Varma Continues Hedge Fund Allocations Unabated

Stockholm (HedgeNordic) – An in-depth feature in the May issue of the Investment & Pensions Europe magazine highlights Varma, the largest private pension insurance company in Finland with €43 billion in AUM, and its continuing dedication to being a hedge fund allocator, despite the widening gulf between pension funds and hedge funds elsewhere in the Nordics in recent years.

According to CIO Reima Rytsölä (*pictured*), Varma distinguishes itself from other Finnish pension funds through this very hedge fund allocation. "We have a long history in alternatives," he told IPE's Carlo Svaluto Moreolo. "We started at the beginning of this century and we can say that, even though the industry has been under pressure, our hedge fund portfolio has been able to produce decent returns." Varma began its foray into the hedge fund industry in the search for portfolio diversification, now employing three people devoted to that task alone.

Varma presently allocates 17% to hedge funds, of which 7% in private equity funds and 2% in unlisted equities via co-investments, producing a 5.6% return in 2016, "with relatively low volatility" and good fixed income returns, according to its annual report. The pension fund blends a core portfolio and an opportunistic portfolio of roughly equal size, IPE reports, with the former targeting low volatility with a market neutral approach and the latter accepting more volatility in exchange for higher returns by, for example, targeting strategies like illiquid credit. Rytsölä explained the hedge fund allocation to be among the tools Varma employs to fight inflation, but acknowledges the prevailing perception of high fees and underperformance as currently haunting the industry, which is "one of the explaining factors behind compressed returns."

"Looking ahead, the interest-rate environment is strongly supporting the appeal of the hedge fund industry. We think what's threatening the industry more is the emergence of systematic risk premia strategies that are becoming more popular among investors. Some hedge funds have tried to replicate the simple risk premia strategies, which are accessible for a much lower fee than what traditional hedge funds are charging," accounting to some degree for compressed fee levels, Rytsölä suggests.

Despite the share dedicated to alternative investments indicating a potential preference for active management, Varma remains predominantly a passive manager, Rytsölä explains. Read the full feature in IPE here.