SAVING FOR FUTURE GENERATIONS

EGIL MATSEN

Jæren, 10 May 2017
Contents

- Tool for public saving
- Norges Bank’s management of Norway’s financial wealth
- Return
- Responsible investment
From natural resources to financial wealth

Sources: Norwegian Petroleum Directorate, Ministry of Finance and Norges Bank
The petroleum fund mechanism

1) At 31 December 2016
Sources: Norges Bank Investment Management and Ministry of Finance

Petroleum revenues and return on investments

Government Pension Fund Global (GPFG)
NOK 7 500bn¹)

Transfer to finance non-oil budget deficit

Fiscal rule
(spend the real return on the GPFG over time, estimated at 3%)

Non-oil revenues

Central government budget
NOK 1 300bn

Expenditures

¹) At 31 December 2016
Sources: Norges Bank Investment Management and Ministry of Finance
Transfers to and from the GPFG

In billions of NOK

Source: Norges Bank
A large fund
GPFG. In billions of NOK.

1) At 31 March 2017
Source: Norges Bank

1) NOK 1 107bn
NOK 3 420bn
NOK 3 339bn
Oil revenue spending over the government budget

Structural non-oil deficit. Percent

Source: Ministry of Finance
Contents

- Tool for public saving
- Norges Bank’s management of Norway’s financial wealth
- Return
- Responsible investment
Management model

Ministry of Finance

- Market
- Benchmark indices from FTSE and Barclays
  - Geographic weights
  - Equity allocation
- Benchmark index

Norges Bank

- Actual portfolio
- Norges Bank provides advice
- Norges Bank invests
Management objectives

OBJECTIVE

HIGH LONG-TERM RETURN

SUBJECT TO

- Acceptable risk
- Responsible investment
- Cost-effective management
- Transparency
Global investments
78 countries and 51 currencies

36% EUROPE
42% NORTH AMERICA
18% ASIA AND OCEANIA
4% REST OF THE WORLD

Source: Norges Bank
Asset allocation

**Strategic Allocation**
- **62.5%** EQUITIES
- **37.5%** FIXED INCOME

**At 31 March 2017**
- **64.6%** EQUITY INVESTMENTS
- **32.9%** FIXED INCOME INVESTMENTS
- **2.5%** REAL ESTATE INVESTMENTS

Source: Norges Bank
Contents

- Tool for public saving
- Norges Bank’s management of Norway’s financial wealth
- Return
- Responsible investment
Annual return

Accumulated annual return since 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Q1</td>
<td>3.78%</td>
</tr>
<tr>
<td>2016</td>
<td>6.92%</td>
</tr>
<tr>
<td>Past 10 years</td>
<td>5.48%</td>
</tr>
<tr>
<td>Since 1998</td>
<td>5.83%</td>
</tr>
</tbody>
</table>

Source: Norges Bank
Return by asset class

In terms of the GPFG’s currency basket. Percent

Source: Norges Bank
Return on the GPFG and benchmark index

Index

<table>
<thead>
<tr>
<th>Year</th>
<th>GPFG¹</th>
<th>Benchmark index²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1) Equities, fixed income and real estate. 2) Benchmark index for equities and fixed income investments

Sources: Bloomberg Barclays Indices, FTSE and Norges Bank
**Excess return**

The GPFG’s annual relative return. Percent

- **Annual relative return**
- **Cumulative annualised relative return**

<table>
<thead>
<tr>
<th>Year</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Q1</td>
<td>0.09%</td>
</tr>
<tr>
<td>2016</td>
<td>0.15%</td>
</tr>
<tr>
<td>Past 10 years</td>
<td>0.06%</td>
</tr>
<tr>
<td>Since 1998</td>
<td>0.26%</td>
</tr>
</tbody>
</table>

Source: Norges Bank
Contents

- Tool for public saving
- Norges Bank’s management of Norway’s financial wealth
- Return
- Responsible investment
The GPFG is a financial investor

Mandate from Ministry of Finance:

Prime objective: maximise return with acceptable risk

High returns in the long run are considered dependent on sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and efficient markets.
Responsible investment – main areas

- Standard setting
- International standards
- Principles and expectations
- Research

- Ownership
  - Voting
  - Company interaction
  - Environmental investments

- Risk management
- Risk monitoring
- Risk-based divestments

- Ethical exclusions and observations
  - Product-based
  - Conduct-based
## Environmental investments

### Environmental mandates

<table>
<thead>
<tr>
<th>Main category</th>
<th>Subgroups</th>
<th>Number of companies</th>
<th>Total NOK bn&lt;sup&gt;2)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-emission energy and alternative fuels</td>
<td>Renewable energy</td>
<td>45</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Low-emission energy</td>
<td>11</td>
<td>11.5</td>
</tr>
<tr>
<td></td>
<td>Low-emission fuels</td>
<td>8</td>
<td>1.1</td>
</tr>
<tr>
<td>Clean energy and efficiency technology</td>
<td>Electricity production</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
<td>34</td>
<td>5.3</td>
</tr>
<tr>
<td></td>
<td>Buildings</td>
<td>24</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td>43</td>
<td>9.9</td>
</tr>
<tr>
<td>Natural resource management</td>
<td>Water</td>
<td>35</td>
<td>8.7</td>
</tr>
<tr>
<td></td>
<td>Waste management and emissions reduction</td>
<td>16</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>Sustainable agriculture</td>
<td>9</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>226</strong></td>
<td><strong>56.8</strong></td>
</tr>
</tbody>
</table>

1) Excluding investments in green bonds. 2) Total includes cash

Source: Norges Bank
Ethical exclusions and observations

- Criteria endorsed by the Storting:
  1. Product-based
     - Weapons, tobacco, coal
  2. Conduct-based
     - Corruption, human rights, rights of individuals in situations of war or conflict, serious environmental damage, contributions to climate change

- Norges Bank issues decisions
  - Most often on the basis of advice from the Council on Ethics
## Exclusions and observations

### At 7 March 2017

<table>
<thead>
<tr>
<th>Issue</th>
<th>Criterion</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product-based exclusions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Production of tobacco</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Production of specific weapon types</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Thermal coal mining or coal-based power production</td>
<td>69</td>
</tr>
<tr>
<td><strong>Conduct-based exclusions</strong></td>
<td>Serious or systematic human rights violations</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Severe environmental damage</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Contributions to climate change</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Gross corruption</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Other fundamental ethical norms</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Serious violations of the rights of individuals in situations of war or conflict</td>
<td>2</td>
</tr>
<tr>
<td><strong>Observation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Severe environmental damage</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Gross corruption</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Thermal coal mining or coal-based power production</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>147</td>
</tr>
</tbody>
</table>

Source: Norges Bank
SAVING FOR FUTURE GENERATIONS
EGIL MATSEN
Jæren, 10 May 2017