

Varma punching above its weight in hedge fund allocation

Helsinki (HedgeNordic – Teaser) Finnish institutional investors seem to have taken to hedge funds more than their peers elsewhere. According to statistics from TELA, The Finnish Pension Alliance, the average allocation among pension and insurance providers, at the end of 2015 was 9.6% and 7.7% among all pension funds, which includes the country's industry-wide, company and public sector funds. In general, European pension funds have a median allocation of 7%, according to a recent Deutsche Bank survey.

Finland's largest pension and insurance provider, Varma, has gone even further than its country peers with a whopping 16% allocation to hedge funds. Varma has an investment portfolio of over Euro 41 billion, making it one of the largest hedge fund allocators in the region. Even on a global basis pension funds of similar size to Varma, between \$10 and \$50 billion, Varma invests well above the median of 7% shown in the Deutsche Bank study.

Jarkko Matilainen, head of hedge funds at Varma does not have any other explanation to the popularity of hedge funds in Finland than that of trust and early adoption of the strategies as a result of good performance. "The good returns have continued to convince investors that their initial and early trust in hedge funds has paid off and continue to do so," he said.

Others argue that the pro-cyclical nature of the Finnish solvency regulation allows more risk-taking. As solvency ratios rise so do return requirements which means investors such as Varma can take on more risk including allocation to hedge funds. The average solvency ratio at the end of 2015 was 28.2% and has varied between 15 and 41% in the last decade, according to TELA. At the end of 2015 Varma had a relatively high solvency level of 31.4%.

Varma began investing in hedge funds in 2002 and the idea was to diversify and have a return and risk profile somewhere in between fixed income and equities, Matilainen said.

You can read the full article on pages 15-17 in the HedgeNordic Special Report on Finland