




Strategy 2020-2022

Norges Bank Investment Management

An aerial photograph of a mountain range with a large lake in the center. The mountains are covered in dense green forest, and the lake is a bright blue-green color. The sky is a pale, hazy blue.

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Our mission is to safeguard
and build financial wealth
for future generations

Strategy 2020-2022

The Government Pension Fund Global is a large, global investment fund with a long-term investment horizon. Our management of the fund shall safeguard and build financial wealth for future generations.

In September 2017, the fund's value passed 1 trillion US dollars. Trends and disruptions in the global economy such as increased trade barriers, low global interest rates, changing technology paradigms and climate change will affect the fund. We should be prepared for large fluctuations in the fund's value.

The strategy for 2020-2022 continues in the direction set by the 2017-2019 strategy. Our strategic direction for the next three years is to:

- Complement the fund's investments in equities and fixed income by investing in real estate and renewable energy infrastructure
- Exercise our ownership role to safeguard the fund's long-term economic interests
- Utilise a set of diversified investment strategies in a risk-controlled and low-cost manner
- Foster a global, performance-oriented and efficient investment organisation



Fund strategy

The Government Pension Fund Global was established in 1990 as a fiscal policy tool to underpin long-term consideration when phasing petroleum revenue into the Norwegian economy. The fund is currently one of the largest single-owner funds in the world with assets worth more than 9,000 billion kroner.

The fund is owned by the Norwegian people. The Ministry of Finance decides the overall investment strategy for the fund. Material changes to fund strategy are anchored in the Norwegian Parliament. Long-term sound management of the fund helps ensure that both present and future generations can benefit from Norway's petroleum wealth.

The operational management of the fund is delegated to Norges Bank. Our management assignment is laid down in a mandate issued by the Ministry of Finance. We act in a professional and transparent way to build trust and legitimacy. Public accountability is vital.

The fund strategy has been developed gradually over time. Discussions often take place in the public domain. We contribute to the public discourse and the development of the fund strategy by publishing relevant research and through our role as an advisor to the Ministry of Finance. Proximity to the actual portfolio and our experience from the management of the fund provide a good basis for relevant advice to the asset owner. We aim to facilitate additional research on topics of relevance for our management of the fund. We will publish more internal research and strengthen our collaboration efforts with academics, peers and practitioners.

A number of important choices have been made since we received the management assignment more than 20 years ago. Today, we manage a global portfolio dominated by public market equity risk, albeit with an increasing share invested in other real assets.

Reliance on indices

The fund strategy is expressed through the management mandate. The mandate defines a benchmark index and puts certain constraints and requirements on us as the operational manager. The benchmark index is based on indices from external providers and is dominated by listed equities.

There are investment opportunities available that will improve the diversification of the fund beyond what can be achieved through the benchmark index. This is particularly true for investments in unlisted assets such as real estate and renewables, and for factor investments in the listed markets. These investments cannot be defined through an index, will normally be large, limited in number and have a long verification horizon.

We have created a reference portfolio to set the exposure to these types of investments. We will continue to develop the reference portfolio to improve the fund's long-term risk-return characteristics.



Today, we manage a global portfolio dominated by public market equity risk.



The reference portfolio serves as a starting point for our investment strategies.

We also use the reference portfolio to facilitate cost-efficient transitions and to fulfil specific requirements in our management mandate. The reference portfolio serves as a starting point for our investment strategies described in a later chapter.

Global investments

The fund is in its entirety invested outside Norway. Our portfolio has over time become more global. The fund is currently invested in close to 70 different equity markets and fixed income issued in more than 25 currencies.

The geographical composition of the fund has been tilted towards European investments since its inception. In the course of the strategy period, the Ministry of Finance will assess the geographical composition of the fund's equity benchmark. Any changes to the fund's geographical composition will be implemented gradually.

We aim for a geographically diversified equity portfolio. Equity investments in selected emerging and frontier markets are included in the reference portfolio to further improve diversification. The number of markets may decline as we continuously assess the rationale for investing in some of the smaller emerging markets.

