

Government Pension Fund Global

Established in 1991 – money accrued in 1996

2001: Fiscal Rule: Use expected real return, i.e. four percent. Fund would be everlasting. So far, stuck to the rule. Return a little less.

Long-term investor – modest demand for liquidity

Norges Bank Investment Management (NBIM) does the management; Ministry of Finance is the owner

Reference index is the most important decision. Not much discussed

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1998: 40 % in stocks, 60 % in bonds

2006: Reversed, 60 % in stocks

2010: Aim for 5 % in real estate, only 1 % so far. Why, do you think, fund is such a slow mover here?

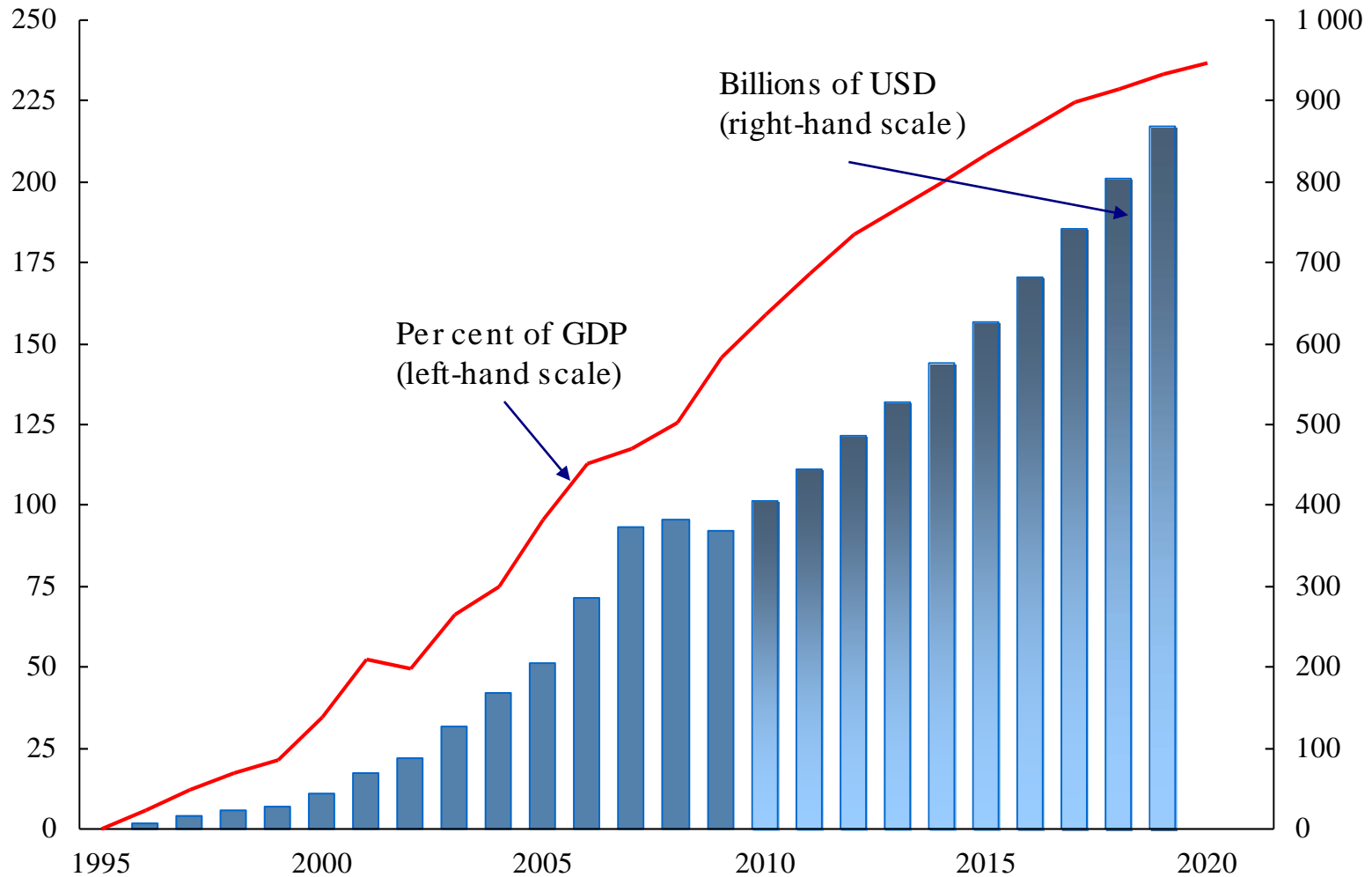
Hit hard by the financial crisis.

