

Norwegian Government Pension Fund Global Investment Benchmarking Results

For the 5 year period ending December 2011



What gets measured gets managed, so it is critical that you measure and compare the right things:

1. Policy Return

How did the impact of your policy mix decision compare to other funds?

- Your 5-year policy return was 1.5%. This compares to the Global median of 4.1% and the peer median of 3.3%. There were several drivers of returns for the peers including positive returns for U.S. long bonds and Canadian bonds and stocks. Being overweight in Europe hurt the fund relative to the peers.

2. Net Value Added

Are your implementation decisions (i.e., the amount of active versus passive management) adding value?

- Your 5-year net value added was -0.2%. This was close to the Global median of -0.2% and slightly below the peer median of 0.1%.

3. Costs

Are your costs reasonable? Costs matter and can be managed.

- Your actual cost of 8.1 bps was below your benchmark cost of 17.6 bps. This suggests that your fund was low cost. The lower cost status was achieved through cost savings due to have less external management than the peers and paying less for internal management relative to the peers.

4. Cost Effectiveness

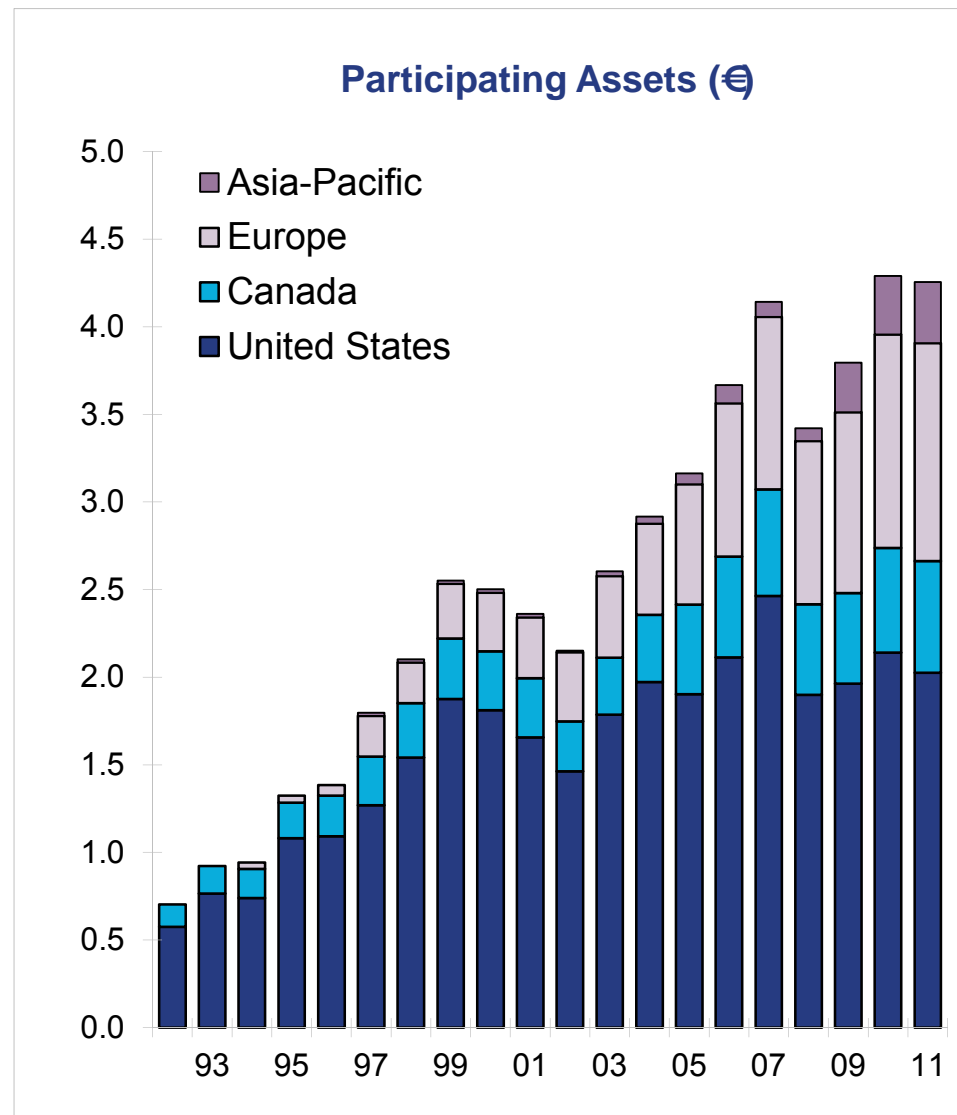
Net implementation value added versus excess cost. Does paying more get you more?

- Your fund achieved 5-year net value added of -0.2% and cost savings of 4.5 bps on the cost effectiveness chart.

This benchmarking report compares your cost and return performance to CEM's extensive pension database.

- 189 U.S. funds participate with assets totaling €2.0 trillion.
- 85 Canadian funds participate with assets totaling €638 billion.
- 62 European funds participate with aggregate assets of €1,244 billion. Included are funds from the Netherlands, Norway, Sweden, Finland, Ireland, Denmark and the U.K.
- 8 Asia-Pacific funds participate with aggregate assets of €348 billion. Included are funds from Australia, New Zealand and South Korea.

