

International Forum of Sovereign Wealth Funds, Oslo, 3 October 2013

Investment strategy for long-term owners

Setting the scene

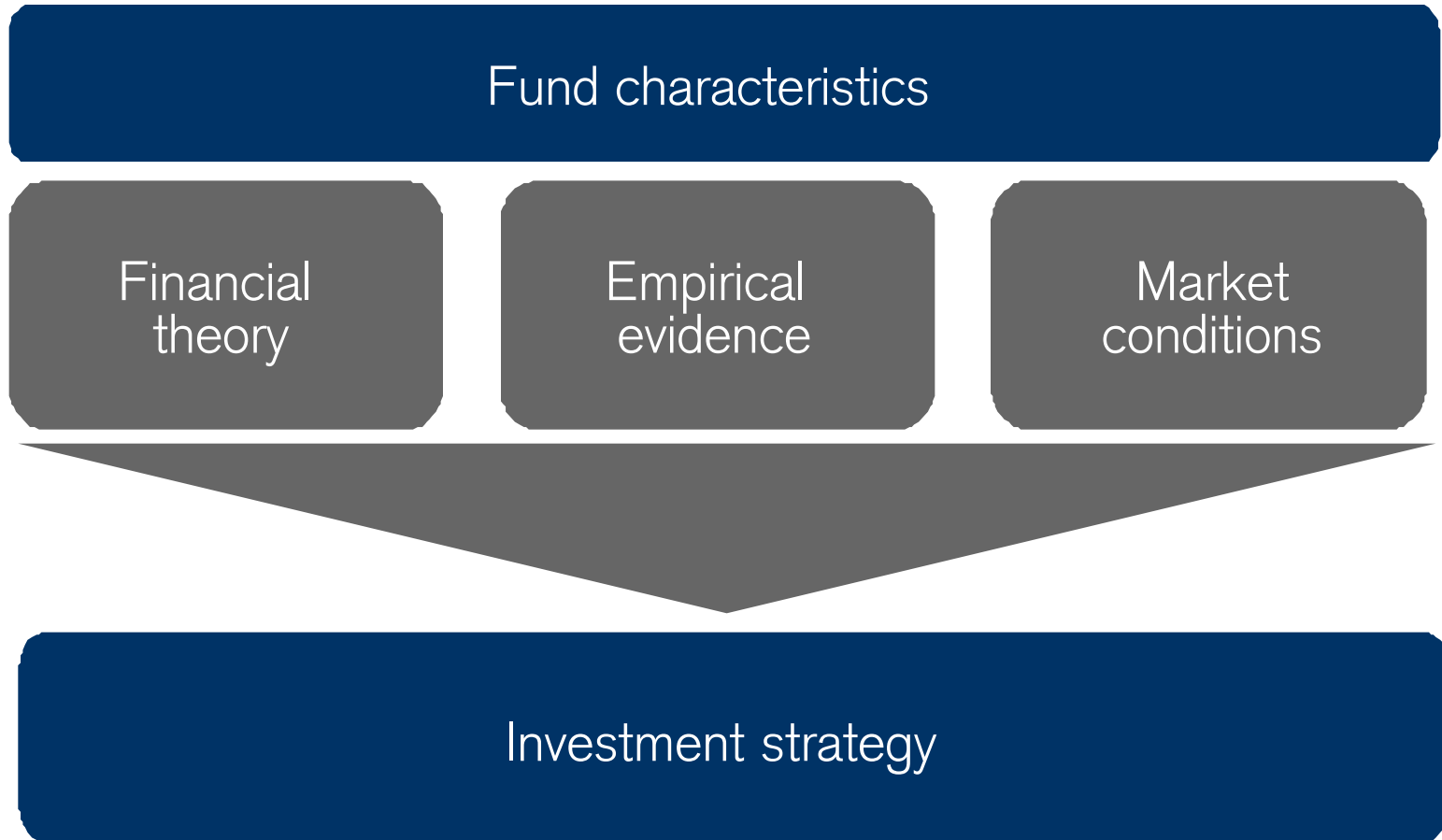
Elroy Dimson

LBS, and Cambridge Judge Business School

Strategy Council of the Norwegian GPF

Joint work with Paul Marsh and Mike Staunton

Investment strategy



Fund characteristics

Investment horizon

Liabilities

Scale

Resources

Skills

Cost base

Financial theory

Risk

Illiquidity

Contra-cyclicality

Insurance

Empirical evidence

Universal risk premia

- Equity risk premium
- Term premium

You need to

- judge risk tolerance
- avoid fire-sales
- manage headline risk

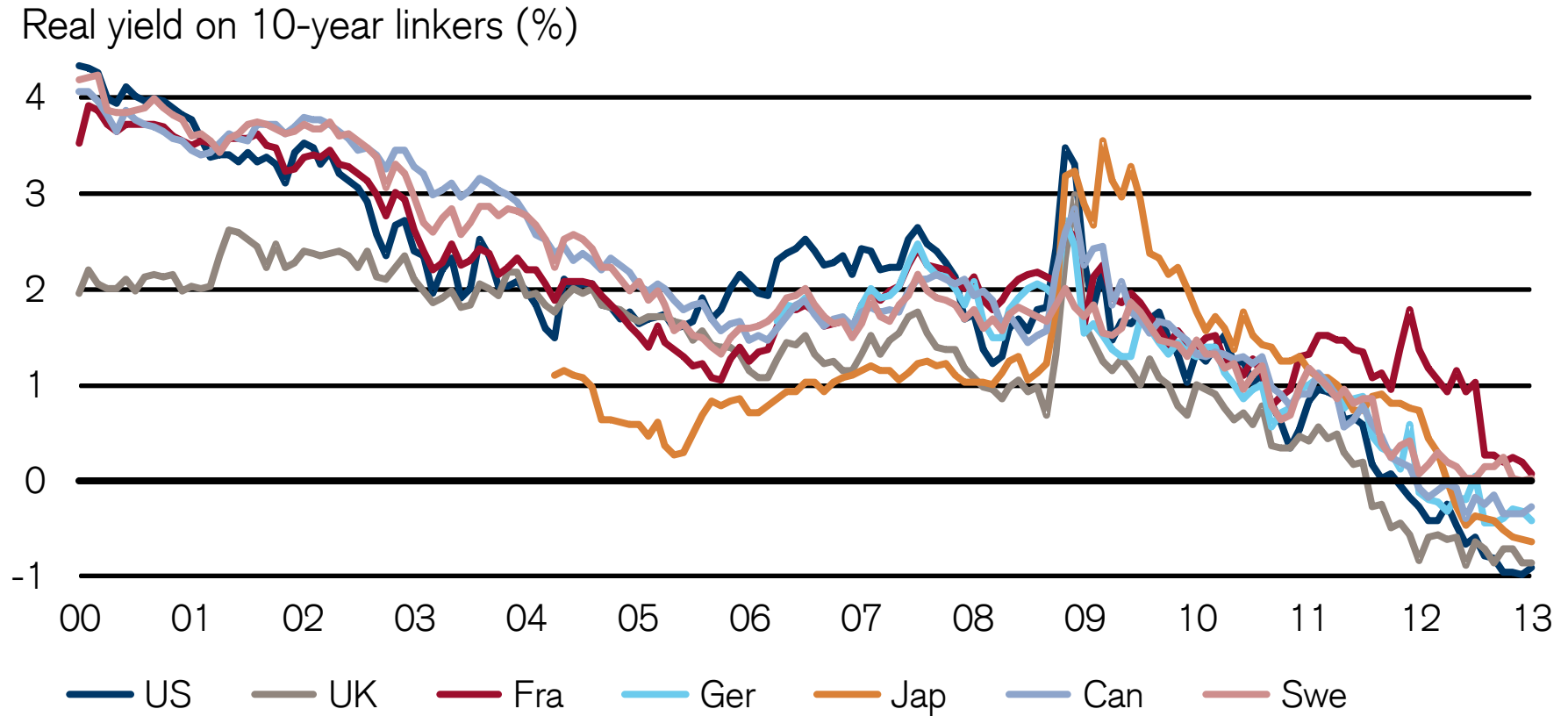
Zero-sum risk premia

- Value; size
- Momentum; carry
- Portfolio insurance; etc

You need to

- be super-smart (which is hard) or
- match fund characteristics (less hard)

Market conditions



Today, risk premia are needed to ensure a positive expected real return

Setting strategy

- If you aim to harvest premia
 - do it with humility
 - do it on many fronts
 - do it with multiple indicators
 - do it systematically (though maybe with some discretion)
 - avoid pro-cyclical strategies
 - think hard about resources, governance, accountability
 - evaluate success over a long horizon

Today's panel

- Andrew Ang
 - Columbia Business School
- Kenneth French
 - Tuck School of Business
- Adrian Orr
 - New Zealand Superannuation Fund
- Leslie Teo
 - GIC, Singapore
- Elroy Dimson
 - LBS and Cambridge Judge Business School