Andrew Ang, at Columbia Business School:

” ... the rolling analysis shows that a large part of the fund’s active losses could have been anticipated because of the large factor exposures computed ex ante.”

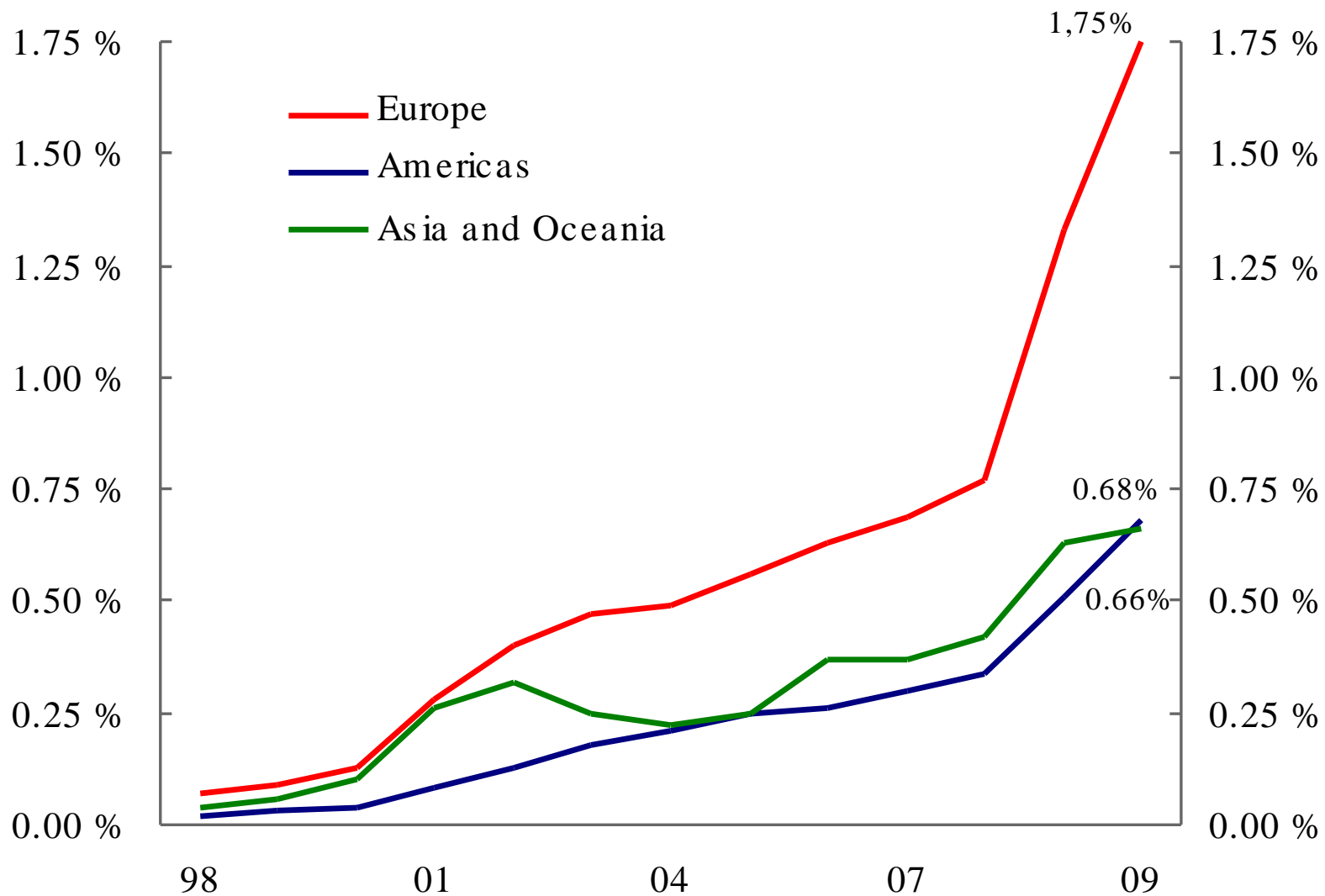
”Ex ante” is the crucial thing here. Why?

