NBIM Policy - Performance Measurement

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1 Purpose

The purpose of this policy is to outline methodologies and processes for performance measurement in NBIM. The policy is based on the framework given by the fund owners.

2 Scope

The performance of the funds managed by NBIM (The Government Pension Fund Global and the Investment Portfolio of Norges Bank's Foreign Exchange, defined here as the "Funds") shall be calculated and presented in accordance with the Global Investment Performance Standards (GIPS). The performance shall be measured with a high degree of accuracy in line with industry practice.

For the purpose of performance measurement, NBIM has defined the following inception dates for the Funds and asset classes:

- **The Government Pension Fund Global**:
  - Pension Fund : 31st December 1997
  - Equity and fixed income classes : 31st December 1997
  - Fixed Income asset class : 31st December 1997
  - Equity asset class : 31st December 1998
  - Real Estate asset class : 31st March 2011

- **The Investment Portfolio of Norges Bank's Foreign Exchange Reserves**:
  - Long Term FX Reserves : 31st December 1997
  - Fixed Income asset class : 31st December 1997
  - Equity asset class : 31st December 2001

3 Policy

NBIM is committed to measure performance according to industry practice and to ensure this, NBIM shall adhere to Global Investment Performance Standards (GIPS). To ensure fair value, the assets shall meet relevant International Financial Reporting Standards (IFRS) and the NBIM Accounting and Valuation Policy. The return on the Funds shall be calculated and presented both from the Fund owner's and from an investment manager perspective.

Performance measurement processes, systems and controls shall be robust and in line with industry practice and verified to be GIPS compliant.

3.1 Fund net asset value

The net asset value of the Funds shall be calculated according to the fair value principle as set out in the NBIM Policy for Accounting and Valuation. All transactions shall be recognised as at trade date to ensure the most accurate reflection of assets and liabilities held. Interest expenses and income, dividends and withholding tax are accounted for on an accrual basis when calculating returns. Income and expenses relating to transactions awaiting settlement are recognised on the trade date.

3.2 Performance measurement calculation

Returns shall be calculated based on time weight indexes for performance measurement. When transfers to the Funds and between the portfolios take place, the closing net asset value on the actual day of transfer shall be used for performance measurement purposes. Monthly return shall be calculated as the change in market value from the end of one month to the next, adjusted for payments to or from the Funds. Geometric linking of period returns shall be used for longer periods, such as quarterly, annual and year-to-date returns. In relation to the equity and fixed income asset classes, performance shall be calculated gross of management and custodian fees but net of transaction related costs. Management and custodian fees shall be documented separately. In relation to real estate, management costs shall be included in the performance figures.

The Funds’ percentage return shall be measured and presented in the base currency (NOK) and in an international currency which shall be a weighted combination of the currencies in the Funds’ benchmark indices for equities and fixed income. These are to be known as the Funds’ currency baskets. The NOK return shall be calculated on the basis of each asset’s market value in local currency translated into NOK using official exchange rates as set out in the NBIM Policy for Accounting and Valuation. The currency basket return shall be calculated using a geometric formula based on the Funds’ return in NOK and the return of the currencies in the currency basket. The weights of the currencies in the basket correspond to the weights in the benchmark portfolio.

The Funds’ performance shall be compared with benchmarks adjusted for tax on dividends according to the Funds’ tax rates. Excess return shall be calculated as the arithmetic difference between the return on the actual portfolio and the benchmark portfolio for the period presented.

The inflation adjusted return shall be calculated based on the weighted inflation rate for the currencies in the benchmark portfolio. The weights of the currencies in the basket correspond to the currency weights in the benchmark portfolio. The rate of return for real estate investments shall be measured on a levered and un-levered basis and shall be presented in component returns. Appropriate disclosures regarding asset leverage amounts shall be provided.

3.3 Performance measurement system and controls

NBIM shall ensure robust performance measurement systems and control processes are in place for the measurement of the Funds. Calculated performance numbers and time series shall be stored in a secure way to ensure completeness and integrity of numbers. Performance measurement in NBIM shall be based on input data that has been subject to reconciliation. The monthly net asset value used in performance measurement shall be reconciled to the official financial figures.

3.4 Verification of compliance to GIPS

A qualified and independent third party shall perform an assessment in order to verify adherences to GIPS. The verification involves the review of NBIM’s processes, procedures and reporting related to performance measurement. The verification shall include the Funds and asset classes listed in this policy and shall be carried out at least every second year.