The Government Pension Fund – Global

The Government Pension Fund was established on 1st January 2006. The Government Pension Fund comprises: The Government Pension Fund – Global (previously the Government Petroleum Fund, established in 1990) and The Government Pension Fund – Norway (The National Insurance Fund, established in 1967). This report only relates to The Government Pension Fund - Global.

Introduction

At the request of the Ministry of Finance, WM Performance Services, a State Street business, has carried out an evaluation of the investment returns and associated investment risk of the Government Pension Fund – Global. The evaluation is conducted at three levels, Total Assets, Total Bonds and Total Equities

To provide context to the evaluation, the Fund's results are placed against backdrops that comprise the outcomes for large multi-asset institutional funds. These include large European pension and life company funds, US state retirement plans and Sovereign Wealth Funds. The aggregate market value of these funds at the end of December 2008 exceeded NOK 10,500 billion. By value, 59% of the funds are domiciled in Europe.

Rolling Years with Relative Risk

These charts plot the Fund's benchmark relative performance quarterly and for the annualised rolling three year periods. The benchmark relative risk and information ratio at each of the quarter ends is also shown. The charts identify short term trends in benchmark relative performance and risk

3 Year Annualised Relative Return and Risk Scatter-Grams

In the scatter-grams, each fund's result is represented by a circle. The green circles show the position of the fifteen largest funds, ranging in size from NOK 100 billion to NOK 1, 280 billion, with an average value of NOK 320 billion. Red circles cover funds with values ranging from NOK 18 billion to NOK 99 billion; the average value is NOK 42 billion. The open circles are other, smaller, investors.

The risk and return scatter-grams plot the three year annualised results for each of the backdrop funds relative to their individual strategic benchmarks. The strategic benchmarks are quite diverse in terms of the mix of assets (bonds, equity, real estate etc.).

Strategic benchmarks are unique to each fund and define approximately 90% of their absolute investment return and associated risk. The benchmark relative risk and return captures the effect of tactical asset allocation and investment selection decisions made by each fund.

Since the start of the global financial crisis in June 2007, market risk has risen sharply. With rising risk, relative returns and risks are more diverse across all three backdrops; total assets, equities and bonds. Taking total assets as an example, the number of funds with benchmark relative risk in excess of 1.5% increased from 25% to nearly 75% in the last twelve months. As the risk has increased so too has the range of benchmark relative returns. Indeed, the spread of returns in 2008 is the widest we have recorded; the 2008 interquartile range of 3.2% compares with a range of 1.3% in 2006. This divergence of benchmark relative risks and returns has affected investors of all sizes.

Converting relative risk to extra return is not automatic; in the three year annualised period to the end of December 2008 almost three quarters of funds failed to match their benchmarks. Including fees, the proportion is closer to eighty five percent.

The table below the scatter-grams provides the Fund's rolling three year annualised absolute and benchmark relative return and risk details for a series of periods including the latest. Additionally, the information ratio (IR) is also shown, this ratio can be either positive or negative. The IR expresses benchmark relative return as a proportion of benchmark relative risk - it is often considered a measure of 'skill'. From research conducted by WM an IR of 0.3 usually equates to upper quartile performance. Higher IR's are seen but not normally maintained – a period of relative out-performance is likely to be eroded by subsequent underperformance.

At the overall fund level high IR's are achievable as a result of either tactical asset allocation at the highest level (the bond/equity split) or the ability to select a set of portfolio managers that in aggregate reduce overall benchmark relative volatility and add value over the benchmark. However, here too the maintenance of high IR's is rare with successful outcomes normally in the range 0.3 to 0.5.

The IR statistic must be treated with caution, if relative risk is very low a small variance in return will give a large IR, either positive or negative.

Ranges of Relative Return and Risk

The charts summarise the dispersion of benchmark relative returns for all the funds in the backdrop in each of the last five years and also give the ranges of annualised benchmark relative returns and risk for the three and five year periods ending December 2008. The '0' on the x axis represents each fund's unique strategic benchmark and is the base point around which the dispersion of relative return and relative risk is displayed. The charts show the range of results from 5th to 95th percentiles with the interquartile range (25th to 75th percentiles) shaded.

In most years benchmark relative annual returns are quite evenly distributed around '0' (the benchmark). However, in 2008 and, to a lesser extent, 2007 there is a clear skew in results with the majority of funds underperforming. This is a common theme across all three backdrops. Most surprising is the spread of results for Bonds. Funds have given bond managers the scope to invest out-with the strict confines of the benchmark. Many benchmarks are set with reference to Government bonds but the actual mandate will permit investment in credit, emerging market debt and other higher yielding issues. These lower quality issues were severely marked down as the credit crisis unfolded.