Going forward, emerging-market debt will not be part of the fund's benchmark index. In order to improve the risk-return profile of the fund, our

reference portfolio will still include government debt issued in selected emerging-market currencies. We target a level of emerging-market debt close to 1 percent of the fund.

Equity risk

The choice of equity share in the fund is the choice with the greatest impact on total return and risk. During the last strategy period, the equity share in the fund was increased to 70 percent. 70 percent equities in the fund's benchmark index reflects the asset owner's willingness to take market risk in order to achieve satisfactory long-term returns.

We do not expect any changes to the equity share in this strategy period. With 70 percent of the fund exposed to equity market risk, one should be prepared for significant fluctuations in fund value. The risk in the fund, however, cannot be captured in one single measure. We will develop alternative risk measures for use in our communication about risk in the fund and to assess the need for changes to fund strategy.

The return on the fund will be dominated by developments in the broad equity markets. To improve the portfolio's long-term risk-return characteristics, we continue to include systematic equity factors in the reference portfolio. We target a balanced exposure to these factors of approximately 3 percent of the fund.

Public markets

The fund's investments in listed equities and fixed-income markets currently make up more than 95 percent of the fund.

In equities, we invest in large, medium-sized and small listed companies. Public market investments provide transparency, liquidity and a minimum level of corporate governance. Over the past few years, we have witnessed a change in market dynamics. The number of new listings has declined, and companies seem to stay private for longer. We will consider further investments in companies prior to their public listing.

Within the fixed-income universe, the reference portfolio is dominated by investment-grade government and corporate bonds from developed-market issuers. We may consider including additional fixed-income segments from developed markets in the reference portfolio.

Real assets

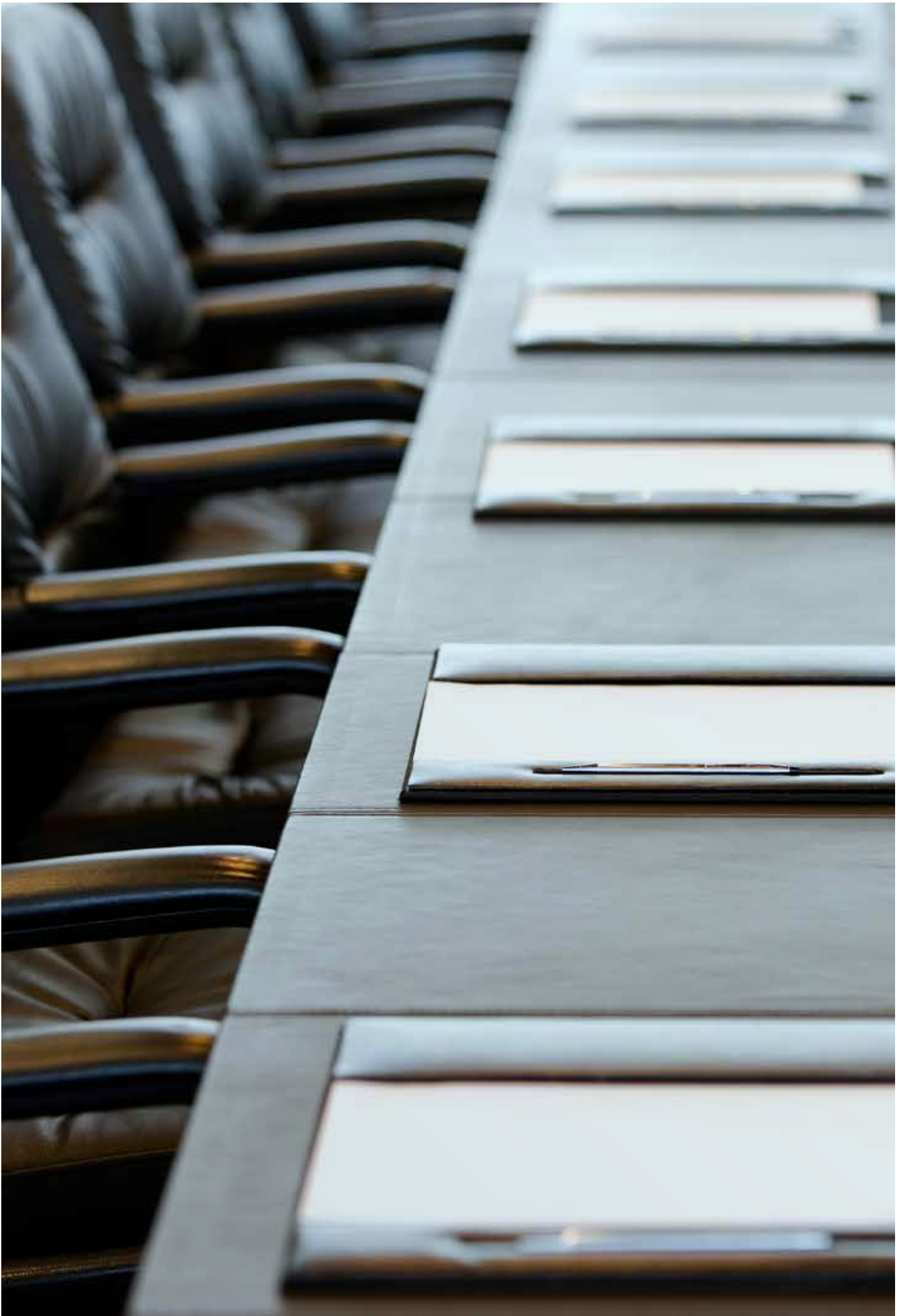
A limited share of the fund may be invested in real assets. Our real asset investments include listed and unlisted real estate and renewable energy infrastructure assets. We invest in real assets to improve diversification.

