



Norway's Government Pension Fund and Challenges of Capital Flows

International Forum of Sovereign Wealth Funds

3 October 2013

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NBIM

Norges Bank Investment Management



A light gray world map serves as the background for the upper half of the slide. Five cities are marked with small blue squares and labeled in a sans-serif font: NEW YORK (in North America), OSLO (in Northern Europe), LONDON (in Western Europe), SHANGHAI (in East Asia), and SINGAPORE (in Southeast Asia).

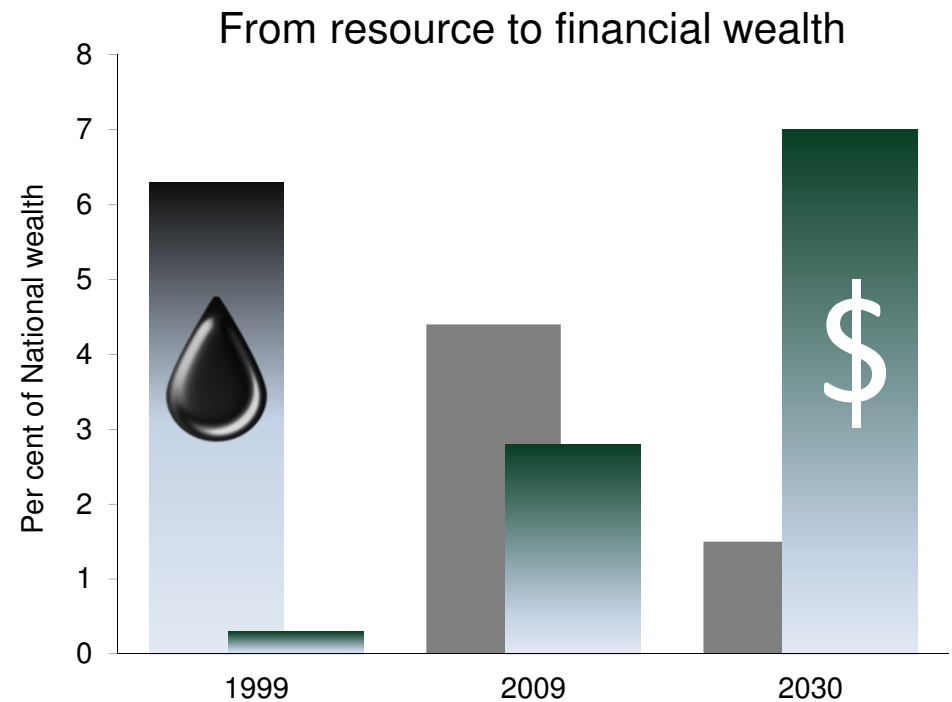
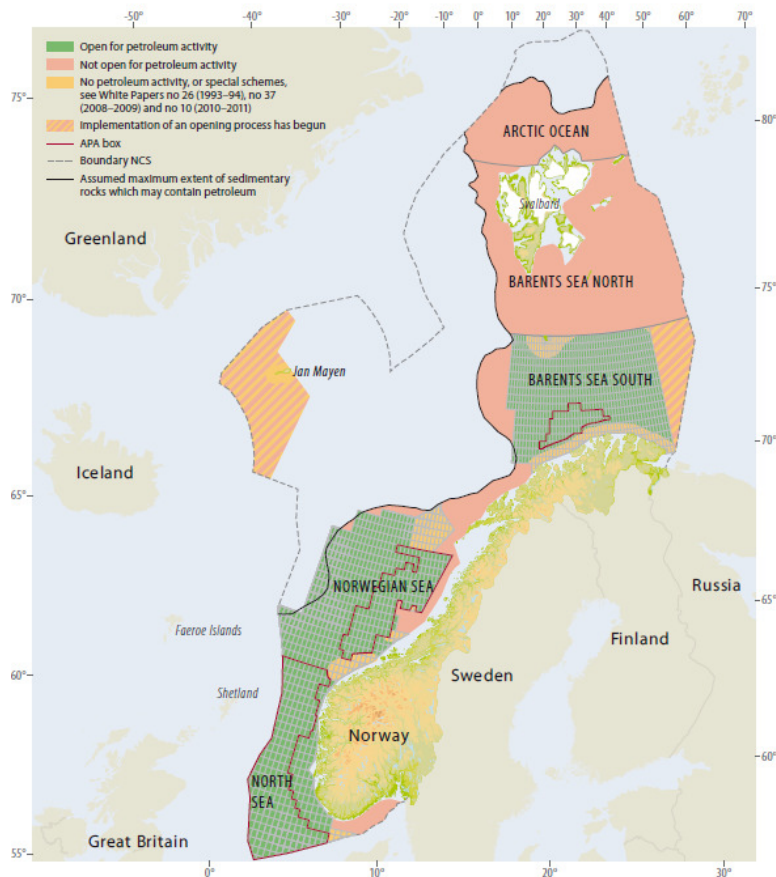
The Government Pension Fund Global

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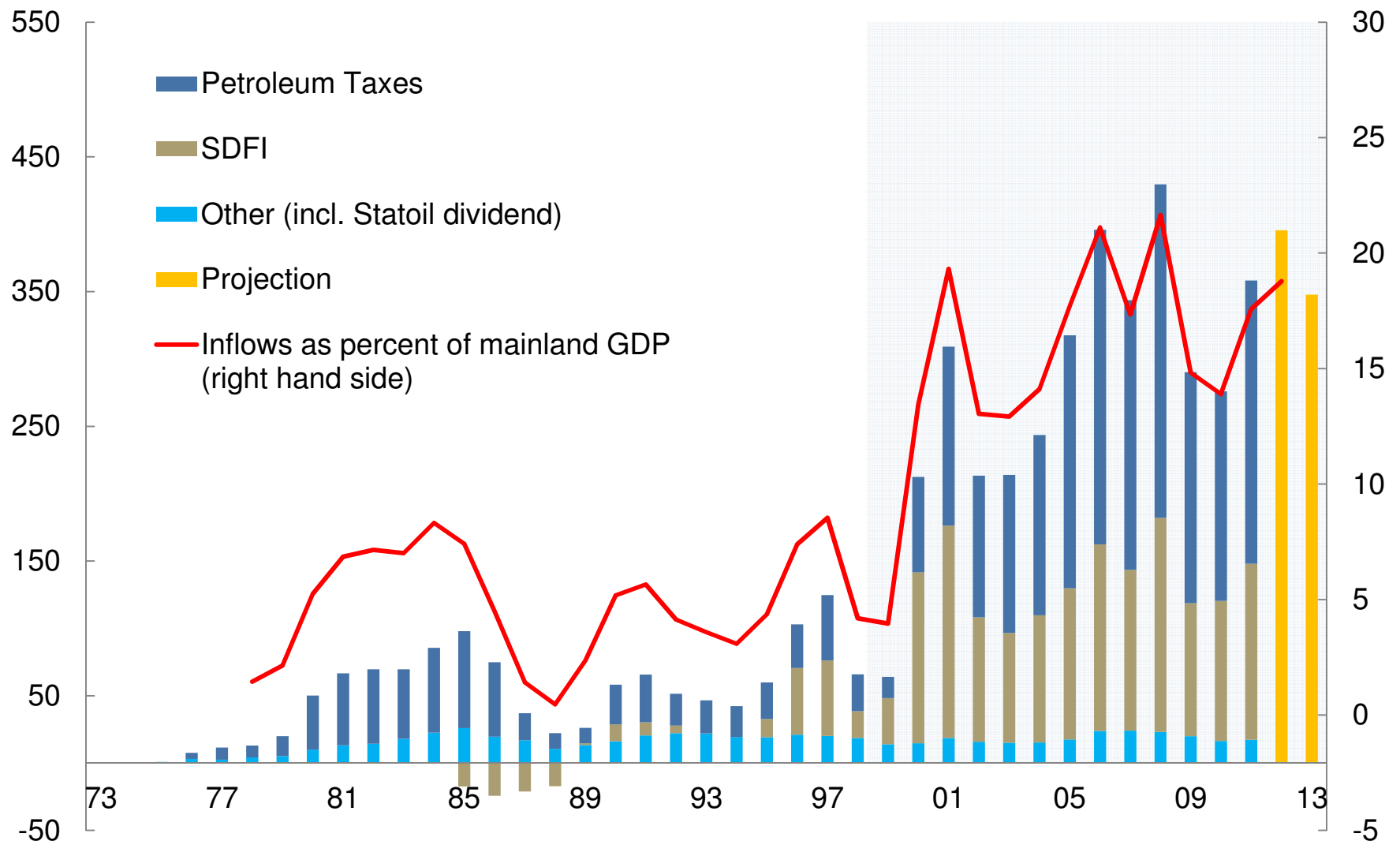
To safeguard and build financial wealth for future generations



Sources: Facts – The Norwegian Petroleum Sector 2012; Statistics Norway, Ministry of Finance, NBIM