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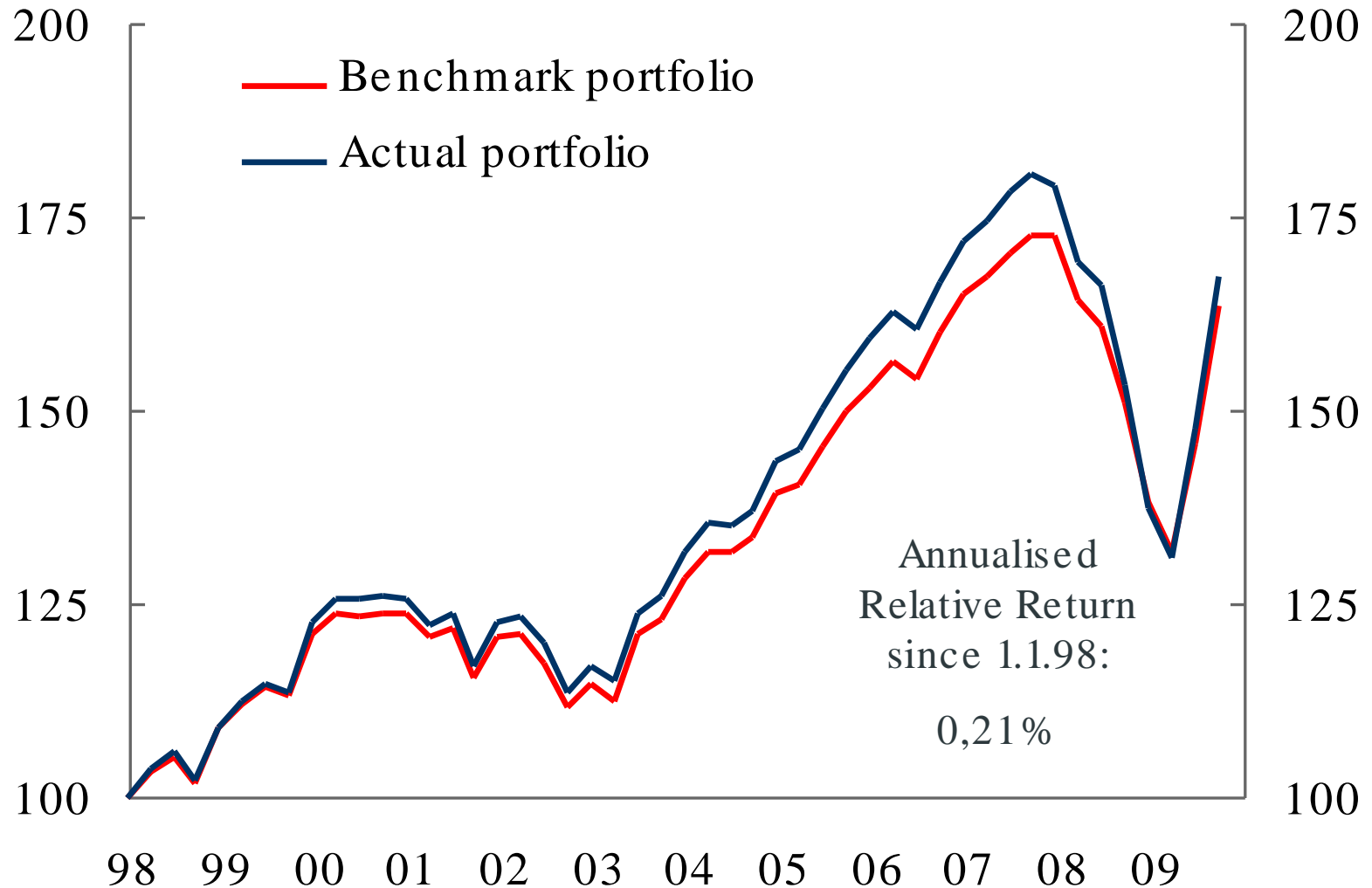