The allocation to real assets is reflected in the reference portfolio. We target a real estate portfolio, made up of both listed and unlisted assets, of 5 percent of the fund.

The real estate portfolio will be well-diversified across office, retail, residential and logistics. Renewable energy infrastructure is a new asset class for the fund. We target a portfolio of renewable energy investments of around 1 percent of the fund towards the end of this strategy period.



We invest in real assets to improve diversification.



Ownership strategy

The future value of the fund depends on the value created by the companies in which we invest. Well-managed companies provide goods

and services and employment and spur innovation for society as a whole.

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We aim to be a constructive owner.

The fund is a long-term investor in over 9,000 companies. We aim to be a constructive owner in these companies by promoting good corporate governance. We take a principle-based approach, using the best available data to make decisions, and are transparent about our activities.

Our ownership strategy supports the fund's overall management objective of a high long-term return after costs. We seek to improve the long-term financial performance of our investments and to reduce the financial risks. We do this by considering environmental, social and governance issues that may have an impact on the fund's performance over time. We integrate these issues into our work by establishing principles, exercising ownership and managing risk. We focus on corporate governance issues and areas of long-term financial relevance.

We are transparent about how we implement our ownership strategy and provide comprehensive information on the responsible management of the fund. We will seek new ways of making this information publicly available.

Establishing principles

Good governance of companies protects our rights as an investor and contributes to well-functioning markets. We contribute to improved corporate governance through our work on standard setting and our own expectations and positions.

Global standards

We benefit from well-functioning markets that enable global value creation. Global governance standards, as well as local market regulations, are under continuous development. We aim to contribute to the further development of global standards that promote good corporate governance and responsible business conduct. We encourage the wider adoption of global standards across markets and companies and offer our perspectives as a market participant to public consultations on relevant standards. We will engage regularly with international organisations, regulators, and other standard setters.

Principle-based approach

We were early in developing a principle-based approach to responsible investment. An important element in our approach has been to publish our expectations on how companies should address key environmental and social risks and opportunities. Since 2008, we have published seven expectation documents covering human rights, children's rights, climate change, water management, ocean sustainability, tax and transparency and anti-corruption. The expectation documents reflect our priorities as a long-term investor and are an important basis for our ownership activities. We share these with the companies we are invested in and the broader public to provide predictability.


Since 2015, we have published six position papers, covering proxy access, board elections, executive remuneration and effective boards. We will continue to publish position papers on corporate governance issues. We base our positions on research and will further develop our access to relevant data to inform our priorities.

