

Management mandate for the Government Bond Fund

Adopted by the Ministry of Finance on 27 March 2020. Amended on 8 May 2020 (Sub-section 5 and 6 in Section 3-3).

For information purposes only. Legal authenticity remains with the official Norwegian version as published in Norsk Lovtidend.

Chapter 1. General Provisions

Section 1-1. Folketrygdfondet's management assignment

The Ministry of Finance deposits the Government Bond Fund (the Bond Fund) in the form of a Norwegian krone deposit with Folketrygdfondet, pursuant to Section 3 Sub-section 2 and Sub-section 3 of the Government Bond Fund Act of 27 March 2020 (lov om Statens obligasjonsfond, which is in Norwegian only). Folketrygdfondet shall manage this capital deposit in accordance with the provisions in this mandate and any subsequent provisions pursuant to Section 3 (1).

Section 1-2. Investment of the fund capital

(1) Folketrygdfondet shall, in its own name, invest the capital deposit in interest bearing instruments and cash deposits.

(2) The value of the Norwegian krone deposit shall be equivalent to the net book value of the investment portfolio of interest bearing instruments and cash deposits. The accounting return on the investment portfolio, less Folketrygdfondet's management costs, shall be added to the Bond Fund.

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

Section 1-3. Management objectives

(1) Folketrygdfondet shall within the applicable investment management framework seek to achieve the highest possible return over time, net of costs, and at the same time contribute to increased liquidity and access to capital in the Norwegian credit bond market. The return shall be measured in Norwegian kroner.

(2) As an overarching goal in the exercise of creditor rights, Folketrygdfondet shall seek to secure the Bond Fund's financial interests.

Section 1-4. External service providers (outsourcing)

Folketrygdfondet may outsource operational functions, provided risk management and internal control considerations are safeguarded, cf. Section 4-11.

Chapter 2. Responsible management

Section 2-1. Responsible management activities

Folketrygdfondet's management of the Bond Fund shall insofar as possible be conducted in accordance with the principles for responsible management defined in the management mandate for the Government Pension Fund Norway Section 2-1.

Chapter 3. The management of the investment portfolio

Section 3-1. Benchmark index

The Ministry may establish a benchmark index for the Bond Fund.

Section 3-2. Investment universe

(1) Folketrygdfondet may invest the Bond Fund in tradable bonds and other tradable debt instruments and cash deposits as defined in Section 4-10, subject to the following limitations:

- a. Tradable bonds and other tradable debt instruments issued by Norwegian companies, cf. Section 1-2 of the Law on Registration of Business [Enterprise Registry Law] (foretaksregisterloven, which is in Norwegian only).
- b. Cash deposits when necessary for efficient portfolio management.
- c. Financial derivatives and currency instruments when inherently linked to the investments in the portfolio.

(2) Should Folketrygdfondet become the owner of financial instruments not listed in Sub-section 1, Folketrygdfondet shall sell these instruments in a manner that protects the financial interests of the Bond Fund.

Section 3-3. Management provisions

(1) Investments in the credit bond market shall be placed according to the below sector allocation:

- Non-financial companies: 50-100 percent
- Banks and financial industry companies: 0-50 percent

(2) The Bond Fund may be invested in bonds denominated in currencies other than Norwegian kroner, limited to EUR, GBP, SEK, DKK and USD. Such investments shall be currency hedged.

(3) All bond investments shall be subject to a credit assessment. If external credit ratings are not available, Folketrygdfondet shall make their own internal credit assessments. All such internally conducted assessments shall be documented.

(4) Bonds from issuers with a rating equivalent to Standard and Poor's BB+ or lower (below "Investment Grade") may account for up to 50 percent of the investment portfolio.

(5) The Bond Fund shall not be invested in bonds from issuers with a rating equivalent to Standard and Poor's CCC or lower.

(6) Should an issuer whose bonds the Bond Fund holds be downgraded to or below the equivalent of Standard & Poor's CCC, bonds already acquired from this issuer may still be included in the portfolio.

(7) Up to 5 percent of the fund capital, cf. the Government Bond Fund Act Section 3 Sub-section 2, may be invested in bonds issued by a single issuer.

(8) In primary issues, the Bond Fund shall be invested alongside other investors. To ensure investments are made at market rates and terms, Folketrygdfondet shall establish guidelines limiting the maximum volume allowed purchased in primary issues.

(9) Purchases of more than 50 percent of the volume in a primary issue shall only take place if Folketrygdfondet is able to document that the transaction is carried out on market terms. This likewise applies if Folketrygdfondet's investments through the Government Pension Fund Norway and the Bond Fund combined constitute more than 70 percent of the issue.