Sources: Ministry of Finance and Norges Bank

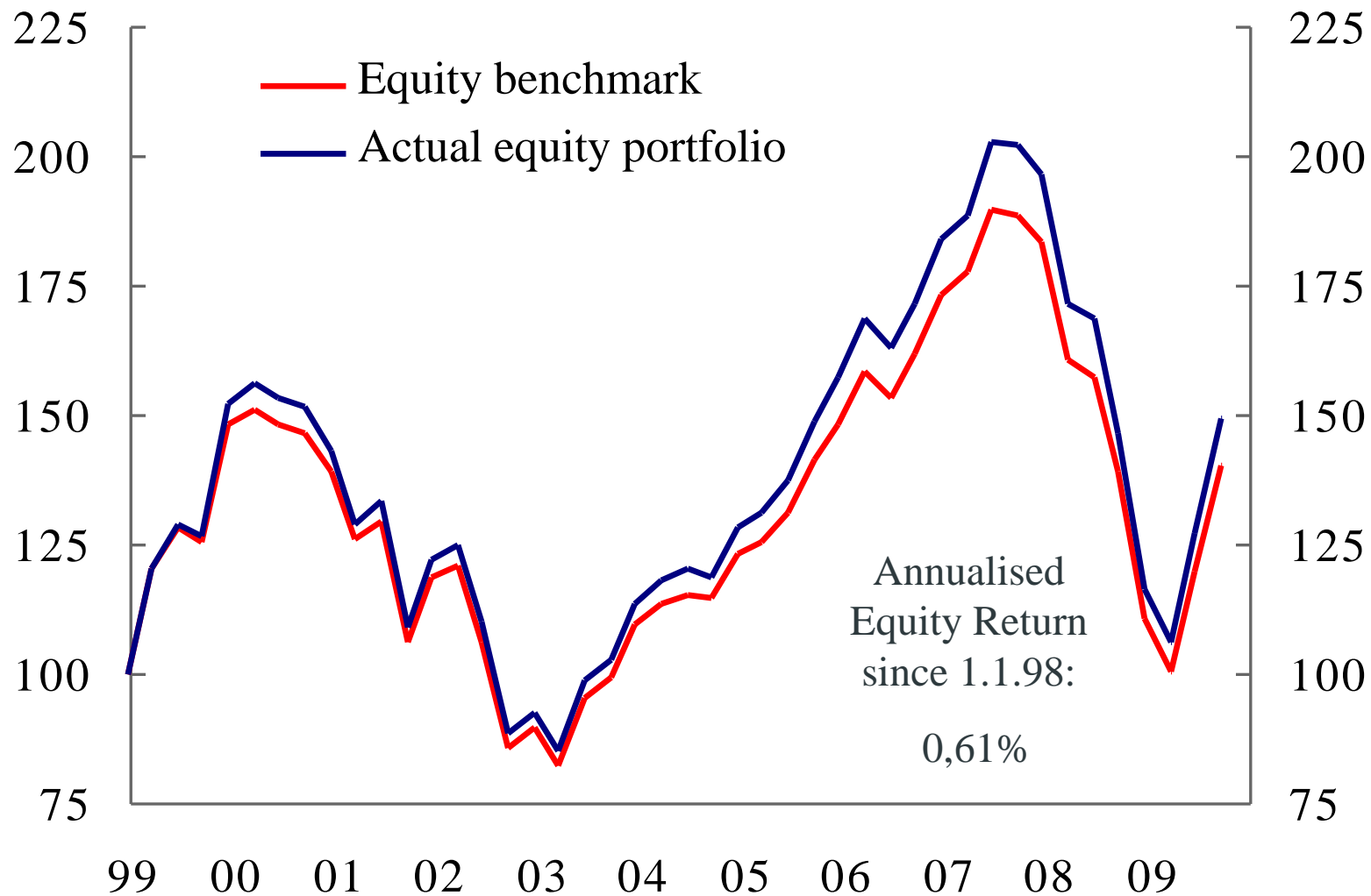
Equity Ownership in Percent of Markets



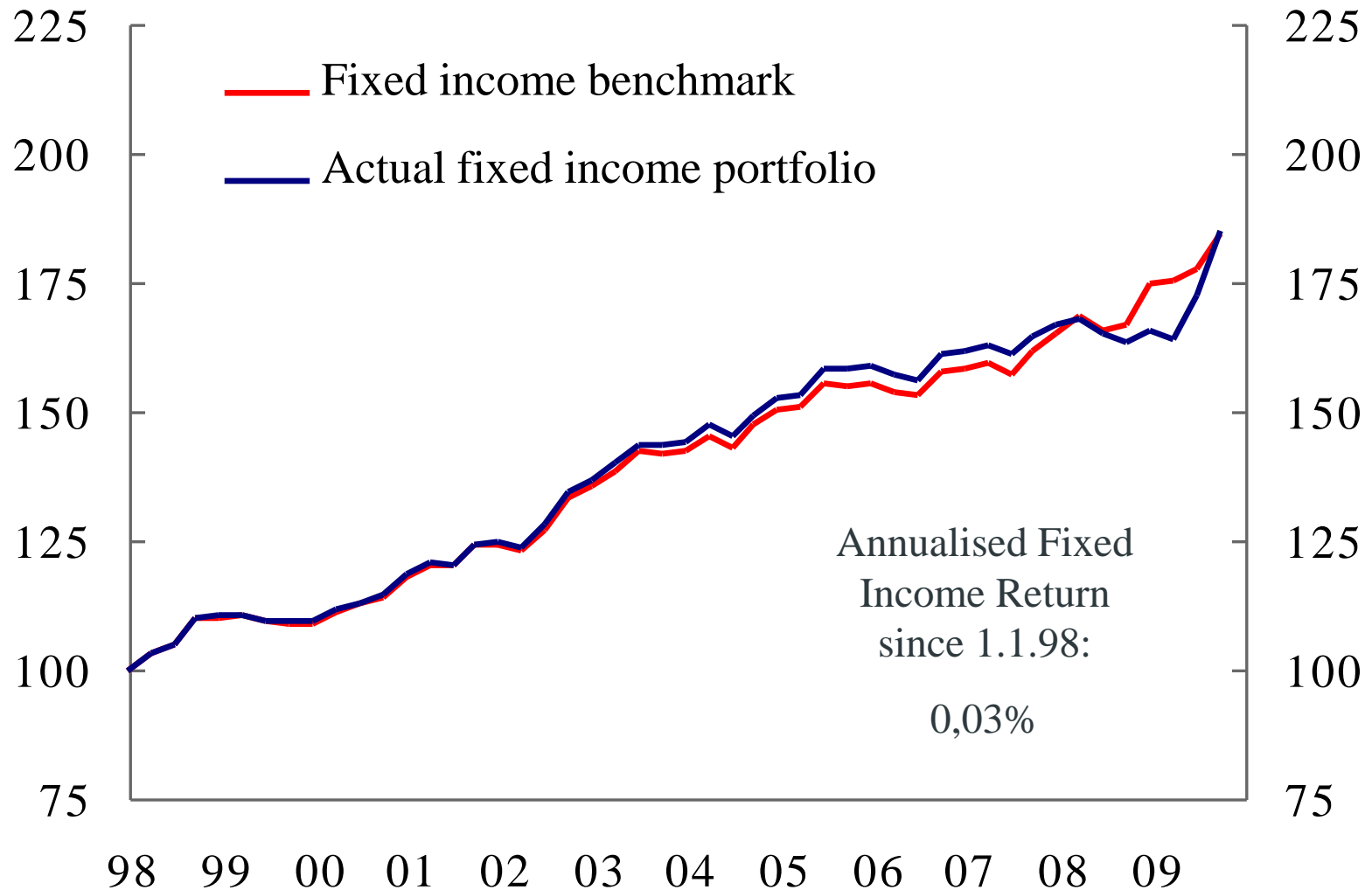
Relative Return - Fund



Relative Return - Equities



Relative Return – Fixed Income



Degree of Efficiency Varies

- Between markets
- Over time
 - Market stress and financing constraints
- As pricing may not be uniform globally or by instruments
 - Investor and market segmentation
- Over investment horizon

