

The Role & Value of Hedge Funds

(Stockholm) – HedgeNordic asked three of this year’s Nordic Hedge Award jury members – Ulrika Bergman of the Nobel Foundation, Lindsay McPhater of Danica Pension, and Christian Lundström of the Swedish Pensions Agency – to share their personal view on hedge funds, the awards, and what they look for when making an investment decision in a hedge fund.

The Role & Value of Hedge Funds

When considering the role of hedge funds in portfolio construction, the Nobel Foundation invests in hedge funds as part of its 25% strategic allocation to Alternatives and seeks “a good mix of styles in the underlying hedge funds.” “We are tactically overweight to the asset class,” says Bergman. “The risk and return expected from hedge funds is probably somewhere between equities and fixed income, but we also want our hedge fund portfolio to a large extent to be uncorrelated to public equities, especially in market downturns.” Danica also actively considers hedge funds as a main asset class within Alternatives. They do not currently have a large allocation to hedge funds, as they see better risk/return rewards within other Alternatives asset classes. “Danica do, however, have a small allocation to hedge funds within Alternatives SICAV funds, one to the internal Danske Invest Fixed Income Relative Value fund and the other to Asgard Credit, which also sits within Danica’s own pooled funds,” McPhater explains.

For the Swedish Pensions Agency, hedge funds’ absolute return profile provides valuable diversification to equities and other classes although Lundström, who is responsible for fund selection and due diligence at Pensionsmyndigheten, suggests that hedge funds need to work harder to become more accessible.

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“The value for hedge funds lies in diversification,” he reckons. “Instead of committing time and money to become best-in-class, for instance, perhaps hedge funds should put more effort into increasing accessibility by becoming more liquid and increasing awareness.” Although many Swedish retail investors may not know what hedge funds are, Lundström believes Swedes would benefit from getting exposure to this asset class. “Swedes are invested in stocks too much and can benefit from being more diversified,” he argued in the panel’s discussion. “One idea is to create an all-weather product, which would combine hedge fund strategies with long-only products. In this way, hedge funds can reach a greater societal value than they offer right now,” he suggested.



From left: Linsay McPhater (Danica Pension), Christian Lundström (Swedish Pensions Agency) and Ulrika Bergman (Nobel Foundation)

Good Hedge Funds = Award Winners?

It might stand to reason, then, that something like a Nordic Hedge Award can help increase a fund's visibility. But what makes a "good" hedge fund, whether as an investment or deserving of an award? "A good hedge fund is a high-performing as well as an assessable fund, able to reach a large number of investors and platforms without losing too much performance, rather than being best in class," Lundström says. McPhater doesn't believe there are good or bad hedge funds, but rather that there are hedge funds that are better placed to outperform on the strategy and timing of the economic cycle.

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"I think the hedge funds that deserve to win awards are those that have shown strong, consistent performance over time, and delivered returns to clients in terms of what clients expected," she elaborates. Meanwhile, Bergman takes a more specific view: "A good hedge fund has a long track-record with a proven ability to deliver consistent risk-adjusted return over a market cycle. The characteristics, i.e. expected behaviour in different market environments of the fund should be clear. The hedge fund should also be run by a firm that emphasises alignment of interest, retaining staff and taking measures to ensure results are repeatable over time."

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The Value of Awards

Bergman sees awards like the Nordic Hedge Award as a good way for up-and-coming managers to reconnect with and gain attention from investors, while investors are exposed to interesting investment opportunities. Danica places little emphasis on who wins awards, as they are not selected by the company on that basis, McPhater says, but adds that awards underline how successful funds have maintained their standards and cause them to be regarded positively. Lundström adds that there is specific value in having a dedicated Nordic hedge fund award, an assessment with which Bergström concurs.

McPhater compares an event like the Nordic Hedge Award favourably with similar events in London, emphasising a greater sense of collegiality and the attendance of managers who were not guaranteed to win. "The events in London are expensive and funds usually only participate in order to take clients or if they are pretty certain they will win," she says. "With this event in Sweden, it was great to see that most of the funds nominated still participated in the evening... There are plenty of hedge funds in the Nordics, and the list is ever growing, so [there is] plenty of scope for this to be inflationary."

"It was a pleasure to be asked to do jury duty" McPhater says. "It did not involve too much work, but it did involve some analysis into the individual funds, which I enjoyed. The takeaway was trying to act

fair, but also taking other factors into consideration than just performance, including team stability, past performance, company setup, assets raised, fees, etc.”

Bergman says jury duty is “a great way to keep up to date with Nordic Hedge Funds,” while Lundström found that there are “surprisingly many good hedge funds in the Nordics.”

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