

Management Mandate for the Government Pension Fund Norway

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Management Mandate for the Government Pension Fund Norway

Laid down by the Ministry of Finance on 21 December 2010 pursuant to Section 2, Sub-section 3, and Section 7 of Act No. 123 of 21 December 2005 relating to the Government Pension Fund.

Chapter 1. General provisions

Section 1-1 Folketrygdfondet's management assignment

The Ministry places the Government Pension Fund Norway (GPFN) in the form of a capital deposit with Folketrygdfondet pursuant to Section 2, Sub-section 3, of Act No. 123 of 21 December 2005 relating to the Government Pension Fund. Folketrygdfondet shall manage this deposit in accordance with the provisions of this Mandate and the provisions issued pursuant to Section 3-4, Sub-section 5, Section 8-1 and Section 8-2.

Section 1-2 Investment of the Fund

(1) Folketrygdfondet shall invest the capital deposit in its own name in a portfolio of financial instruments and cash deposits.

(2) The value of the capital deposit shall be equivalent to the book value of the portfolio of financial instruments and cash deposits. The portfolio's book return less Folketrygdfondet's management costs shall be added to the GPFN.

(3) Folketrygdfondet shall make investment decisions and exercise ownership rights independently of the Ministry.

Section 1-3 The management objective

(1) Folketrygdfondet shall seek to achieve the highest possible return after management costs over time, within the applicable management framework. The return shall be measured in Norwegian kroner.

(2) Folketrygdfondet's primary goal in its active ownership shall be to safeguard the GPFN's financial interests.

(3) Folketrygdfondet shall integrate its responsible management efforts into the management of the GPFN, cf. chapter 2. Good long term returns are regarded as being dependent upon sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and effective markets.

Section 1-4 Strategic plan for Folketrygdfondet's management of the GPFN

(1) Folketrygdfondet shall have a strategic plan for how it will perform its management assignment. This plan shall be updated regularly and in the event of significant changes to the management activities.

(2) Folketrygdfondet shall regularly evaluate the extent to which the goals in the strategic plan have been achieved.

Section 1-5 External managers and service providers (outsourcing)

(1) Folketrygdfondet may use external managers and outsource operational functions as long as risk management and internal control considerations are attended to, cf. Section 4-11.

(2) The fee structure in agreements with external managers shall be designed to safeguard the GPFN's economic interests and take the time horizon of the relevant investment strategies into account. The individual agreements with managers on performance-related fees shall be structured so that the Fund retains the main portion of the positive excess return.

Section 1-6 Folketrygdfondet's advisory duty and right to express an opinion

(1) Folketrygdfondet shall advise the Ministry on the investment strategy for the GPFN. Advice may be provided on the initiative of Folketrygdfondet or on request from the Ministry.

(2) Folketrygdfondet shall advise the Ministry on the need for changes in the Management Mandate for the GPFN. Such advice may be provided on the initiative of Folketrygdfondet or on request from the Ministry.

(3) Folketrygdfondet shall have the opportunity to express its opinion before significant changes are introduced in the Management Mandate for the GPFN, and shall be given notice in reasonable time to allow any changes to be made in the portfolio.

Chapter 2. Responsible management

Section 2-1 Responsible management activities

(1) Folketrygdfondet shall establish a broad set of principles for its responsible management of the investment portfolio as defined in chapter 3.

(2) In designing the principles pursuant to the first paragraph, Folketrygdfondet shall emphasise the investment Strategy for GPFN taken into account the long-term horizon of the management of the fund

(3) The principles shall be based on the considerations of good corporate governance and environmental and social issues in management activities, in line with recognised principles and standards such as The Norwegian Code of Practice for Corporate Governance (NCPCG), the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises

(4) The principles and the use of instruments to support them shall be published, cf. Section 6-1, Sub-section 4.

Section 2-2 Contribution to the development of good national standards

Folketrygdfondet shall actively contribute to the development of good national standards in the area of responsible management activities.

Chapter 3. Management of the portfolio

Section 3-1 Strategic benchmark index

(1) The strategic benchmark index consists of two asset class indices: an equity index and a fixed income index. The equity index constitutes 60 per cent of the GPFN's strategic benchmark index. The fixed income index constitutes 40 per cent of the GPFN's strategic benchmark index.

