



NORGES BANK

Ministry of Finance  
Akersgata 40, Postboks 8008 Dep  
0030 OSLO

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Your reference:  
Our reference: 19/00360

## **GPFG – REAL ESTATE MANAGEMENT**

### **1. Background**

Under the management mandate for the Government Pension Fund Global (GPFG), Norges Bank may invest up to 7 percent of the GPFG in unlisted real estate. Unlisted real estate is not included in the benchmark index as defined by the Ministry of Finance, and Norges Bank finances such investments by selling equities and bonds.

At year-end 2018, the Bank had invested around 3 percent of the GPFG in unlisted real estate. In addition, the Bank had established a portfolio of listed real estate investments. All together, these listed and unlisted investments accounted for around 4 percent of the GPFG. Unlisted real estate investments are managed by a separate operational unit (Norges Bank Real Estate Management - NBREM). Listed real estate investments are managed together with the other listed equity investments.

NBREM has its own chief executive officer (CEO), appointed by the Executive Board, and its own leader group. CEO NBREM reports to CEO NBIM. CEO NBIM has overarching responsibility for the GPFG, including for the composition of the portfolio and financing of real estate investments.

### **2. Strategy plan 2020-2022**

According to Norges Bank's management mandate for the GPFG, the Bank's Executive Board shall have a strategy plan for the execution of its management assignment. The plan shall be updated regularly and in the event of significant changes in investment management.

The Executive Board discussed the experience with investments in unlisted real estate at a seminar on 14 August 2018. On 19 September 2018, the Executive Board decided to stabilise the allocation to unlisted real estate until year-end 2019. This change is referred to in Norges Bank's letter to the Ministry of Finance of 5 November 2018 concerning the



management fee for 2019. At the meeting on 19 September 2018, it was also decided to expedite the work on a new real estate investment strategy for 2020-2022. In its work on the real estate strategy, the Executive Board put emphasis on the following:

- The mandate from the Ministry of Finance for management of the GPFG has been amended so that from 2017 it no longer contains a specific allocation to real estate.
- In recent years, the listed real estate market has grown rapidly, and the restrictions on the portion of the voting share in listed real estate companies that GPFG may own have been changed so that the GPFG can hold larger stakes. This may facilitate better diversification of the real estate portfolio across real estate sectors.
- The investments in listed and unlisted real estate should be viewed as alternative ways of achieving the desired exposure to real estate.
- Recent years' experience with unlisted real estate investments shows that such investments may be complex and resource-intensive.
- The management of the fund should be characterised by cost-efficiency and transparency.

At its seminar on 22 January 2019, the Executive Board discussed main points of the new real estate strategy. The discussion was based on extensive analytical material, including return and risk estimates for the GPFG under different real estate investment strategies. Among other things, the analyses showed that a real estate portfolio can provide the GPFG with a better trade-off between absolute return and risk. Real estate is not included in the Ministry of Finance's benchmark index. An allocation to real estate will however draw on the tracking error limit.

At its meeting on 6 February 2019, the Board decided that the new real estate strategy should include the following main points:

- The aim is a real estate portfolio on the order of 3–5 percent.
- The real estate portfolio shall comprise both listed and unlisted real estate investments. There is no specific limit on the proportion of listed real estate investments to total real estate investments.
- The real estate portfolio should be broadly diversified across real estate sectors.
- Strategy should be simple, with emphasis on cost-efficiency and investments that require limited resources. Investments shall normally not be made in development projects and should be confined to a few strategic cities. There should be sufficient flexibility to take advantage of special investment opportunities that may arise in the unlisted real estate market.



### **3. Organisation of real estate management**

With a limited portfolio of unlisted real estate and a desire to integrate listed and unlisted real estate, the Executive Board finds that it is no longer appropriate to organise the management of unlisted real estate separately. The Executive Board has therefore decided to discontinue NBREM as a separate organisational unit. The real estate organisation in NBREM will therefore be integrated with NBIM in an appropriate manner. According to plan, a new organisational model for NBIM will come into effect from 1 April 2019.

The change in the organisation of real estate investments will have consequences for personnel, among other things in the form of changes in lines of reporting, job content and level of positions. The organisational changes will be handled according to the rules that apply for such processes.

The Executive Board has accordingly amended the job description and the investment mandate of the CEO of NBIM with effect from 1 April 2019. Amended governance documents are attached.

### **4. Real estate investments in the GPFG**

Real estate investments will continue to be an important part of the Bank's investment strategy for the GPFG, and NBIM will be a large real estate investor in the coming years. The real estate portfolio can improve diversification of the GPFG's overall investments over time. Norges Bank will continue its work to develop performance measurement and reporting methods for real estate investments through the next strategy period.