Large annual inflows

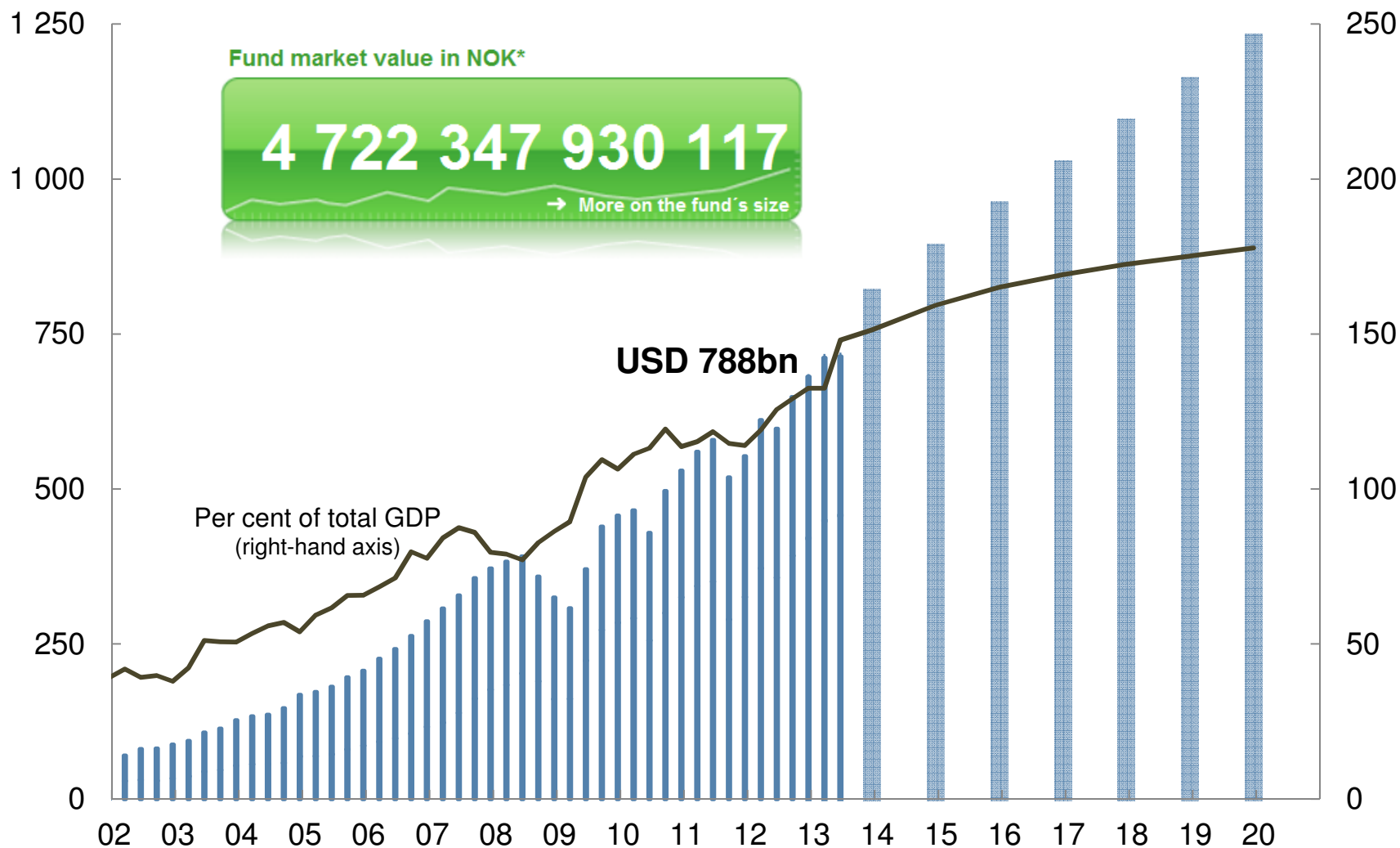
Government revenue from exploration, billions of kroner



Sources: Facts – The Norwegian Petroleum Sector 2013, Ministry of Petroleum and Energy; Revised National Budget 2013, Ministry of Finance

