

INVESTMENT MANDATE – Government Pension Fund Global (GPFG)

This investment mandate has been issued by Norges Bank's Executive Board to the Executive Director and Chief Executive Officer ("the Executive Director") of Norges Bank Investment Management (NBIM), last amended 24 November 2010.

1. Objective

The Government Pension Fund Global (The "Fund") shall be managed with the objective to achieve the highest possible long-term return, subject to the constraints set out below and in accordance with NBIM's strategy plan. The objective shall be achieved in a controlled manner. The Fund should be invested to improve the risk-return relationship and exposed to different systematic risk factors.

The Fund shall be structured in such a way that it is possible, with a reasonable degree of assurance, to manage the Fund within the quantitative risk limits, laid down by the Ministry of Finance and this Mandate. The Fund shall be managed in accordance with the Executive Board's Principles for risk management in NBIM.

Responsibility for investment management may be delegated subject to applicable restrictions and in accordance with NBIM's 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.

2. Responsible investment

NBIM shall exercise corporate governance to safeguard the Fund's financial interests.

NBIM shall integrate considerations of good corporate governance, environmental and social issues into investment activities, in line with internationally recognised principles for responsible investment. The integration of these considerations shall occur with respect to GPFG's investment strategy and role as a long-term horizon financial manager with investments being broadly placed in the markets included in the investment universe. In the management of the real estate portfolio, priority shall be given to considerations of energy efficiency, water consumption and waste management in the area of environmental protection.

Active ownership shall be based on the UN Global Compact, the OECD Guidelines on Corporate Governance and the OECD Guidelines for Multinational Enterprises. NBIM shall have internal guidelines for the exercising of ownership rights that indicate how these principles are integrated.

3. Management of the equity and fixed income portfolio

3.1 The strategic benchmark index consists of two asset class indices: an equity index and a fixed income index. The equity index constitutes 60 per cent of GPFG's strategic benchmark index. The fixed income index constitutes 40 per cent of the value of GPFG's strategic benchmark index, less the share of the value of GPFG invested in the real estate portfolio. The value of the real estate investments is calculated as a net asset value.

3.2 Each asset class index consists of three strategic regional indices: Europe, America & Africa, and Asia & Oceania. The three regional indices in the two asset classes constitute a total of six sub-indices. Within each of the six sub-indices the composition of the index is determined by the market capitalisation weights.

3.3 Securities that the Ministry has excluded from the investment universe shall not be included in the strategic benchmark index. When a company is excluded from the equity index, the remaining companies in the regional index in question shall be weighted up. When fixed income instruments are excluded from the fixed income index, the remaining instruments in the regional index shall be weighted up. If the issuer has issued fixed income instruments in several currencies that belong to different regional indices, the weighting-up rule shall be applied to each regional index.

3.4 The strategic fixed income index has the following composition:

- 60 per cent consists of financial instruments included in Barclays Capital Global Aggregate Index (BCGA) and Barclays Capital Global Inflation-Linked Index (BCGI) Europe, with the exception of instruments denominated in Norwegian kroner (NOK). This part of the strategic fixed income index shall consist of bonds issued in euro, British pounds, Swiss francs, Swedish kroner, and Danish kroner. For fixed income instruments issued in Swiss francs, the benchmark index shall consist of domestic government fixed income instruments.
- 35 per cent consists of financial instruments included in the indices BCGA and BCGI US and Canada, with sector weights adjusted in accordance with table 1. This part of the strategic fixed income index shall consist of bonds issued in US dollars and Canadian dollars. The variable x in table in appendix 1 shall be decided by NBIM each month such that the combined market value of instruments issued in US dollars does not change as a result of the adjusted weight.
- 5 per cent consists of government bonds from developed markets in BCGA and BCGI Asia & Oceania (Japan, Australia, New Zealand and Singapore). This part of the strategic fixed income index shall consist of bonds issued in Japanese yen, Australian dollars, New Zealand dollars, and Singapore dollars.

The composition of the strategic fixed income index shall be adjusted in accordance with changes in the composition implemented by the index provider.

3.5 The strategic equity index consists of FTSE All-Cap indices, adjusted for the Norges Bank's tax position, for the categories Developed, Advanced Emerging, and Secondary Emerging markets. The regions shall have the following weights:

- 50 per cent FTSE All-Cap Europe, excluding Norway

- 35 per cent FTSE All-Cap Americas/FTSE All-Cap Middle East and Africa
- 15 per cent FTSE All-Cap Asia & Oceania

Inclusion of the countries and companies in the strategic equity index follows the rules for the FTSE index adjusted for changes as a result of section 3.2. The share allocated to the various markets and companies within a region is determined daily. This allocation shall be based on the development of the market values for the companies included in the various countries within each region.

3.6 The composition of the actual benchmark index is based on the strategic benchmark index and consists of the same sub-indices and constituents as the strategic benchmark index. The relative share of each sub-index in the actual benchmark index shall be adjusted on a daily basis in accordance with the total rate of return for the securities included in the indices.

