PRESS RELEASE: Investing for the future

Win-win or lose-lose is the question facing Norway's $760bn sovereign wealth fund according to a major Re-Define-report commissioned by Norwegian Church Aid published today. The report argues that the GPF must urgently rebalance its portfolio away from Developed economies towards emerging and developing countries. This is necessary to deliver higher returns for Norway for lower risk and could generate millions of jobs in developing countries.

The report also highlights how high the exposure of the GPF to policy actions designed to tackle climate change is and recommends a sell-off of all oil, gas and coal assets. It also makes the case for the GPF making green investments in order to reduce risk.

Overall, the report argues that the GPF could be doing much more to exploit the unique potential that its large size, its long-term horizon and its responsibility mandate confer on it.

"Unless it changes its current strategy and invests heavily in illiquid assets in faster growing developing economies, the GPF will continue to fail to deliver on its target 4% rate of return.

The GPF sharply underperforms many of its peers directly as a result of its refusal to be strategic, buy in illiquid assets or invest much in developing countries.

By trying to be conservative in avoiding 'negative headline risk' the GPF has inadvertently traded in its obligation to 'maximize returns subject to moderate risk' for a strategy that delivers 'modest returns while taking on concentrated risks'."

Says Sony Kapoor, Managing Director of Re-Define and the author of the report

In highlighting the shortcomings of the GPF's strategy, he says that

"For a Fund that supposedly seeks to diversify its investments to minimise risks, the Fund is unacceptably exposed to the structural and demographic problems afflicting over-indebted developed economies.

The GPF squanders its potential for being the ultimate long-term investor by having more than 99% of its investments in liquid securities that investors with much shorter time horizons can also hold." says Kapoor

The Fund currently invests a lot in developed / OECD economies, but growth rates and yields in developed countries are expected to be lower, and risks in these economies are expected to rise. Of the 95 countries that grew at 4% or faster in 2011, only Chile and Sweden were OECD countries.

In order to better reflect the current and the future shape of the world economy, as well as to try and harness the fruit of faster expected growth in the non-OECD economies, the GPF must significantly expand its geographic reach of countries it invests in.

For this, the report recommends the setting up of a $200bn GPF-growth that will focus on making infrastructure and private equity investments in developing countries.

"This is the only way GPF can deliver on its fiduciary duty towards Norwegian citizens - by maximizing returns for moderate risk in a both sustainable and responsible way, he says. Not only will this be good for Norway, it will also enable faster growth in poorer economies and creating millions of much-needed jobs" Kapoor goes on to say.

Based on its direct and indirect effects, additional investments of $200 billion by the GPF-Growth can help create more than a 100 million jobs in the private sector in poor developing economies, thereby having a substantial positive outcome on growth potential, poverty reduction and quality of life in these countries.

Norwegian Church Aid (NCA), a major Norwegian development organization, commissioned the report.

- As owners of the World's largest Sovereign Wealth Fund we have a great responsibility. Developing countries face massive unemployment and desperately need to create more jobs. But, they lack the capital to do so, Anne-Marie Helland, General Secretary of NCA says.

- If we had invested considerably more in these countries we would have contributed to more jobs, tax income and economic growth in these countries. As it is, we contribute to a more unequal world and that needs to stop, Helland says.

- I'm thrilled by the positive opportunities Norway's money can create. Our fund can create millions of jobs where they are most needed. By investing more in developing countries we're putting our money in the future, Helland says.

- Jobs are the best and surest way out of poverty. But investments can combat poverty only if they create decent jobs with good salaries, tax income for the state and by considering the environment. We want good investments, Helland says.

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