(10) Bond purchases in the secondary market entailing the Bond Fund will be invested in more than 70 percent of a single issue, shall be permitted only if

Folketrygdfondet is able to document that the transaction is carried out on market terms. This likewise applies for any transaction between the Government Pension Fund Norway and the Bond Fund.

(11) The Board of Directors of Folketrygdfondet shall establish supplementary risk limits, including:

- a. Credit risk limits, both at the individual issuer level and for the investment portfolio as a whole.
- b. Counterparty exposure limits. The limits shall include minimum credit ratings for non-secured deposit counter parties, OTC derivatives transactions and other contracts exposing Folketrygdfondet to counterparty risk.
- c. Limits on the reinvestment of cash collateral received. Reinvestments shall not be conducted with the view to increase the Bond Fund's risk asset exposure.

(12) The limits referred to in Sub-section 11 shall be presented to the Ministry upon their adoption. Subsequent changes to the limits shall be presented to the Ministry no less than four weeks prior to the planned adoption, unless special circumstances merit a shorter notice period.

Chapter 4. Valuation, return measurement and management, risk measurement and management

Section 4-1. Introductory provisions

(1) Folketrygdfondet shall establish guidelines and principles for valuation, return measurement and management and risk measurement and management which as a minimum shall adhere to internationally recognised standards and methods.

(2) Folketrygdfondet shall have procedures for reporting risk and exposures along the dimensions addressed in this chapter. The measurement methods shall complement each other.

Section 4-2. Valuation and return measurement

(1) The return on the investment portfolio shall be measured in Norwegian kroner.

(2) The return calculations shall be prepared in accordance with the Global Investment Performance Standards (GIPS) methodology.

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

(4) The methods used to determine the value of financial instruments shall be verifiable and provide reasonable assurance that they express the fair value of the Bond Fund at the measurement date.

Section 4-3. Measurement and management of market risk

(1) Folketrygdfondet shall establish principles for the measurement and management of market risk, including relevant sources of systematic risk, cf. Section 3-3. The measurements shall seek to capture all relevant market risk associated with the financial instruments used. The risk shall be estimated by several different methods.

(2) Extreme event risk analyses shall form an integral part of the risk management of the Bond Fund.

Section 4-4. Measurement and management of credit risk

Folketrygdfondet shall establish principles for the measurement and management of credit risk, cf. Section 3-3. The credit risk measurements shall seek to capture all relevant credit risk associated with the financial instruments used.

Section 4-5. Measurement and management of counterparty exposure

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

(2) Folketrygdfondet shall have satisfactory procedures and systems for the selection and evaluation of counterparties. Folketrygdfondet shall establish maximum exposure limits, minimum credit rating requirements and standards for the furnishing and management of collateral, as well as netting arrangements. Total counterparty exposure shall be calculated in accordance with internationally recognised methods.

Section 4-6. Measurement and management of leveraging

Folketrygdfondet shall establish principles for measurement and management of investment portfolio leverage, cf. Section 3-3. The principles shall encompass implicit leverage achieved through derivatives, and the

reinvestment of cash collateral in the context of derivatives.

Section 4-7. Securities lending, securities borrowing and the sale of securities not held by Folketrygdfondet (short-selling)

Folketrygdfondet is not permitted to engage in securities lending, securities borrowing, or in the sale of securities not held by Folketrygdfondet (short-selling).

Section 4-8. Reinvestment of cash collateral received

Folketrygdfondet shall establish guidelines for reinvesting collateral received, cf. Section 3-3.

Section 4-9. Measurement and management of operational risk

(1) Folketrygdfondet shall define and delimit the content of the term operational risk.

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

Section 4-10. Instrument approval

(1) Folketrygdfondet shall, prior to any investments, approve all financial instruments and new counterparties that are to be used.

(2) The approval pursuant to Sub-section 1 shall be conditional upon the instrument contributing to efficient and effective execution of the management assignment, and upon Folketrygdfondet being able to ensure comprehensive management, control and follow-up of all relevant investment risk and operational risk.

(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 appropriate.

Chapter 5. Investment management costs limits

Section 5-1. Investment management costs limits and remuneration arrangements

(1) Folketrygdfondet shall by 29 April 2020 send the Ministry a reasoned proposal

for a limit on the investment portfolio management costs, based on an investment management cost estimate for 2020.

(2) Thereafter, Folketrygdfondet shall by 1 December each year send the Ministry a reasoned proposal for a limit on the investment portfolio management costs, based on an investment management cost estimate for the following year.

(3) The Ministry shall stipulate the investment management cost limit as an amount in Norwegian kroner.

