

Ericsson Pensionsstiftelse Adds Long-Only Managers

Stockholm (HedgeNordic) – Ericsson Pensionsstiftelse (EPS), a Stockholm-based SEK 21 billion (\$2.3 billion) pension fund covering Ericsson employees, is breaking with its strategy of the past five years and is adding active long-only managers to its equity allocation, an exposé of the fund's current strategy by Sarah Rundell in top1000funds.com reveals.

“We haven't used long-only managers in equity recently because we saw the stock market as a beta market,” EPS CIO Christer Franzén told the publication. “Now, however, because the market is so expensive and future returns are probably low from here, we assume there will be a greater disposition within the indices.”

EPS is set to use a concentrated portfolio of 30-50 shares in working with external managers, as opposed to the usual 100, favoring active managers to seek out alpha in less conventional places. The fund has also recently been focusing on cash-generating investments rather than capital gains, with its strategy focused on lowering portfolio volatility and achieving a higher Sharpe ratio. The fund prices in a risk-factor model based on classic asset liability management, studying potential five-year returns across all asset classes.

The fund's current allocation is 35% in fixed income, 15% in credit, 20% in real estate and infrastructure, 10% in alternatives and 20% in equities. It has lowered return targets and divested from emerging markets in recent years, though it has started to look at these selectively again.

Traditional hedge fund strategies are “just another way of expressing an active and flexible approach, rather than being a separate asset class,” Franzén explained. “Returns from equities are normally, over time, the risk-free rate including inflation plus 4 per cent. This is more a common target for many hedge funds these days; if higher returns are needed, leverage will be involved.”

“Hedge fund fees are generally lower in Sweden compared with, say, London, where the 2/20 fee structure has been the standard, even though it's starting to change now,” he added.

Franzén, though, remains wary of hiring too many external managers and consultants. EPS is down to 20 managers on its roster from an original stable of 35, and manages 40% of its assets in-house, mainly in fixed income and equity derivatives.

“We need to be able to take care of our own fixed-income risk,” he said. “My background is as a fixed-income trader, so anything on the macro front we are good at. In the equity allocation, we use derivatives as an overlay and are active if the markets give us the opportunity.”

Picture: (c) Vintage Tone—shutterstock.com