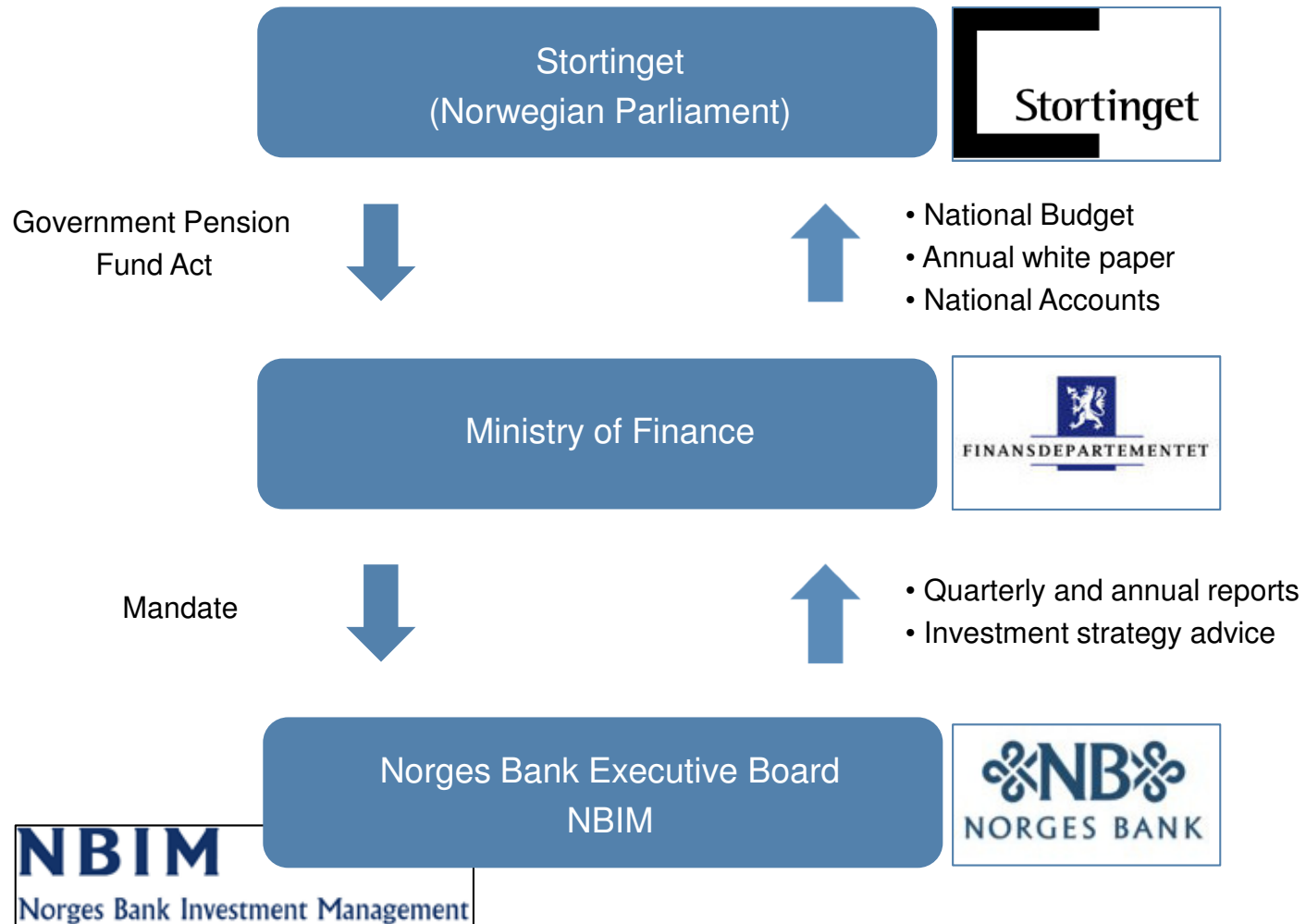
A large fund

Billions of US dollar and percent of Norwegian GDP

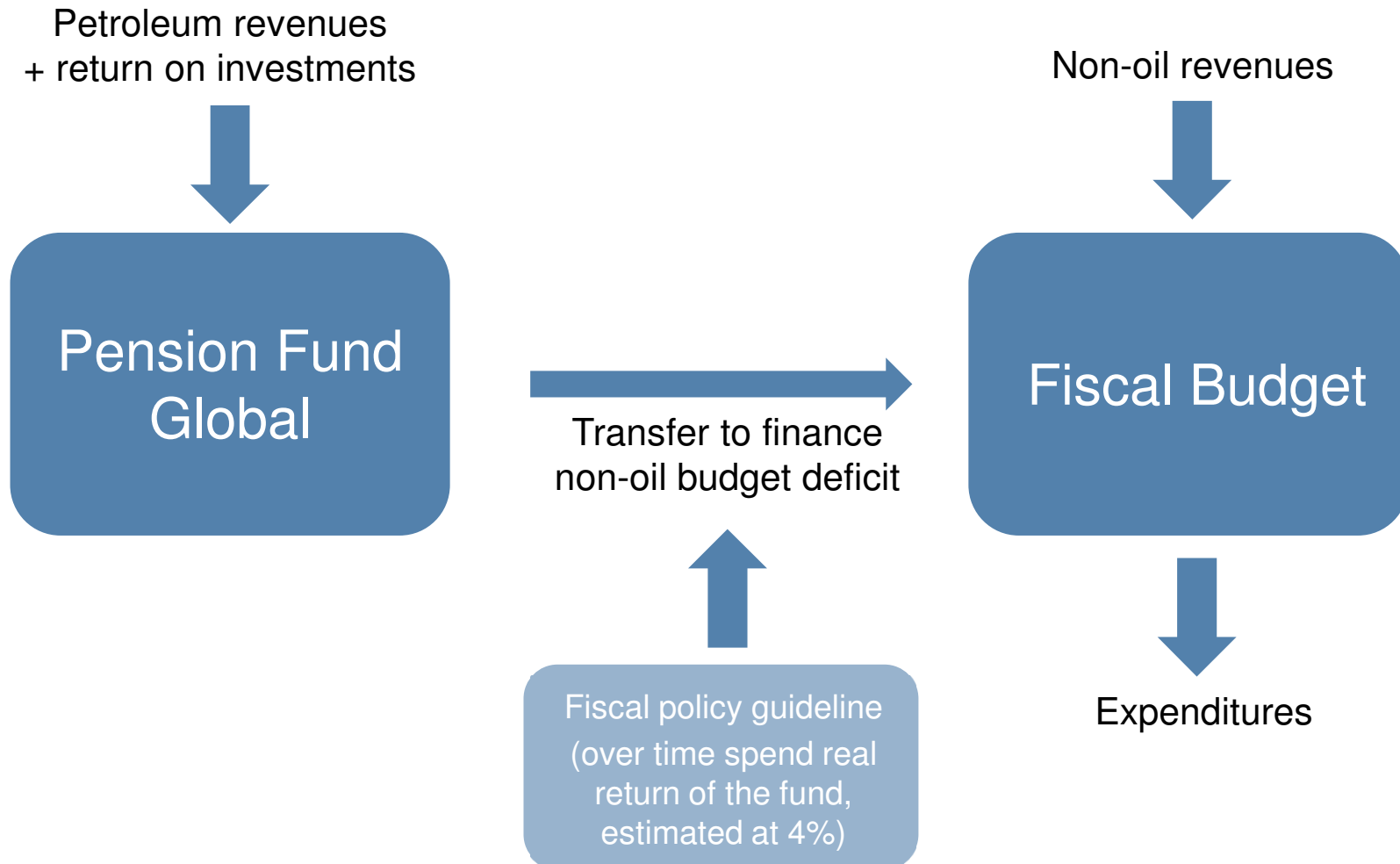


Source: Ministry of Finance (Revised National Budget 2013), NBIM

A fund owned by the Norwegian people



Fiscal policy guideline – 4% real return



Investment objectives

High return and moderate risk

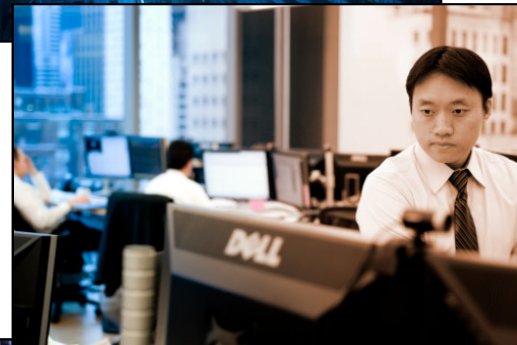
Maintain international purchasing power

Financial investor

Long term investor

Large

No fixed liabilities



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The investment strategy

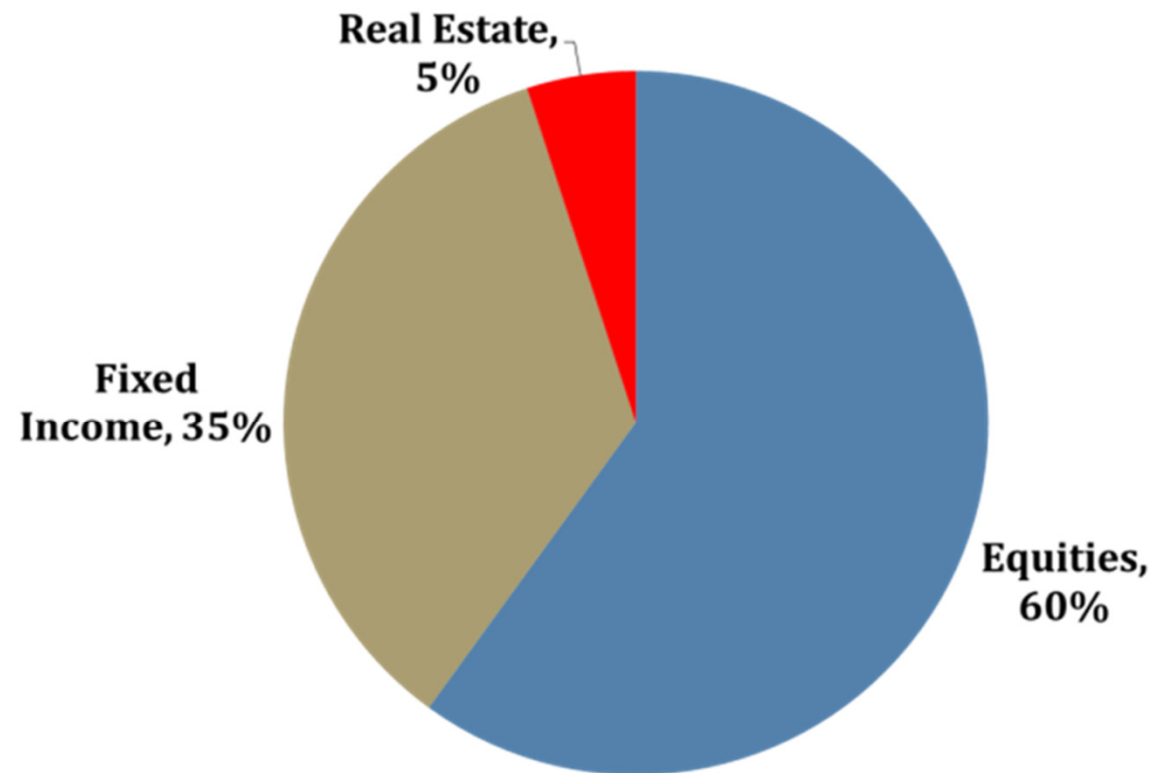
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What we invest in

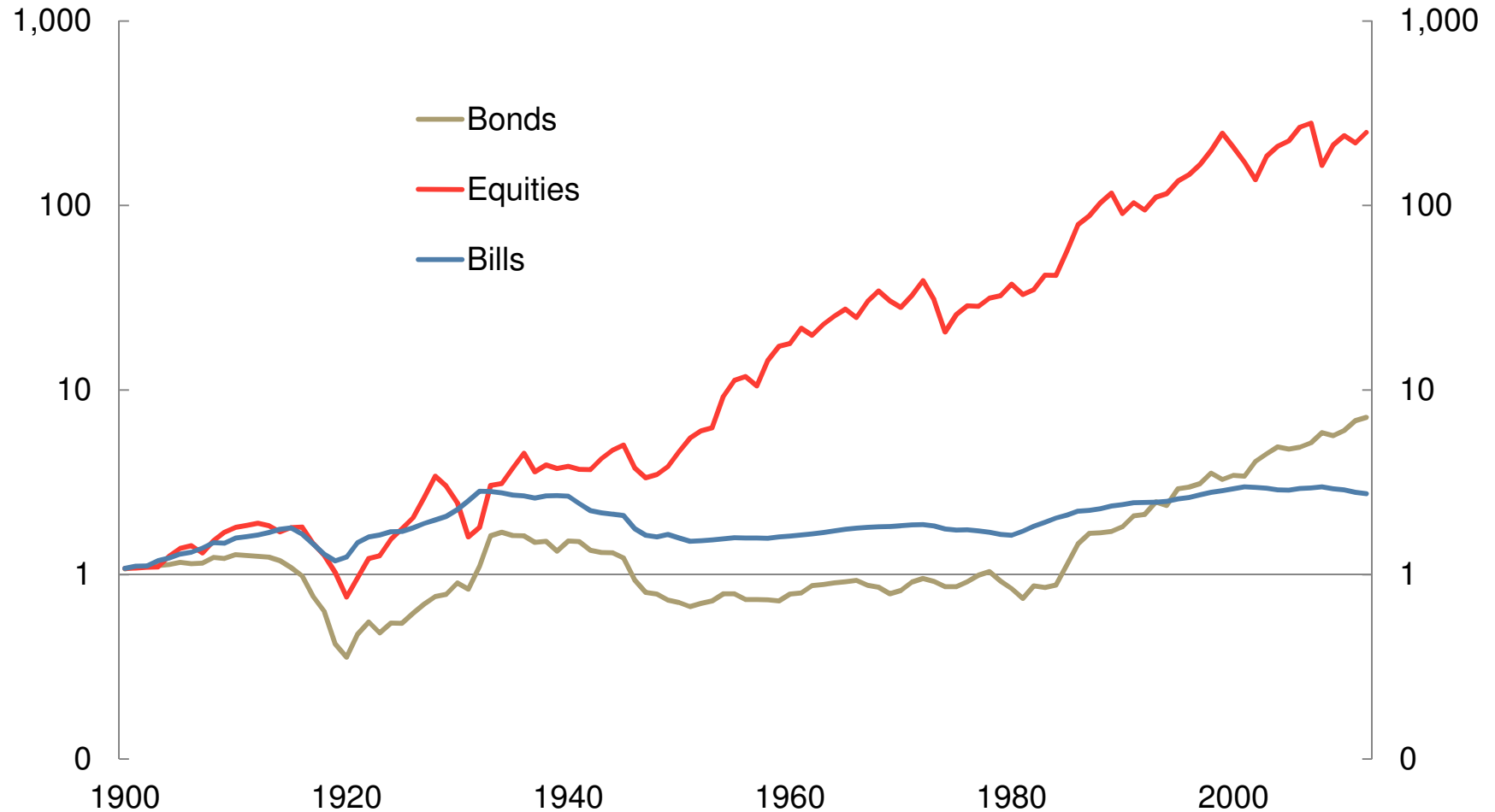
Strategic asset allocation



Source: NBIM

Why invest as we do

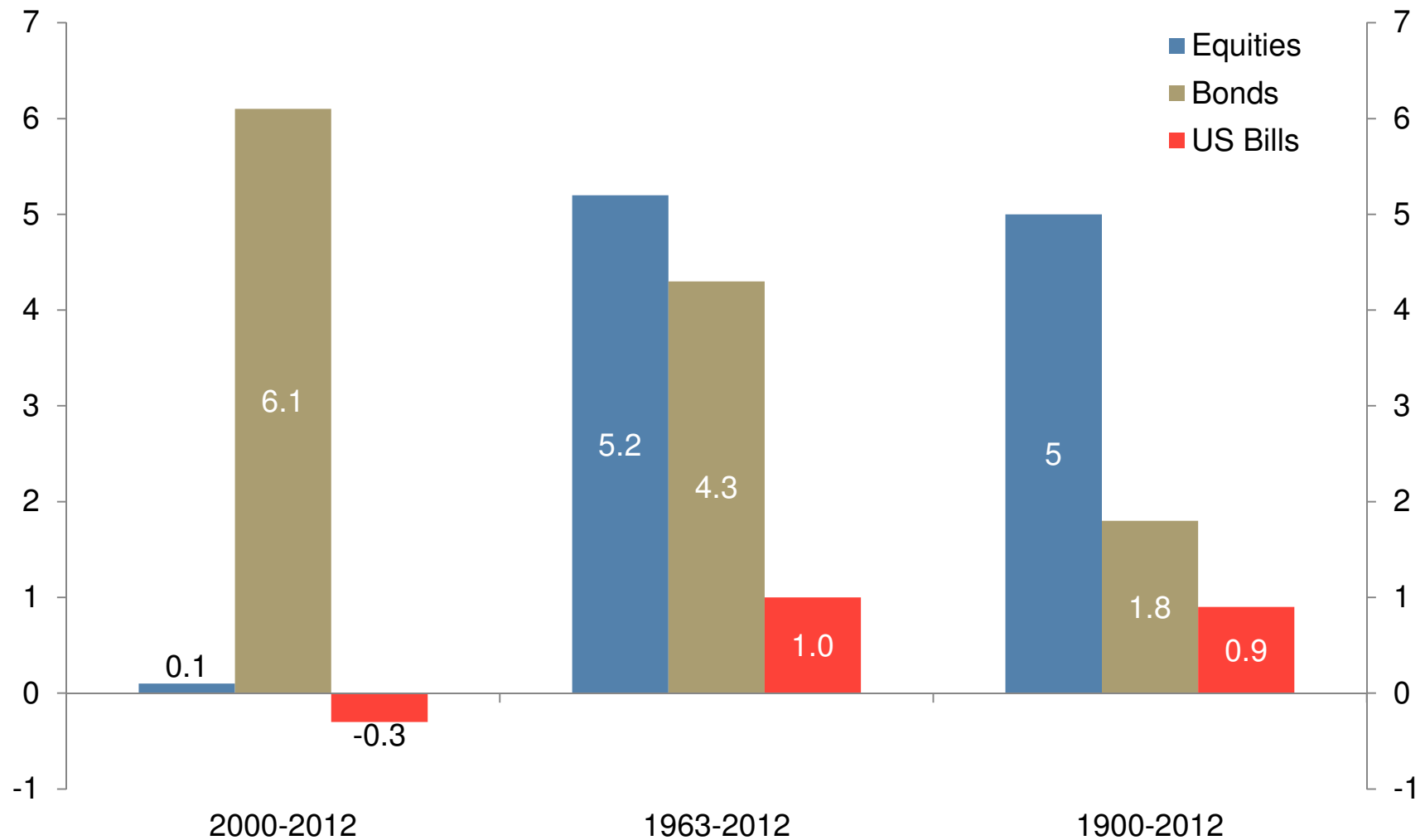
Real returns (1900=1 USD)



