

The Government Pension Fund – Global

(formerly known as the Government Petroleum Fund)

The “Norwegian petroleum fund model” in a nutshell

- The Fund is fully integrated into the state budget
- The Fund is only invested abroad in financial assets
- There is a high degree of transparency and disclosure of information

History

1969: Petroleum discovered in the North Sea (Ekofisk), production start in 1971
1990: Parliament passed the Government Petroleum Fund law
1996: First net transfer to the Fund. Invested like Central Bank currency reserves
1998: Investment in equities introduced in the benchmark (40%)
2000: Five emerging market countries added to the equity benchmark
2002: Non-government bonds added to the fixed income benchmark
2004: New ethical guidelines
2006: Renamed the Government Pension Fund – Global.

Current size of the Fund is NOK 1 500 bn (USD 240 bn) as of mid-2006

Purpose

The Petroleum Fund was established in 1990 as a fiscal policy tool to support a long-term management of the petroleum revenues. Renaming the Fund to the Pension Fund - Global in 2006 was part of a broader pension reform, highlighting also the Fund's role in facilitating government savings necessary to meet the rapid rise in public pension expenditures in the coming years.

Key Design Features

- The Fund's inflow consists of all state petroleum revenues, as well as the return on the Fund's investments.
- The outflow from the Fund is the sum needed to cover the non-oil budget deficit.

This means that the Fund is fully integrated into the state budget and that net allocations to the Fund reflect the total budget surplus (including petroleum revenues). Fiscal policy, which regulates the outflow from the Fund, is anchored in the guideline that over time the structural, non-oil budget deficit shall correspond to the real return on the Fund, estimated at 4%.

Governance

- The Ministry of Finance is responsible for the management of the Fund.
- The operational management is carried out by Norges Bank (the Central Bank), which invests the Fund in accordance with guidelines issued by the Ministry.
- Important changes to the investment guidelines are presented to Parliament before they are implemented.
- The Ministry receives advice on the investment guidelines from Norges Bank, the Ministry's advisory council on investment strategy and external consultants.
- The Ministry uses external consultants for independent performance measurement and benchmarking of performance and costs.
- Responsibility for auditing the Fund rests with the Office of the Auditor General, in cooperation with Norges Bank Audit.

Investment Guidelines

- The investment strategy for the Fund is to achieve high financial returns subject to moderate risk.
- The Fund is only invested abroad in financial instruments, and acts as a financial investor with a small ownership share in individual companies.
- The Fund's financial results are primarily assessed in international currency terms, in order to gauge the development in the Fund's international purchasing power.
- Equities account for 40% of the Fund's strategic benchmark portfolio, consisting of equities listed on exchanges in Europe (50%), America/Africa (35%) and Asia/Oceania (15%).
- Fixed income instruments account for 60% of the strategic benchmark portfolio, consisting of fixed income instruments issued in currencies from Europe (60%), America/Africa (35%) and Asia/Oceania (5%).

Ethical Guidelines

The ethical guidelines for the Fund are based on the recommendations of the Graver Commission (NOU 2003:22). The guidelines have two main elements:

- The Fund is an instrument for ensuring that a reasonable portion of the country's petroleum wealth benefits future generations, and it is an ethical obligation for present generations to manage it so as to generate a sound return.
- The Fund should not make investments which constitute an unacceptable risk that the Fund may contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages.

To implement the ethical guidelines, the following mechanisms are employed:

- Managing the Fund well so as to achieve high returns subject to moderate risk.
- Exercising the ownership rights associated with the equity holdings (done through Norges Bank).
- Excluding some companies from the Fund's investment universe (decided by the Ministry based on advice from a Council on Ethics).

Transparency

The management of petroleum revenues in general and the Fund in particular is characterised by a high degree of transparency and disclosure of information.

- The Ministry reports to Parliament (both in budget documents and elsewhere) on all important matters relating to the Fund, such as the size of petroleum revenues and the Fund; the outlook for fiscal sustainability; changes to the legal framework and investment strategy; the Fund's performance, risk and costs.
- The Ministry publishes advice and reports received from Norges Bank and external consultants.
- Norges Bank publishes quarterly reports on the management of the Fund, as well as an annual report listing all investments.

More information is available at the websites of the Ministry www.odin.dep.no/fin and Norges Bank www.norgesbank.no/nbim.