(2) Each asset class index consists of two strategic regional indices: Norway and the Nordic region apart from Norway and Iceland (i.e. Denmark, Finland and Sweden). The two regional indices in the two asset classes constitute a total of four sub-indices.

(3) Securities excluded pursuant to the Guidelines for observation and exclusion from the Government Pension Fund Global (GPFG) shall not be included in the strategic benchmark index, cf. Section 3-6, Sub-section 8 and Section 7-3. The Ministry decides dates for when such securities should be excluded or re-included in the GPFN's strategic benchmark index.

(4) When a company is excluded from the equity index, the remaining companies in the regional index in question shall be weighted up. When fixed income instruments are excluded from the fixed income index, the remaining fixed income instruments in the regional index in question shall be weighted up. If the issuer has issued fixed income instruments in several currencies that belong to different regional indices, the weighting- up rule shall be applied to each regional index.

Section 3-2 Strategic fixed income index

(1) The strategic fixed income index has the following composition:

- a) 85 per cent consists of the financial instruments included in Barclays Capital Global Aggregate Norway. This part of the strategic fixed income index may consist of loans issued in Norwegian kroner, euros, pounds sterling, Swiss francs, Swedish kroner and Danish kroner.
- b) 15 per cent consists of Barclays Capital Global Aggregate Scandinavia (ex Norway). This part of the benchmark index may consist of loans issued in euros, pounds sterling, US dollars, Swedish kroner and Danish kroner.
- c) The strategic fixed income index mentioned under litra a) shall consist of a private sub-index and a government sub-index. The private sub-index shall have a weight of 70 per cent of the total index value of Barclays Capital Global Aggregate Norway, measured as per each month end. The government sub-index shall have a weight of 30 per cent of the total index value of Barclays Treasury Norway, measured as per each month end.
- d) The strategic fixed income index mentioned under litra a) shall be hedged against Norwegian kroner. The strategic fixed income index mentioned under litra b) shall not be hedged against Norwegian kroner.

(2) The composition of the strategic fixed income index shall be adjusted in accordance with changes in the composition implemented by the index provider.

Section 3-3 Strategic equity index

- (1) The strategic equity index has the following composition:
 - a) 85 per cent consists of the Oslo Stock Exchange Main Index (OSEBX).
 - b) 15 per cent consists of VINX Benchmark (CMVINXBXINN) dividend-adjusted for investors with a Norwegian tax position.
 - c) Companies listed in Iceland and Norway are not included in the index base of the strategic equity index mentioned under litra b). The company distribution and regional distribution within the Nordic region (apart from Norway and Iceland) shall be determined on the basis of the index providers' rules for the VINX Benchmark equity index. This part of the strategic equity index shall not be hedged against Norwegian kroner.

Section 3-4 Actual benchmark index

(1) The composition of the actual benchmark index is based on the strategic benchmark index and consists of the same sub-indices as the strategic benchmark index, cf. Sections 3-1 to 3-3.

(2) Specification of the countries and companies in the sub-indices of the actual equity index follows the index rules of the index provider.

(3) The composition of the sub-indices of the actual fixed income index shall be changed in accordance with changes in the composition implemented by the index provider.

(4) The relative share of each sub-index in the actual benchmark index shall be adjusted on a daily basis in accordance with the total rate of return for the securities included in the indices.

(5) The Ministry will provide more detailed provisions on the rebalancing of the actual benchmark index.

Section 3-5 Approved instruments

(1) Folketrygdfondet may invest the portfolio in financial instruments and cash deposits that are approved in accordance with Section 4-10, but this is limited to:

- a) tradable fixed income securities and other tradable fixed income instruments, and depository receipts for such fixed income securities, issued by Norwegian, Finnish, Swedish or Danish issuers or by issuers whose equity is listed on a regulated market place in these countries.

- b) equities and securities that are equivalent to listed equities, and depository receipts for such equities that are listed on a regulated market place in Norway, Denmark, Finland or Sweden.
- c) securities as mentioned in litra b) in unlisted companies in which the board of directors has expressed an intention to seek a listing on a regulated market place in Norway, Denmark, Finland or Sweden.
- d) money market instruments.
- e) financial derivatives, fund units and foreign exchange instruments that are naturally linked to equities, fixed income securities and foreign exchange.