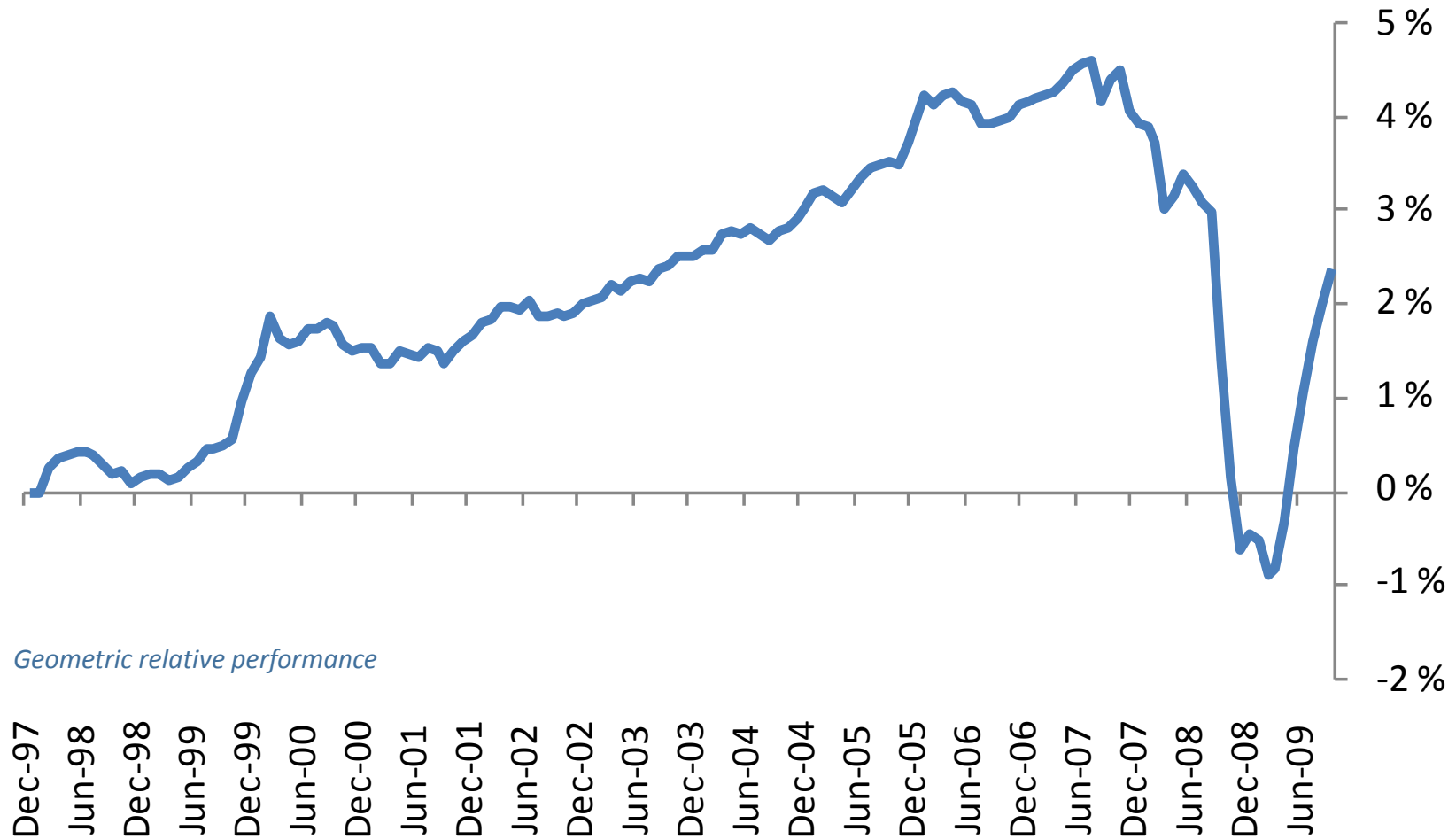


Theory suggest it is possible to create value through active decisions

External Management



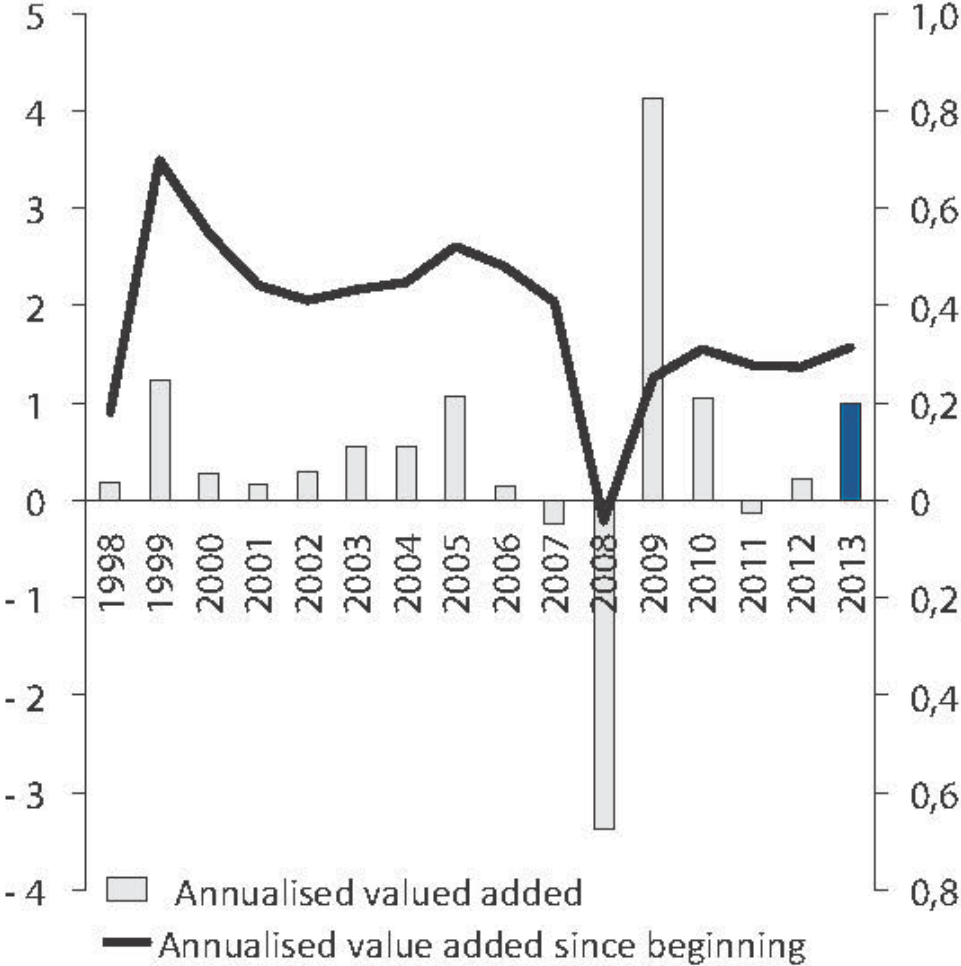
Accumulated Excess Return for the Government Pension Fund Global



Geometric relative performance

Growth in gross value added of SPU over time.

Percent



Sources: Norges Bank og Finansdepartementet.

