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The letter is comprised by deferred public disclosure under Section 5, third paragraph, of the Freedom of Information Act.

The enclosure is exempt from access under Section 13, first paragraph, of the Freedom of Information Act, cf. Section 12, first paragraph, of the Norges Bank Act and Section 23, first paragraph, of the Freedom of Information Act.

Energy stocks in the Government Pension Fund Global

In Report to the Storting No. 14 (2018-2019), the Ministry proposes removing upstream companies from the benchmark index and the investment universe for the Government Pension Fund Global (GPF) to reduce the total oil price risk for the Norwegian economy. Upstream companies are defined in the white paper as all companies classified by the index provider FTSE Russell as belonging to the *Exploration & Production* subsector. The Storting endorsed this change in Recommendation 339 S (2018-2019). In the white paper, the Ministry referred to FTSE Russell's plans to alter the sector classification. These changes have now been confirmed. In its letter of 29 June 2019, the Ministry asks the Bank to consider what implications the changes have for the definition of upstream companies and to suggest a plan for phasing these companies out of the fund.

Upstream companies

FTSE Russell bases its company classification on the ICB standard.¹ The ICB is used by

¹ Industry Classification Benchmark.



a number of players in the market, including NASDAQ, but is owned and maintained by FTSE Russell. The ICB was updated with effect from 1 July 2019. The update included changes to the *Exploration & Production* subsector.

Companies previously included in *Exploration & Production* have essentially been split into two new subsectors: *Oil: Crude Producers* and *Oil Refining and Marketing*. The Bank has been asked to consider the definition of upstream companies in the light of this change. In line with the Ministry's letter, the Bank has restricted this assessment to companies included in the previous *Exploration & Production* subsector. The ICB defines companies in the new *Oil Refining and Marketing* subsector as downstream companies.² This would indicate that upstream companies, as referred to by the Ministry in Report to the Storting No. 14 (2018-2019), consist solely of those in the new *Oil: Crude Producers* subsector.²

The fund's benchmark index for equities is constructed on the basis of subindices of the FTSE Global All Cap. FTSE Russell has announced that the new ICB classification will not be applied in the FTSE Global All Cap until September 2020. Should the Ministry wish to begin phasing out upstream companies before that date, the mandate provisions on the investment universe and benchmark index for equities should temporarily include a direct reference to the new ICB classification. Once the new ICB classification has been taken into use in FTSE's indices, the text of the mandate should refer specifically to the *Oil: Crude Producers* subsector of the FTSE Global All Cap.

Phase-out plan

Companies in the *Exploration & Production* subsector now reclassified as *Oil: Crude Producers* accounted for 0.8 percent of the fund's benchmark index in August 2019, equivalent to just over 50 billion kroner. It is reasonable to assume that the market will know which stocks the Bank will be selling as part of this phase-out. The risk of market impact is therefore considerable. A longer phase-out period will give the Bank the necessary flexibility to divest cost-effectively. Detailed proposals for the phase-out plan are enclosed.

Operational matters

The classification of individual stocks can change over time as a result of both new information about a company's operations and changes to those operations. Companies reclassified from *Oil: Crude Producers* to another subsector can then be included in both the benchmark index and the investment universe. Similarly, companies reclassified from another subsector to *Oil: Crude Producers* can be removed from the benchmark index. To give the Bank sufficient time to make these changes cost-effectively, however, these companies should not be removed from the investment universe until somewhat later. We expect the scope of such reclassifications to be limited.

We will maintain a list of companies in the FTSE Global All Cap classified in the ICB under *Oil: Crude Producers*. These companies will not be part of the investment universe, and the list will be shared with our external managers. In addition, we will

² ICB Ground Rules as of July 2019, Industry Classification Benchmark (Equity) v3.0.



establish routines for identifying and selling any holdings in companies outside the FTSE classified under *Oil: Crude Producers*. The routines will help ensure that any holdings in such companies make up an insignificant part of the fund.

Yours faithfully

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