Source: NBIM; Dimson, Marsh and Staunton

Historic return

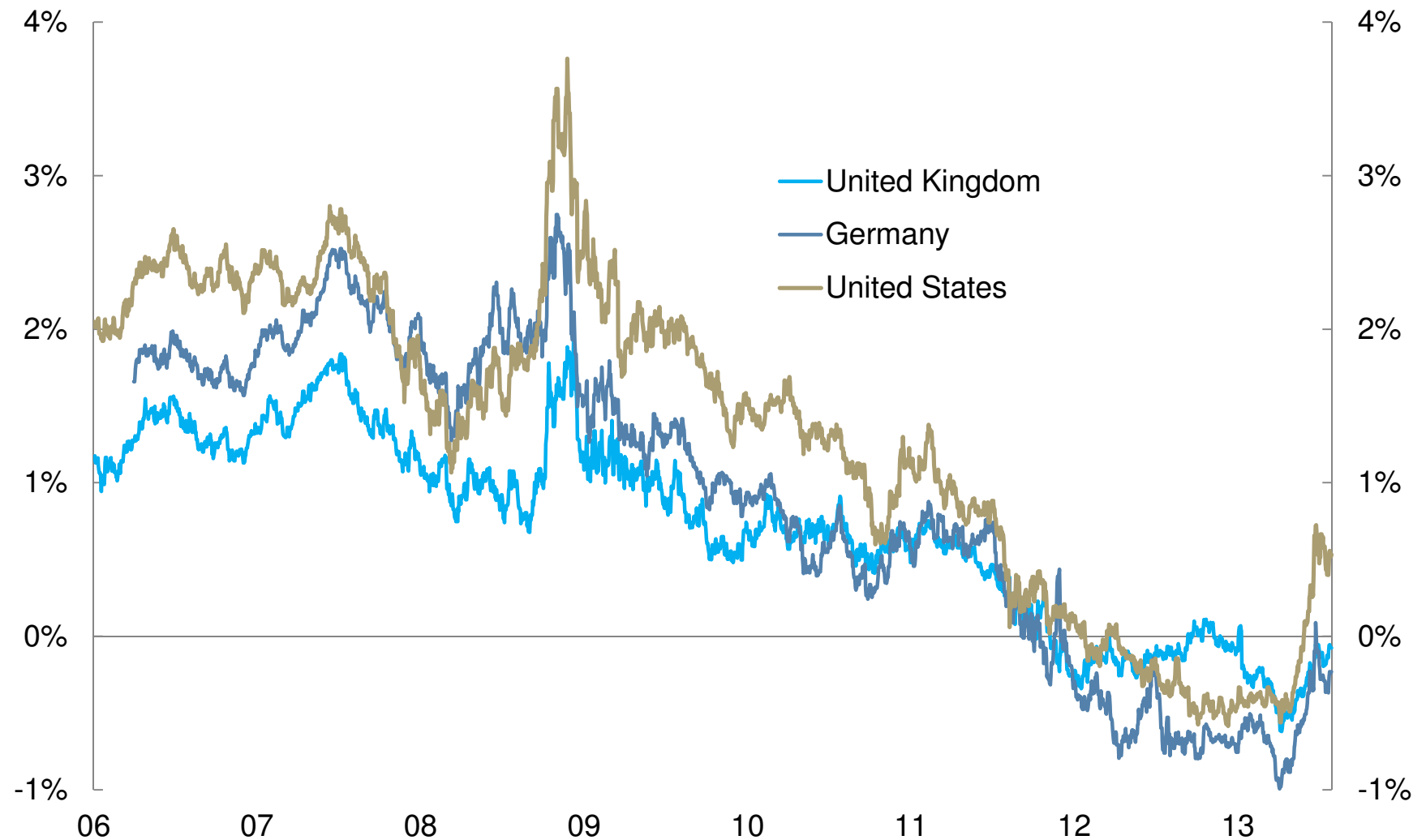
Annualised real returns on major asset classes, percent



Source: Dimson, Marsh and Staunton

Government bonds' real yields

Percent



Source: Barclays Capital

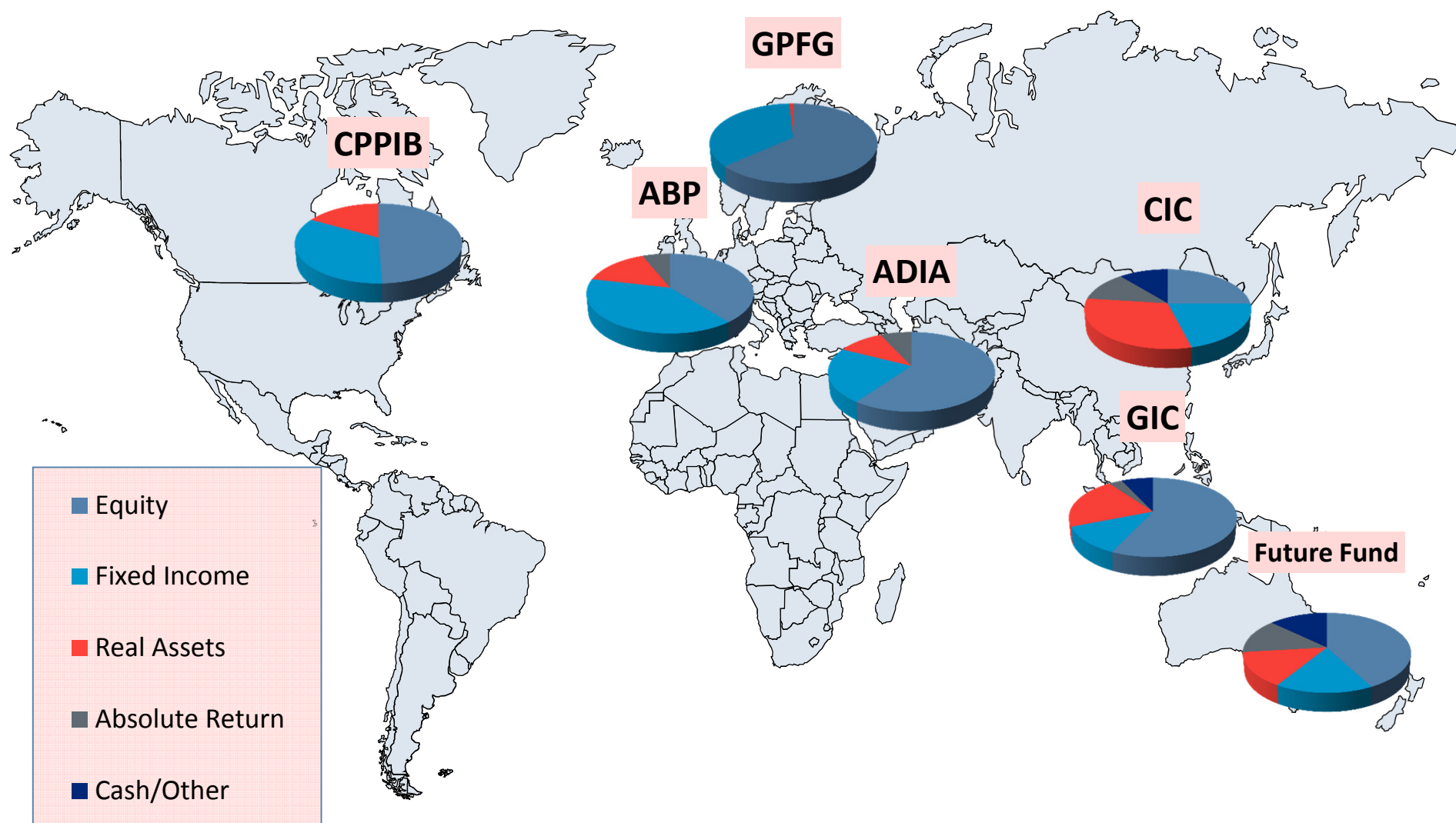
Real estate investments

Selection of portfolio



Asset mix of selected, large funds

Data as of latest annual or quarterly reports



Source: Annual reports, NBIM calculations



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The challenge of ownership

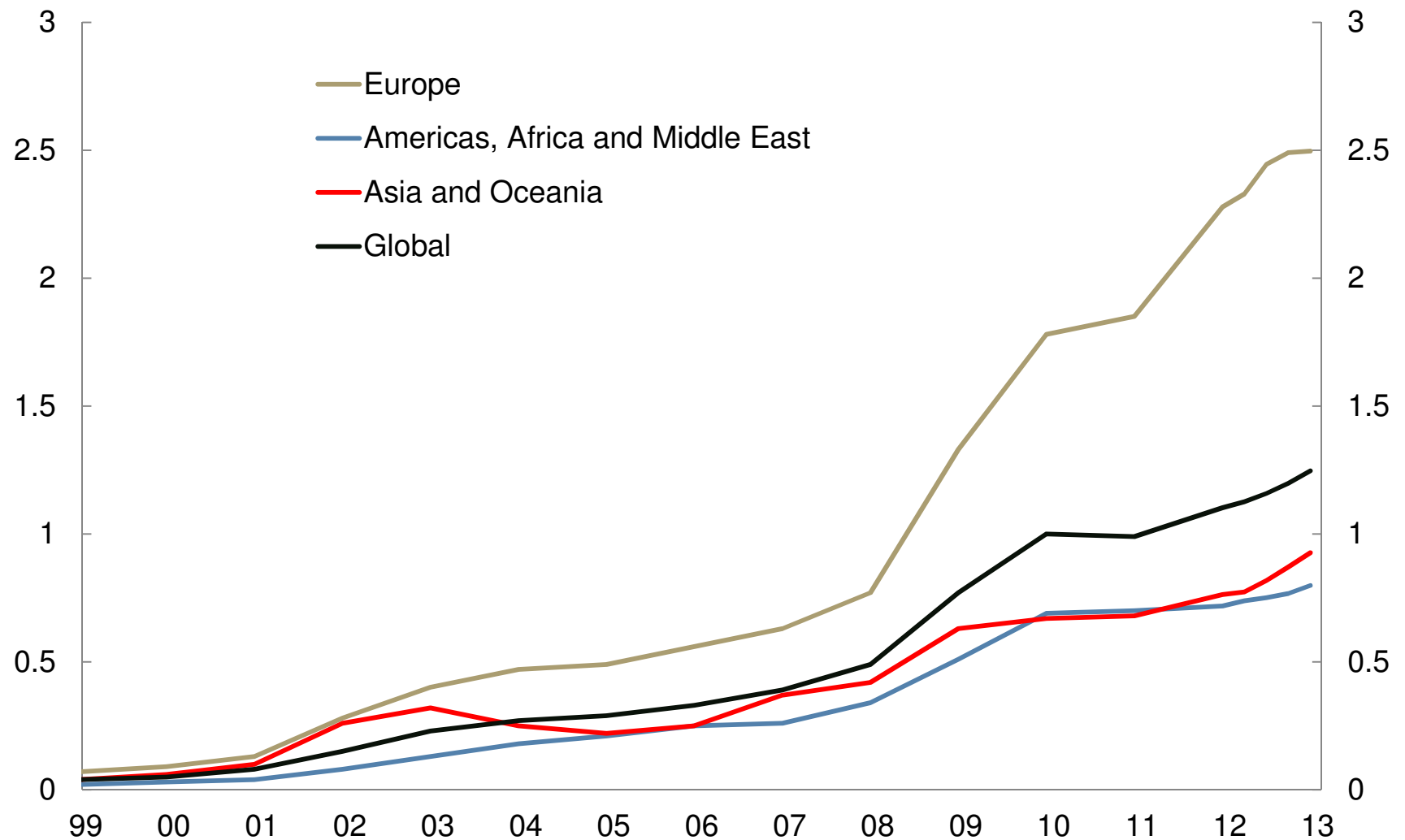
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Global Equities

