AP1’s Insourcing of HF Strategies Nears Completion

Stockholm (HedgeNordic) – Sweden’s AP1 fund, which previously embarked on a process of overhauling its allocation approach to alternative investments, has turned to more diversified and less liquid hedge funds. As previously reported by HedgeNordic, AP1 decided to insource some hedge fund strategies, predominantly trend-following strategies.

The AP1 fund has allocated around five percent of its entire portfolio to hedge funds over the years, having allocated around SEK 15 billion or 4.6 percent of its assets to hedge funds at the end of last year. “We used hedge funds with a focus on CTAs. Today, we do similar strategies internally,” AP1’s Chief Executive Officer Johan Magnusson *(pictured)* was quoted in an AMWatch article. AP1 also reshuffled the non-trend-following segment of its hedge fund portfolio. Whereas previously AP1 allocated to hedge funds that “normally had higher liquidity than others,” the current group of funds is more diversified and “generally, with less liquidity” according to Magnusson.

The process of finding new funds for AP1’s hedge fund portfolio “has taken quite some time,” said Magnusson, adding that “now we are pretty much done with the transformation.” Magnusson acknowledged that the exposure to hedge funds has not paid off in recent years. “We’ve been investing in hedge funds for many years now but they haven’t really delivered the returns we’ve seen on other assets,” he said. “To be heavily invested in hedge funds, that hasn’t been a good thing, seen over a longer period, as it’s been very good to own equities.”

AP1’s hedge fund portfolio amounted to SEK 15 billion at the end of 2018, with the portfolio returning a negative 5.2 percent last year. Its hedge fund portfolio returned a negative 2.6 percent in 2017 and a positive 6.1 percent in 2016. These portfolio returns reflect the cost of hedging the U.S. dollar exposure. For 2018, the cost was a 2.5 percent drag on performance.