

POLICY

INVESTMENT UNIVERSE

Issued by	Chief Executive Officer
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1. Purpose

The purpose of this policy is to provide principles for the approval and on-going monitoring of the fund's investment universe. The objective is to ensure changes to the investment universe align with the investment strategy and that relevant risks are identified, assessed and accepted.

2. Policy

The fund invests in a broad range of countries, markets and instruments in order to achieve its investment objectives. These countries, markets and instruments constitute the fund's investment universe.

Norges Bank Investment Management takes a risk-based approach to which countries, markets and instruments are appropriate in the investment universe given our investment strategy. This includes a business rational and due consideration of relevant operational risks. Investments in new countries, markets and instruments will only be launched after an implementation verifies that this can be done in a way which safeguards the interests of the State of Norway, Norges Bank and the fund.

The investment universe is assessed on a recurring basis to ensure it is appropriate given the investment objectives and the development across markets and countries.

2.1 Countries and markets

- There are number of considerations that need to be taken into account related to countries and markets referenced in the Management Mandate for the Government Pension Fund Global.
- In addition, we will take the following into consideration:
 - where the risk of a failed state is unacceptably elevated due to factors like extreme conflict or systematic political terror.
 - where the rule of law and protection of property rights is considered sufficient to safeguard our investments.
 - where the risk of corruption in countries and jurisdictions is considered unacceptably elevated to safeguard our investments.
- We will integrate identified risks with the investment strategy and may implement risk mitigation when the market place or jurisdiction has elevated risks.

2.2 Instruments

- We invest in a broad range of instruments in order to support our investment objectives.

- The instruments that we utilise should complement our investment strategy.
- All instruments that we use shall be subject to an assessment where we consider relevant operational risks, transparency and cost efficiency.

2.3 Business case

- A formal business case for changes in the investment universe shall be submitted to the relevant committee.
- The business case will normally be accepted prior to the commencement of the risk assessment.
- For unlisted real estate, approval from NBIM CEO is required for changes to the investment universe.

2.4 Risk assessment

- Through the risk assessment, we secure an understanding of local laws and regulations, including tax regulations to safeguard the status of the state of Norway, Norges Bank and the fund.
- The risk assessment shall also identify and assess risks in regulations, corporate governance standards and practises, market transparency, the financial infrastructure, custody and settlement processes. Risk mitigation actions should be suggested when required. As part of the risk assessment in the settlement process, brokers and counterparties shall be assessed, along with the legal framework supporting trade execution.
- The risk assessment also includes the use of required system support, processes and organisational resources in order to ensure operational readiness. This is done in order to ensure that investments are expected to be within the risk tolerance of the Executive Board.
- The risk assessment includes ensuring market data, valuations and where relevant, benchmark data, is available.
- The risk assessment will ensure performance, investment risk measurement, monitoring and related reporting is done in such a way that it ensures management mandate compliance.
- The risk assessment for unlisted real estate investments considers tax optimisation and feasibility of operational structures.
- The assessment of instruments shall also consider process, data and system risks related to asset valuations and balance sheet accounting.

2.5 Executive Board approval of government bond issuers

- The management mandate from the Ministry of Finance requires that the Executive Board of Norges Bank perform an issuer specific approval for government bonds. This approval shall consider both investment as well as operational risks.

2.6 Implementation

- After approval, the organisation, processes, systems and downstream services provided are made ready for implementation of the new investment instruments and markets.
- Preparations for implementation may start prior to approval where these do not commit Norges Bank Investment Management to invest, or where unacceptable costs may be incurred.

- Additions to the investment universe will take place when the implementation has been successfully completed.
- The fund shall only invest in new countries, markets and instruments through external fund managers when there is internal operational readiness to enable us to take home assets managed externally.

2.7 Monitoring

- The investment universe shall be monitored to ensure it is aligned with the investment objectives and that the assets can be safeguarded. The monitoring process will take a risk-based approach where previously identified concerns are addressed.