Asset Allocation

The Norway Model

December 1, 2012

By 2011, the Sovereign Wealth Fund Institute ranked Norway's Government Pension Fund Global (GPFG) 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.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own view on the topic discussed herein.

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed by the author and AQR Capital Management, LLC ("AQR") to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is not to be reproduced or redistributed to any other person. The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Past performance is not a guarantee of future performance. Diversification does not eliminate the risk of experiencing investment losses.

This material is not research and should not be treated as research. This paper does not represent valuation judgments with respect to any financial instrument, issuer, security or

sector that may be described or referenced herein and does not represent a formal or official view of AQR. The views expressed reflect the current views as of the date hereof and neither the author nor AQR undertakes to advise you of any changes in the views expressed herein.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the author guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Diversification does not eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.