Sincerely,

Øystein Olsen

Birger Vikøren

Attachments:

Job description for CEO NBIM

Investment mandate - GPFG



# JOB DESCRIPTION FOR THE CHIEF EXECUTIVE OFFICER OF NORGES BANK INVESTMENT MANAGEMENT (NBIM)

*This job description was approved by the Executive Board of Norges Bank on 6 February 2019.*

*Title: Chief Executive Officer of NBIM  
Name: Yngve Slyngstad  
Area of responsibility: Norges Bank Investment Management (NBIM)*

## 1. Principal duties

Norges Bank's Executive Board is responsible for the overall investment management in accordance with the Ministry of Finance's mandate for management of the Government Pension Fund Global ("the Fund"). The responsibility for the investment management activities is, in accordance with the Executive Board's powers as described in Act on Norges Bank (24 May 1985 no. 28), delegated to the Chief Executive Officer of NBIM ("the Chief Executive Officer" or "NBIM CEO") through an investment mandate.

The Central Bank's governance structure reflects the different nature and characteristics of the investment management activities that Norges Bank has been entrusted with. The investment management activities are organised as a separate wing of the Central Bank. Norges Bank shall organize its investment management activities to reflect the recognised standards for the division of responsibilities between the board and the company's executive officers and administration. The Chief Executive Officer shall not take part in discussions by the management of Norges Bank concerning monetary and credit policy issues or international organisations' assessments of such issues. NBIM employees shall, to the extent possible not have access to confidential information from other parts of Norges Bank.

The Chief Executive Officer of NBIM has the professional and administrative responsibility for NBIM and the Fund as a whole and is delegated the responsibility for the management, operation and development of NBIM. The Chief Executive Officer shall have the responsibility to support the strategic objectives with respect to assets under management, including establishing and representing Norges Bank as owner in real estate management companies and investment structures. The delegation furthermore includes the responsibility for investment advice to Norges Bank Executive Board, rebalancing, asset allocation, risk management and Fund level control and investment mandate compliance for the combined assets under management in the Fund.

The Chief Executive Officer reports directly to Norges Bank's Executive Board and is in charge of the administration of NBIM in accordance with the principles and guidelines laid down by the Executive Board. Taking due account of relevant principles laid down by the Executive Board, the Governor may issue additional guidelines or decisions in matters concerning the administration of both the Central Banking Operations and NBIM. This is to ensure adequate coordination of activities within Norges Bank as one legal entity or related



to common requirements for Norges Bank as a whole. The Chief Executive Officer establishes and chairs NBIM's Leader Group.

NBIM shall be organised in a way that ensures that the organisation fulfils its mission to safeguard and build wealth for future generations, within the framework of the mandate given by the Fund owners. NBIM shall be organised to ensure an appropriate management structure, including adequate risk and control systems and procedures, appropriate for the Fund and the portfolios under management. The organisational structure shall be based on proper segregation of duties, delegated authority and defined areas of responsibility. Delegation of investment authority shall be documented through investment mandates.

## 2. Investment advice

The Chief Executive Officer of NBIM is the Executive Board's closest professional adviser on issues concerning investment management and is responsible for providing well-founded and documented advice on the Fund's overall investment strategy and other aspects of investment management. This responsibility includes:

- Prepare the basis for decisions on investment management to be taken by the Executive Board;
- Ensure relevant theoretical and practical expertise and advisory capacity;
- Provide advice on matters concerning changes in investment strategy, asset classes, asset allocation, investment risk, benchmark indices, investment limits and other operating parameters for the Fund and portfolios under management;
- Strengthen the scientific foundation of the management activities through management of the Norwegian Finance Initiative (NFI) and administer and develop NFI programs and initiatives.

## 3. Planning and management

The Chief Executive Officer has the professional and administrative responsibility for NBIM and shall maintain and develop an appropriate organisation to support NBIM's investment strategy. This includes:

- Develop an appropriate management structure within NBIM;
- Prepare and implement the strategic and annual plans and ensure that these are formally updated on a regular basis, as well as whenever necessary to reflect significant changes;
- Ensure NBIM operates in a cost effective manner and propose an annual budget and cost framework for activities;
- Provide financial reporting and accounting, including records to Norges Bank, for the preparation of quarterly and annual accounts for the Government Pension Fund Global ("the Fund") in line with applicable accounting rules and Norges Bank's accounting policies;



- Manage Norges Bank's overseas offices and take care of all functions relating to the operation of such offices, including the maintenance of relationships with regulatory authorities and the facilitation of representation arrangements.

## 4. Human resources and organisational development

The Chief Executive Officer is responsible for the organisational development and personnel management of all employees within NBIM. This includes:

- Recruit NBIM personnel and chair the employee participation committee (MPU);
- Motivate and develop employees so that NBIM has the human resources and competence to ensure high professional standards;
- Define and document the primary responsibilities for employees representing direct reports;
- Establish and maintain a human resources policy for NBIM's employees, including personnel services, in line with the overall rules applying to Norges Bank;
- Establish and administer compensation arrangements which ensure recruitment of competent personnel for positions at all levels in NBIM in accordance with the principles for compensation of NBIM employees as laid down by the Executive Board;
- Conduct, at least annually, a review of compensation arrangements, including benchmarking against competitors in the local markets where NBIM operates;
- Prepare materials for the Executive Board's Compensation Committee for all NBIM matters, in accordance with the Committee's mandate;

## 5. Service providers

The Chief Executive Officer may utilise the services of third party providers to achieve the strategic direction. This includes:

- Establish guidelines to support when outsourcing may be used, together with prudent and thorough selection processes;
- Perform monitoring and control activities to oversee external service providers, including external investment management institutions.