(2) Folketrygdfondet may retain financial instruments in which the Fund is invested that do not, due to extraneous circumstances, continue to be listed on a regulated market place in Norway, Denmark, Finland or Sweden.

(3) Folketrygdfondet can own financial instruments that are received by the portfolio as a result of corporate actions.

Section 3-6 Management restrictions

(1) Folketrygdfondet shall organise the management with the aim of the annualised standard deviation for the excess return between the actual portfolio and the actual benchmark index not exceeding 3 percentage points on an ex ante basis (expected tracking error). Folketrygdfondet determines a method for the calculation of the expected tracking error that must be approved by the Ministry.

(2) No foreign exchange positions shall be taken in the active management of the Fund.

(3) A credit rating is required for all investments in fixed income securities. Folketrygdfondet shall make an internal credit rating assessment when there is no external credit rating. All internal credit rating assessments shall be documented. Folketrygdfondet shall organise management with the aim that high yield bonds (credit rating lower than investment grade) shall, under normal market conditions, not exceed 25 per cent of the market value of the private part of the fixed income portfolio.

(4) Net exposure to equities in the portfolio shall be in the range of 50 – 70 per cent. Net exposure shall be calculated in relation to the Net Asset Value (NAV) of the Fund assets.

(5) Folketrygdfondet shall set supplementary management risk limits to capture risks that, based on experience, are not captured well by the expected tracking error, cf. Sub-section 1 above, including:

- a) Limits for the minimum overlap between the portfolio and the actual benchmark index
- b) Credit risk limits at the individual issuer and portfolio levels
- c) Liquidity risk limits
- d) Counterparty risk limits. The limits shall include limits for the minimum credit rating of counterparties for non-secured deposits, OTC derivative transactions and other types of contracts that expose Folketrygdfondet to counterparty risk
- e) Leverage limits, including limits for the gross exposure to the various asset classes. Leverage may be used with a view to performing a management task in an effective manner, but not with a view to increasing the GPFN's financial exposure to risky assets.
- f) Limits for the reinvestment of cash collateral received. Reinvestment shall not take place with a view to increasing the GPFN's financial exposure to risky assets.

(6) The limits stated in Sub-section 5 shall be presented to the Ministry at least four weeks prior to their planned implementation. Subsequent expansion of the limits shall be presented to the Ministry, at least four weeks prior to their planned implementation, unless special circumstances indicate a shorter time limit.

(7) Folketrygdfondet may hold interests representing up to 15 per cent of the share capital or primary capital certificates of any one individual company in Norway. Folketrygdfondet may hold interests representing up to 5 per cent of the share capital or primary capital certificates of any one individual company in Denmark, Finland and Sweden. A company's holdings of own interests shall not be taken into consideration for purposes of calculations pursuant to this provision.

(8) The Fund's capital shall not be invested in securities excluded pursuant to the Guidelines for observation and exclusion from the GPFG. Folketrygdfondet shall establish guidelines for exclusions and re-inclusions of such securities to the fund's investment universe, cf. Section 3-1, Sub-section 3, and Section 7-3.

Chapter 4. Valuation, performance measurement and the management, measurement and control of risk

Section 4-1 Introductory provisions

(1) Folketrygdfondet shall establish principles for valuation, performance measurement and the management, measurement and control of risk that, at a minimum, adhere to internationally recognised standards and methods. Folketrygdfondet shall, on a regular basis, evaluate its work and competence related to Folketrygdfondet's risk management and internal control.

(2) Folketrygdfondet shall have routines for reporting risk and exposure in the areas covered in this chapter. The measurement methods shall complement each other.

Section 4-2 Valuation and measurement of return

(1) The return on the equity and fixed income portfolio shall be measured in Norwegian kroner

(2) The rate of return calculations shall be compiled in compliance with the Global Investment Performance Standards (GIPS) methodology.

(3) Folketrygdfondet shall establish principles for valuation and return measurement on the financial instruments included in the actual portfolio.

(4) The method used to establish the value of financial instruments shall be verifiable and shall indicate with reasonable assurance the fair value of the assets at the time of measurement.