Research

Understanding of how the governance of companies and their management of externalities may affect financial return and risk is evolving. We collaborate with academic institutions to access the latest research and obtain insight that can inform our ownership activities. We will support and initiate research projects to provide further theoretical foundations, empirical results and new sources of data to advance our understanding of these issues.

Exercising ownership

We promote the alignment of interests between us as shareholder and the companies we invest

 in. We do this through shareholder voting and through engaging in dialogue with companies.

We seek to be consistent in the way we apply our principles to individual companies and agenda items.

Voting

As a shareholder we have an important responsibility and right to vote at shareholder meetings. Through voting, we seek to strengthen governance, improve performance and promote responsible business practices in companies. We vote in a principled manner to support our interests and our starting point is to support the company and its board. We seek to be consistent in the way we apply our principles to individual companies and agenda items.

Given the high number of shareholder meetings, we depend on reliable voting processes. We are concerned that there is a lack of uniformity and efficiency in voting processes across markets. We will contribute to the further improvement of market infrastructure for proxy voting to safeguard the fund's ownership interests globally. We aim to vote at all shareholder meetings unless there are significant obstacles to doing so.

We are open about how we vote and aim to promote greater transparency throughout the voting process. Since 2013, we have published our voting instructions one day after the shareholder meeting, and we have in some cases announced ahead of the meeting how we intend to vote. By the end of the strategy period, we aim to publish all our voting instructions ahead of shareholder meetings where this is practicable.

Dialogue

We believe that dialogue with companies is in many cases an effective way to exercise our ownership role. In our dialogue, we communicate our support for long-term value creation, our expectations of companies, and our positions on good corporate governance. We support companies' establishment of effective governance structures, and consistent execution through strategy setting, capital allocation, business targets and risk management.

We will prioritise our most significant holdings and focus on issues where we can achieve results beyond single-company outcomes. We use dialogue to pursue sector-related issues and follow up on incidents or long-term risks identified through our portfolio monitoring. We may also carry out engagements through letters and participation in industry initiatives.

Managing risk

We aim to reduce the fund's exposure to long-term risks. To do this, we need consistent and comparable information



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about companies' risk exposures and activities.

A key premise for our work is corporate reporting.

Corporate reporting

We will contribute to the strengthening and further alignment of corporate sustainability reporting standards across markets. We support the development of standardised reporting metrics where these are not yet available.

We expect companies to use internationally recognised calculation methodologies. We focus on indicators and metrics that provide information about the company's actual performance on material issues. Examples of these are greenhouse gas emissions, energy use and energy mix, green revenues, water use and waste management.

Risk exposure

We aim to mitigate the fund's exposure to unacceptable environmental, social and governance risks. Companies may be followed up through ownership work or through risk-based divestments. Examples are business models that do not conform to prevailing technological, regulatory or environmental requirements or trends.

We invest in companies with a positive environmental profile through our environment-related investment mandates. We will improve our data to identify companies with environmentally friendly solutions or technology with strong performance or potential.

Investment strategies

Our investment strategies are complementary and tailored to the fund's unique characteristics.



We invest across the three asset classes of equities, fixed income and real assets. We use a diversified set of investment strategies in a risk-controlled and low-cost manner to exploit time-varying market opportunities. In aggregate, our investment strategies seek to efficiently represent the broad risk premia for the asset class and consistently generate excess returns.

The strategies are

complementary and tailored to the fund's risk tolerance and unique characteristics as a large, long-term investor with low short-term liquidity needs.

Across all investment strategies, our operating model is characterised by specialisation, delegation and diversification. We grant our investment professionals delegated authority within their specialisation across asset classes, regions and sectors. We emphasise deep research and market expertise across all areas.

Equity investments

The fund's reference portfolio for equities spans around 8,500 companies in close to 70 markets.

Our investment strategies are tailored to the different segments of the equity markets and aim to cost-efficiently construct portfolios with exposure to countries and industries similar to the reference portfolio while taking advantage of opportunities at a company level. They can be broadly divided between capture of equity risk premia through efficient market exposure, and fundamental research through company knowledge strategies.

