**New benchmark indices for the fund's investments**

The Ministry of Finance decides the expected return and risk for the fund by setting the allocation of the fund's investments between its various asset classes: equities, bonds and real estate. Starting from this distribution, the ministry has defined a detailed benchmark index for each asset class.

The benchmark indices serve several functions. The geographical composition determines the currency mix, which must be compatible with the long-term aim of safeguarding the fund's international purchasing power. The benchmark indices express the owner's risk preferences for investments in an asset class. The indices must also be investable, liquid, transparent, verifiable and easy to communicate. Finally, the return on the benchmark indices serves as a yardstick for value added in the operational management of the fund.

Choosing good benchmark indices is associated with many challenges. These challenges are discussed in depth in Norges Bank's letter to the Ministry of Finance of 6 July 2010 on the development of the investment strategy for the fund, published on www.nbim.no.

In Report No. 17 (2011-2012) to the Storting, the ministry announced changes to the fund's benchmark indices for equities and bonds. The changes are based partly on advice from Norges Bank in three letters dated 18 March 2011, 1 February 2012 and 2 February 2012, all published on www.nbim.no. Both these letters and the ministry's report provide detailed reasons for the changes.

The changes are significant and will be introduced gradually. As the fund's actual investments may and will deviate from the benchmark index, the actual transaction requirement will not necessarily be as great as the changes to the benchmark indices might indicate. The ministry has drawn up a timetable for phasing in the new benchmark indices, based partly on advice from Norges Bank.

More about the benchmark index for bonds

The benchmark index for bonds was previously broadly composed of various types of bonds issued in 11 developed-market currencies. The weighting of different issuers was based on the country/company's outstanding debt, and the index had a fixed geographical composition (60 percent European, 35 percent North American and 5 percent Asian/Oceanian currencies).

The new benchmark index has been simplified by removing certain types of bonds (including US mortgage-backed securities and bonds issued by local authorities). In addition, the benchmark index no longer has a fixed geographical composition, and it has been expanded to include currencies from a number of emerging markets.

In future, the benchmark index will comprise 70 percent government debt (nominal and inflation-linked government bonds, and including bonds issued by supranational organisations) and 30 percent corporate debt (corporate bonds, including covered bonds – a type of securitised debt most commonly issued in Europe).

The government sector of the index consists of bonds issued in the currencies of both developed and emerging markets (currently 21 currencies). Weights are based on countries' share of global production of goods and services as measured by GDP. The corporate sector of the index comprises only bonds issued in developed-market currencies (currently seven currencies). Weights are based on companies' outstanding bond debt.

More about the benchmark index for equities

The benchmark index for equities previously had a fixed geographical composition (50 percent Europe, 35 percent Americas and Africa and 15 percent Asia and Oceania). Within each geographical region, weights were based on each company's total market capitalisation. Shares in large-, mid- and small-cap companies in 48 developed and emerging markets were eventually included.

The new benchmark index brings a change in geographical distribution. The principle of fixed geographical regional weights has been abandoned, and the fund's benchmark index will move towards global market weights, but not completely. The principles for the number of markets and types of companies included in the benchmark index are unchanged.

Developed equity markets in Europe will be scaled back by around 10 percentage points relative to the previous index but will continue to be overweighted relative to full market weighting. Emerging markets in all regions and developed markets in Asia/Oceania will be more or less market-weighted in the new benchmark index, while developed markets in North America will be underweighted relative to global market weights.