Three Main Strategies for Active Management

**Ensure efficient
market exposure**

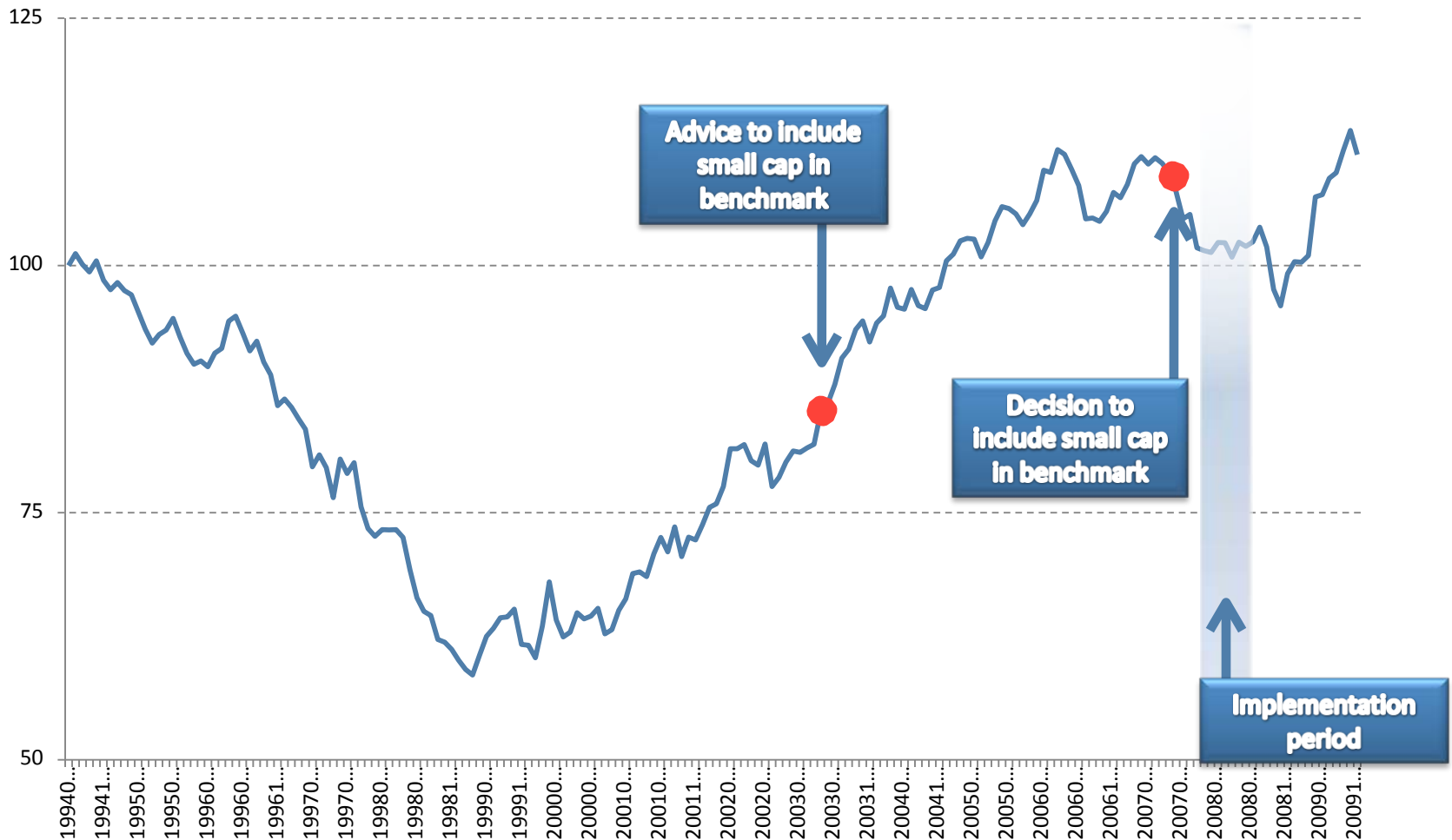
**Create value
through
fundamental
analysis**

**Management of
systematic risk**

Systematic Risk Factors

- An increasing number of anomalies identified
- Varies over time and between markets
- New anomalies likely to emerge
- Our understanding of financial markets change rapidly
- Heraklit: You never step twice into the same river

Systematic Risk – Not a One Way Bet



Government Pension Fund Global

The most impressive part of it is the fiscal rule. Now, the fund is more than one million NOK per inhabitant, or 170.000 USD.

What to do with the money is one concern.
What does the money do with us, is another.

Success criteria – any suggestions?

Not too hard to beat the reference index.
Liquidity has a price, and we need little of it.

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Lost accumulated excess return in the fall of 2008.

But enjoy a great deal of legitimacy:

Openness, low cost, i.e. econ of scale, professionally run,
adding new classes for investments

Ministry of Finance keeps a close eye on the fund.

Real estate – buy the stuff, or invest in REITs?

Owns 2,5 % of European stocks and more than 1 % of global
stocks, on exchanges. Could that be a problem?