The Norwegian Oil Fund and Private Equity: A Reputational Risk.

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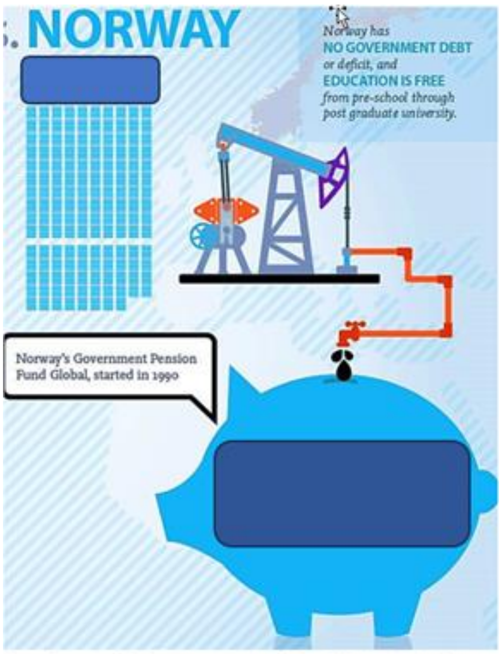

Structure of Norwegian Oil Fund Source: Norwegian Ministry of Finance (2008). Sovereign Wealth Funds and Norway's Government Pension Fund.

As an experienced hedge fund manager, the current head of the Norwegian oil fund Nicolai Tangen has long been passionate about steering the Fund towards a more adventurous and profitable course. Together with the head of the central bank of Norway, he applied to the Government for permission to invest in private equity (PE). This move sparked a debate about profitability and risk. However, the expansion of the Fund's investment mandate is not solely about profit. It puts the Fund – and indirectly its owner, the Norwegian people - in moral jeopardy.

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The extensive criticism of PE highlights how such investments can easily conflict with the Fund's ethical profile and the Nordic model of responsible capitalism. PE is renowned for generating substantial profits in a short time. Their success often stems from a buy-to-sell strategy, transforming underperforming companies through intensive restructuring. However, these results are frequently achieved through brutal methods: significant cost cuts, massive layoffs, excessive borrowing, cunning tax arrangements, and large bonuses for PE owners. In the worst-case scenario, the main outcome is asset stripping, where gains are extracted through substantial loans—so-called 'dividend recaps'—leaving behind debt-laden companies with severe profitability issues.

Respected politicians, such as Massachusetts Senator, and the 2020 presidential candidate Elizabeth Warren, have vehemently opposed PE, quoting as examples its detrimental impact on the health sector, (from increasing costs, deteriorating working conditions and quality of care, and imperilling the safety of patients and doctors). PE firms' mission to streamline and slim down companies to enhance returns often leads to contentious battles with trade unions. For instance, in the agricultural sector, the

Source:Colin McLean, FSIP
https://blogs.cfainstitute.org/investor/2014/07/14/is-private-equity-out-of-tune-with-society/

Private Equity Stakeholder Project (PESP) reports that United Farm Workers is suing Windmill Farms, accusing the PE-backed company of conducting "a retaliatory anti-union campaign with illegal firings, threats, and harassment."

All of these hazards conflict sharply with the Oil Fund's societal ownership, which includes an ethics council focusing on honest tax reporting, transparency in corporate strategies, decent labour management, and adherence to human rights. The Fund's size and societal foundation mean that its PE investment strategies would likely collide with Norwegian ethical aspirations. The Nordic model, a hallmark of humanistic capitalism, is ill-suited for the Oil Fund's forays into the harshest grey areas of capitalism. Such forays could potentially blemish Norway's foreign and development policies, where the country aims to build partnerships with other regions. It is difficult to see how severe restructuring processes, massive layoffs, and closures could enhance Norwegian social and economic partnerships in the affected regions.

Regarding profitability, many argue that the PE's gains might be offset by the costs. Investments in unlisted companies require significantly more staffing compared to near-index investments in publicly traded stocks. Here, the enthusiasm of the Oil Fund's management for PE and unlisted investments should be tempered. What may be an exciting playground for financial acrobats like Tangen, could lead to costly reputational damage for Norwegian society.

It is also hard to believe that the Norwegian population will embrace the vision of the Oil Fund managers and support transforming the Nordic model into a "Global Private Equity Hub on the Fjord?"