In the global database the types of funds can be split as follows 51% corporate, 29% public, 20% other.



Norwegian Government Pension Fund Global

The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.

Custom Peer Group for Norwegian Government Pension Fund Global

- 13 largest global sponsors from €58 billion to €402 billion
 - Median size of €100 billion versus your €402 billion
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- 3 Canadian Funds, 3 European Funds, 1 Asia-Pacific Fund and 6 U.S. Funds make up the Global Peer Group.
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- In the report there are also comparisons to our Global database of participants.

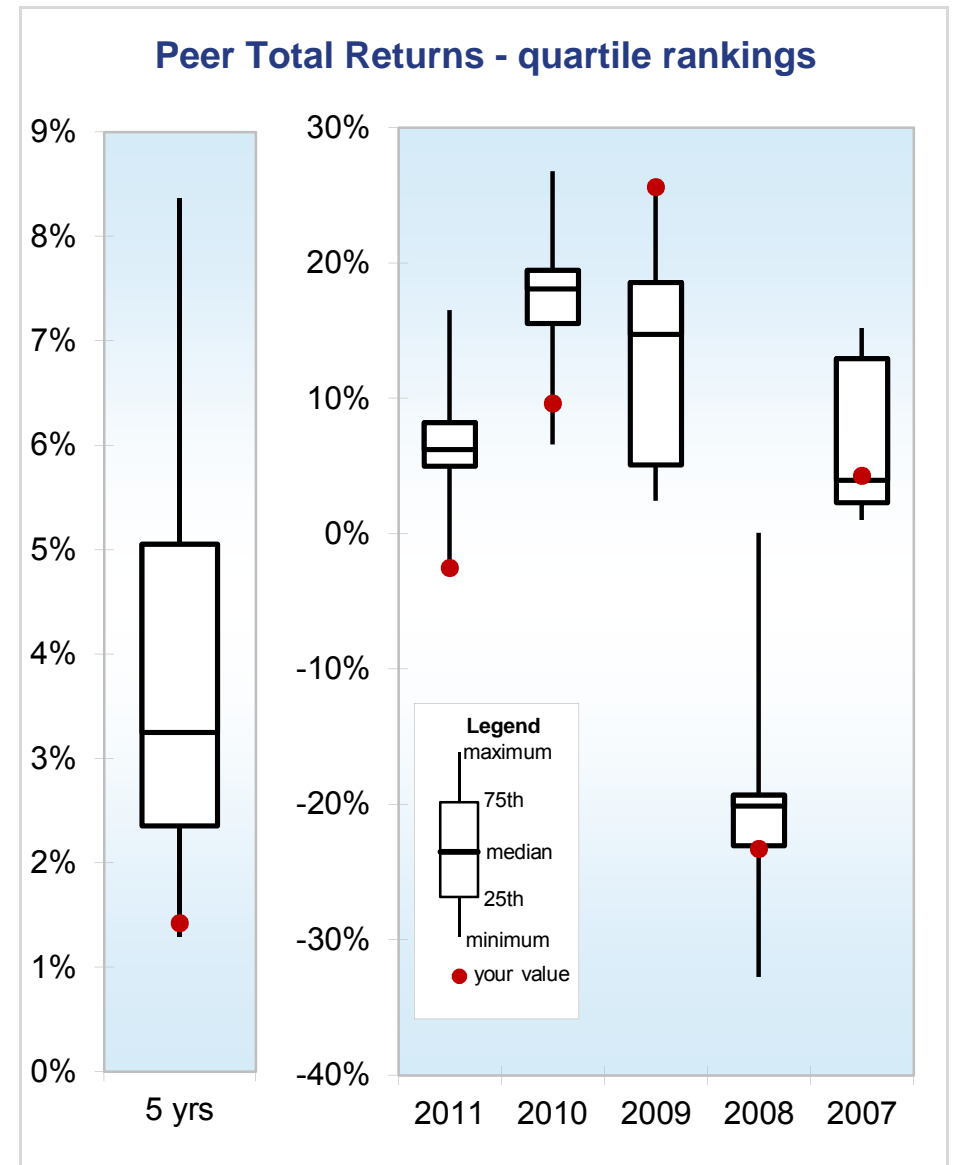
Your 5-year total return of 1.4% was below the peer median of 3.3%.

Total returns, by themselves, provide little insight into the reasons behind relative performance. Therefore, we separate total return into its more meaningful components: policy return, cost and value added. Total returns are equal weighted.

	Your 5-yr
Total Fund Return	1.4%
- Policy Return	1.5%
- Cost	0.1%
= Net Value Added	-0.2%

This approach enables you to understand the contribution from both policy mix decisions (which tend to be the board's responsibility) and implementation decisions (which tend to be management's responsibility).

Actual and policy returns have been converted to your 'Currency Basket' using unhedged currency returns.