## 6. Safeguarding of legal interests

The Chief Executive Officer shall ensure that the legal interests of Norges Bank, NBIM and the Fund are protected and pursued. This includes:

- Safeguard assets in the Fund through appropriate legal means;
- Ensure limited liability for Norges Bank in relation to the activities of NBIM;
- Mitigate legal risks associated with contracts and documentation across all parts of NBIM's operations;



- Pursue interests under contract and as an owner of financial instruments through legal means. This includes recovery of claims, participation in shareholder actions and litigations in line with the principles laid down by the Executive Board.

## 7. Responsible investment management and active ownership

The Chief Executive Officer shall incorporate responsible investment considerations into investment management activities and shall exercise ownership rights on behalf of the Fund and portfolios managed by NBIM. This includes:

- Exercise ownership rights in line with the Executive Board's principles for responsible investment;
- Contribute to the development of good international practice in the field of responsible investment and corporate governance
- Develop and maintain internal guidelines to support the integration of social, environmental and corporate governance issues into the investment management process
- Manage the exclusions of companies from the Fund in line with the Executive Board's decisions.
- Maintain contact with similar funds and other institutions and represent a centre of expertise in the fields of responsible investment and active ownership.

## 8. Risk and compliance

The Chief Executive Officer of NBIM is responsible for establishing internal risk and compliance systems and procedures, appropriate for the Fund and the portfolios under management. This includes:

- Ensure that the Fund's combined assets are managed within the constraints laid down by the Fund owners and the Executive Board of Norges Bank and that restrictions are regularly monitored for compliance;
- Ensure that assets are managed so that they comply with tax and market rules and regulations and that NBIM's adherence to these obligations are regularly monitored for compliance;
- Manage all contact between the Norwegian and foreign regulatory authorities with respect to NBIM activities;
- Establish satisfactory risk systems and control procedures for investment management which meet international recognised standards, including systems for the management of market, credit, counterparty and operational risks, valuation and measurement of returns;
- Establish and maintain contingency plans for NBIM's operations;
- Organise NBIM's operations in such a way that, to the extent possible, its employees do not have access to confidential information from other parts of Norges Bank;



- Establish appropriate requirements and procedures governing the code of conduct of NBIM employees in accordance with the ethical rules laid down by the Executive Board and ensure such rules are observed;
- Ensure that the supervisory and audit bodies of Norges Bank can perform their control, supervisory and audit functions in line with applicable regulations.

## 9. Reporting and communication

Norges Banks Executive Board shall be informed about the investment management activities and the developments of NBIM as an organisation through regular reporting.

NBIM CEO is responsible for preparing and publishing public reports on the investment activities, including:

- Quarterly and annual reports on the investment management activities, in accordance with the requirements laid down by the Ministry of Finance.
- Annual reports on the Fund's risk and performance
- Annual reports on the responsible investment activities

Reporting to the Executive Board shall include information of all significant matters relating to assets under management including status of investment management activities, as follows:

- Status with respect to Fund level performance, performance by asset class, performance by listed and non-listed real estate and investment risk by the same dimensions
- Utilization of limits for market risk, credit and counterparty risk in accordance with the risk limits as set out in the respective investment mandate
- Status on implementation and achievements with respect to strategic and annual action plans, budget and costs
- NBIM's operational risk picture, including the status of effectiveness of internal control
- Non-compliance with regulatory requirements and investment restrictions as set out in investment mandates
- New markets and financial instruments implemented in the period,
- Annual status of NBIM's effectiveness of operational risk and internal control, including participation in, or active use of, securities litigations as well as other lawsuits and legal proceedings in which NBIM is involved
- NBIMs compensation practices

The Executive Board must also without undue delay be informed about matters that are required to be reported to the Ministry of Finance in accordance with the mandate for management of the Government Pension Fund, significant changes and development of NBIM's organisation and investment management operations and in case of any significant or critical breaches on investment guidelines or regulatory breaches.

The Chief Executive Officer is responsible for the effective external communication of Norges Bank's investment management activities together with reporting to meet the requirements established by Fund owners and the Executive Board of Norges Bank. This includes:





- Work to build confidence in Norges Bank's investment management activities amongst the Fund owners and the general public;
- Present Norges Bank's views and provide information on its investment management operations in internal and external forums;
- Arrange press conferences and press seminars;
- Respond to enquiries from the media with requests for information.



