

Norway's Sovereign Hedge Fund...



Stockholm (HedgeNordic) - Nicolai Tangen has been at the helm of the Norwegian Government Pension Fund Global, the largest sovereign wealth fund in the world, since September of last year. How would one allocate \$1.3 trillion in an environment with low return expectations for both stocks and bonds going forward? Anette Hjertø, Head of Absolute Return Investments at DNB Asset Management, expects the world's biggest wealth fund to start deploying capital to hedge fund strategies.

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"Equities are not expected to provide as high a return as before, and the bonds' "power" as a buffer against market fluctuations is not there when interest rates are historically low," Hjertø wrote in a column for Norwegian newspaper Dagens Næringsliv in mid-March. "I think we will see hedge fund strategies in the Norwegian Government Pension Fund, either managed by NBIM itself or through external management mandates," she argues. "This may not be a very revolutionary statement given the appointment of Nicolai Tangen, but the new head is not the reason why I think the oil fund will go into so-called absolute investments."

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“This is solely due to the characteristics of hedge fund strategies in a larger portfolio,” Hjertø, who oversees DNB’s multi-asset, multi-strategy fund - **DNB Fund Multi Asset** - alongside Lena Öberg and Kim Stefan Anderson, writes in the Dagens Næringsliv column. “Something Tangen knows well from his time in AKO and Egerton,” she refers to Tangen’s previous experience at the hedge fund firm AKO Capital he founded and the experience accumulated at Egerton Capital before launching AKO in 2005. “And possibly: perhaps that was also one of the reasons why he was chosen to helm the oil fund.”

“Unfortunately, we cannot expect as high a return from the oil fund in the years ahead as we have had since the fund received its first capital injection in 1996,” argues Hjertø. In a report from a government-appointed committee - headed by Knut Anton Mork - designed to assess the strategic asset allocation of the Norwegian sovereign wealth fund, one can notice the negative effects of lower economic growth and real interest rates on the oil fund’s return expectations.

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“The effects are particularly large for bond investments, which can make up to 30 per cent of the fund,” points out Hjertø. “With historically low interest rates, and to some extent negative, unfortunately we cannot assume that bonds will contribute with a satisfactory return in the future,” she adds. “And worst of all: we cannot expect bonds to rise in value when stocks fall and thus be a buffer against fluctuations in the stock market.”

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“NBIM shares this challenge with all other investors in the world,” emphasizes Hjertø in the Dagens Næringsliv column. “Many have raised the expected return

profile of their portfolios by increasing the share of corporate bonds, with real estate and infrastructure investments also popular,” she continues. “A well-composed portfolio of absolute investments can be another alternative to bond investments,” Hjertø argues. “In the same way that Norway eventually proved mature to appoint a hedge fund manager as head of the oil fund, I believe that NBIM will utilize the entire toolbox at its disposal. This will enable to also take advantage of the good and risk-reducing properties that hedge fund strategies can provide.”