1. Policy Return

Your 5-year policy return of 1.5% was below the peer median of 3.3%

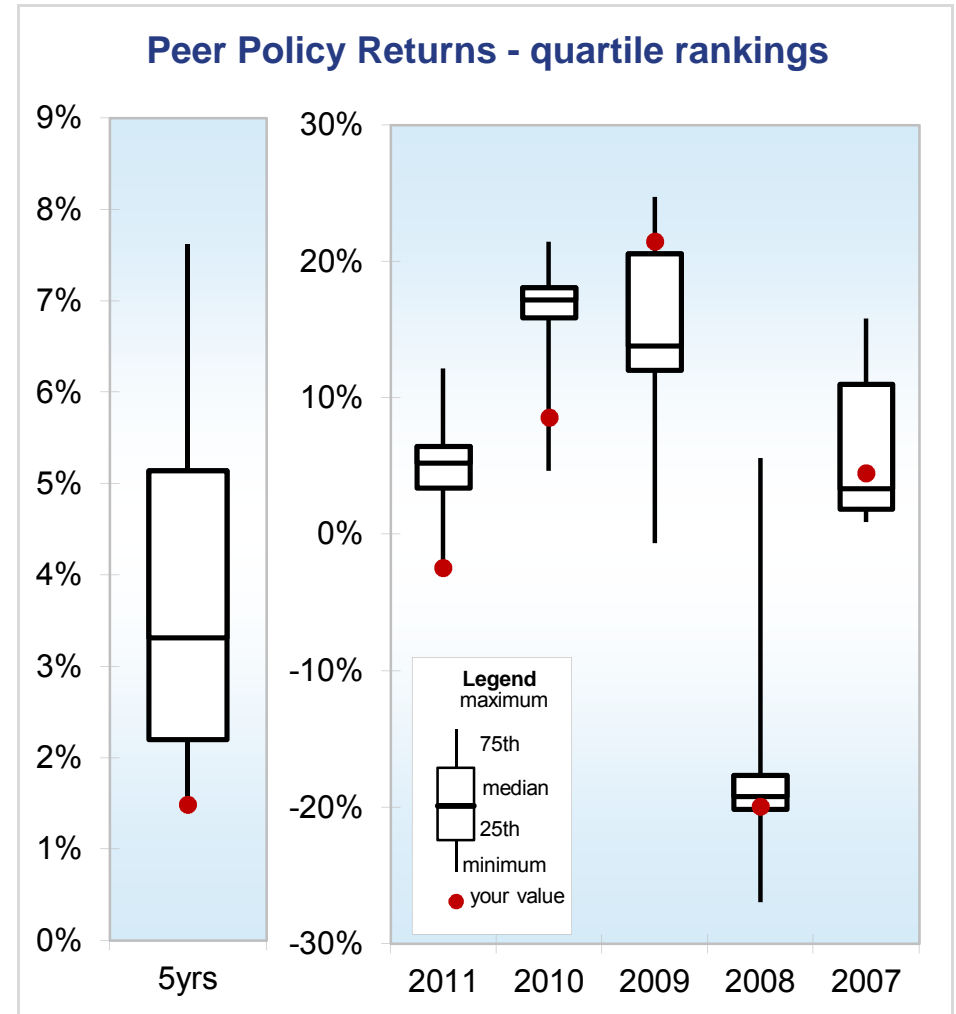
Your policy return is the return you could have earned passively by indexing your investments according to your policy mix.

Having a higher or lower relative policy return is not necessarily good or bad. Your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk

Each of these three factors is different across funds. Therefore, it is not surprising that policy returns often vary widely between funds.

Investment policy is based on considerations like risk tolerance and long-term capital markets prospects. In this context a five year period is short. If the comparisons had been made for other periods, the results could be different.



Your policy asset mix compares to the peer and Global averages as follows:

- Your fund did not have any allocation to real estate, hedge funds or private equity whereas the peer funds had allocations of 10%, 2% and 6% respectively. The Global funds' allocations were 7%, 2% and 4%. In 2011, a new allocation to real estate was made, though it has not been incorporated into the policy asset mix yet.
- Your policy asset mix is more Globally diversified than the average Peer or Global fund.

5-Year Average Policy Mix			
	Your Fund	Peer Avg.	Global Avg.
Total Stock	56%	48%	50%
Total Fixed Income	44%	35%	37%
Hedge Funds	0%	2%	2%
Real Assets*	0%	10%	7%
Private Equity	0%	6%	4%
Total	100%	100%	100%

* Includes Real Estate, REITs, Commodities, Infrastructure and Natural Resources

Regional allocations can significantly influence the policy return. GPFG's overweight in European securities and the peer group's overweight in North American securities explain a major part of the difference in policy returns. The remaining difference is largely caused by variations in the fixed income portfolios, such as duration, credit quality and country allocation within regions. Not being invested in asset classes like real estate and private equity has also hurt the GPFG's policy return somewhat.

