Danske CIO: Hedge Funds flunk Market Neutrality

Stockholm (HedgeNordic) – Anders Svennesen, CIO of Danske Bank´s $200 billion wealth management unit, has some choice words for hedge funds: they forget to hedge.

“If you look back over time, there are a lot of hedge funds that were really exposed to the market. A real hedge fund ought to be market neutral, but an awful lot of them have been riding the wave of falling rates and rising stock prices,” Mr Svennesen, who is also CIO of Danica, Danske’s pension branch, said in an interview with Bloomberg.

The trick, Mr Svennesen explained, “is to identify hedge funds that actually live up to their mandate of being market neutral, so they don’t start bleeding money when a sudden shock upends a price trend.”

“Those that really manage to be market neutral, and go in and operate in the right way, deliver a positive return, and there’s absolutely still a need for that. Especially in the current environment.” Mr Svennesen said.

Despite having had historical exposure to hedge funds, Danske’s portfolios under Mr Svennesens supervision don’t currently consider outsourcing to hedge funds a model that suits current objectives.

“We might get exposure again in the future if it makes sense for our portfolios,” he said.

The hedge fund industry suffered a blow to its reputation mainly because numerous funds had allowed themselves get carried away in market booms, only to be dragged back down in subsequent busts, he explained. “It’s a perception that’s been fuelled by a lot of funds being up to 40-50% exposed to market risks.”

The 2008 financial crisis was a turning point exposing hedge funds with poor models, suggested Jesper Langmark, who oversees alternative investments within Danske’s wealth management unit. “We saw that basically none of the big ones were market neutral. Even though the whole point of being a hedge fund is being market neutral, they had no diversification whatsoever,” he said.