# INVESTMENT MANDATE - GOVERNMENT PENSION FUND GLOBAL

ISSUED BY NORGES BANK'S EXECUTIVE BOARD TO THE CHIEF EXECUTIVE OFFICER OF NORGES BANK INVESTMENT MANAGEMENT, LAST AMENDED 6 FEBRUARY 2019

*The Investment Mandate incorporates applicable investment provisions from the Management Mandate for the Government Pension Fund Global, issued by the Ministry of Finance. These provisions are quoted below and marked in Italic and highlighted in grey in this document. In the case of inconsistencies between the Investment Mandate and the Management Mandate the latter will prevail.*

## 1. MANAGEMENT ASSIGNMENT

### 1.1 General provisions

*The Bank shall make investment decisions and exercise ownership rights independently of the Ministry.*

*The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket, see Ministry Mandate section 4-2 first paragraph, and within the applicable management framework.*

NBIM CEO is through this investment mandate ("the Investment Mandate") granted the responsibility for management of the Government Pension Fund Global (the Fund" or the "investment portfolio").

The Fund shall be managed subject to the constraints set out below and in accordance with the Executive Board's principles for risk management and responsible investments laid down for the management of the Fund and in accordance with the strategy plan.

### 1.2 Investment Advice

*Advice may be provided on the initiative of the Bank or on request from the Ministry.*

NBIM CEO is responsible for providing well-founded and documented advice on investment strategy and other aspects of the investment management of the Fund to Norges Bank Executive Board, including but not limited to matters concerning strategic asset allocation, benchmark indices, investment limits and investment risk.



Advice can be provided on the initiative of NBIM CEO or on request from the Executive Board.

### 1.3 Asset allocation

The Fund is to be invested in equities, fixed income instruments and non-listed real estate.

NBIM CEO is delegated the responsibility for management of the Fund's overall exposure towards different asset classes, segments and countries. NBIM CEO shall manage the overall currency exposure of the Fund.

NBIM CEO shall provide funding to non-listed real estate investments according to set guidelines.

The Ministry of Finance has set the benchmark index for the Fund. The strategic and actual benchmark indices applicable to this mandate are described in appendix 1.

### 1.4 Delegation of investment mandate

Responsibility for investment management may be delegated subject to applicable restrictions and in accordance with the strategy plan.

Formal investment mandates are to be issued for all internally and externally managed portfolios. These mandates must, as a minimum, contain a specification of the investment universe and risk limits. The overall mandate structure shall ensure the diversification of the Fund.

Within the framework of this Investment Mandate, NBIM CEO shall issue a separate investment mandate to NBREM CEO ("the Non-listed Real Estate Mandate"). NBIM CEO shall inform the Executive Board about any updates and revisions of the Non-listed Real Estate Mandate.

Investment activities shall at all times comply with relevant laws and regulations in the markets where the Fund is invested invests.

### 1.5 External managers

*The Bank may use external managers and outsource operational functions, cf section 5 of regulation no. 1630 of 17 December 2009 on risk management and internal control in Norges Bank. The fee structure in agreements with external managers shall be designed to reflect the objectives for the management of the investment portfolio, taking into account the time horizon of the relevant investment strategies. The individual management agreements on performance-based fees shall be structured so that a major proportion of the positive excess return is retained, including provisions for caps on fees. (See Chapter 3, Management restrictions set by the Executive Board.)*



## 2. RESPONSIBLE INVESTMENT MANAGEMENT

### 2.1 Responsible investment management

*The Bank shall integrate its responsible management efforts into the management of the GPFG, cf. chapter 2. A good long-term return is considered dependent on sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and efficient markets.*

*The Bank shall establish a broad set of principles for the responsible management of the investment portfolio. In designing the principles pursuant to the first paragraph, the Bank shall emphasise the long-term horizon for the management of the investment portfolio and that the investment portfolio shall be broadly diversified across the markets included in the investment universe. The principles shall be based on the considerations of good corporate governance and environmental and social conditions in the investment management, in accordance with internationally recognised principles and standards such as the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises. In its management of the unlisted real estate portfolio, the Bank shall, within the environmental field, consider, among other matters, energy efficiency, water consumption and waste management.*

*The Bank shall make decisions on the observation or exclusion of companies, and on the revocation of such decisions, in accordance with the Guidelines for observation and exclusion from the GPFG. The Bank shall inform the Ministry about decisions on exclusion of companies and the revocation of such decisions, cf section 3-1, third paragraph.*

### 2.2 Environment-related investments

*The Bank shall establish environment-related mandates within the limits defined in section 3-4. The market value of the environment-related investments shall normally be in the range of NOK 30-60 billion.*

## 3. MANAGEMENT OF THE INVESTMENT PORTFOLIO

### 3.1 Investment universe

1. *The Bank may invest the investment portfolio in financial instruments, real estate and cash deposits that are approved in accordance with section 4-10, but with the following restrictions:*
  - a) *The equity portfolio may be invested in equities listed on a regulated and recognised market place, listed securities that are equivalent to listed equities, depository receipts for such equities, and unlisted companies where the board has expressed an intention to seek a listing on a regulated and recognized market place;*



