Danish Pension Provider Goes Solo – External Managers Judged Too Costly

Stockholm (Bloomberg/Hedgenordic) – The biggest commercial pension provider in Denmark has had enough of external funds and is instead using its own people to chase higher returns in alternative investments.

Allan Polack *(pictured)*, the chief executive officer of PFA Pension in Copenhagen, recently told Bloomberg that relying on outside managers is "simply too costly" a model. He also says that some of the external firms had "become very, very demanding."

Polack is the second executive running a major Danish fund to have spoken out on the subject recently. At Danske Bank A/S's pension arm, Chief Investment Officer Anders Svennesen says he's curbing the use of hedge funds.

Both men represent a pension system that is ranked the best in the world, based on country studies of funding adequacy. Insurers and pension funds are the largest customers of the asset management industry, according to the European Fund and Asset Management Association. Last year, their assets constituted 37 percent of the total net assets of investment funds held by euro-area investors.

About 23 percent of the $113 billion in assets that PFA holds are in alternative products such as infrastructure and wind farms. Polack says he wants to raise that figure to 30 percent over time in an effort to improve returns.

"We all know that we can't really use the bond as an asset class now," Polack said. "You can't retire on" the returns that bonds provide. "It's extremely low returns, so we are shifting into other kinds of asset classes."

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Equities remain a lucrative investment, he said. Returns in the second quarter showed that "most companies are doing very well, full of optimism, so we are definitely not giving up on this," Polack said. "However, we're more cautious on the fixed- income market, and that's why we shifted away from that."

PFA has said it wants real estate to make up a much bigger chunk of its portfolio. It made its biggest investment in the property market in August, putting more than $1 billion in assets in Germany to expand its portfolio to more than $9 billion. The fund's plan is to raise its exposure "significantly" through 2022.

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"It's true that you can see that some of the returns have come down," Polack said. Still, PFA has a pipeline of acquisitions that it's planning and which "looks okay," he said. That's in contrast to what could happen as central banks reverse a decade of easy money.

“We are just worried that quantitative easing has come to an end now: what will be the impact of that?” Polack said. “The last eight, nine years of monetary policy is one big experiment.”

Picture source (c): Borsen