Average ownership percentages



Source: NBIM, FTSE

Responsible investor

Investor characteristics

Financial investor

Minority shareholder

Long-term horizon

Principle based



Active ownership focus areas

Markets:

- Well-functioning financial markets

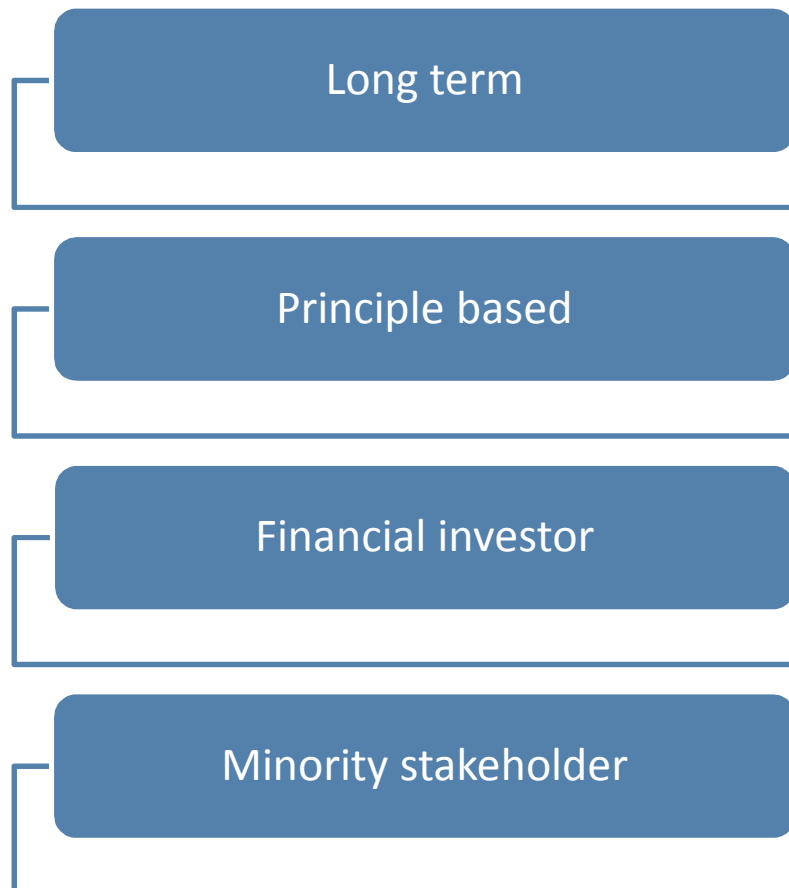
Corporate governance:

- Equal treatment of shareholders
- Shareholder influence and board accountability

Environmental and social risks:

- Children's rights
- Climate change
- Water management

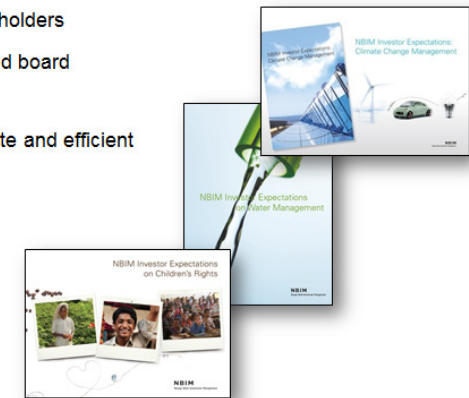
Responsible ownership



Ownership focus areas

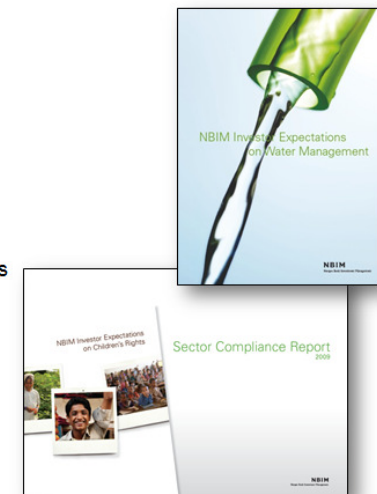
Determined by the Executive Board

1. Equal treatment of shareholders
2. Shareholder influence and board accountability
3. Well-functioning, legitimate and efficient financial markets
4. Climate change
5. Water management
6. Children's rights



Ownership tools

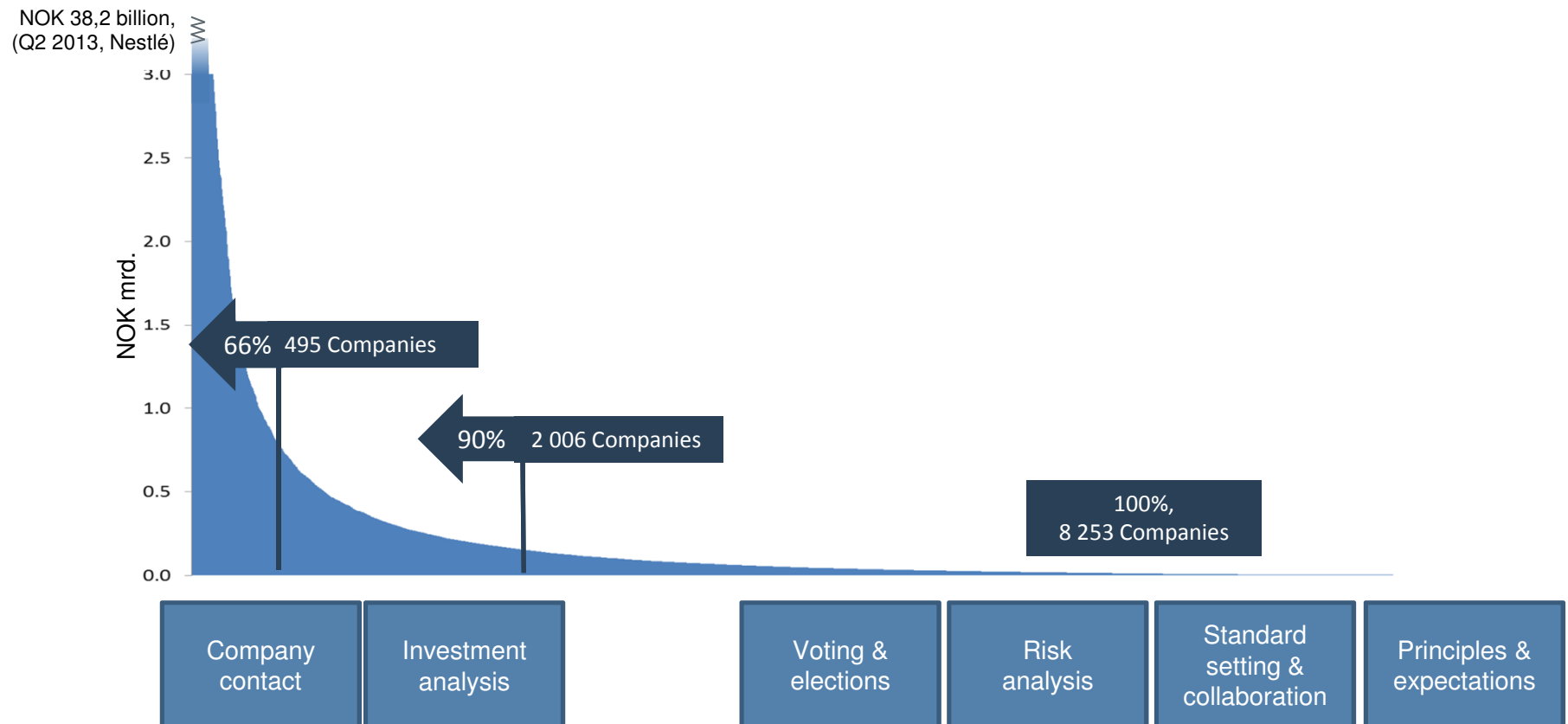
1. Expectation documents
2. Dialogue with companies
3. Voting rights
4. Shareholder proposals
5. Contact with regulatory authorities
6. Public views
7. Legal action



Responsible ownership – level of interaction

Active ownership is applied at materially significant holdings

Principles for **responsible investment** applies to all companies



Company interaction

- Voting
- Shareholder proposal
- Board nomination
- Ownership stakes
- Financial interest

Voting disclosure and ownership principles

1. Disclosing voting records
2. Disclosing voting principles
3. Corporate governance advisory board
4. Non-activist dialogue
5. Company ownership limit of 10%
6. Financial interest only

The screenshot displays the NBIM (Norges Bank Investment Management) website. The top navigation bar includes links for 'OM OSS', 'INVESTERINGENE', 'MEDIA OG PUBLIKASJONER', 'MEDIA OG PUBLIKASJONER NY', 'KARRIERE', and 'KONTAKT O Søk her'. The main content area is titled 'Stemmegivning' (Voting) and provides information about the voting process for the 2012 general assembly. It includes a search bar for company names and meeting dates, and a list of 'Årlige stemmelister i PDF' (Annual voting lists in PDF) for the years 2008 to 2012. The bottom section shows 'Voting search results' for the search term 'morgan', displaying a table of companies and their voting records.