3.7 Inflows and rebalancing shall be executed in accordance with the applicable guidelines.

4. Investment universe of the Equity- and Fixed Income portfolio

4.1 The portfolio may be invested in financial instruments and cash deposits that are approved by NBIM, but limited to:

- a) negotiable debt securities and other debt instruments, and depository receipts for these types of fixed income instruments;
- b) equities listed on a regulated and recognised marketplace, listed securities that are equivalent to listed equities, and depository receipts for these types of equities;
- c) securities as mentioned in letter b in unlisted companies in which the company board has expressed an intention to seek a listing on a regulated or recognised market place;
- d) financial derivatives and fund units that are naturally linked to equities, fixed income instruments or commodities.

NBIM may own financial instruments and derivatives that are received by the portfolio as a result of corporate actions.

4.2 Investments must at all times comply with relevant laws and regulations in the markets where NBIM invests.

4.3 The portfolio may not include financial instruments issued by companies that have been excluded from the Government Pension Fund Global's investment universe subject to a decision by the Norwegian Ministry of Finance.

4.4 The portfolio shall not be invested in fixed income instruments issued by governments or government-linked issuers in cases where the Ministry has prohibited such investments based on large-scale international sanctions supported by Norway aimed at specific countries.

4.5 The portfolio may not be invested in securities issued by a Norwegian enterprise and securities denominated in Norwegian kroner. “Norwegian enterprise” means enterprises whose head office is in Norway.

5. Investment restrictions – Equity and Fixed Income portfolio

5.1 The portfolio shall be managed with a view to the annualised standard deviation for the excess return between the actual portfolio and actual benchmark index not exceeding 1 per cent on an ex ante basis (expected relative volatility).

5.2 The portfolio shall be managed with a view to the portion of high risk fixed income instruments (credit rating lower than investment grade) not accounting for more than 3 per cent of the net asset value (NAV) of the fixed income part of the portfolio.

5.3 For one single issuer the maximum holding of high risk fixed income instruments (credit rating lower than investment grade) is 1% of the NAV of the fixed income part of the portfolio.

5.4 Net equity exposure shall be between 55 – 65 per cent. The following limits apply to the gross asset class exposure:

- Equities 50-70%
- Fixed Income 30-50%
- Real Estate 0-7.5%

5.5 The overlap between actual portfolio and benchmark portfolio must be at least 60% for the equity part of the portfolio and 60% for issuers in the fixed income part of the portfolio.

5.6 A minimum of 10% of the portfolio shall be held in liquid instruments. Liquid instruments are defined as Government Bonds (Treasuries) issued by the United States, Great Britain, Germany, France, Italy, Netherlands and Japan.

5.7 Leveraging the 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% of the NAV of the equity and fixed income portfolio.

5.8 Lending of securities is permitted, provided that NBIM ensures that adequate security is provided for the loan. Securities lent shall not exceed 35% of the NAV of the equity and fixed income portfolio. Cash collateral received can only be invested in cash equivalent instruments.

5.9 When lending securities from the portfolio, one voting share in each company must, as a minimum, always be retained to ensure that ownership rights can be exercised.

5.10 The issue of call options on individual securities that are not held in the actual portfolio is not permitted. Issuing of put and call options (measured as notional value) is limited to 2.5% of the NAV of the equity and fixed income portfolio.

5.11 Sale of securities that the portfolio does not own (short selling) is only permitted if NBIM has access to the securities through an established borrowing arrangement. The borrowing of securities may not exceed 5% of the NAV of the equity and fixed income portfolio.

5.12 A maximum of 1% of the NAV of the equity and fixed income portfolio may be invested in a single company's equity.

5.13 Within the equity portfolio the maximum ownership of one single company is 10% of voting shares.

5.14 Investment with a single external manager shall not exceed 1% of the NAV of the equity and fixed income portfolio. The Executive Director may make exemptions from this maximum restriction in special circumstances for contingency purposes or transition management. The Executive Board shall be informed of such exemptions.

6. Management of the real estate portfolio

6.1 The real estate portfolio can be invested in real estate, equity or interest-bearing instruments issued by listed or unlisted companies, fund structures, and other legal entities whose primary business is the acquisition, development, management, or financing of real estate.

6.2 The real estate portfolio may be invested in derivatives that are naturally linked to real estate instruments. For the purpose of calculating the country composition and the percentage of listed investments, derivatives shall be calculated using the underlying economic exposure.

6.3 Investments in listed equity instruments shall be listed on regulated and recognised markets. Unlisted companies and fund structures shall be established in OECD countries, countries with which Norway has tax agreements or other countries from which Norway may demand tax information pursuant to other international legal agreements.

6.4 NBIM may not invest in real estate located in Norway or in real estate companies, real estate funds or similar structures, where the primary purpose of which is to invest in Norway.

6.5 The real estate portfolio shall not be invested in securities issued by enterprises that the Ministry has excluded from the investment universe.

