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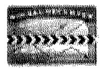
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MARKETS

Norway's Giant Sovereign-Wealth Fund May Invest in Private Equity

Finance ministry considers expanding remit of traditionally conservative $914 billion pool

By ED BALLARD
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The world's largest sovereign-wealth fund is pondering private equity.

In its annual report on Norway's oil fund, which has assets valued at about $914 billion, the country's finance ministry said it would consider allowing the fund to invest in unlisted equities "on a general basis."

Expanding the mandate of one of the world's most conservative investors, currently restricted to investments in stocks, bonds and real estate, won't happen overnight. A spokeswoman for the finance ministry told The Wall Street Journal that the ministry's assessment of the pros and cons of private equity won't be published until next year's report. After that, any change to the investment mandate would have to be approved by Norway's Parliament.

Sovereign-wealth funds around the world are under pressure. Ultralow interest rates are crimping returns, and cheap oil is cutting into the income of the largely resource-dependent countries rich enough to possess such funds. Last year was the first time that Norway's government, seeking to fill a hole in its budget, withdrew more money from the fund than it put in.

"They need yields," said Bernardo Bortolotti, an economics professor at the University of Turin and director of the Sovereign Investment Lab at Bocconi University in Milan. "They should seek commercial returns, and private-equity could boost their overall performance with some risk."

Mr. Bortolotti said an "equilibrium asset allocation" could see Norway aim to put 5% of the fund's assets in private equity. Based on its current assets, that would equate to $46 billion—a figure that would propel Norway into the private-equity stratosphere. Carlyle Group's corporate private-equity arm, for instance, boasts assets of $51 billion, according to the firm's website.

Last year, the ministry decided after a similar process not to permit investments in infrastructure—despite the lobbying of the fund, which is administered by Norges Bank—citing the risk of disagreements with other countries about their critical assets, reduced liquidity and the scarcity of data on returns.

"There is very strong political scrutiny and a requirement for total disclosure and transparency," said Mr. Bortolotti. "They are always the last to enter any asset class that could be somehow controversial."

The Norwegian fund's current aversion to private equity puts it in a minority. According to a report published by Preqin last June, 55% of sovereign-wealth funds invest in private equity, up from 47% in 2015. The Kuwait Investment Authority began investing in the space in 1984. Abu Dhabi's ADIA—Norway's closest rival in terms of size, with assets estimated in excess of $700 billion—targets an allocation of up to 8% in private equity.

Michel Meert, a director at PwC who advises sovereign-wealth funds, said such funds' ultralong time horizons equip them well to profit from private equity, which offers investors an "illiquidity premium" because it is harder to exit investments in unlisted assets than in companies traded on highly liquid stock markets.

"If you invest in more illiquid investments, you are hoping to get an extra return," he said. "This is very interesting for long-term investors—and sovereign-wealth funds are really long-term investors."