

# Equity management

## Negative contribution – but at a moderate level

The financial crisis caused global equity markets to substantially decline in 2008. The fund's equity portfolio underperformed its benchmark by 1.15 percentage points, or 0.82 percentage points taking into account estimated cost related to strategic changes.

Table 7-1 Return on the equity portfolio. Per cent

	Actual portfolio	Benchmark portfolio	Excess return
2007	6.82	5.67	1.15
2008	-40.70	-39.56	-1.15

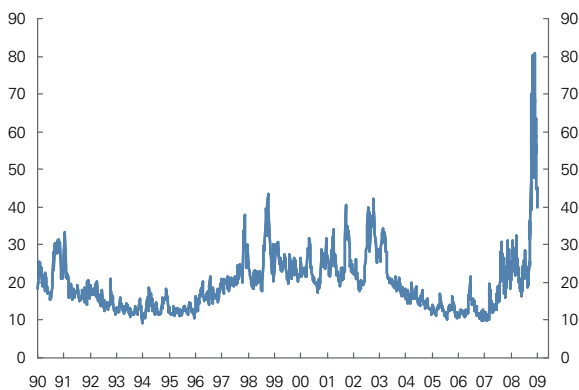
The market value of the equity portfolio increased by NOK 171 billion to NOK 1 129 billion in 2008. The return on the portfolio was -40.7 per cent measured in the fund's currency basket. There was a negative excess return of 1.15 percentage points relative to the benchmark. Transaction costs incurred from increasing the equities allocation,

phasing in new countries and including small-cap companies in the benchmark. Adjusting for these costs, there was a negative excess return of 0.82 percentage point. This is a moderate level of underperformance in a volatile market, and within expectations given the risk exposure.

The equity market declined sharply in all regions. Recent years' trend of high returns on cyclical sectors, commodities and emerging markets reversed. Following the Lehman Brothers bankruptcy, market volatility climbed to very high levels. The VIX index illustrates how derivative prices implies expected future volatility in the US stock market.

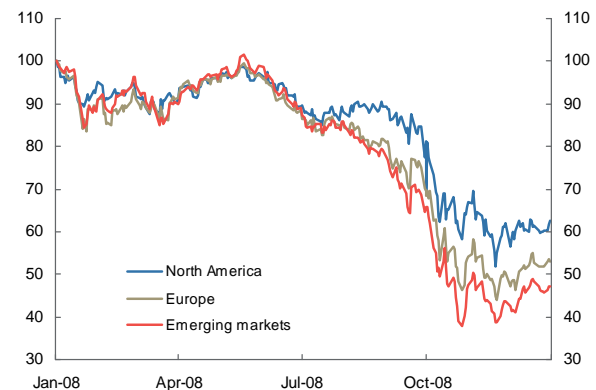
The starting point for equity management is an index portfolio which ensures that the fund always has the desired exposure to the equity market, cost efficient and with low risk relative to the benchmark. We then employ four different types of strategy to outperform the benchmark: enhanced indexing, capital raising, internal sector mandates and external management.

Chart 7-1 Expected volatility in the US equity market



Source: CBOE volatility index, EcoWin

Chart 7-2 Regional equity market returns in USD. Indexed



Source: FTSE All-World