Section 4-3 Measurement and management of market risk

(1) Folketrygdfondet shall establish principles for the measurement and management of market risk in its management activities, including relevant sources of systematic risk, cf. 3-6. The measurements shall strive to identify all relevant market risk associated with the financial instruments in use in the management activities. The risk shall be estimated by means of several different methods. Stress tests shall be performed, based, *inter alia*, on historical events and scenarios for the future development of systematic risk factors.

(2) Analysis of extreme event risk shall be an integral part of the GPFN's risk management.

Section 4-4 Measurement and management of credit risk

Folketrygdfondet shall establish principles for the measurement and management of credit risk, cf. Section 3-6. Measurements of credit risk shall strive to identify all relevant credit risk linked to the financial instruments in use in the management activities.

Section 4-5 Measurement and management of counterparty exposure

(1) Folketrygdfondet shall establish principles for measurement and management of counterparty exposure, cf. Section 3-6.

(2) Folketrygdfondet shall have satisfactory routines and systems for selecting and evaluating counterparties. Folketrygdfondet shall establish upper limits for exposure, minimum requirements for credit rating and standards for provision of collateral, collateral management and netting arrangements. Overall exposure to counterparties shall be measured using internationally recognised methods.

Section 4-6 Measurement and management of leverage

Folketrygdfondet shall establish principles for measurement and management of portfolio leverage, cf. Section 3-6. The principles shall cover implicit leverage achieved through the use of derivatives and reinvestment of cash collateral provided in connection with securities lending or repurchase agreements.

Section 4-7 Securities lending and borrowing and short selling of securities

(1) Folketrygdfondet shall establish guidelines for securities lending and borrowing, and for the sale of securities not owned by Folketrygdfondet (short selling).

(2) The sale of securities not owned by Folketrygdfondet is only permitted if Folketrygdfondet has access to the securities through an established borrowing arrangement.

Section 4-8 Reinvestment of cash collateral received

Folketrygdfondet shall establish guidelines for reinvestment of cash collateral received, cf. Section 3-6.

Section 4-9 Measurement and management of operational risk

(1) Folketrygdfondet shall define in more detail what is meant by the term operational risk.

(2) Operational risk factors shall be identified, assessed in terms of probability and impact, monitored and managed.

Section 4-10 New instruments

(1) Before the Fund's capital is invested, Folketrygdfondet shall approve all the financial instruments and new counterparties that are used in the management activities.

(2) Folketrygdfondet's approval shall depend on whether an instrument contributes to effective execution of the management assignment and whether Folketrygdfondet can ensure comprehensive management, control and monitoring of all the relevant investment and operational risks.

(3) The approval shall be documented.

Section 4-11 Folketrygdfondet's internal controls

Regulations No. 1080 of 22 September 2008 relating to Risk Management and Internal Controls shall apply to the extent suited.

Chapter 5. Upper limits on management costs and remuneration arrangements

Section 5-1 Upper limit on management costs

(1) By 1 December each year, Folketrygdfondet shall send the Ministry a substantiated proposal for an upper limit on management costs for the management of the GPFN based on estimates of the next year's management costs.

(2) The Ministry will approve an upper limit for management costs as a Norwegian kroner amount.

(3) The total actual management costs, as well as funds to meet distribution requirements relating to the paid-up committed capital of Folketrygdfondet, may be drawn directly from the GPFN's gross return, cf. Section 1-2, Sub-section 2.

Section 5-2 Guidelines and upper limits on remuneration arrangements

(1) The Board of Directors shall stipulate guidelines and upper limits on remuneration arrangements. The remuneration arrangements shall include specific provisions for executive personnel, for other personnel and officers with duties of material importance to the risk exposure of the company and for other personnel and officers with corresponding remuneration, as well as for other personnel and officers with control duties.

(2) The remuneration arrangements shall contribute to promoting, and provide incentives for, good management and control of management risk, prevent excessive risk taking, and contribute to the avoidance of conflicts of interest.

(3) Regulations No. 1507 of 1 December 2010 relating to Remuneration in Financial Institutions, Securities Firms and Securities Fund Management Companies, as subsequently amended, shall apply correspondingly with the necessary adaptations.

Chapter 6. Public reporting

Section 6-1 Public reports on the management of the Fund assets

(1) Folketrygdfondet shall publish quarterly and annual reports on the management of the Fund assets. The reports shall be based on the greatest possible degree of transparency within the limits defined by a sound execution of the management assignment.