Investment Return and Risk Evaluation

Total Assets

In any time period the most significant factor in defining the absolute level of the Fund's investment return and risk is the strategic benchmark. Past evaluation shows that the contribution from manager investment decisions can add or detract a relatively small amount to the return and risk of the investment strategy.

Investment markets started to dislocate in June 2007 as the extent of the credit crisis caused by the US sub-prime mortgage market became apparent. In September 2008 the scale of losses in the financial sector resulted in the failure and effective nationalisation of a number of major institutions. Central banks intervened massively to mitigate the effects of the banking crisis on the real economy. Notwithstanding, the global economy has slowed sharply and this has translated into significant falls in both the equity and non-government bond markets as investors are currently extremely risk averse.

With the market dislocation funds have experienced swings in investment risk and return at the extremes of their risk projections. The effects of small deviations in market exposure relative to benchmark are magnified by high market volatility and the flight to safety.

The effect of market events on the Fund are clearly illustrated in the schedules 'Rolling Years with Relative Risk'. The Fund's quarterly returns were close to benchmark until the middle of 2007. Since then performance shows a significant relative decline. The main factor underlying the shortfall is a major deterioration in relative performance from the Fund's bond investments.

Taking 2008 in isolation, the strategic benchmark fell by -19.9% with the Fund falling -23.3%. The degree of underperformance placed the Fund in the bottom quartile of benchmark relative performances.

Until the end of 2007 the rolling three year returns were well ahead of the benchmark and accompanied by low relative risk. The information ratios (IR), often used as a measure of investment skill, were exceptional; IR's of 0.5 and above are difficult to sustain. Performance over the last six quarters takes the rolling three year result 1.4% below the benchmark and relative risk rises from 0.3% to 1.3%. As a consequence the IR at end December 2008 is -1.1.

The degree of underperformance is surprising, the Fund's size and the extent of manager diversification should act as a constraint on relative performance.

The Relative Risk and Return scatter grams show the Fund's investment risk is close to the middle of the range while the return is in the lower half of the observations. This is a large change from the position at the end of 2007 when the Fund showed very low risk compared to the peer group and enjoyed near upper quartile relative performance.

In 2008 the Fund received over NOK 380 billion of new money from the Government, this represented almost 20% of the value of the Fund at end December 2007 (NOK 2,019 billion) – by comparison, most large funds have cash flows that are less than 5% of initial value. Investing significant cash flow, both as a percentage of the Fund and in terms of the absolute amount, presents a challenge in identifying suitable investment opportunities and in covering the physical transaction costs.

Total Bonds

Bond performance is the primary source of the Fund's relative underperformance in both the latest year and over the most recent rolling three year period.

Investment returns varied widely across the bond markets. High quality government bonds were supported as investors sought safety. Corporate and lower quality bonds experienced major falls in value as investors required significantly higher yields as compensation for the default risk. Index Linked issues also lagged as concerns grew about the possibility of deflation.

In these difficult conditions the Fund has significantly underperformed. This implies that the assets were positioned away from the benchmark and in areas where investment returns were particularly weak. The degree of underperformance is extreme for such a large and diversified Fund, in the eighteen months since end June 2007 the Fund's bonds returned 3% compared to the benchmark's 11.3%. The bulk o the shortfall occurred during 2008 with the Fund returning -0.5% against a benchmark of 6.1% this placed the performance in the bottom 5% of benchmark relative returns.

The quarterly returns, Rolling Years with Relative Risk, closely tracked the benchmark until the middle of 2007 – indeed they show a period of consistent modest outperformance. From this point the relative results deteriorate rapidly ending with a 3.4% shortfall in the last quarter of 2008. As the recent underperformance starts to dominate the rolling three year returns these too move markedly below the benchmark. The degree of divergence is reflected in sharply increasing relative risk in the most recent observations. Relative risk has risen from 0.1%, effectively index tracking, to 1.7%.

Relative to other investors the Fund's recent experience is extreme. The Risk and Return scatter-grams show the Fund's performance in the bottom quartile of bond results for the three years to the end of December while risk has risen from bottom decile to median. The Fund has the undesirable outcome of increased risk accompanied by relatively poor performance.

Total Equities

Equity markets fell heavily over the course of 2008 as the banking crisis fed into the real economy. Global growth rates fell and many commentators raised the spectres of recession and deflation. From the middle of 2007 to December 2008 equity markets fell by a cumulative 41.5%. The Fund's equity investment fell by 42.6% in the same period. The quarterly performance chart identifies the third quarter of 2008 as critical to the Fund's relative performance. This was the quarter in which there were a number of high profile financial sector rescues and Lehman Brothers filed for bankruptcy protection.

Relative performance was weaker in 2008 than any of the preceding years and approached lower quartile in the range of relative results. The underperformance in the latest year takes the rolling three year return a little below the benchmark. However this follows an extended period of significant outperformance. The investment risk has increased in the most recent periods but remains at the lower end of the peer group range.