(4) The total actual management cost within the limit referred to in Sub-sections 1 and 2 shall be drawn directly from the Bond Fund's gross return, cf. Section 1-2 Sub-section 2.

Chapter 6. Public reporting

Section 6-1. Purpose

(1) There shall, to the extent compatible with sound execution of the management assignment, be maximum possible transparency about the investment management.

(2) The public reporting shall provide a true, fair and comprehensive overview of Folketrygdfondet's execution of the management assignment, including the choices and priorities made, the performance achieved and utilisation of the limits provided in this mandate.

Section 6-2. Public reporting

(1) Folketrygdfondet shall semi-annually report on and specifically address the following (semi-annual reporting):

- a. Developments in value, performance and risk in the Bond Fund.
- b. The utilisation of the limits defined in this mandate.

(2) The semi-annual reporting shall include extracts from those parts of Folketrygdfondet's financial statements which pertain to the management of the Bond Fund, as adopted in accordance with the financial reporting provision applicable to Folketrygdfondet at any given time.

(3) In addition to the requirements in Section 6-2 Sub-section 2, Folketrygdfondet shall annually report on and specifically address the following (annual reporting):

- a. The Board of Directors' assessment of the performance.

- b. The relationship between risk and return in the Bond Fund.
Folketrygdfondet shall use several methods and measures to report on risk-adjusted return.
- c. Investment management costs and estimated transaction costs for the Bond Fund, specified as a proportion of assets under management.

(4) The semi-annual reporting shall be made public no later than two months after the end of the relevant six-month period. The annual report shall be made public no later than three months after year end. The main content of the annual reporting shall be made available in print. Other reporting may be done electronically.

Section 6-3. Publication of calculation methods and data

(1) Data and methods used in the public reporting shall to the extent compatible with sound execution of the management assignment and statutory duties of confidentiality be described and made public in a computer-readable format.

(2) If the calculation methods underpinning the reporting of risk and return have changed since the previous reporting, an account shall be given as to why the methods have been changed and any effect of such changes shall be disclosed. Moreover, pro-forma figures based on the former calculation methods shall be provided for the next two years.

Section 6-4. Publication of the Board of Director's guidelines

The principles, guidelines and limits adopted by the Board of Directors as the result of this Mandate shall be made public.

Chapter 7. The Relationship between the Ministry and Folketrygdfondet

Section 7-1. Duty to Inform

(1) Folketrygdfondet shall inform the Ministry if the value of the investment portfolio changes materially, and shall also inform the Ministry of any material investment management developments. The information shall be provided without undue delays after the occurrence of any developments triggering the duty to inform.

(2) Folketrygdfondet shall provide the Ministry, as well as any companies or individuals assisting the Ministry, with any information requested by the Ministry. Data used in the public reporting, cf. Section 6-2, including data not publicly

released by Folketrygdfondet according to Section 6-3 Sub-section 1, shall be systemised and available for delivery in the format specified.

(3) Contracts between Folketrygdfondet and data providers shall ensure that the data may be made available for the Ministry, including for companies or individuals assisting the Ministry, in a computer-readable format.

Section 7-2. Obligations if investment management limits are exceeded

(1) If situations arise in which the limits in Section 3-3, cf. Section 7-4 are exceeded, Folketrygdfondet shall without undue delay perform an assessment of how its investment management may be brought back into compliance with the limits in an appropriate and cost-effective manner.

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

Section 7-3. Meetings

Meetings shall be held between the Ministry and Folketrygdfondet at least quarterly. The Ministry shall prepare the agenda and specify which data and what information shall be submitted as a basis for the Ministry's preparations for the meetings, as well as the format and timing of such submission.

Section 7-4. Phase-in and Phase-down Provisions

(1) Section 3-3 Sub-section 1 and Sub-section 4 does not apply when less than 2 percent of the fund capital is invested in the bond market, cf. the Government Bond Fund Act Section 3 Sub-section 2.

(2) Section 4-2 Sub-section 2 does not apply when less than 5 percent of the fund capital is invested in the bond market, cf. the Government Bond Fund Act Section 3 Sub-section 2.

Section 7-5. Fund management closure

Folketrygdfondet shall, upon request from the Ministry, submit a plan for concluding the management assignment for the Ministry's approval.

Chapter 8. Scope for derogation from the provisions, transitional provisions and effective date

Section 8-1. Scope for derogation from the provisions

The Ministry may under special circumstances permit Folketrygdfondet to derogate from the provisions in this mandate.

Section 8-2. Transitional Provisions

The Ministry may lay down special transitional provisions.

Section 8-3. Effective Date

This mandate is effective as of 27 March 2020.