Norway's SWF hits back at stock-picking criticism

20 December 2017 **By** **Rachel Fixsen**

The manager of Norway's giant oil fund should steer clear of the kind of speculative investment methods used by commercial asset managers, two independent commentators have argued.

Norges Bank, whose arm Norges Bank Investment Management (NBIM) manages the NOK8.6trn (€863bn) Government Pension Fund Global (GPFG), has responded by criticising the premises of the commentators' analysis.

In an article published in Norwegian business daily Dagens Næringsliv (DN), Halvor Hoddevik, executive chairman of Oslo-based consultancy Rann, and Richard Priestley, professor and leader of the Department of Finance at BI, the Norwegian Business School, said NBIM's stock-picking activities had underperformed by around one percentage point a year since 2013.

This underperformance on some 20% of the GPFG equities portfolio equated to around NOK10bn (€1bn) a year, or NOK12bn including costs, the authors claimed.

"Based on new data, we confirm our finding from 2015 that the speculative part of the equity management in the oil fund does not contribute to risk-adjusted returns before costs," the men said in the article.

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>
> – Egil Matsen, deputy governor of Norges Bank

"Even the most conservative estimate of the performance of the stock picking strategy would say that the performance is zero and therefore, after costs, it's clearly a minus business for which there is no justification."

As with its direct real estate management activities, this "commercial" business undertaken by NBIM was not serving the interests of the Norwegian people, they said.

"Let NBIM do what it is good at — spreading risk and harvesting systematic risk premia – [but] other commercial activities like stock picking and managing property portfolios should be abandoned," Hoddevik and Priestley said.

The experts used data from 2013 to September 2017 from NBIM to undertake their analysis.

Priestley told IPE he does not oppose active management for the GPFG, in the sense of overweighting assets to certain risk factors in order to harvest a premium.

"What I am against is commercial activity, because this should be outside NBIM's mandate.

"The cost is much higher, and I don't think it is possible for the oil fund to beat the market by picking out stocks — or managing property with partners — so they will most likely make a loss here after costs," he said.

Norges Bank criticised the commentary from Priestley and Hoddevik.

Egil Matsen, deputy governor of Norges Bank with particular responsibility regarding matters related to NBIM, said: “We welcome a critical and educated debate about the management of the fund, but this is not a report, it is tabloid commentary in a Norwegian newspaper that doesn’t contribute to an educated discussion.”

He said the criticism was based on unclear premises, and that the report’s authors had not disclosed the method or analysis.

Matsen argued that the fund’s strategies were interdependent, and should not be evaluated separately.

“The annualised excess return for the fund is 27 basis points,” he said, adding that at today’s market value of the fund, this corresponded to NOK20bn in extra return a year.

NBIM recently defended its use of active management in both equities and bonds in a letter to the Finance Ministry.

Responding to a request by the ministry for analyses of its active management, Øystein Olsen, chairman of the Norwegian central bank Norges Bank and Yngve Slyngstad, chief executive of NBIM, said that over the past three years, the fund’s relative return after costs had been 35 basis points higher than it would have been with a passive indexing strategy.

“The fund currently has an investment approach that is index-oriented but where all of the investment strategies are active,” they explained.

Having an explicit target to get the highest possible return within the mandate’s constraints was “essential for ensuring the best possible standards in the execution of all parts of the management assignment,” Olsen and Slyngstad wrote.

“A passive approach to operational decisions is not an adequate alternative,” they said.

Two academics were commissioned by the Norwegian finance ministry to analyse the performance of NBIM’s active management.

The report by Magnus Dahlquist, professor at the Stockholm School of Economics, and Bernt Arne Ødegaard, professor at the University of Stavanger, is due to be submitted next month.

Norway’s SWF ‘loses NOK12bn a year on stock picking bets’