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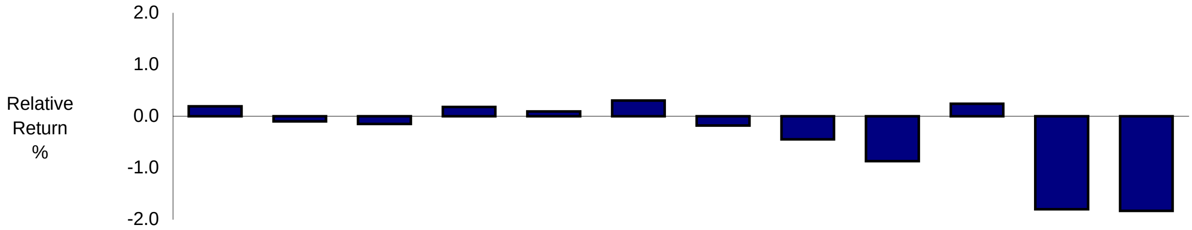
Rolling Years with Relative Risk

Total Fund — **Periods to end December 2008**

Total Fund Benchmark — **Currency**

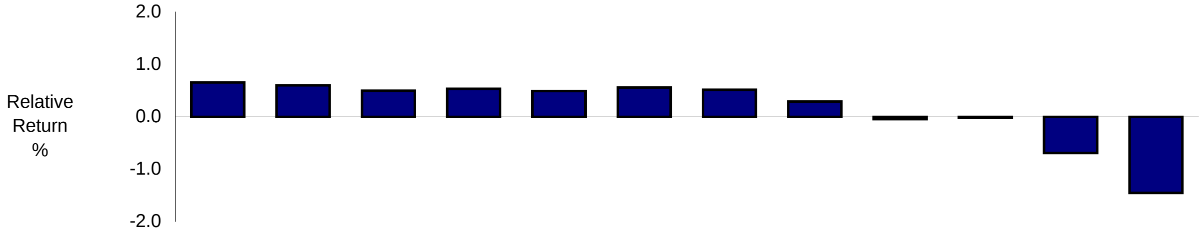
This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

Quarterly Returns



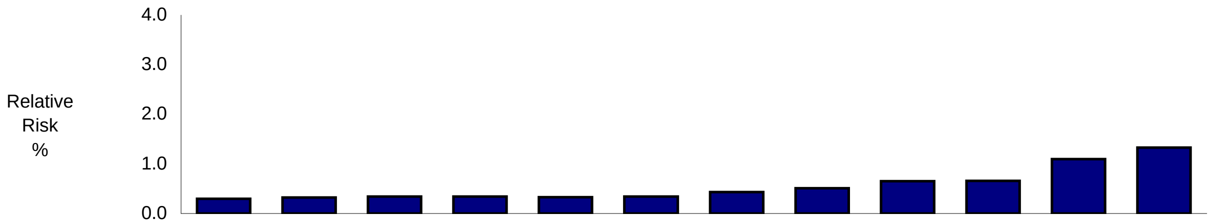
	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4
Fund	2.2	-1.5	3.9	3.2	1.5	2.2	1.1	-0.6	-5.6	-1.9	-7.7	-10.3
Benchmark	2.0	-1.4	4.1	3.0	1.4	1.9	1.3	-0.2	-4.8	-2.1	-6.0	-8.6
Relative Return	0.2	-0.1	-0.1	0.2	0.1	0.3	-0.2	-0.4	-0.9	0.2	-1.8	-1.8

Annualised Rolling 3 Year Returns



	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4
Fund	12.3	9.0	9.8	9.3	8.8	9.7	9.6	7.7	5.3	3.3	-0.4	-4.8
Benchmark	11.6	8.4	9.3	8.7	8.3	9.0	9.0	7.4	5.4	3.4	0.3	-3.4
Relative Return	0.7	0.6	0.5	0.5	0.5	0.6	0.5	0.3	-0.0	-0.0	-0.7	-1.5