Company	Ticker	Meeting date	Meeting type	Country
JPMorgan Chase & Co.	JPM	21 May, 2013	Annual	USA
Kinder Morgan, Inc.	KMI	7 May, 2013	Annual	USA
Morgan Advanced Materials plc	MGAM	10 May, 2013	Annual	United Kingdom
Morgan Sindall Group plc	MGNS	9 May, 2013	Annual	United Kingdom
Morgan Stanley	MS	14 May, 2013	Annual	USA

Legitimacy

As global government investor, we have to be

- **respected,**
 - *(professional in the way we do business, invest, execute)*
- **transparent,**
 - *(report and explain activities)*
- **responsible,**
 - *(long-term focus on sustainable value creation, and ownership governance principles)*

NBIM Strategy Plan 2011-2013

Transparency

- Annual and quarterly reports including full IFRS financial reporting
- Complete annual holding lists and voting records after general meetings published
- Governing documents, correspondence and research on website
- All public information published on www.nbim.no

The collage illustrates the transparency of NBIM through its reporting and website. It features the covers of the 'GOVERNMENT PENSION FUND GLOBAL' 2013 Quarterly Report and 2012 Annual Report. A central screenshot of the NBIM website shows the 'Government Pension Fund Global' managed by Norges Bank Investment Management. Key elements on the website include the fund market value in NOK (4 548 146 480 958), fund holdings for 2012 (Equity and Fixed Income), and a news section with articles like 'Higher share prices, lower bond prices' and 'Complaint regarding investment in the South Korean steel company POSCO'. The website also displays 'Fund results second quarter 2013' and a 'Quarterly report 2013' link.

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Investment Strategy – Global Portfolio

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31.12.2012



New equity markets in 2012 and 2013

Equity
Bulgaria
Croatia
Jordan
Kenya
Qatar
Romania
Kuwait (2013)
Nigeria (2013)
Oman (2013)



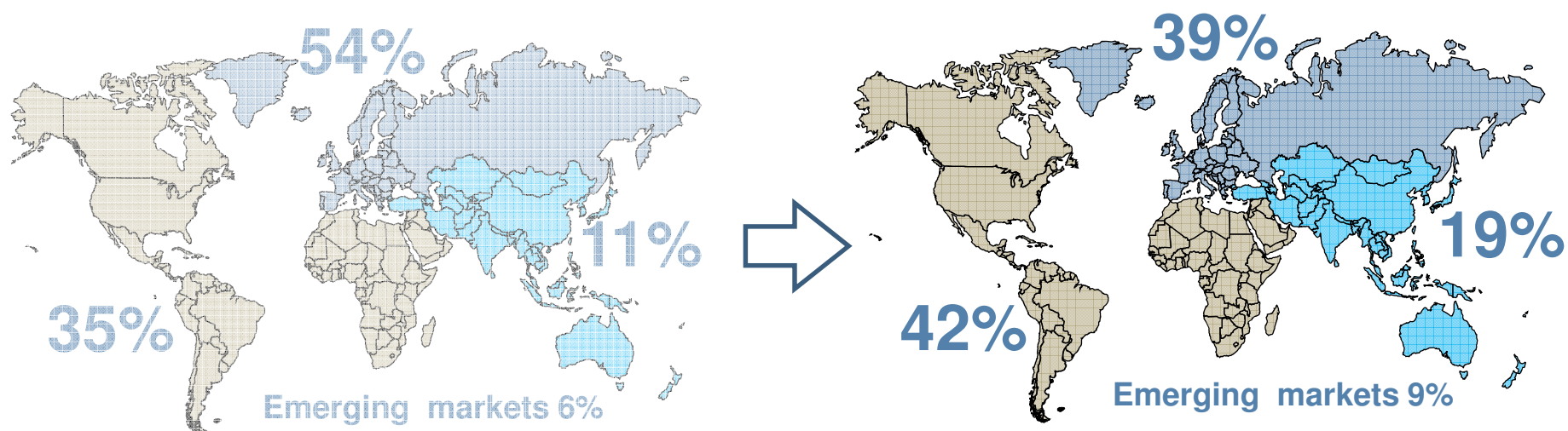
New fixed income markets in 2012 and 2013

Fixed income (currency)
Chile (CLP)
China (CNY)
Czech Republic (CZK)
Hong Kong (HKD)
Hungary (HUF)
Israel (ILS)
Malaysia (MYR)
Philippines (PHP)
Russia (RUB)
Thailand (THB)
Taiwan (TWD)
Colombia (2013) (COP)



Changing the regional allocation

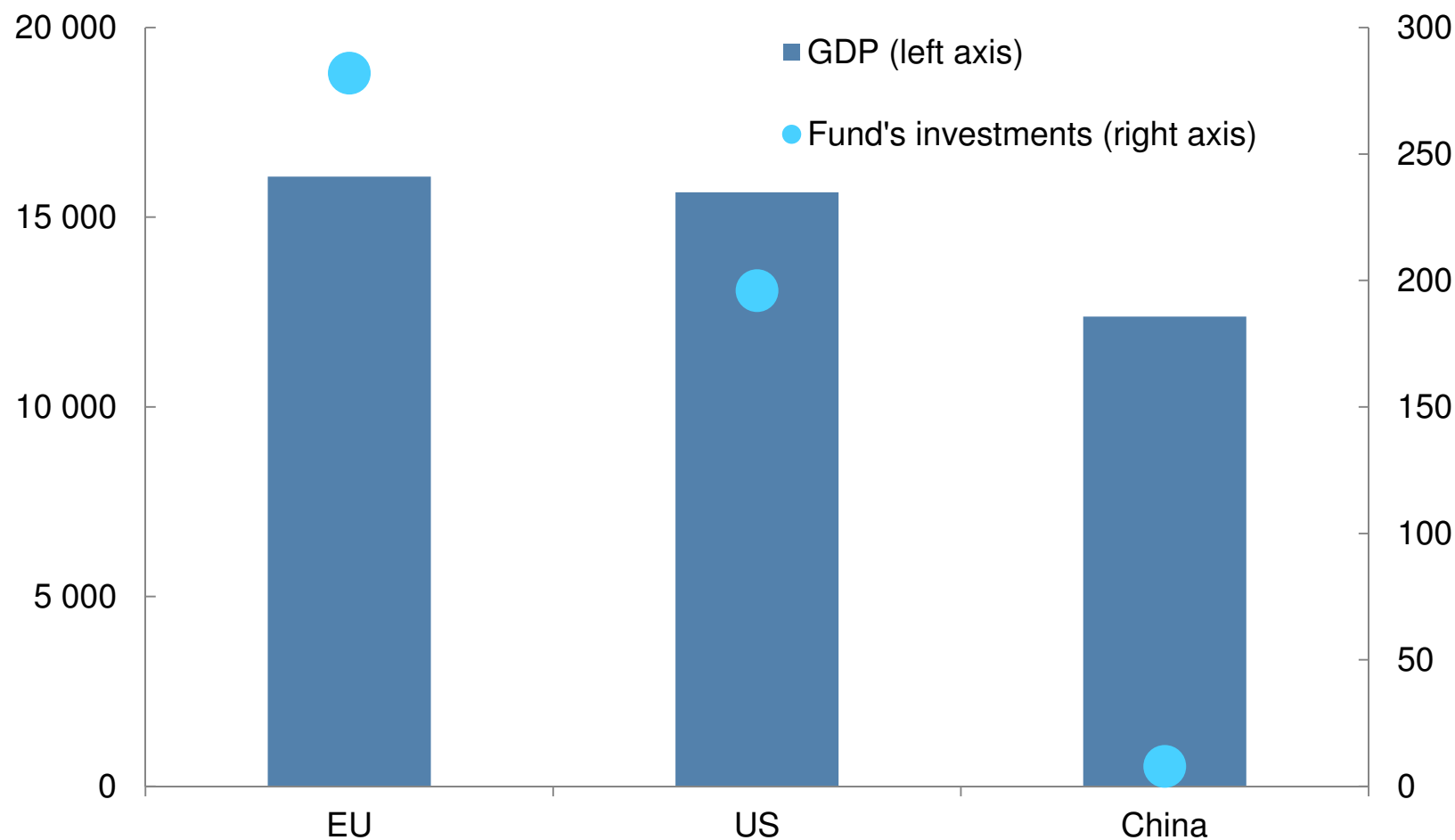
Target announced in Report to the Storting Nr. 17 (2011-2012); updated 30 June 2013