Efficient market exposure

Around 80 percent of the equity portfolio will be managed internally through efficient market exposure strategies. For a fund of our size and global reach, it is critical to manage overall market exposures efficiently. We invest broadly in the companies in the reference portfolio but seek to avoid mechanical benchmark replication with its high trading costs. We will enhance our portfolio construction and trading strategies, including the use of new technologies and venues, to further reduce turnover and market impact. We continue to take an active role in promoting well-functioning financial markets.

We seek to identify and exploit relative value opportunities. Special situations such as share classes and dual listings are an important but small part of these opportunities. We will increase our active positioning around corporate actions and capital market events such as initial public offerings and secondary offerings.

We manage an efficient outsourced securities lending programme through our agent and supplement this with internal capabilities to maintain profitability. We seek to further integrate our lending decisions into the portfolio management process. Investment banks are our most important borrowers, but we will seek to diversify to other counterparties. We will expand our internally managed synthetic lending programme to new markets.

Company knowledge

Our investment strategies based on fundamental research can be divided into internal and external portfolio management.

Meeting companies
is an essential part
of our investment
process

■ The fund is one of the largest global equity owners, and our knowledge of our largest company investments contributes to fund strategy, improves risk management and ensures that we are able to fulfil

our ownership role. We make investment decisions based on in-depth knowledge of companies and the markets in which they operate. We target for internal portfolio managers to manage around 15 percent of the equity portfolio.

Meeting companies is an essential part of our investment process. We use such meetings to deepen our understanding of companies, to develop long-term relationships with company management and to discuss governance issues. We organise access directly with companies to improve the quality of meetings and our company relationships and be less reliant on third parties for access.

We do our own research on companies, rather than depending solely on the analysis from external research providers. This enables us to form views that are proprietary, insightful and different from the market consensus. We will use a wider variety of information sources in our research.

Most internal portfolio managers manage tailored sector mandates and invest mainly in larger companies in developed markets. We aim to cover around 1,000 companies in detail, and will increase from 50 to 60 internal equity portfolio managers. We continue to focus on Europe, where our ownership stakes are the highest. We will increase our company research in China as well as expand our coverage of mid-cap companies in Europe. Our industry-based environmental mandates and specialised capital markets mandates will be a smaller part of our activities.

We use external portfolio managers in equity markets and segments where local specialist knowledge is particularly relevant. We expect external portfolio managers to manage around 5 percent of the equity portfolio. We aim to increase from 80 to 100 external specialist mandates. Around two thirds of our external specialist mandates will be in emerging markets. Except for China, Brazil and India, we expect close to all emerging market investments to be managed by external fund managers. We invest in country mandates focused on small-cap companies in developed markets in Europe and Asia Pacific, and continuously look for new focus areas for specialist external fund managers. We favour locally based, independent specialist managers.

Fixed-income investments

The fund's reference portfolio for fixed income spans around 2,000 government and corporate issuers in 34 currencies.

Our investment strategies are tailored to government and corporate bond segments and aim to cost-efficiently construct portfolios with exposure to key risk drivers similar to the reference portfolio while taking advantage of opportunities at a security, issuer and sector level. They can be broadly divided into capture of fixed-income risk premia through efficient market exposure, and fundamental research through corporate issuer knowledge strategies.

Efficient market exposure

Around 75 percent of the fixed-income portfolio is managed through efficient market exposure strategies, primarily in the government bond segment. As a replication strategy with thousands of bonds is both challenging and expensive, we construct our portfolio with considerably fewer investments than the reference portfolio. We seek to take advantage of primary markets to build exposure and capture new issue premia to enhance expected return. We will use new trading technologies that can further reduce our implementation costs.

We will increase the use of relative value strategies to enhance return. Many securities are close substitutes, and we seek to take advantage of opportunities across the interest rate curves at an issuer and sector level. We actively target liquidity premia that align with the fund's investment horizon.

We seek to exploit price differentials between bond and derivative markets and will increase our usage of standard derivatives to take advantage of segmentation opportunities.

Within emerging markets, we invest primarily in government issuers but also selectively in large corporate issuers. We will enhance our currency rebalancing and positioning to reduce implementation costs and better manage currency risk.