Rolling 3 Year Risk



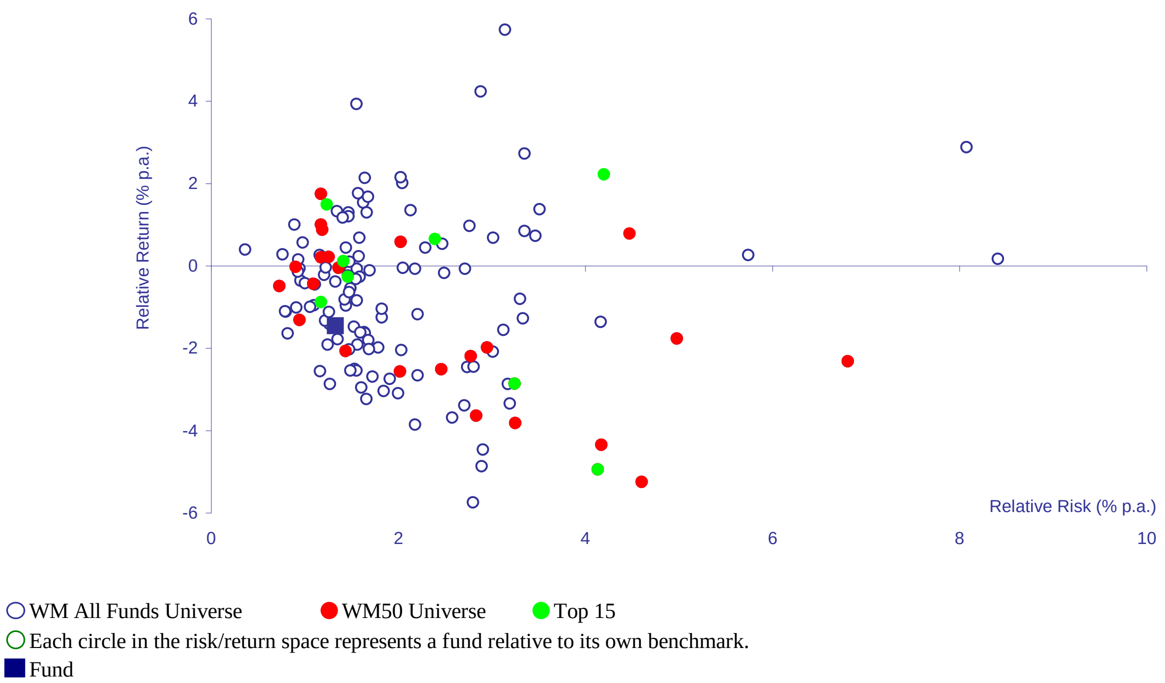
	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4
Relative Risk	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.7	0.7	1.1	1.3
Information Ratio	2.2	1.9	1.5	1.6	1.5	1.6	1.2	0.6	-0.1	-0.0	-0.6	-1.1

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

The Government Pension Fund - Global

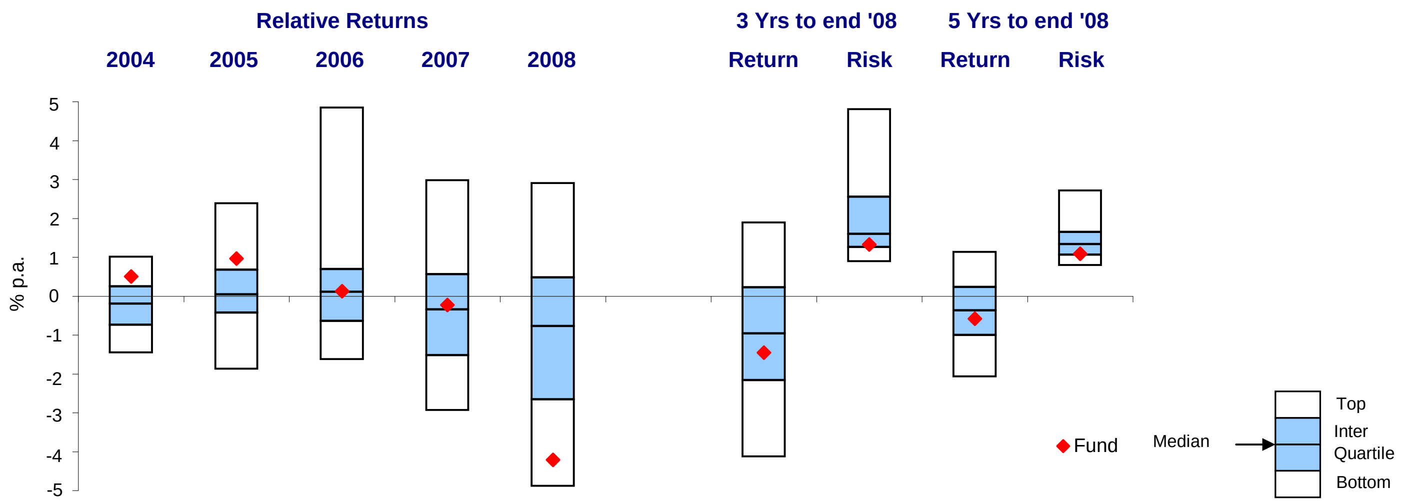
Backdrop: Large Fund Total Assets

3 Year Annualised Relative Return and Risk to End December 2008



Total Assets	Three Year Annualised figures as at end					
	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
Absolute Risk & Return						
Fund Absolute Return	1.5	5.3	10.9	9.3	7.7	-4.8
Fund Absolute Risk	6.3	5.3	4.0	3.3	3.6	9.7
Benchmark Absolute Return	1.2	4.9	10.1	8.7	7.4	-3.4
Benchmark Absolute Risk	6.2	5.3	3.9	3.2	3.3	8.7
Benchmark Relative						
Return	0.3	0.4	0.7	0.5	0.3	-1.5
Risk	0.3	0.2	0.3	0.3	0.5	1.3
Information Ratio	1.2	1.8	2.3	1.6	0.6	-1.1

