



ASSET ALLOCATION

The Norway Model

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By 2011, the Sovereign Wealth Fund Institute ranked Norway's Government Pension Fund Global (GPF) as the largest investor in the world. After 15 years of rapid growth, the fund has become an exemplar for investors around the world. The Norway model has become a coherent and compelling alternative to the Yale model for endowment investment.

The Norway model is virtually the opposite of the Yale model pioneered by David Swensen. Norway has relied almost exclusively on publicly traded securities, it is constrained to a low tracking error and it has a rigorous asset allocation that allows little deviation from the policy portfolio. More generally, it depends on beta returns, not alpha returns. This contrasts with the Swensen model, which aims for investment managers to bridge their deficit in systematic risk exposure by exploiting market mispricing.

In this article, we describe and evaluate Norway's approach to managing its national endowment. By understanding the strategy, we can learn what might profitably be imitated, and what is suitable for Norway but inappropriate for other investors.

We draw attention to seven aspects of the Norway Model for endowment asset management. The Fund:

- Emphasizes reducing risk through diversification.
- Is committed to building on its long investment horizon.
- Stresses its role as a responsible investor.
- Focuses on cost efficiency.
- Embraces a moderate element of active management.
- Has a clear governance structure designed to deliver a well-considered strategy.
- Is committed to transparency and openness.

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