2. Net Value Added

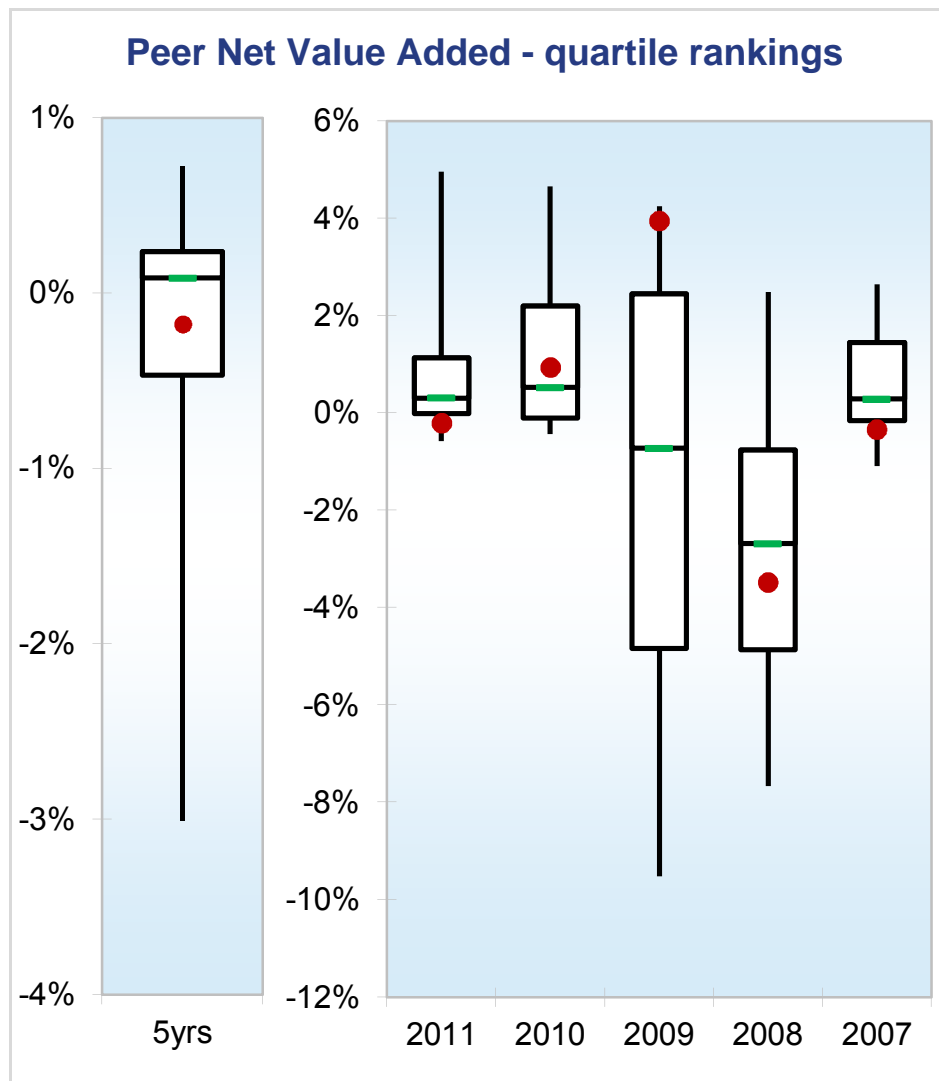
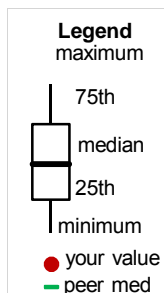
Net value added is the component of total return from active management. Your 5-year net value added was -0.2%.

Net value added equals total return minus policy return minus costs.