Ranges of Relative Return and Risk



WM PERFORMANCE SERVICES

Rolling Years with Relative Risk

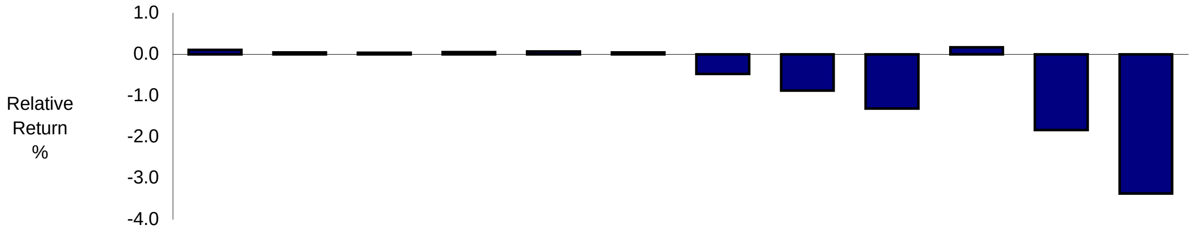
Bonds — **Periods to end December 2008**

Total Bond Benchmark — **Currency**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

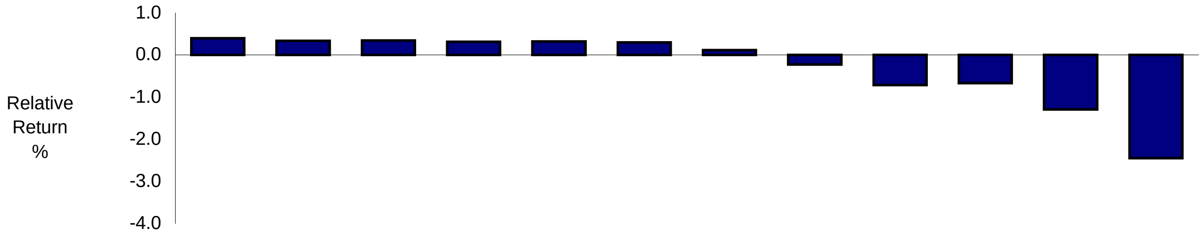
	-----------2006-----------				-----------2007-----------				---------2008----------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

Quarterly Returns



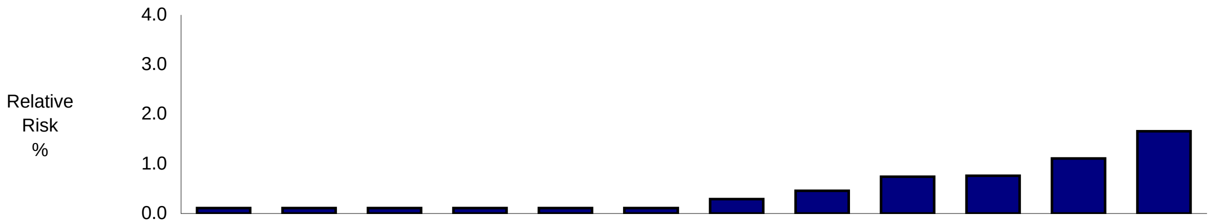
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund	-1.1	-0.4	3.1	0.4	0.7	-1.2	2.1	1.3	0.9	-1.7	-1.2	1.6
Benchmark	-1.2	-0.4	3.1	0.3	0.7	-1.2	2.6	2.2	2.2	-1.9	0.7	5.1
Relative Return	0.1	0.0	0.0	0.1	0.1	0.0	-0.5	-0.9	-1.3	0.2	-1.8	-3.4

Annualised Rolling 3 Year Returns



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund	3.9	2.8	4.0	3.9	3.4	3.6	3.2	2.9	3.1	1.4	1.1	1.4
Benchmark	3.5	2.5	3.6	3.6	3.1	3.3	3.1	3.1	3.8	2.1	2.4	4.0
Relative Return	0.4	0.3	0.3	0.3	0.3	0.3	0.1	-0.2	-0.7	-0.7	-1.3	-2.4

Rolling 3 Year Risk



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Relative Risk	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.5	0.7	0.8	1.1	1.7
Information Ratio	3.6	3.1	3.2	2.8	2.9	2.7	0.4	-0.5	-1.0	-0.9	-1.2	-1.5

The relative return is the degree of out or underperformance of the Benchmark over these periods.