Fixed-income securities lending is primarily driven by time-varying demand for term borrowing of high-quality and liquid assets from bank counterparties. We will actively size our lending exposure dependent on market conditions. We will supplement our outsourced lending model with internal lending of special bonds with high lending value through the repurchase market.

Corporate issuer knowledge

Around 25 percent of the fixed-income portfolio is managed through fundamental research strategies, primarily in the corporate bond segment. We base corporate bond investment decisions on a thorough understanding of companies and the sectors they operate in, and we aim to have internal research coverage of all the large issuers in the reference portfolio. We expect to lend to under half of all the issuers in the reference portfolio. Our corporate bond and equity portfolio managers cooperate on company research and meetings to reap the benefits of a combined research effort.

Real asset investments

Our real asset investments include listed and unlisted real estate and renewable energy infrastructure assets.

Listed and unlisted real estate

We will manage our investments in listed and unlisted real estate under a combined strategy and expect the combined real estate portfolio to approach 5 percent of the fund. Our strategy shall remain sufficiently flexible to allow us to exploit market disruptions and distress in real estate markets when they occur.

We aim for a sector-diversified portfolio with 40 percent office, 20 percent retail, 20 percent residential and 20 percent logistics exposure. Residential investments will primarily be made as listed investments, while logistics will primarily be unlisted investments. We will concentrate investments in New York City, Boston, Washington, San Francisco, London, Paris, Berlin and Tokyo, which have in common a global footprint and long-term economic attractiveness. Our investments in logistics properties will, due to the nature of the business, be spread over a higher number of countries.

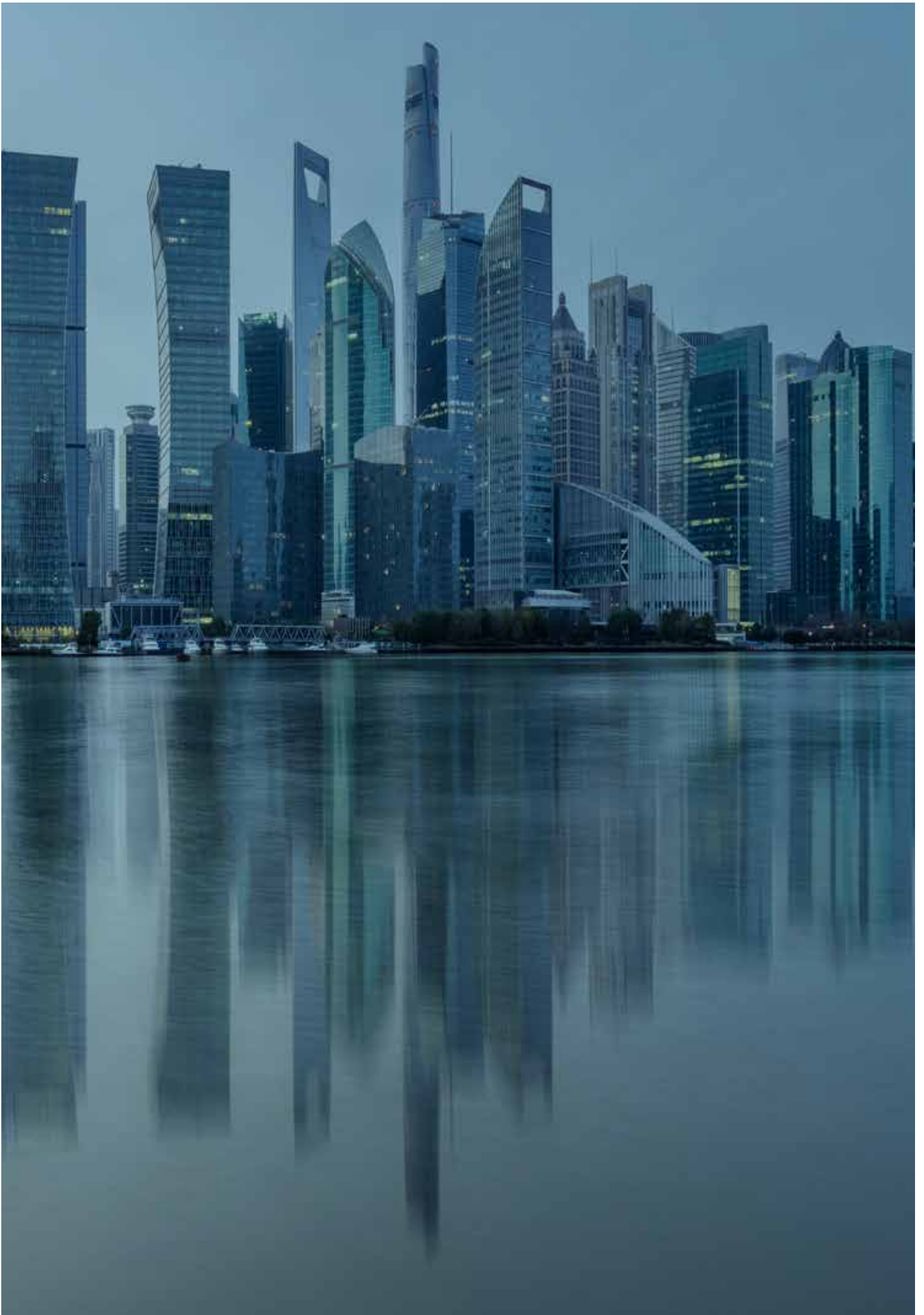
We invest directly with or indirectly via high-quality partners regarded as local experts, or by ourselves in less resource-demanding assets. We will invest in relatively new high-quality buildings in a limited number of markets characterised by transparent transaction processes, robust corporate governance and predictable regulatory and legal frameworks. Redevelopment at our existing investments is an integrated part of asset management and is carried out together with our partners. We will ensure that all our properties are managed in a responsible and environmentally sustainable manner.

