FACT SHEET

Government Pension Fund of Norway

1. Introduction

1.1 In Norway, the Government Pension Fund was established in 2006 to facilitate government savings to finance rising public pension expenditures, and to support long-term considerations in the spending of government petroleum revenue. The Government Pension Fund comprises two entirely separate sovereign wealth funds: the Government Pension Fund Global ("GPFG") and the Government Pension Fund Norway ("GPFN"). GPFG is a sovereign fund where Norway's petroleum revenue is deposited, whereas GPFN is a "closed fund" which does not receive any new fund. The capital base of GPFN originates primarily from surpluses in the national insurance scheme between its introduction in 1967 and the late 1970s.

2. Government Pension Fund Global

2.1 Petroleum was first discovered on the Norwegian Continental Shelf in the Ekofisk field in 1969. Production from the Ekofisk field started in 1971 with a number of major discoveries in the following years. The Government Petroleum Fund was established in 1990 as a fiscal policy tool to underpin long-term considerations in the phasing in of petroleum revenues into the Norwegian economy.

2.2 The Government Petroleum Fund was renamed GPFG in 2006 and all the government revenues received from the oil production are transferred to GPFG. The purpose of the fund is twofold. Firstly, to provide a long-term source of wealth to benefit future generations, particularly financing the expected rising social security expenditures in future years as a result of population ageing. Secondly, to smooth out fluctuations in government receipts caused by changes in oil prices and production. GPFG is deposited in an account at Norges Bank, the Central Bank of Norway, and managed under the mandates set by the Ministry of Finance.

Withdrawal of the fund

2.3 GPFG is an integrated part of the Norwegian government's annual budget. The government can draw on the fund to boost its annual budget, but the annual withdrawal from GPFG is capped at 4% of the fund's value. The withdrawal is corresponds to the expected annual real return of the fund's investments, and is accompanied by a fiscal rule that over time the structural, non-oil budget deficit shall correspond to the real return on the fund. As a result, the annual income generated by GPFG and the government's non-petroleum revenue should be sufficient to achieve an overall budget balance.

Investment strategy

2.4 A key feature of GPFG has been the continued evolution in its investment strategy. Initially, the fund assets were invested exclusively in bonds. However, from 1998 approximately 40% of the fund's investments were transferred to equities. The fund currently has a target investment allocation of 60% in equities, 35%-40% in fixed income securities and up to 5% in real estate.

2.5 The overarching objective for the investments of GPFG is to achieve the highest possible long-term return with moderate risk as laid down by the Ministry of Finance. As an indication of its performance, it achieved an average annual return of 5.7% between January 1998 and December 2013. After accounting for inflation and management cost, this is equivalent to an average net return of about 3.6%. This is slightly below the 4% real rate of return expected in the long run.

2.6 In addition to the above investment objective, the established principles for management of GPFG set out that the asset management shall be premised on transparency and ethical awareness. In particular, a system for responsible investment practices has been established, with companies that violate certain ethical criteria[1] being excluded from the investment universe of GPFG.

[1] These include serious human rights violations, gross corruption and severe environmental damage.

Size of GPFG

2.7 The first transfer to GPFG of just under NOK[2] 2 billion (HK$2.5 billion) was made in May 1996. Since then the fund has grown rapidly to become the largest sovereign wealth fund in the world. At end-2013, the market value of GPFG was NOK5,032 billion (HK$6,332 billion)[3], representing about 167% of Gross Domestic Product or 56.8 months of government expenditure.

3. Government Pension Fund Norway

3.1 GPFN was established by the *National Insurance Act* in 1967 under the name National Insurance Scheme Fund. The name was changed at the same time as the former Government Petroleum Fund on 1 January 2006. GPFN is a "closed fund" and its capital is deposited with Folketrygdfondet[4] and managed in accordance with the mandates set by the Ministry of Finance.

Withdrawal of the fund

3.2 Unlike GPFG, the annual return on the assets of GPFN is not transferred to the Treasury, but is added to the fund capital on an ongoing basis. Hence, there are neither any transfers between the fiscal budget and GPFN, nor any capital transfers between GPFG and GPFN.

Investment strategy

3.3 The main part of assets of GPFN is invested in the stock and bond markets of Norway.[5] At present, GPFN is a major owner and lender in the Norwegian capital market. In 2013, the fund owned about 10% of the market value of the main index of the Oslo Stock Exchange and some 2.6% of the Norwegian bond and note market.

[2] NOK is the currency abbreviation or currency symbol for the Norwegian krone, the currency of Norway.
[3] In comparison, the asset value of Hong Kong's Exchange Fund totalled HK$3,030 billion at end-2013. See Hong Kong Monetary Authority (2014).
[4] Folketrygdfondet is a company wholly owned by the Ministry of Finance.
[5] In 2013, 84.7% of GPFN was invested in the Norwegian market and 15.3% in the markets of other Nordic countries excluding Iceland.

3.4 The investment strategy of GPFN is defined by a benchmark index and risk limits laid down by the Ministry of Finance. The benchmark index is divided into equities (60%) and bonds (40%). Besides, it is divided into two geographical regions: Norway (85%) and the rest of the Nordic region excluding Iceland. Folketrygdfondet may, within certain limits, deviate from the benchmark index. The purpose of such deviations is to conduct cost-effective asset management, as well as to generate excess return. As at 30 June 2013, the average annual return has been 6.0% over the last five years.

3.5 Nevertheless, Folketrygdfondet has its internal guidelines for integrating considerations of good corporate governance and environmental and social issues into its investment activities, which is in line with internationally recognized principles for responsible investment.

Size of GPFN

3.6 In 2007, Folketrygdfondet received the mandate from the Ministry of Finance for the management of GPFN. As at 30 June 2007, it managed assets somewhat in excess of NOK117 billion (HK$147 billion). The asset value has increased since then to reach NOK167.8 billion (HK$211 billion) at end-2013.

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