- b) *The bond portfolio may be invested in tradable bonds and other tradable debt instruments, and depository receipts for such bonds;*
- c) *The unlisted real estate portfolio may be invested in real estate or in equity and interest-bearing instruments issued by non-listed companies, fund structures and other legal entities whose primary business is the acquisition, development and management or financing of real estate. These investments may be made through Norwegian or other legal entities. Real estate means rights to land and any buildings thereon.*
- d) *Financial derivatives and fund units only when naturally linked to investments in the equity, bond and unlisted real estate portfolios;*
- e) *Other financial instruments only when passed to the investment portfolio as a result of corporate actions.*

2. *The Bank may not invest the investment portfolio in:*

- a) *Securities issued by Norwegian enterprises, securities denominated in Norwegian kroner, real estate located in Norway or real estate companies, real estate funds or similar structures where the primary purpose is to invest in Norway. The same applies to covered bonds secured against assets in Norway. Norwegian enterprises mean enterprises whose head office is in Norway.*
- b) *Securities that the Bank has excluded from the investment portfolio, cf. Guidelines on observation and exclusion from the GPFG section 2-5.*
- c) *Fixed income instruments issued by governments or government-linked entities in the exceptional cases where the Ministry has barred such investments based on particularly large-scale UN sanctions or other international initiatives of a particularly large scale that are aimed at a specific country and where Norway supports the initiatives.*
- d) *Unlisted companies and fund structures in a country with which Norway does not have a tax treaty or in a country from which Norway cannot request information relating to tax matters in accordance with other international agreements.*
- e) *Unlisted infrastructure such as roads, railways, harbours, airports and other basic infrastructure.*

### 3.2 Management restrictions set by the Ministry of Finance

- 1. *The equity portfolio, cf. section 3-1, first paragraph letter a, shall constitute between 50 and 80 per cent of the investment portfolio.*
- 2. *The bond portfolio, cf. section 3-1, first paragraph, letter b, shall constitute between 20 and 50 per cent of the investment portfolio.*
- 3. *The unlisted real estate portfolio, cf. section 3-1, first paragraph, letter c, may constitute up to 7 per cent of the investment portfolio.*



4. *Net market value shall be used to calculate the respective shares in the first to third paragraphs. In such calculations, derivatives shall be depicted with the underlying economic exposure.*
5. *The Bank shall organise the management with the aim that the expected annualised standard deviation for the relative return between the investment portfolio and the actual benchmark index (expected tracking error) does not exceed 1.25 per cent, cf section 4-3, second paragraph.*
6. *The equity and bond portfolios shall be composed in such a way that the expected relative return is exposed to several systematic risk factors.*
7. *The Bank shall seek to take account of differences in fiscal strength between countries in the composition of government bond investments.*
8. *The Bank shall organise the management with the aim that high-yield bonds (credit rating lower than investment grade) do not exceed 5 per cent of the market value of the bond portfolio.*
9. *A credit rating is required for investments in debt instruments. All internal credit rating assessments shall be documented.*
10. *The equity portfolio may not be invested in more than 10 per cent of the voting shares in an individual company. Ownership in listed and unlisted real estate companies is exempt from this rule.*
11. *The unlisted real estate portfolio shall be well diversified geographically, across sectors and individual properties.*
12. *Leverage may be used with a view to performing the management assignment in an effective manner, but not with a view to increasing the investment portfolio's exposure to risky assets in the equity and bond portfolios. Leverage may also be used in fund structures and by other legal entities with the aim of performing the management assignment in an effective manner, but such leverage may not be with a view to increasing the investment portfolio's exposure to risky assets.*
13. *Reinvestment of cash collateral shall not take place with a view to increasing the investment portfolio's financial exposure to risky assets.*
14. *Short selling is only permitted if the Bank has access to the securities through an established borrowing arrangement.*



### 3.3 Management restrictions set by the Executive Board

#### 3.3.1 Investment portfolio

*The Executive Board shall set supplementary limits for risks that, based on experience, are not captured well by expected tracking error, including:*

- a. *Limits for the minimum overlap between the equity and bond portfolios and the corresponding actual benchmark indices;*

The overlap between actual portfolio and actual benchmark index must be at least 60 per cent for the equity portfolio and at least 60 per cent for issuers in the bond portfolio.

- b. *Credit risk limits at the individual issuer level and aggregated for the investment portfolio;*

NBIM CEO shall organize the management with the aim that the maximum holding of a single issuer non-investment grade government bond does not exceed 2 per cent and that the maximum holding of other single issuer non-investment grade bonds does not exceed 0.5 per cent of the net asset value of the bond portfolio.

NBIM CEO shall organize the management with the aim that high yield bonds (credit rating lower than “investment grade”) do not exceed 5 per cent of the market value of the bond portfolio.