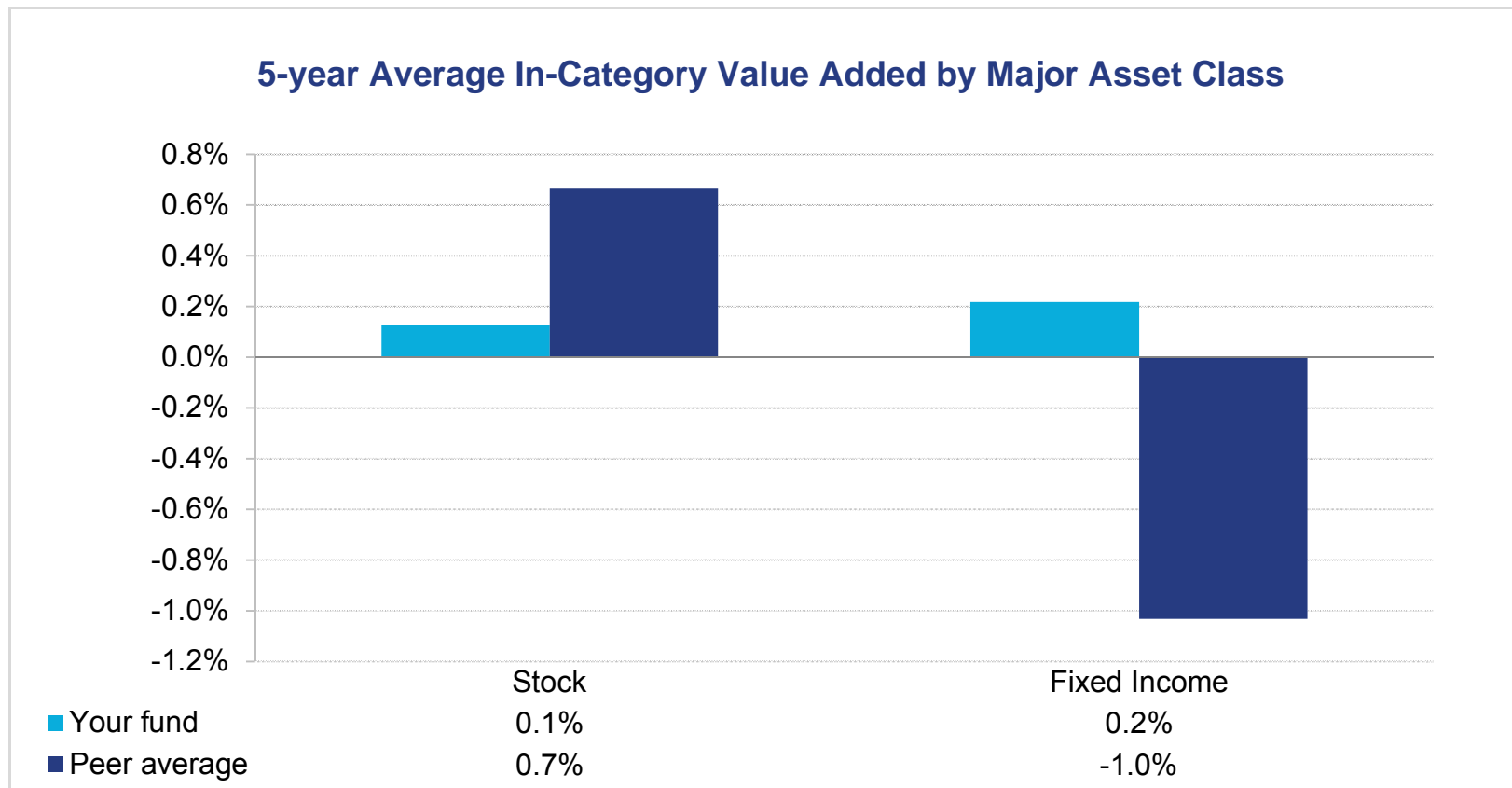
Norwegian Government Pension Fund Global

Year	Total Return	Policy Return	Cost	Net Value Added
2011	(2.5)%	(2.4)%	0.1%	(0.2)%
2010	9.6%	8.6%	0.1%	0.9%
2009	25.6%	21.5%	0.1%	4.0%
2008	(23.3)%	(19.9)%	0.1%	(3.5)%
2007	4.3%	4.5%	0.1%	(0.3)%
5-year	1.4%	1.5%	0.1%	(0.2)%

Your 5-year net value added of -0.2% compares to a median of 0.1% for your peers and -0.2% for the Global universe.



You had positive 5-year value added in Stock and Fixed Income.



3. Costs

Your asset management costs in 2011 were €325.7 million or 8.1 basis points.

Notes

¹ Total cost excludes carry/performance fees for real estate, infrastructure, hedge funds, private equity and overlays. Performance fees are included for the public market asset classes.

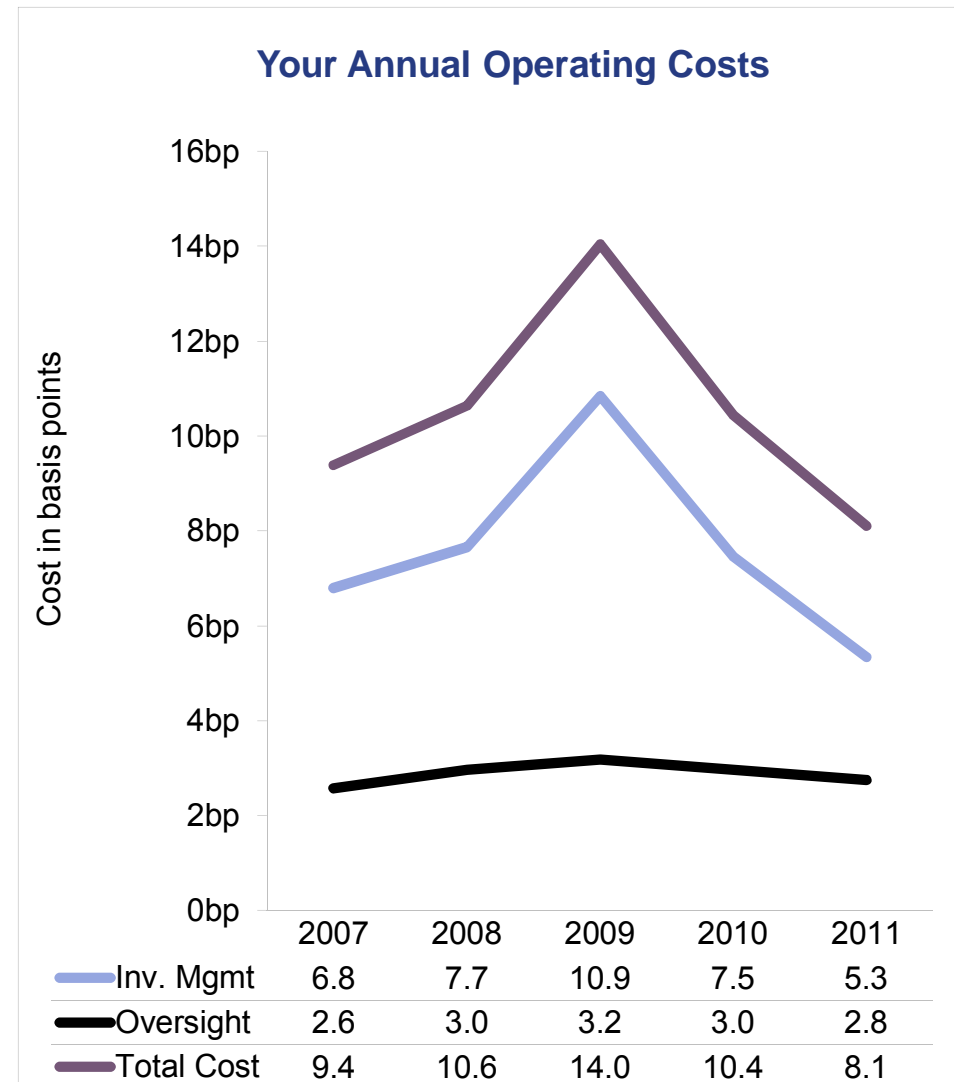
² Excludes non-investment costs, such as benefit insurance premiums and preparing cheques for retirees.

