AP3 Cutting Exposure to Hedge Funds

Stockholm (HedgeNordic) – The third Swedish national pension fund, AP3, has been trimming the overall exposure to hedge funds due to a combination of high fees and low returns. Marten Lindeborg *(pictured)*, chief investment officer at AP3, told Bloomberg that the third buffer fund in the Swedish national pension system has “recently reduced the exposure” to hedge funds after investing in these vehicles for a long time.

Comparing the Stockholm-based fund’s latest annual financial reports, one can notice the overall portfolio exposure to absolute return strategies and hedge funds decreased to 2.1 percent at the end of 2017 from 3.9 percent at the end of the prior year. More specifically, a total of SEK 7.16 billion of the SEK 345.24 billion in assets under management was invested in absolute return strategies and hedge funds at the end of December 2017. This compares with SEK 12.54 billion in hedge fund investments (including investments in absolute return strategies) from SEK 324.38 billion in assets managed at the end of 2016. The latest annual report writes that AP3 focused on reducing exposure to hedge funds during 2017 and bringing back assets to be managed internally in an attempt to reduce total expenses.

“In the past 15 years, they have delivered 2 percent a year,” Lindeborg told Bloomberg. “That’s not very fantastic when the T-bill rate has returned 1 percent in the same period. And the correlation between the hedge fund index and the S&P 500 has been 0.75. So, there is a very low diversification contribution to have hedge funds if the correlation is that high,” added Lindeborg.

However, the hedge funds AP3 is currently invested in “have delivered a good return” according to Lindeborg. Nonetheless, the fund “won’t allocate a big part of the fund to hedge funds because of the track record and the fee structure. But the hedge funds we hold also give added value in the form of research and insightful discussions about the market.” AP3 was invested in seven hedge funds at the end of 2017, including two global macro funds and two credit funds.

“You see the success stories and read about them,” Lindeborg told Bloomberg. “But you don’t see the broad mass of failures. Very little is written about them. It’s difficult for me to see that hedge funds will be a big part of AP3. Based on their track record and fee structure, hedge funds have a lot to prove.”