Pension Provider Alecta Shuns Hedge Funds

Stockholm (HedgeNordic) – One of the largest Swedish pension fund managers finds hedge funds unappealing and costly in the current environment and has opted to perform nearly all asset management in-house.

Hans Sterte *(pictured)*, the chief investment officer of occupational pension provider Alecta, called hedge funds "expensive black-box investments" in an interview with Bloomberg. "Investors haven't been paid well in the hedge fund asset-class for a long time now," he told Bloomberg. "I know there are funds that are doing a great job, but they are usually closed and can't provide us with sufficient volumes to make a difference to our returns."

Alecta, which provides occupational pensions to companies and their employees, had investment assets of SEK 827 billion at the end of last year, with around 39 percent of those assets being allocated to equities. Roughly ten percent of assets were allocated to real estate, and the remaining 51 percent of assets were invested in debt securities. Alecta conducts almost all its investing in-house, a unique approach for such a large portfolio. The pension provider's equity investments are concentrated to around 100 listed stocks.

"Our style is old school as we still have in-house analysts," Sterte told Bloomberg.

“It’s a very concentrated portfolio. We have about 360 billion kronor invested in 100 equities. The 30 largest holdings are half of the equity portfolio.” This approach has proven to be an efficient model so far for Alecta, resulting in low fees and good returns. The average annual return earned by Alecta’s defined contribution pension product in the past five years through the end of last year reached 6.7 percent.

Alecta’s chief investment officer said the pension fund manager plans to increase exposure to infrastructure, real estate, and forestry assets but acknowledged that infrastructure “is getting expensive, as so many want to invest in it.” Hans Sterte also reckons private equity as an asset class is “far too expensive.”

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