuers of government bonds approved by Norges Bank Executive Board

Australia	New Zealand
Austria	Peru
Belgium	Philippines
Brazil	Poland
Bulgaria	Portugal
Canada	Romania
Chile	Russia
China	Singapore
Colombia	Slovakia
Croatia	Slovenia
Cyprus	South Africa
Czech Republic	South Korea
Denmark	Spain
Estonia	Switzerland
Finland	Sweden
France	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Kingdom
Hungary	United States
Iceland	
India	
Indonesia	
Ireland	
Israel	
Italy	
Japan	
Latvia	
Lithuania	
Luxembourg	
Malaysia	
Malta	
Mexico	
Netherlands	