Your Investment Management Costs (€000s)						
	Internal		External Active			Total
	Passive	Active	Base Fees	Perform. Fees ¹	Monitoring & Other	
Stock		57,685	44,489	70,076	4,322	176,572
Fixed Income		29,782	3,093		205	33,080
Real Estate		5,228				5,228
Total investment management costs					5.3bp	214,880

Your Oversight, Custodial and Other Asset Related Costs ² (€000s)		
Oversight of the fund		65,464
Trustee & custodial		36,160
Consulting and performance measurement		5,105
Audit		4,077
Total oversight, custodial & other costs		2.8bp 110,806
Total asset management costs		8.1bp 325,686

Your costs increased slightly between 2007 and 2009, but have come down since 2009.

Costs have come down in 2011 and 2010 versus 2009 due to less performance fees being paid to external managers.

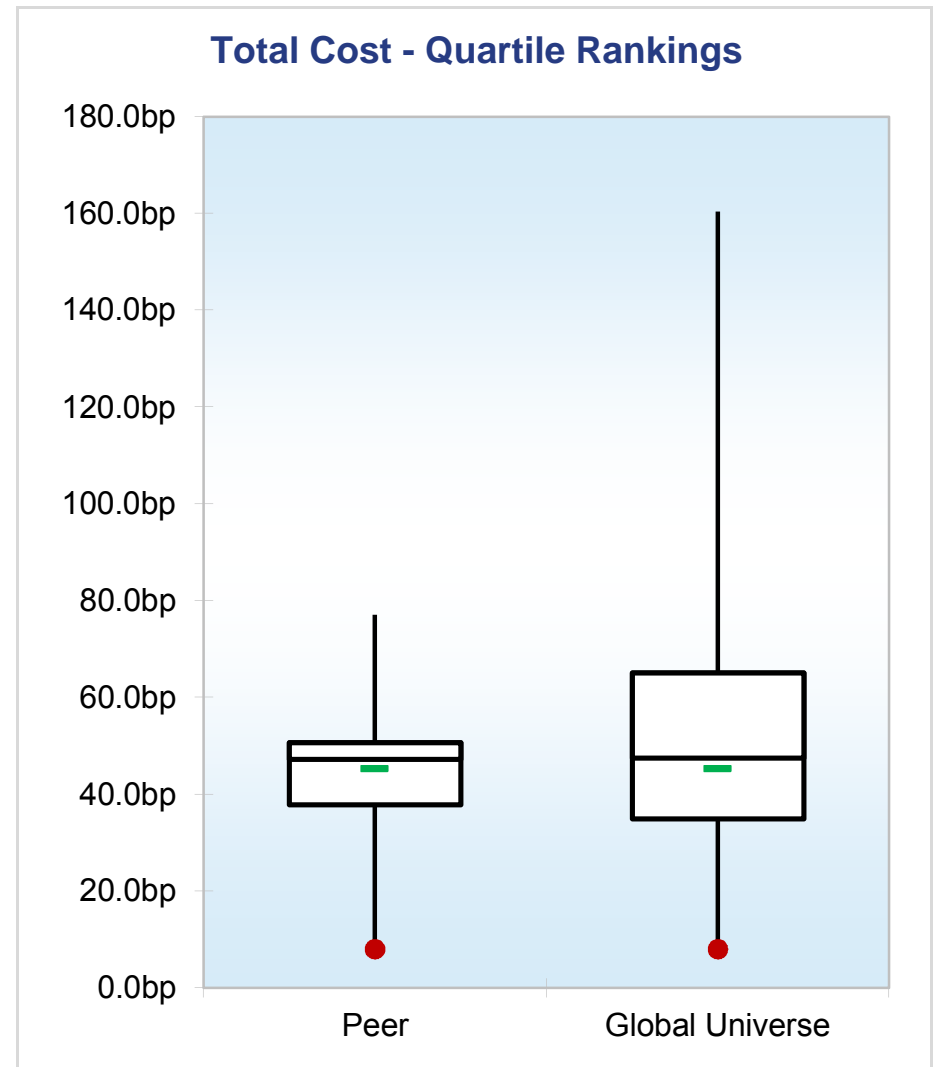
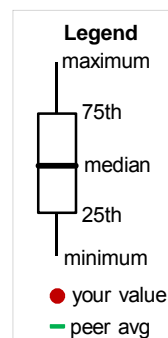