6.6 The real estate portfolio's strategic country allocation shall correspond to the country weightings in the European part of the Investment Property Databank (IPD) Global Property Benchmark, excluding Norway.

6.7 When funding real estate investments from the fixed income part of the portfolio, consideration shall be given to maintaining the total currency risk of the fund.

7. Investment restrictions – Real Estate portfolio

7.1 Investments in a single country shall not exceed 25 per cent of the NAV of the real estate portfolio. This limitation does not apply to France, Germany, and the UK.

7.2 Investments in emerging markets are not permitted.

7.3 The real estate portfolio shall be diversified in accordance with the following sector allocation of the portfolio's gross value:

a) Office buildings	0 — 100 per cent
b) Retail trade	0 — 100 per cent
c) Housing	0 — 25 per cent
d) Manufacturing	0 — 25 per cent
e) Other property	0 — 25 per cent

7.4 The gross value invested in property under development shall not exceed 20% of the gross value of the investment in the real estate portfolio.

7.5 The average economic vacancy rate for property within the real estate portfolio shall not exceed 25%.

7.6 Investment in one calendar year (vintage year) shall not exceed 2% of the NAV of the Fund.

7.7 Investment in interest bearing instruments shall not exceed the higher of NOK 5 billion or 20% of the NAV of the real estate portfolio.

7.8 Investment in listed equity shall not exceed the higher of NOK 5 billion or 20% of the NAV the real estate portfolio.

7.9 The debt ratio of the real estate portfolio shall not exceed 50%. No single investment shall have a debt ratio of more than 70%.

7.10 Investment with a single external manager shall not exceed the higher of NOK 5 billion or 15% of the NAV of the real estate portfolio.

8. External management

8.1 NBIM may use external managers to support NBIM's overall investment objective. Contractual obligations shall apply and investment mandates are required to include an investment objective, an investment universe and applicable investment restrictions.

8.2 The remuneration structure in agreements with external managers shall be designed so that they safeguard the GPF's economic interests and take the time horizon of the relevant investment

strategies into account. The individual agreements with managers on performance-related fees shall be structured so that the Fund retains a major portion of the positive excess return.

9. Counterparty restrictions

9.1 Counterparties for unsecured deposits and OTC derivatives shall have a long-term credit rating of at least **AA-/Aa3/AA-** from at least one of the following three agencies: Fitch, Moody's, or Standard & Poor's. For all transactions that entail counterparty risk, none of the counterparty ratings shall be lower than **A-/A3/A-**. The Executive Director may make exemptions from this minimum requirement in regard to a central counterparty. The Executive Board shall be informed of such exemptions.

9.2 Potential future counterparty exposure shall not exceed 0.75 % of the GPFG NAV for any single counterparty.

9.3 All securities financing transactions and trading in OTC derivatives shall be subject to adequate collateral criteria. Netting agreements such as ISDA, GMRA and MRA shall be in place before trading takes place.

10. Entry into force

10.1 This investment mandate enters into force 1st January 2011. This investment mandate is to be submitted to the Executive Board for review and renewal by the end of each calendar year.

Appendix

Factors for adjusting the weights of the indices in BCGA and BCGI USA and Canada:

	Currency	Sector	Region	Factor
NB CAD ABS	CAD	Securitised	AMERICA	1,0
NB CAD Agency	CAD	Government Related	AMERICA	1,0
NB CAD CMBS	CAD	Securitised	AMERICA	1,0
NB CAD Covered Bonds	CAD	Securitised	AMERICA	1,0
NB CAD Financial	CAD	Corporate	AMERICA	1,0
Global Inflation-Linked: Canada	CAD	ILB	AMERICA	1,0
NB CAD INDS SR	CAD	Corporate	AMERICA	1,0
NB CAD Local Authority	CAD	Government Related	AMERICA	1,0
NB CAD MBS	CAD	Securitised	AMERICA	1,0
NB CAD Sovereign	CAD	Government Related	AMERICA	1,0
NB CAD Supranational	CAD	Government Related	AMERICA	1,0
NB CAD Treasury	CAD	Treasury	AMERICA	1,0
NB CAD Utility	CAD	Corporate	AMERICA	1,0
NB USD ABS	USD	Securitised	AMERICA	0,5
NB USD Agency	USD	Government Related	AMERICA	0,5
NB USD CMBS	USD	Securitised	AMERICA	0,5
NB USD Covered Bonds	USD	Securitised	AMERICA	0,5
NB USD Financial	USD	Corporate	AMERICA	1+x
Global Inflation-Linked: U.S. TIPS	USD	ILB	AMERICA	1+x
NB USD INDS SR	USD	Corporate	AMERICA	1+x
NB USD Local Authority	USD	Government Related	AMERICA	1+x
NB USD MBS	USD	Securitised	AMERICA	0,5
NB USD Sovereign	USD	Government Related	AMERICA	1+x
NB USD Supranational	USD	Government Related	AMERICA	1+x
NB USD Treasury	USD	Treasury	AMERICA	1+x
NB USD Utility	USD	Corporate	AMERICA	1+x