- c. *Liquidity risk limits;*

A minimum of 7.5 per cent of the net asset value of the investment portfolio shall be held in treasury bonds issued by the governments of France, Germany, Japan, the United Kingdom and the United States of America.

- d. *Counterparty risk limits;*

- I. Potential future counterparty exposure shall not exceed 0.75 per cent of the net asset value of the investment portfolio for any single counterparty.
- II. Counterparts to unsecured deposits shall have a minimum long-term rating of minimum “A” or the equivalent. Counterparts to collateralised instruments or contracts, other than central clearing counterparties, shall have a minimum long-term rating of at least “BBB” or the equivalent. Counterparts for pre-initial public offerings (pre-IPO) and central clearing counterparties need CEO approval.



III. All securities financing transactions and trading in OTC derivatives shall be subject to adequate collateral criteria. Netting agreements shall be in place before trading takes place.

e. *Leverage limits;*

Leveraging the equity and bond portfolio is not permitted beyond what is necessary to minimise transaction costs or is a normal part of investment management, and not in excess of 5 per cent of the net asset value of the combined equity and bond portfolios.

f. *Limits for the reinvestment of cash collateral received;*

Cash collateral received can only be invested in cash equivalent instruments.

g. *Limits for securities borrowing;*

The borrowing of securities may not exceed 5 per cent of the net asset value of the investment portfolio.

h. *A limit for large expected negative deviations between the return on the investment portfolio and the actual benchmark index (expected extreme deviation risk);*

NBIM shall organise the management with the aim that the annualised expected shortfall measured at 97.5% confidence level for the relative return between the investment portfolio and the benchmark index does not exceed 3.75 per cent.

The methodology for calculation of the expected shortfall shall be approved by the Executive Board.

In situations with extreme market volatility which may provoke a breach of the limit, NBIM CEO shall without undue delay recommend measures to be decided upon by the Executive Board.

- i. Lending of securities is permitted, provided that NBIM ensures that adequate security is provided for the loan. Securities lent, including obligations to lend, shall not exceed 20 per cent of the net asset value of the investment portfolio.
- j. Gross exposure of contracts for difference (CfD) shall not exceed 5 per cent of the net asset value of the investment portfolio.
- k. When lending securities from the investment portfolio, one voting share in each company shall, as a minimum, always be retained to ensure that ownership rights can be exercised.





- l. The issue of call options on individual securities that are not held in the Fund is not permitted. Issuing of put and call options (measured as notional value) is limited to 2.5 per cent of the net asset value of the investment portfolio.
- m. A maximum of 1.5 per cent of the net asset value of the investment portfolio may be invested in a single company's equity.
- n. The Fund may only invest in government bonds from issuers approved by the Executive Board and as listed in Appendix 2. Changes to the list of approved issuers is subject to approval by the Executive Board according to the Executive Board's framework for the approval of issuers of government bonds. NBIM CEO shall inform the Executive Board without undue delay and recommend measures to be taken in situations where issuers no longer fulfil the requirements in the framework.
- o. *The Executive Board shall establish a limit for how large a part of the voting shares in a single, listed real estate company the Fund may own.*

Ownership in a single listed real estate company shall not exceed 30 per cent.

### 3.3.2 *Non-listed real estate portfolio*

The management of the non-listed real estate portfolio, ref. section 3.1.1. c) shall be well diversified in geography, sectors and properties. All weights shall be calculated by the use of net asset value of the non-listed real estate portfolio, unless otherwise is specified below.

*The Executive Board shall also limit risk in the unlisted real estate portfolio by setting restrictions for:*

#### *a. Investments in countries;*

The non-listed real estate portfolio shall be diversified in accordance with the following regional allocation:

1. United States of America: 30-70 per cent
2. United Kingdom: 10-40 per cent
3. Germany: 0-20 per cent
4. France: 0-30 per cent
5. Japan: 0-20 per cent
6. Other individual countries: 0-10 per cent

#### *b. Investments in sectors;*

The non-listed real estate portfolio shall be diversified in accordance with the following sector allocation:



- I. Office: 40-80 per cent
- II. Retail: 0-40 per cent
- III. Logistics: 0-30 per cent
- IV. Other: 0-10 per cent

*c. Investment in emerging markets;*

Investments in emerging markets shall not exceed 10 per cent.

*d. Investments in real estate under development;*

Investments in property under development shall not exceed 10 per cent of the net asset value of the investment in the non-listed part of the real estate portfolio.

*e. Total debt ratio and the maximum debt ratio for individual investments;*

The debt ratio of the non-listed real estate portfolio shall not exceed 35 per cent. No single investment shall have a debt ratio of more than 70 per cent.