Your total cost of 8.1 bps was below the peer average of 45.4 bps.

Differences in total cost are often caused by two factors that are often outside of management's control:

- asset mix and
- fund size.

Therefore, to assess whether your costs are high or low, CEM calculates a benchmark cost for your fund. Your benchmark cost is an estimate of what your cost would be given your actual asset mix and the median costs that your peers pay for similar services. It represents the cost your peers would incur if they had your actual asset mix.



Benchmark cost analysis suggests that, after adjusting for fund size and asset mix, your fund was low cost by 9.5 basis points in 2011.

Your total cost of 8.1 bp was below your benchmark cost of 17.6 bp. Thus, your cost savings was 9.5 bp.

	€000s	basis points
Your actual cost	325,686	8.1 bp
Your benchmark cost	<u>705,889</u>	<u>17.6 bp</u>
Your excess cost	(380,203)	(9.5) bp

Your fund was low cost primarily because you had a lower cost implementation style and paid less for similar mandates.

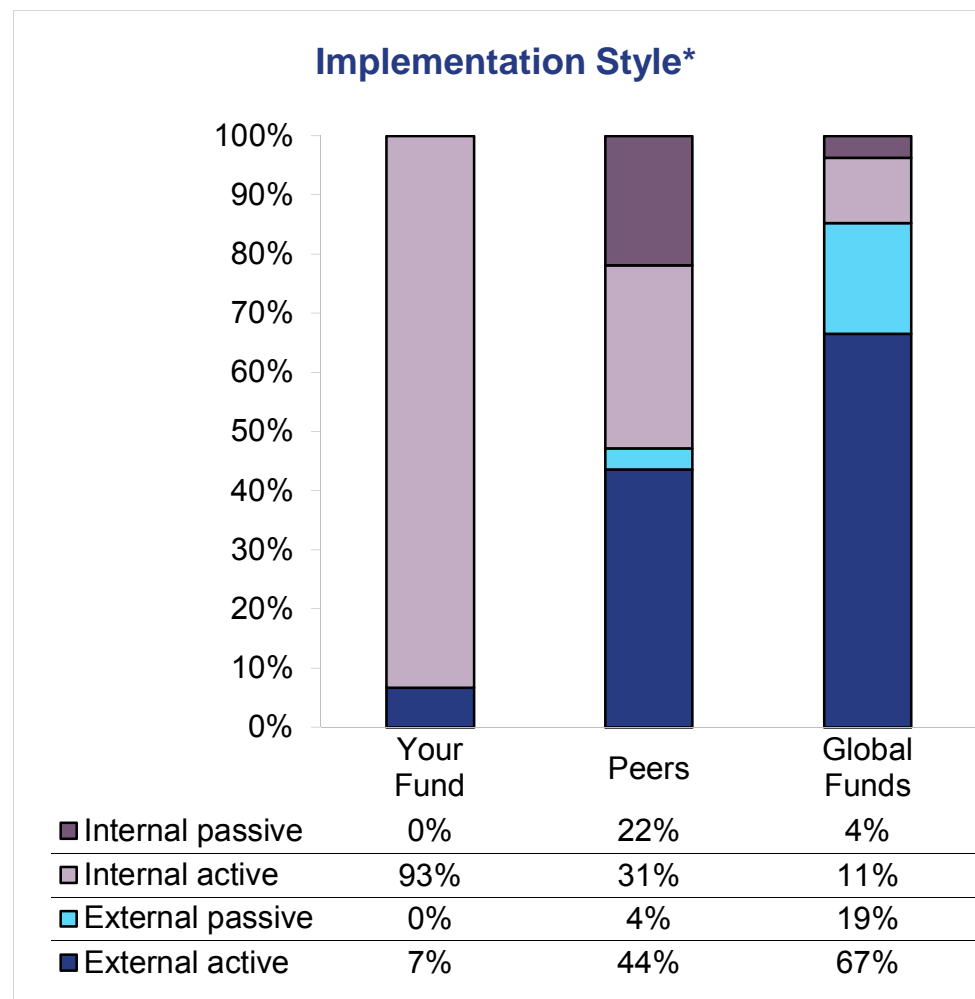
Reasons for Your Low Cost Status		
	Excess Cost/ (Savings)	
	€000s	bps
1. Lower cost implementation style		
• Less external active management and more lower cost internal management	(309,490)	(7.7)
• Lower use of overlays	(55,784)	(1.4)
• Other style differences	<u>107,718</u>	<u>2.7</u>
	(257,555)	(6.4)
2. Paying more or (less) than your peers		
• External investment management costs	23,108	0.6
• Internal investment management costs	(153,883)	(3.8)
• Oversight, custodial & other costs	<u>8,128</u>	<u>0.2</u>
	(122,647)	(3.1)
Total savings	(380,203)	(9.5)

Differences in cost performance are often caused by differences in implementation style.