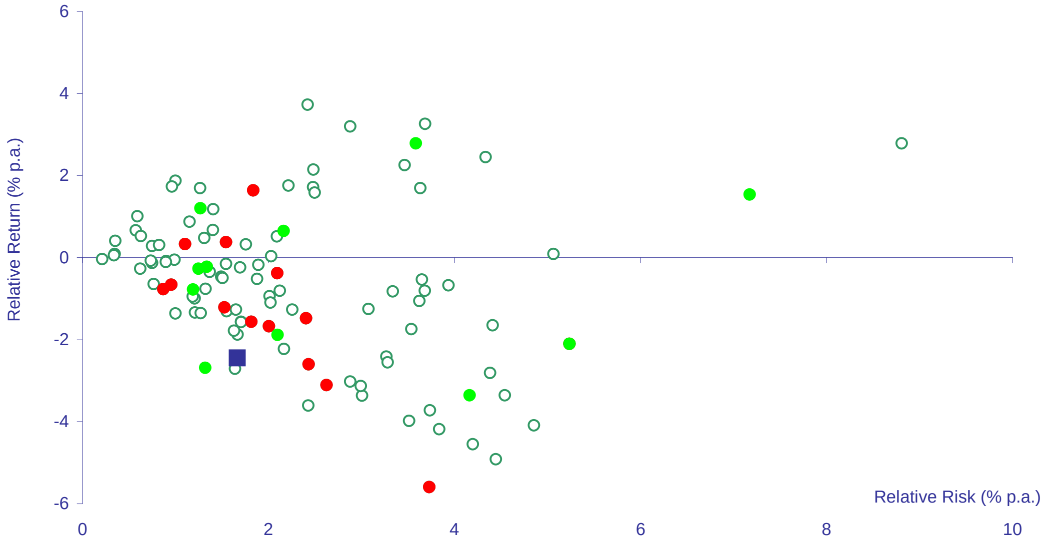
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

The Government Pension Fund - Global

Backdrop: Large Fund Total Bonds

3 Year Annualised Relative Return and Risk to End December 2008



○ WM All Funds Universe ● WM50 Universe ● Top 15

○ Each circle in the risk/return space represents a fund relative to its own benchmark.

■ Fund

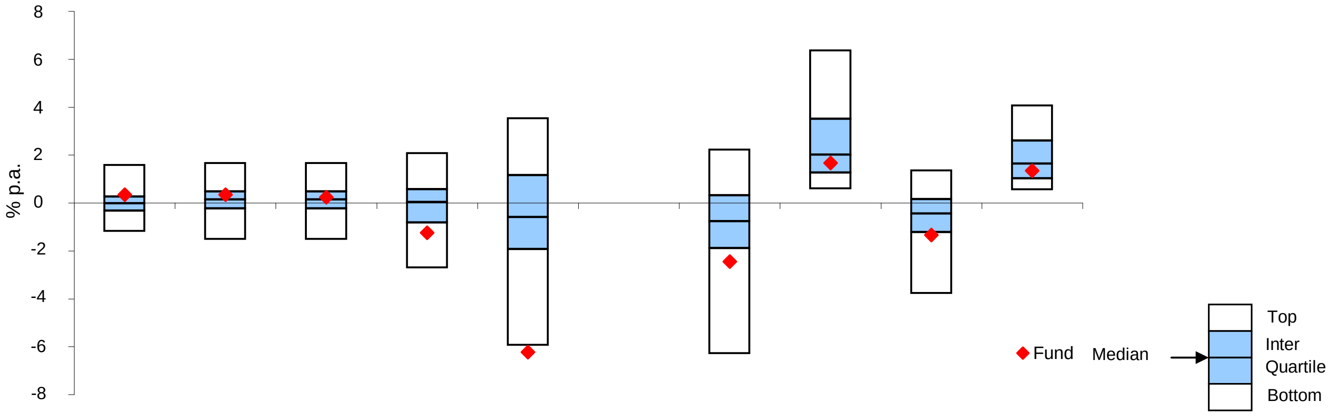
Total Bonds	Three Year Annualised figures as at end					
	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
Absolute Risk & Return						
Fund Absolute Return	6.7	7.1	5.1	3.9	2.9	1.4
Fund Absolute Risk	3.9	3.7	3.4	2.6	2.4	4.2
Benchmark Absolute Return	6.4	6.6	4.6	3.6	3.1	4.0
Benchmark Absolute Risk	3.9	3.7	3.4	2.7	2.6	3.9
Benchmark Relative						
Return	0.3	0.4	0.4	0.3	-0.2	-2.4
Risk	0.1	0.1	0.1	0.1	0.5	1.7
Information Ratio	2.4	3.6	3.1	2.8	-0.5	-1.5

