Hedge Funds: A Swedish Pension Fund CEO's Experience Over 25 Years

London (HedgeNordic) – Peter Hansson, the former CEO of Sparinstitutens Pensionskassa (SPK), is a true pension and investments veteran and has in his 37-year career in banking and finance seem many things change, not least in the way we work but also the industry perception of hedge funds.

"The introduction of the internet has played a major role in how we work and communicate and with this the asset management and pensions industries have undergone a major change to become more professional, process-led entities. This has not only been brought about by technological advancements but also regulatory pressure," he summarised.

This pressure has led to demands for increased competency and communication and ultimately transparency, not only towards regulators and governments but also members or customers, he said. "This requirement of transparency has only accelerated after the Global Financial Crisis and one area where it is very prominent transparency requirements that institutional investors now have for their providers at all levels. This is least not true for hedge funds," he added, pointing out that it is a mistake to categorise hedge funds as an asset class rather than a wide range of unconstrained strategies. "Gone are the 'I know what I am doing but I don't need to explain it to you'-type of players. Or at least gone from the institutional sector.

> "Gone are the 'I know what I am doing but I don't need to explain it to you'-type of players. Or at least gone from the institutional sector."

Hansson, who decided to retire after 25 years with SPK, where he was CEO for the past 14 years, said there has been not only a major perception change when it comes to hedge funds but also real change. "They have gone from a bunch of somewhat shady and unregulated investment firms with high-risk strategies to professional outfits that can handle the most zealous due diligence queries," he said.

These days hedge funds are no longer at the fringes of the investment world but part of most institutional portfolios. "As institutional investors themselves become more sophisticated and under more scrutiny be it through regulation, media or client-involvement, the more they demand that their providers are equally professional. There has to be transparency and accountability from all parties," Hansson said.

Hansson has an anecdote about a company; we can call the Secret Hedge Fund that lived well off its 2 and 20 fees and 'pension funds are not sophisticated enough to understand our way of managing money'-mentality. "What I have noticed, and not only among hedge funds, but in the pensions and investment industry in general is that those that are competent do not mind explaining what they are doing and why," he said.

Since the GFC the fee structure of hedge funds also came under the spotlight and the 2 and 20 structure is all but gone for most. "I do not want to pay for luck or beta. Show me what your skill is and I will pay for that," Hansson said, noting that this has given rise to the performance fee structure. "I would say this is really true in all asset classes. I want to pay for alpha not beta," he added.

“Unfortunately there is often a great deal of beta in hedge fund performance. You have to be able to see how it affects the risk in the overall portfolio. You also need to be able to see the characteristics and risk of the fund and that was hard to get 15 years ago, he said. Hedge funds should be uncorrelated and make you money irrespective of whether the interest rates or markets go up or down.

Hedge funds, as well as private equity or real estate, is a relationship business Hansson said, adding that you have to be able to look under the hood to see what is going on.

“You have to have the kind of relationship where they answer in details when you ask the initiated, awkward or stupid questions to fully understand what’s going on, because when the proverbial hits the fan, and it will because it always does, you have to understand why this is happening. Have they deviated from their strategy i.e is what I bought no longer the same product? Have mistakes been made or is it other external factors or something more sinister such as fraud that has caused it,” Hansson explained. Hedge funds have freer reins which means investors have to engage more and they in turn have to explain their why and how he said.

Before anything, however, investors need to start by asking themselves why want hedge funds in the portfolio and what it means for the overall portfolio.

When it comes to transparency, SPK does not only talk the talk but walks the walk and has for a few years not only published the names of the asset managers it uses on its website but also a motivation to why they were picked.

SPK invests 10% of assets in hedge funds and has recently hired an external provider to evaluate and monitor its hedge fund investments.

During Hansson’s leadership, SPK has grown from a SEK6n fund to SEK27bn.”Hansson is also very proud that there has only been two negative years in 25(2002 and 2007). (Swedish banking problems 2002 -4,4 and GFC 2007 -1,9.)The fund has returned 7% annually over 25 years with a Sharp-ratio of 0.9 and a conservative risk budget. Pensions it a matter of trust and Hansson has delivered above set targets.