Implementation style is defined as the way in which your fund implements asset allocation. It includes internal, external, active, passive and fund-of-funds styles.

The greatest cost impact is usually caused by differences in the use of:

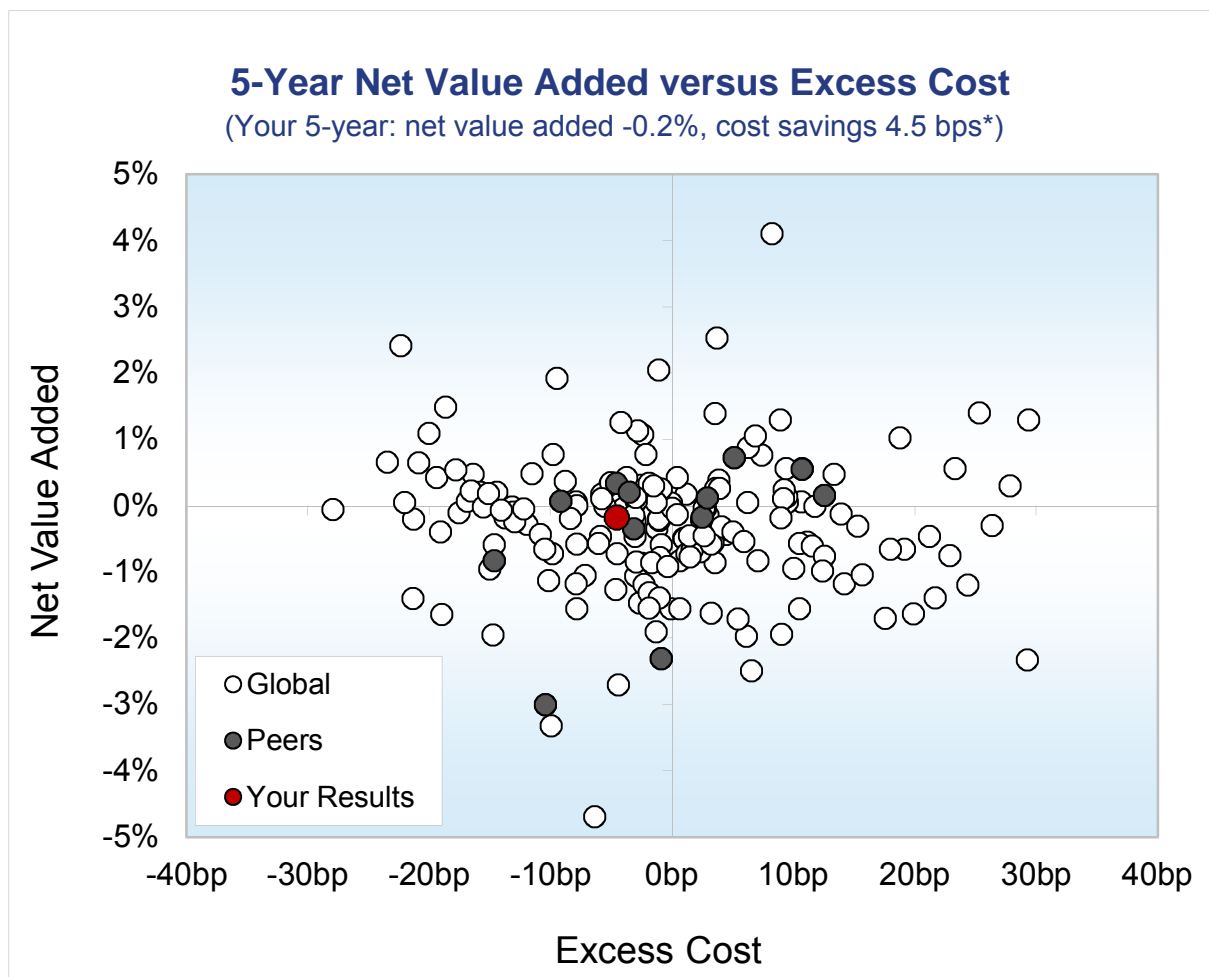
- External active management because it tends to be much more expensive than internal or passive management. You used less external active management than your peers (your 7% versus 44% for your peers).



* The graph above does not take into consideration the impact of derivatives.

4. Cost Effectiveness

Your fund achieved 5-year net value added of -0.2% and cost savings of 4.5 bps on the cost effectiveness chart.



Your 5-year cost savings of 4.5 basis points is the average of your cost savings for the past 5 years.

5-year net value added versus excess cost as a percentage of benchmark cost.