Renewable energy infrastructure

We seek to invest in unlisted renewable energy infrastructure to improve the overall risk-return characteristics of the fund. We will focus on Europe and North America given their tested regulatory frameworks and experience with private funding of infrastructure assets. Our primary investment focus is wind and solar power generation assets. We will focus on projects with low power price risk, stable cash flow and limited risk to the principal investment.

We will invest alongside high-quality partners with proven operational experience. We favour equity investments but can invest in other parts of the capital structure. We prefer direct co-investments but will consider investing in renewable funds. The investment plan is flexible and does not have specific targets per year. We expect to build the portfolio gradually and adjust the strategy as we gain experience.

The operating model for unlisted renewable energy infrastructure investments can build on current resources. Staff dedicated to renewable energy infrastructure is expected to be around 20 professionals. Prior to every investment, commercial and sustainability risks will be thoroughly evaluated through a robust process.



Management strategy

Over the last 20 years, Norges Bank Investment Management has built up an efficient, international investment management organisation within the Norwegian central bank. We operate in global investment markets and believe that performance follows from in-depth market understanding and an investment and result-oriented culture. Through the establishment of common administrative support functions at Norges Bank, we aim to exploit synergies and economies of scale.

Global and diverse organisation

Our presence in global markets is essential

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to execute our overall mandate and investment strategies. All our investments are outside Norway, and our presence as an international investor must be welcomed and trusted. Many of our

investment decisions are made outside Oslo, and transactions are settled on a global basis.

Closeness to markets

Our company investments and role as owner require in-depth, specialised industry and company knowledge. The fund's size and long-term perspective grant us access to company management, and our regional offices efficiently facilitate the thousands of company meetings we have each year. Proximity to market experts, standard setters, regulators and other investment managers contributes to our overall market understanding and enables us to influence the development of financial markets to the long-term benefit of the fund.

Global operations

We have insourced our operational activities in order to reduce overall operational risk and improve efficiency and service quality. This requires our organisation to be able to operate around the clock, and we will therefore further strengthen our operational capabilities in the Singapore and New York offices. We expect that more than half of our employees will be based at our offices outside Oslo. We will strengthen our international offices to allow for more efficient, decentralised decision making.

