

# POLICY

## INVESTMENT MANAGEMENT

Issued by	Chief Executive Officer
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### 1. Purpose

The purpose of this policy is to provide principles and requirements related to investment activities performed by Norges Bank Investment Management. The policy covers the extension of the benchmark index from the Ministry of Finance to a policy portfolio, the execution of investment strategies in listed markets, and the governance and monitoring of these.

### 2. Policy

The portfolio is managed relative to the benchmark index as defined by our management mandate. Portfolio deviations are grouped into three broad categories - the policy portfolio, security selection strategies and asset management strategies.

The policy portfolio is an extension of the benchmark index. It captures elements of the long-term investment strategy that are challenging to represent with the benchmark index from the Ministry of Finance.

Security selection strategies are based on long-term, qualitative and quantitative analysis of sectors and companies.

Asset management strategies seek to achieve and systematically enhance the desired market and risk exposure as cost-efficiently as possible.

#### 2.1 Policy portfolio

- The policy portfolio shall define strategic exposures across markets and asset classes, and fulfil a set of mandate requirements.
- The policy portfolio shall aim to improve the fund's total long-term return-risk profile within the scope of the management mandate.
- The policy portfolio shall ensure exposure to a diverse set of underlying economic drivers in a controlled manner.
- The policy portfolio shall be subject to regular reviews.
- Major changes to the policy portfolio shall be subject to committee review and approval.

#### 2.2 Investment mandates

- Investment decisions shall be delegated and regulated through investment mandates.

- Investment mandates shall define investment universe, benchmark, risk limits and other specific investment rules as applicable.
- Investment mandates shall be approved according to delegation and are subject to annual review.
- All investment mandates are subject to review and monitoring by the risk function.

### **2.3 Investment research**

- Investment decisions shall be based on research. The scope and type of research shall depend on the type of investment decision.
- As a general rule we shall do internal research rather than rely on research from external providers.
- Strategic advice to the Ministry of Finance shall be based on academic research and practical experience from financial markets.
- Policy portfolio research shall inform and support the overall long-term asset and risk allocation decisions of the fund.
- Company research shall be based on fundamental analysis of companies and how they are expected to perform over the long run.
- Asset management research shall inform and support enhancement and cost-efficient implementation of the fund's market exposure.
- Research shall be documented and captured in internal systems as appropriate.

### **2.4 Investment decisions**

- Portfolio managers may only make investments within their delegated mandates and risk limits.
- Investment decisions outside mandate restrictions are subject to committee review and approval.
- Investment decisions for unlisted transactions (pre-IPO) are subject to committee review and approval.
- Investments in listed real estate which exceed 10% ownership are subject to enhanced company due diligence.
- Implementation of investment decisions shall ensure fair and equitable treatment of funds and portfolios.

### **2.5 Trade execution**

- Trade execution shall, where feasible, be separated from investment decisions.
- Trade execution shall aim to ensure as low transaction costs as possible, within given time, mandate and risk constraints.
- All transaction processing shall be closely monitored to ensure timely settlement. Any deviations shall be followed-up and corrected.
- Transaction processing shall seek to achieve the highest possible automation in order to reduce operational risk and transaction cost.
- Asset holdings, cash and corporate actions shall be reconciled with the custodian on a regular basis.
- Order aggregation, crossing, execution and allocation of holdings between different funds and portfolios shall be fair and equitable.

- Trade execution shall be captured in our investment management platform.

## **2.6 Cash management**

- Cash management activities shall ensure that portfolio liquidity needs can be met on an on-going basis.
- Cash management activities shall aim to minimise the cost of funding short cash balances and maximise the return on investing long cash balances.
- Cash management activities shall aim to diversify and reduce counterparty and credit risk.

## **2.7 Securities lending**

- Offering securities for lending provides us with an opportunity to create significant returns at low risk for the fund.
- We support global standards for securities lending that promote the well-functioning of markets and counteract market abuse or misconduct such as empty voting and tax arbitrage.
- Lending is based on a temporary transfer of title from lender to borrower, we will only lend securities where the counterparty risk is duly managed. Securities lending shall only be conducted with approved counterparties. Securities lending transactions shall be adequately collateralised.
- Securities lending may be conducted internally, or with external securities lending agents.
- Securities lent, including obligations to lend, will not exceed 20 percent of the net asset value of the fund. The security lending portfolio shall not have economic exposure or be used to leverage risk positions.
- Certain securities will be restricted from lending to facilitate ownership priorities.
- When lending securities, a minimum of one voting share in each company shall always be retained to ensure that we can participate and vote in general shareholder meetings.
- We will maintain a contractual right to recall lent securities, but may decide to waive this right on a case-by-case basis.
- We will not borrow shares to vote, and will not vote for shares held in collateral.

## **2.8 Portfolio management**

- Portfolio managers are responsible for adhering to the restrictions of their investment mandate.
- Portfolio managers should generally be involved in voting decisions for investments under their coverage.
- Portfolio managers are responsible for corporate actions within their portfolios.
- Corporate actions that significantly impact several portfolios should be coordinated between the respective portfolio managers and managed in the overall interests of the fund.

## **2.9 Mandate monitoring**

- All mandates shall be monitored for adherence to mandate specific investment rules and restrictions.

- The aggregated investment activities shall be monitored at fund level to ensure compliance with the mandate from the Ministry of Finance, supplementary rules from the Executive Board and the principles of fair and equitable treatment of funds.
- A breach of any mandate shall be followed-up and managed accordingly.
- Any breach of the Ministry of Finance mandate shall be reported to the Executive Board and managed accordingly.