Source: NBIM, Ministry of Finance

Investments relative to GDP

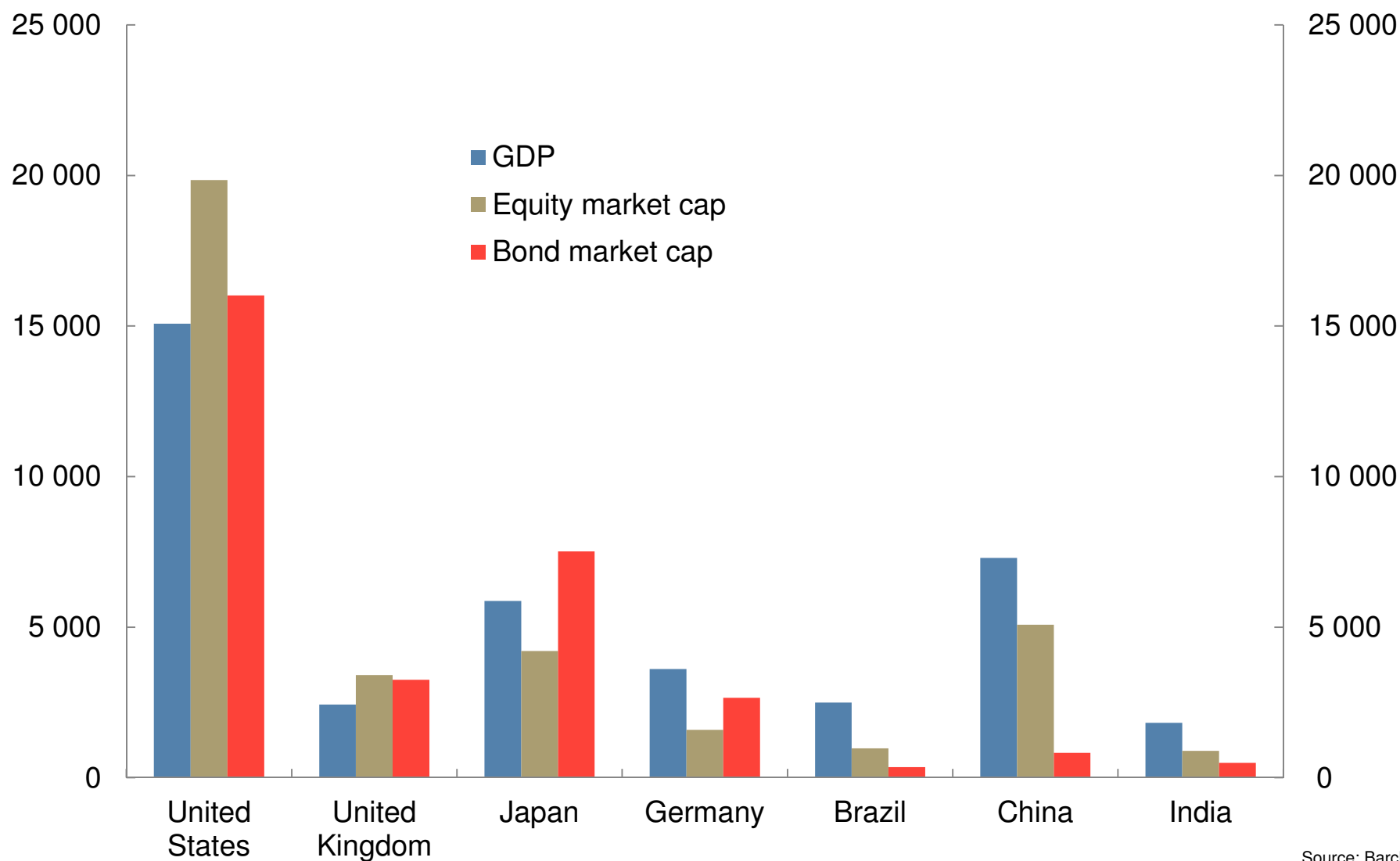
31 December 2012, USD billion



Source: IMF, NBIM

Size of economies and markets

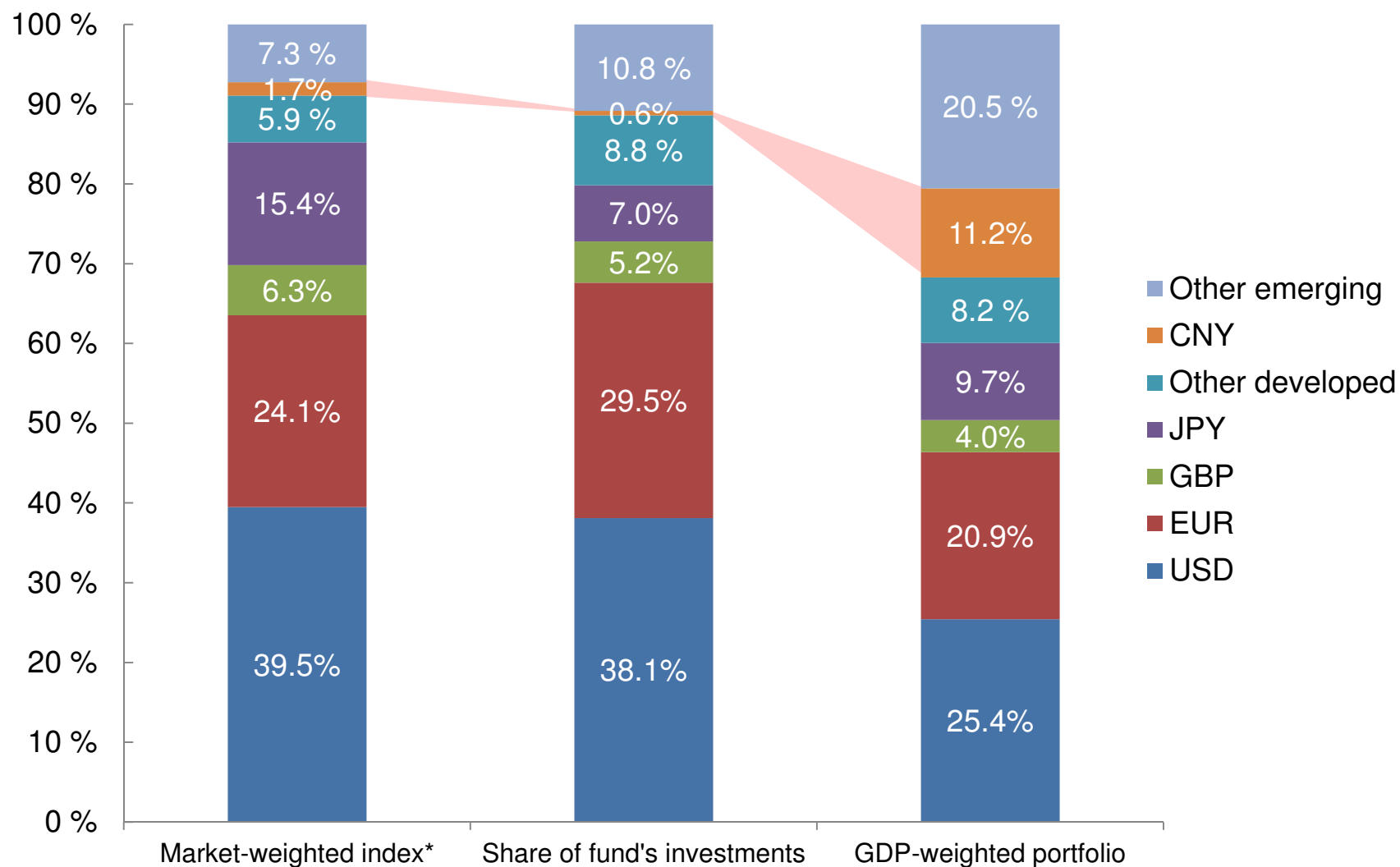
Billion USD, September 2013



Source: Barclays

Fixed-income investments

Percent. 30. June 2013



* The market-weighted index is based on the Global Aggregate and EM Local Currency Government Universal indices of Barclays

Source: NBIM

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The challenges to free capital flows

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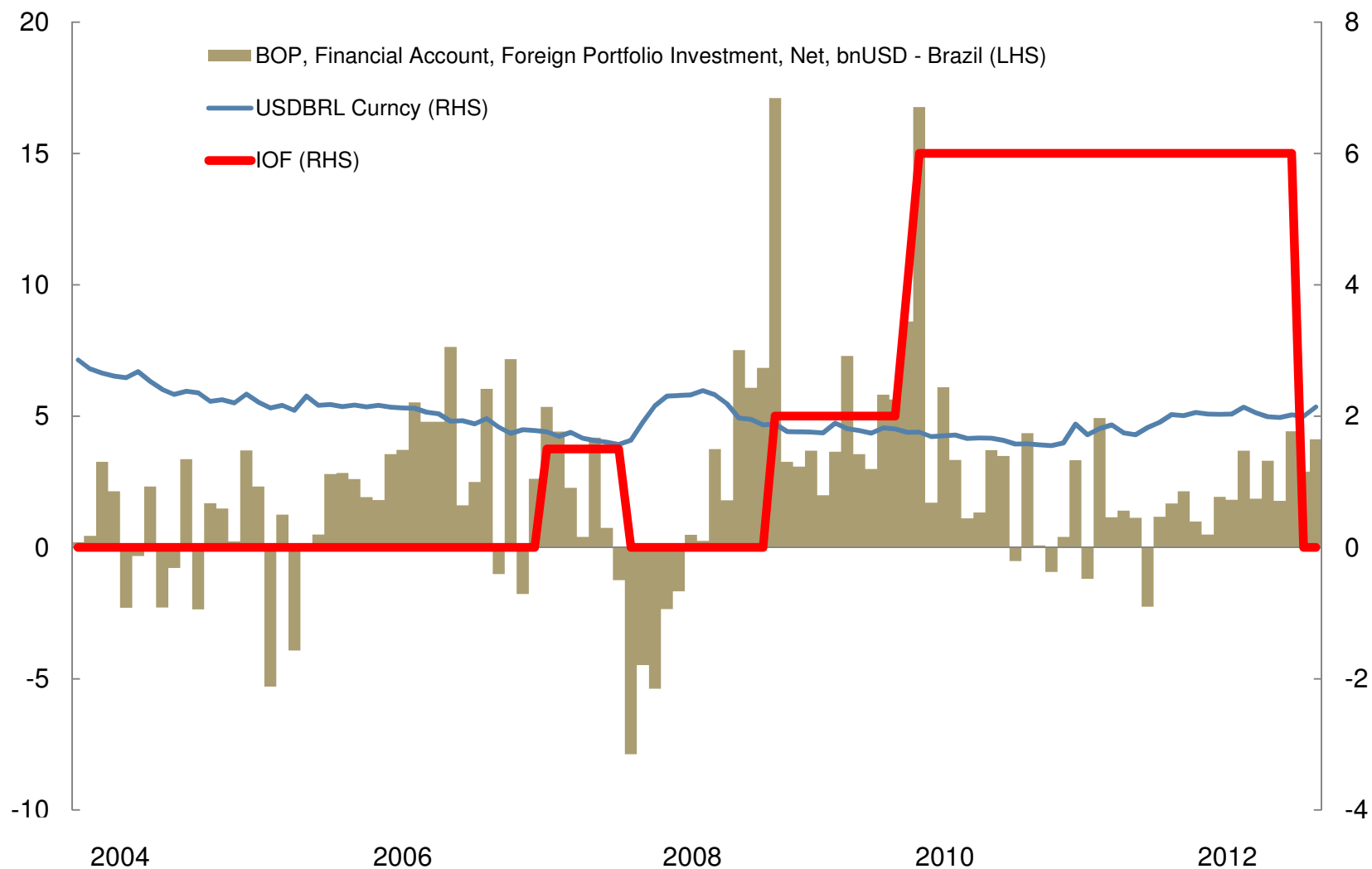
Capital controls on inflows

“if the economy is operating near potential, if the level of reserves is adequate, if the exchange rate is not undervalued, and if the flows are likely to be transitory, then **use of capital controls**—in addition to both prudential and macroeconomic policy—**is justified as part of the policy toolkit to manage inflows.**”