- f. Counterparts used for real estate daily cash management can be approved with a minimum rating requirement of BBB. Counterparts related to the acquisition of non-listed real estate needs separate approval. Guidelines should be in place to ensure that a documented credit and operational risk assessment has been performed.
- g. The average economic vacancy rate shall not exceed 15 per cent. Properties under development shall be excluded from this calculation.
- h. Investment in interest bearing instruments shall not exceed 25 per cent.
- i. Net investment in one calendar year shall not exceed 0.2 per cent of the net asset value of the investment portfolio

*3.3.3 The Executive Board shall establish a limit for how large a part of the investment portfolio a single external manager may manage:*

Investment with a single external manager shall not exceed 0.5 per cent of the net asset value of the investment portfolio.

*3.3.4 Co-investment with a single real estate investment partner shall not exceed 0.5 per cent of the net asset value of the investment portfolio.*

*3.3.5 Agreements with external managers shall contain provisions to ensure that the total annual fee paid per year per external mandate does not exceed a maximum amount, which shall not be above USD 30 million. Performance fees accrued above the maximum amount may be paid the following years, subject to the maximum annual pay out limit and excess return over the relevant time period.*



3.3.6 Agreements with real estate asset management organisations or investment partners shall contain provisions to ensure that the total annual fee paid per year does not exceed a maximum amount, which shall not be above USD 30 million. Performance fees accrued above the maximum amount may be paid the following years, subject to the maximum annual pay out limit and excess return over the relevant time period.

3.3.7 *The limits stated in the management restrictions set by the Executive Board according to the Management Mandate section 3-5 and subsequent changes to these limits shall be presented to the Ministry at least four weeks prior to their planned implementation, unless special circumstances indicate a shorter time limit.*

### 3.4 Investment approvals of non-listed real estate

Investments and divestments above USD 500 million shall be approved by the Executive Board.

### 3.5 Duties in the event of limits being exceeded

*In the event that the limits and constraints defined in sections 3-4 and 3-5 are breached, the Bank shall without undue delay assess how its management can be brought back within the limits in an appropriate and cost-effective manner.*

*The Ministry shall be informed of any material breaches of the limits in the Ministry Mandate sections 3-4 and 3-5.*

The Fund shall be invested in such a way that it is possible, with a reasonable degree of assurance, to manage the Fund within the quantitative risk limits as laid down by the Ministry of Finance and this Investment Mandate. In the event that investment restrictions in section 3.3 are exceeded, NBIM CEO shall notify the Executive Board and assess how the portfolio may be brought within the limits in an appropriate and cost-effective manner.

## 4. ENTRY INTO FORCE

This Investment Mandate enters into force 1 April 2019.

This Investment Mandate shall be submitted to the Executive Board for review annually.

## APPENDIX 1

Applicable benchmarks information as reflected in the management mandate for the GPFG issued by the Ministry of Finance.

### **Section 1-5 Strategic benchmark index**

(1) *The strategic benchmark index for the investment portfolio consists of:*

- a) *The benchmark index for the equity portfolio, cf. section 3-3*
- b) *The benchmark index for the bond portfolio, cf. section 3-2*

(2) *The benchmark index for the equity portfolio constitutes 62.5 per cent of the strategic benchmark index. The benchmark index for the bond portfolio constitutes 37.5 per cent of the strategic benchmark index.*

(3) *The Ministry establishes a plan for increase of the equity share in the strategic benchmark to 70 percent.*

### **Section 1-6 Actual benchmark index**

(1) *The share of equities and bonds in the actual benchmark index is calculated daily and fluctuates with the return on the benchmark indices for the equity and bond portfolios.*

(2) *The value of the actual benchmark index shall be equivalent to the total market value of the investment portfolio at each month-end.*

(3) *Transfers to and from the krone account, cf. section 1-2, first paragraph, will normally take place on the last trading day of each month. The Ministry shall specify the transfer amount in Norwegian kroner by the fourth-to-last trading day of the month. Transfers do not affect the ratio between equities and bonds in the actual benchmark index. The Bank shall inform the Ministry on the second trading day of the subsequent month as to the composition of the new actual benchmark index.*

(4) *If the equity share of the actual benchmark index exceeds 74 percent, or is more than four percentage points lower than the weight in the strategic benchmark index, rebalancing shall take place on the last trading day of the following month. The Ministry sets more detailed provisions on the rebalancing of the actual benchmark index.*

(5) *The Bank shall inform the Ministry immediately if the criteria for rebalancing in the fourth paragraph are met. The Bank shall report on the implementation of rebalancing, including estimated costs.*

### **Section 3-2 Benchmark index for the bond portfolio**

(1) *The benchmark index for the bond portfolio has fixed weights with monthly rebalancing to the following sub-indices:*

- a) *Government bonds: 70 per cent*



b) Corporate bonds: 30 per cent

(2) The government bond sub-index of the benchmark index for the bond portfolio comprises:

- a) all securities included in the Bloomberg Barclays Global Inflation-Linked (Series-L) Bond Index
- b) all securities included in the Bloomberg Barclays Global Treasury GDP Weighted by Country Index
- c) all securities included in the supranational sub-segment (of the government-related segment) of the Bloomberg Barclays Global Aggregate Bond Index.