Ranges of Relative Return and Risk

Relative Returns — 2004, 2005, 2006, 2007, 2008

3 Yrs to end '08 — Return, Risk

5 Yrs to end '08 — Return, Risk



Rolling Years with Relative Risk

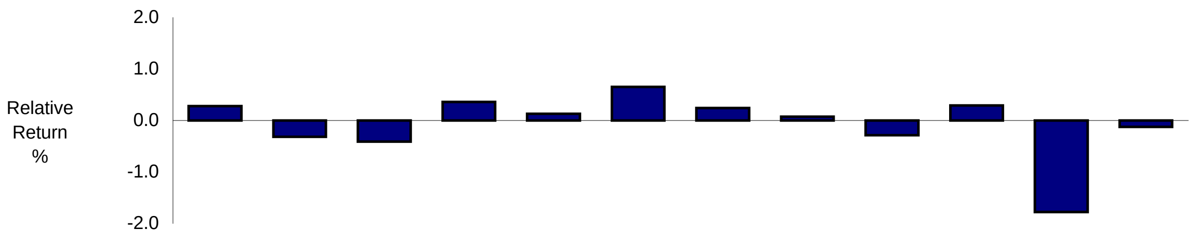
Total Equity | **Periods to end December 2008**

Equity Benchmark | **Currency**

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

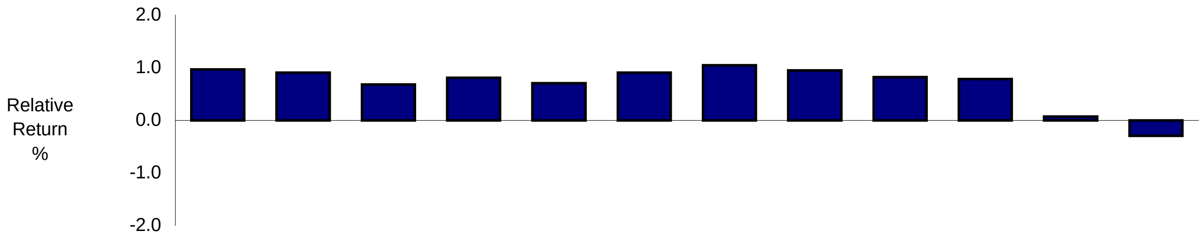
	-----------2006-----------				-----------2007-----------				---------2008----------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

Quarterly Returns



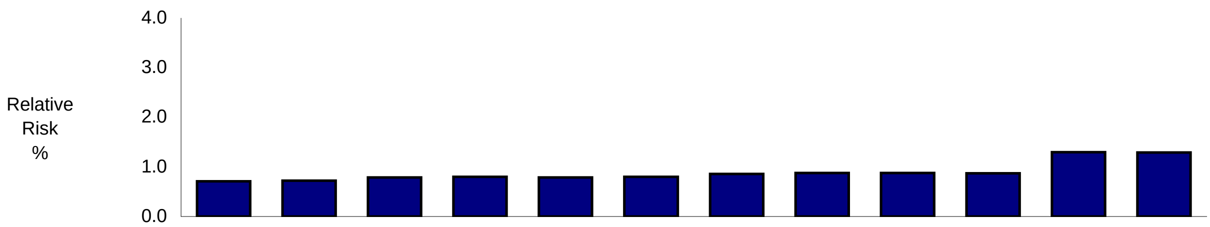
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund	7.2	-3.3	5.1	7.4	2.6	7.4	-0.3	-2.8	-12.7	-1.6	-13.1	-20.6
Benchmark	6.9	-3.0	5.6	7.0	2.5	6.7	-0.5	-2.8	-12.4	-1.9	-11.5	-20.5
Relative Return	0.3	-0.3	-0.4	0.4	0.1	0.7	0.2	0.1	-0.3	0.3	-1.8	-0.1

Annualised Rolling 3 Year Returns



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund	25.5	18.2	18.6	17.4	17.0	19.1	19.3	15.3	9.5	7.2	-0.4	-9.5
Benchmark	24.3	17.2	17.8	16.5	16.2	18.0	18.1	14.2	8.6	6.3	-0.5	-9.2
Relative Return	1.0	0.9	0.7	0.8	0.7	0.9	1.0	0.9	0.8	0.8	0.1	-0.3

Rolling 3 Year Risk



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Relative Risk	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.3	1.3
Information Ratio	1.4	1.3	0.9	1.0	0.9	1.1	1.2	1.1	0.9	0.9	0.1	-0.2

The relative return is the degree of out or underperformance of the Benchmark over these periods.