(2) The reports shall consist of a descriptive part and extracts from Folketrygdfondet's accounts concerning the management of the Fund assets in accordance with the current accounting regulations for Folketrygdfondet.

(3) The descriptive part shall include a true and fair summary of the performance of the Fund assets, management costs, investment management strategies, creation of value in the investment management and relevant risk in the investment management, including utilisation of the limits defined in this Mandate. In addition, an account shall be given of the organisation of the investment management in Folketrygdfondet.

(4) Folketrygdfondet shall, in the descriptive part of the annual report or in a separate ownership report, provide an account of Folketrygdfondet's work related to active ownership and integration of good corporate governance and environmental and social issues.

(5) In connection with the quarterly and annual reporting, Folketrygdfondet shall provide an updated list of securities excluded or re-included pursuant to the Guidelines for observation and exclusion from the GPFG cf Section 3-1, Sub-section 3 and Section 3-6, Sub-section 8.

(6) If the calculation methods on which the reporting of performance and risk is premised have changed since the last published report, then an account shall be given of why the methods have changed and information shall be provided on any effects of the changes. In addition, pro-forma figures shall be provided in accordance with the previous calculation methods in four subsequent reports.

(7) The annual report shall be published no later than three months after the end of the financial year. The main points in the reports shall be made available in print. Other data may be reported electronically.

Section 6-2 Publication of the Board of Directors' guidelines

The principles, guidelines and limits laid down by Folketrygdfondet's Board of Directors as a result of this Mandate shall be made public.

Chapter 7. Relationship between the Ministry and Folketrygdfondet

Section 7-1 Duty to inform

(1) Folketrygdfondet shall submit the strategic plan to the Ministry, cf. Section 1-3.

(2) Folketrygdfondet shall inform the Ministry if the GPFN's values change significantly and about other significant changes with respect to the management activities.

(3) Folketrygdfondet shall provide the Ministry with any information that the Ministry requests, including information to companies that assist the Ministry in evaluating Folketrygdfondet's management of the GPFN. The data shall be capable of being submitted in machine-readable form.

(4) The Ministry shall be informed without undue delay of incidents that trigger the duty to inform.

Section 7-2 Folketrygdfondet's duties in the event of management limits and constraints being exceeded

(1) In the event that the limits and constraints defined in Section 3-6 are exceeded, Folketrygdfondet shall without undue delay assess how its management activities can be brought back within the limits and constraints in an appropriate and cost-effective manner.

(2) The Ministry shall be informed of any material breach of the limits and constraints mentioned in the Sub-section 1.

Section 7-3 Duties of the Ministry upon the exclusion and re-inclusions of companies

The Ministry shall notify Folketrygdfondet of securities being excluded from, or re-included to pursuant to the Guidelines for observation and exclusion from the GPFN of Section 3-1, Sub-section 3 and Section 3-6, Sub-section 8.

Section 7-4 Quarterly meetings

(1) The Ministry and Folketrygdfondet shall meet at least once per quarter. The meetings shall be convened by the Ministry. The Ministry will specify in more detail which data shall be submitted to the Ministry as a basis for its preparations for the quarterly meetings and the format and deadline for submission.

(2) The following business shall be discussed at the quarterly meetings:

- a) performance during the last quarter
- b) the main aspects of the exercise of responsible management activities during the last quarter
- c) other matters that the Ministry or Folketrygdfondet have put on the agenda

Chapter 8. Deviation from the provisions, transitional provisions and entry into force

Section 8-1 Right to deviate from the provisions

In special circumstances, the Ministry may allow Folketrygdfondet to deviate from the provisions in this Mandate.

Section 8-2. Transitional provisions

The Ministry may issue special transitional provisions.

Section 8-3. Entry into force

(1) Chapter 5 and Section 8-2 come into force immediately. Other provisions come into force on 1 January 2011.

(2) Regulations no. 1228 of 7 November 2007 relating to the Management of the Government Pension Fund Norway and the Guidelines of 20 December 2007 relating to the Management of the Government Pension Fund Norway, as subsequently amended, will be repealed on 1 January 2011. The management agreement of 4 January 2010 between the Ministry and Folketrygdfondet shall lapse on the same date.