(3) Bonds issued by supranational organisations are allocated to countries in the government bond sub-index based on the underlying currency denomination. Bonds issued by supranational organisations in euros are allocated to the category “Supranationals (EUR)”.

(4) Country weights in the government bond sub-index are calculated on the basis of the rules for the Bloomberg Barclays Global Treasury GDP Weighted by Country Bond Index. GDP weights shall subsequently be adjusted in accordance with the following weighting factors:

- a) Chile, Hong Kong and Russia shall be assigned a factor of 0.25
- b) Indonesia shall be assigned a factor of 0
- c) Other countries shall be assigned a factor of 1.

All weights in the government bond sub-index shall be standardised (sum of all weights equals 1). In addition, special provisions apply to countries in the eurozone as described in the fifth paragraph.

(5) Country weights shall be adjusted for the allocation to “Supranationals (EUR)” in accordance with the following rules:

- a) Proportion of “Supranationals (EUR)” in the eurozone =  $X$
- b) Allocation to “Supranationals (EUR)” =  $X$  \* total GDP weight for countries in the eurozone based on weights calculated using the method specified in the fourth paragraph.
- c) For all countries in the eurozone: Country weight =  $(1-X)$ \*GDP weight for the country based on weights calculated using the method specified in the fourth paragraph.

$X$  is determined for a period of twelve months effective from the index provider's annual reset of GDP weights as the relationship between the market value of “Supranationals (EUR)” and the market value of all euro-denominated bonds included in the government bond sub-index. The market values are calculated as at the end of October, one month prior to the index provider's annual reset of GDP weights, based on index data published by Bloomberg L.P.

(6) Within each country in the government bond sub-index, the bonds included are weighted using the methodology for the Bloomberg Barclays Global Treasury GDP Weighted by Country Bond Index.

(7) The corporate bond sub-index of the benchmark index for the bond portfolio comprises all securities included in the corporate sub-sector and the covered bond sub-segment (of the



securitised segment) of the Bloomberg Barclays Global Aggregate Bond Index. The corporate bond sub-index is restricted to the following approved currencies: USD, CAD, EUR, GBP, SEK, DKK and CHF.

(8) Within the corporate bond sub-index, the bonds are weighted using the methodology for the Bloomberg Barclays Global Aggregate Bond Index.

(9) Securities denominated in Norwegian kroner or classified by Bloomberg L.P. as issued in Norway shall be excluded from the benchmark index for the bond portfolio. The same applies to securities issued by companies excluded by the Bank pursuant to the Guidelines for observation and exclusion from the GPF. When bonds are excluded from the benchmark index, the remaining bonds in the sub-index in question shall be weighted up. When a company is reincluded under the aforementioned guidelines, the securities shall be reincluded in the benchmark index, cf. section 3-1, third paragraph.

### **Section 3-3 Benchmark index for the equity portfolio**

(1) The benchmark index for the equity portfolio is composed on the basis of the FTSE Global All Cap Index.

(2) The equities in the benchmark index are assigned the following factors based on their country of origin:

- a) European developed markets excluding Norway: 2.5
- b) USA and Canada: 1
- c) Other developed markets: 1.5
- d) Emerging markets: 1.5

The allocation to countries and regions and the distinction between developed and emerging markets are based on the FTSE Global All Cap Index. Markets included in FTSE Global All Cap Index with effect from 1 January 2019 shall be assigned a factor of 0.

(3) Each country is included in the benchmark index with a weight based on the following formula:

$$\frac{\text{market capitalisation}_i \times \text{factor}_i}{\sum_i \text{market capitalisation}_i \times \text{factor}_i}$$

where  $i$  represents the countries with the factor in question, cf. section 3-3, second paragraph. The calculation of market capitalisation is based on the methodology for the FTSE Global All Cap Index and adjusted for free float.

(4) The benchmark index is adjusted for the Bank's tax position.

(5) Securities issued by companies excluded by the Bank pursuant to the Guidelines for observation and exclusion from the GPF shall not be included in the benchmark index for the equity portfolio. When a company is reincluded under the aforementioned guidelines, the securities shall be reincluded in the benchmark index, cf. section 3-1, third paragraph.



## APPENDIX 2

List of issuers of government bonds approved by Norges Bank Executive Board

Australia	New Zealand
Austria	Peru
Belgium	Philippines
Brazil	Poland
Bulgaria	Portugal
Canada	Romania
Chile	Russia
China	Singapore
Colombia	Slovakia
Croatia	Slovenia
Cyprus	South Africa
Czech Republic	South Korea
Denmark	Spain
Estonia	Switzerland
Finland	Sweden
France	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Kingdom
Hungary	United States
Iceland	
India	
Indonesia	
Ireland	
Israel	
Italy	
Japan	
Latvia	
Lithuania	
Luxembourg	
Malaysia	
Malta	
Mexico	
Netherlands	