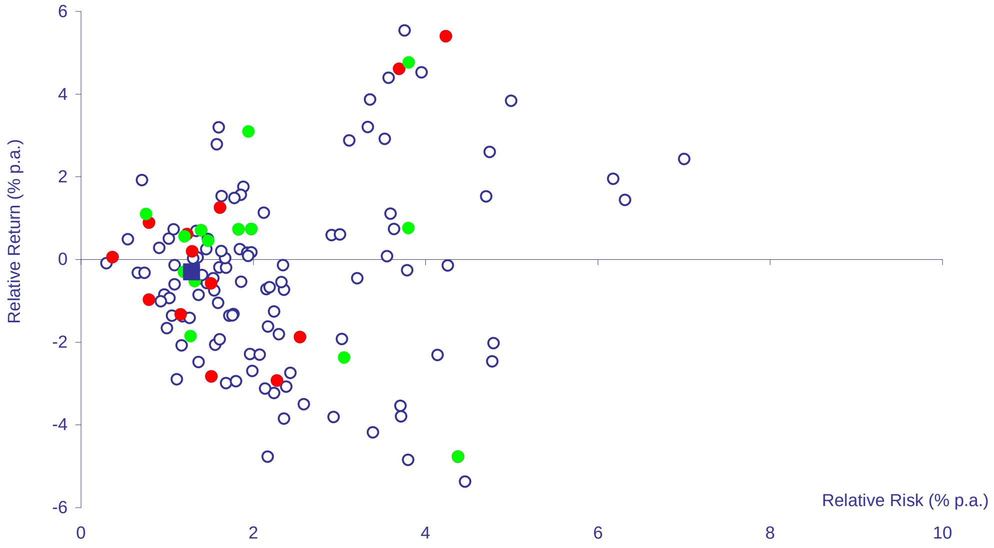
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

The Government Pension Fund - Global

Backdrop: Large Fund Total Equities

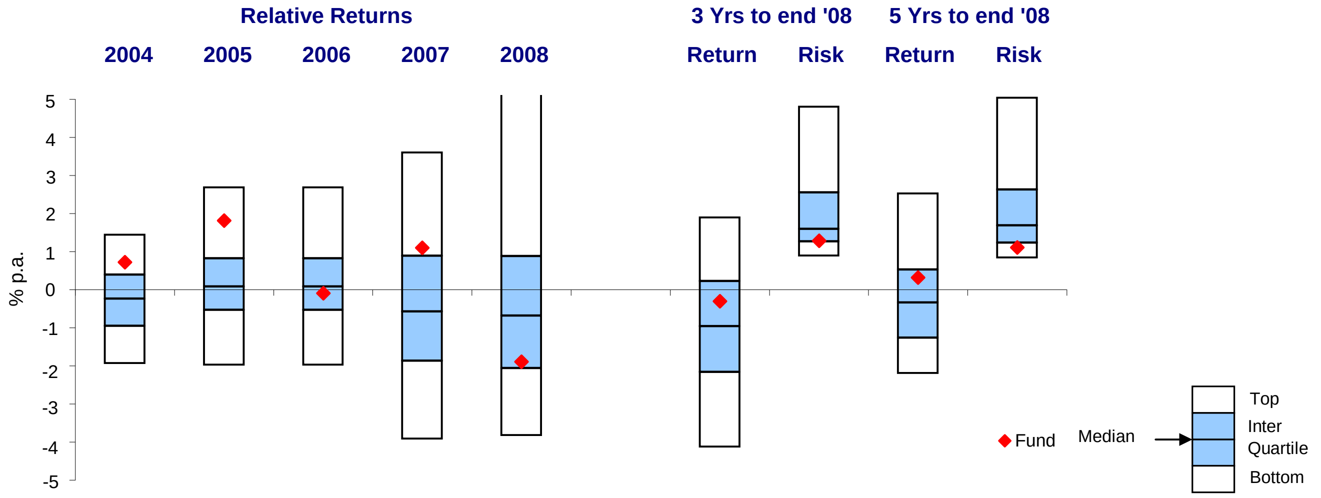
3 Year Annualised Relative Return and Risk to End December 2008



○ WM All Funds Universe ● WM50 Universe ● Top 15
○ Each circle in the risk/return space represents a fund relative to its own benchmark.
■ Fund

Total Equities	Three Year Annualised figures as at end					
	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
Absolute Risk & Return						
Fund Absolute Return	-7.4	1.6	19.4	17.4	15.3	-9.5
Fund Absolute Risk	18.4	15.5	9.6	7.6	8.7	17.9
Benchmark Absolute Return	-7.6	1.2	18.2	16.5	14.2	-9.2
Benchmark Absolute Risk	18.3	15.5	9.4	7.1	8.2	17.1
Benchmark Relative						
Return	0.2	0.4	1.0	0.8	0.9	-0.3
Risk	0.6	0.6	0.7	0.8	0.9	1.3
Information Ratio	0.3	0.7	1.5	1.0	1.1	-0.2

Ranges of Relative Return and Risk



WM PERFORMANCE SERVICES