IMF Staff Position Note

SPN/10/04

Brazil's IOF tax on fixed income inflows



Source: Central Bank of Brazil, Bloomberg, Itau, Natixis

OECD Declaration on Sovereign Wealth Funds and recipient country policies

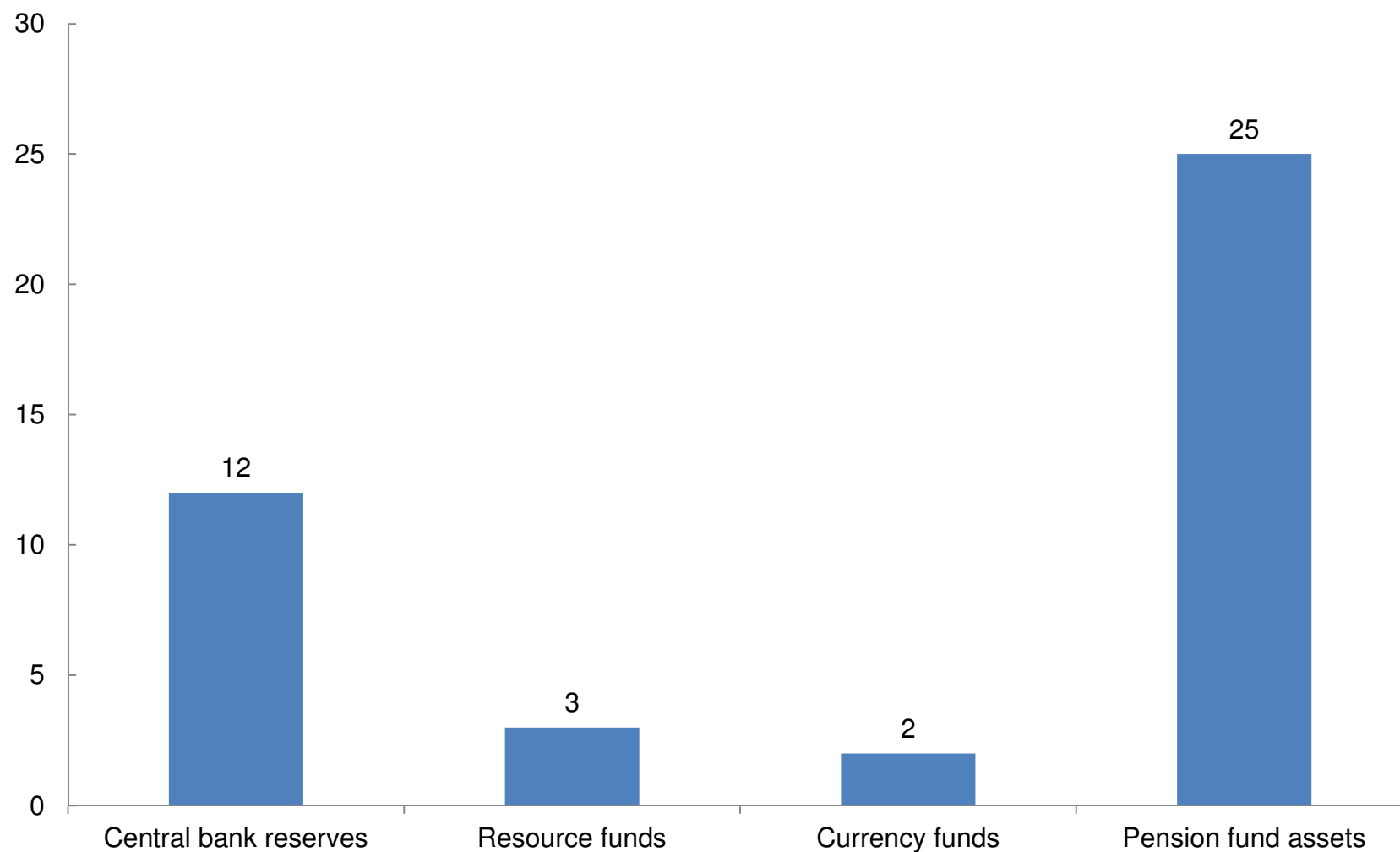
- No protectionist barriers to foreign investment
- No discrimination among investors
- Investment restrictions only if legitimate national security concerns
- Restrictions should be transparent and predictable



Source: OECD

Asset distribution – government funds

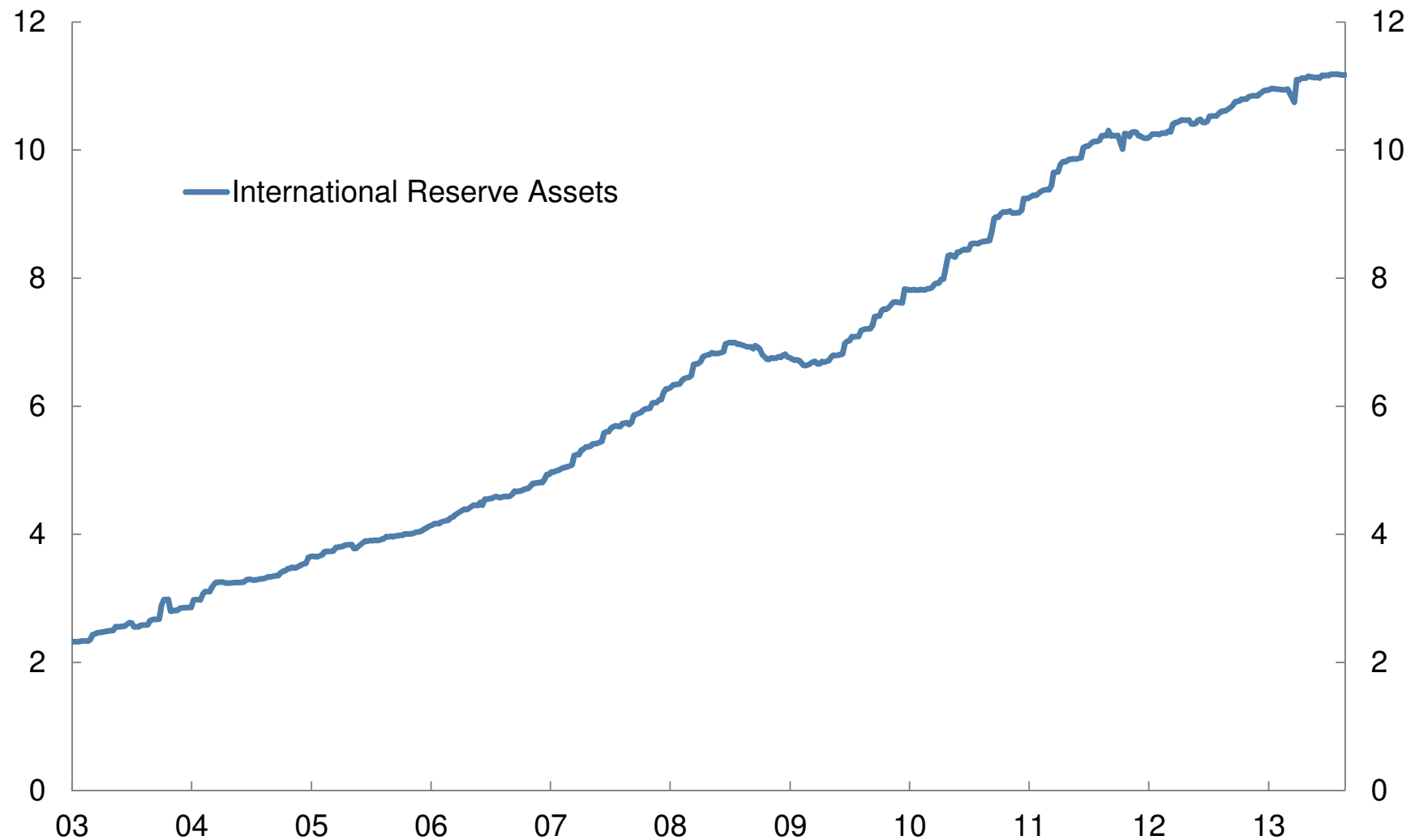
Trillion US Dollars



Source: Bloomberg, Sovereign Wealth Funds Institute, OECD Global Pensions Statistics

Central bank reserve assets are rising

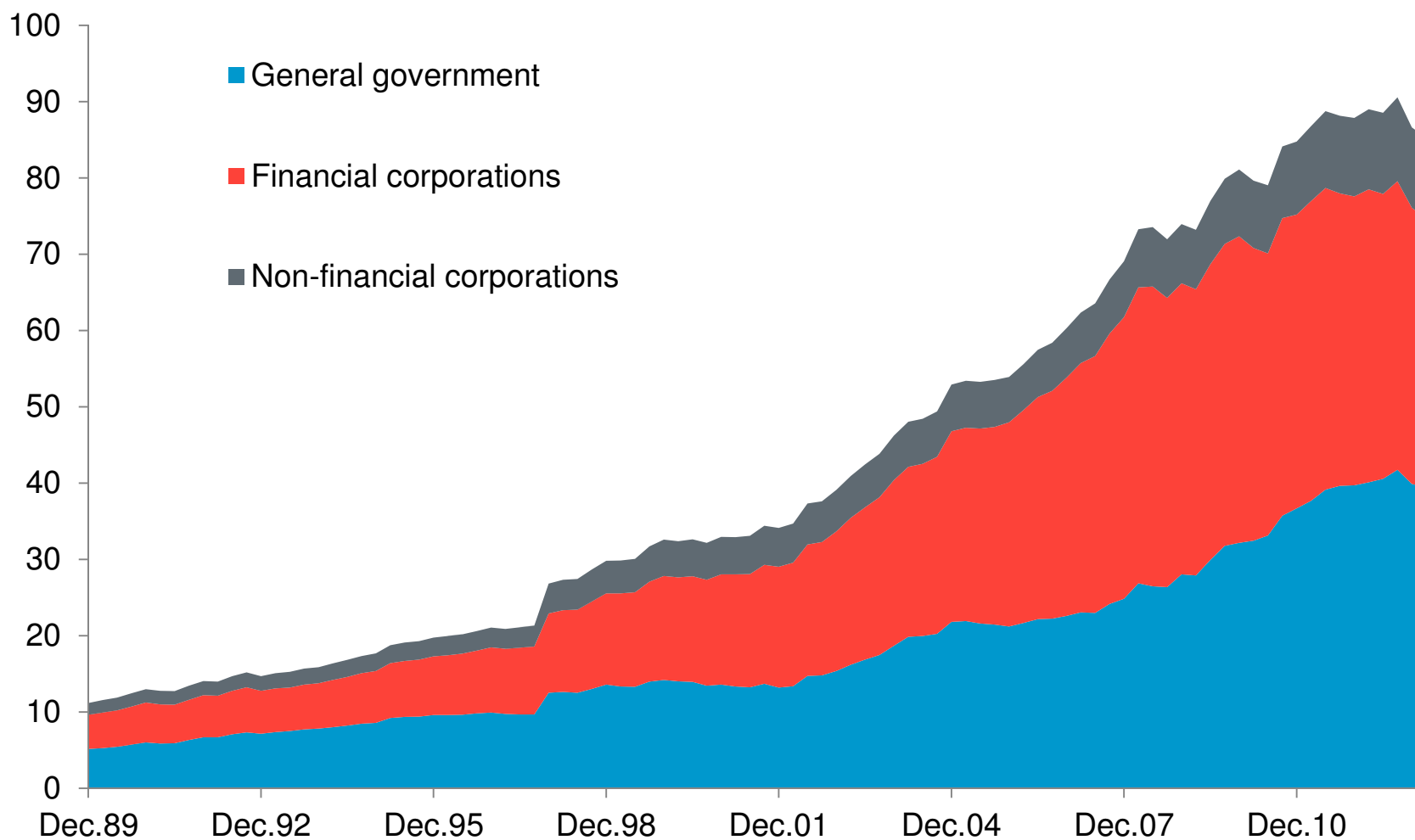
Trillion US Dollar



Source: Bloomberg

Growth in global debt securities outstanding

Total debt securities, trillion US dollars, September 2013



Source: BIS