Global specialists

We will continue to look to global markets to recruit and develop investment professionals with deep specialist expertise, and also attract necessary capacity and talent for other functions. As most of our investment mandates and business processes are global in nature, we encourage our organisation to have a global mindset. To foster a truly global organisation, we expect that around a third of all employees will have worked at more than one of our offices.

Common values

Norges Bank's core values of excellence, innovation, integrity and team spirit underpin our culture and how we operate across all our offices. We collaborate and share information within our organisation consisting of 37 nationalities through English as our common working language. Our organisation is grounded in trust, high ethical standards, a flat hierarchy and diversity. We aim to increase the share of women to exceed or match the industry average across all functions.

We promote transparency and welcome public scrutiny of our results.



Investment culture

The organisation is centred on investment decision making, which requires a wide range of information sources and inherently involves risk taking. We promote

transparency as this motivates our organisation to be result-oriented and performance-driven, and we welcome public scrutiny of our results. We emphasise high standards of integrity and conduct.

Focused on investment decisions

We will continue to develop specialist expertise within our core business of investment management and encourage our employees to build in-depth expertise in their area.

We aim to maximise the time our investment professionals spend on investment decisions. All functions shall contribute to investment performance. We will continuously evaluate our business processes to ensure that they

contribute to value creation. We target the share of investment decision makers to be at least half of all employees.



All functions shall contribute to investment performance.

Norges Bank Investment Management is a knowledge organisation

operating in a highly information-intensive industry. We will broaden our sources of information and collect specialist knowledge in new ways.

Risk willingness

Investment management inherently involves uncertainty and risk. We will foster a culture of controlled risk taking. We acknowledge that a high-performance culture views mistakes also as an opportunity to improve and learn. We recognise the role of the contrarian or special talent in an investment management organisation and will recruit and encourage people who bring different approaches and challenge groupthink.

Performance-oriented

To ensure personal responsibility for measurable results, we believe in delegation of process accountability and investment decisions as well as clear reporting lines. We seek to avoid unnecessary bureaucracy. We encourage all our employees to give and receive frank feedback in order to improve as an organisation.

We will set clear targets and goals for our employees and hone our performance management practice. We will develop our framework and tools for people performance measurement. Variable pay based on performance has been an important tool to create excess return and we will maintain and refine a compensation system that rewards performance.

Efficient and adaptable operations

The efficiency and adaptability of our organisation and operational processes are important contributors to our investment management. We aim for an adaptable



organisation where

teams have a high degree of autonomy.

We will continue to be cost-conscious and emphasise automated and secure business processes.

We continue to manage the fund in a prudent and efficient manner.

Adaptable

We believe there are multiple benefits from remaining a small, flexible and flat organisation. We will continue to build up self-sufficient, autonomous teams around our investment strategies and selected operational areas to ensure ownership and prioritisation. We will increasingly provide our technology services through a self-service model and further develop our technology architecture to make it easier to develop and integrate solutions.

We have insourced and automated many of our operational processes, and our technology services run in the cloud. We will continue to focus on automating activities within our operational processes to allow us to focus resources on new development and change.

We favour standard technology solutions provided as a service and will correspondingly adapt our processes where necessary.

We expect the organisation dedicated to the management of the fund to have reduced from 600 to 500 employees by the end of the strategy period. This will be achieved through more support functions being organised centrally in the bank, by running programmes to improve efficiency and by stringently prioritising activities according to value creation.

Cost-conscious

Our management objective is to achieve the highest possible return after costs. All costs are scrutinised in the context of improving investment risk-return. We continue to manage the fund in a prudent and efficient manner and through a cost-conscious organisation. We aim to keep total internal management costs below 0.05 percent of assets under management, even with expected changes in asset allocation. We expect to keep management costs for external fund management below 0.02 percent of assets under management.

Secure

Our risk management framework helps safeguard the fund's assets. Our framework balances the need for control with the need for adaptation and change. The framework is built on risk-based, efficient monitoring and control with specialist expertise in high-risk areas. We emphasise a clear delineation between first- and second-line responsibilities and automation of control activities. We will continue to build our internal cybersecurity capabilities and further develop our ability to detect, contain and remedy security incidents.



We safeguard the fund
for future generations
as prudently, efficiently
and transparently
as possible.



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