Don’t Be Naive, Hedge Fund Investor

Stockholm (HedgeNordic) – The new chief investment officer of Finnish pension insurer Veritas Pension Insurance will review the firm’s allocation to hedge funds after the industry has failed to keep pace with indices over the past decade. “Of course there are good funds out there as well,” Kari Vatanen *(pictured)* tells Bloomberg, but “relative to indexes, hedge fund returns haven’t been great since the financial crisis, it’s somewhat of a disappointment.”

Vatanen, who started as CIO of Veritas at the beginning of March, says he cannot guarantee that the pension insurer will continue to allocate seven percent to hedge funds once a review is completed later this year. “I want to see data and evidence,” Vatanen tells Bloomberg. “I fear they don’t work, but I hope to be proven wrong.” At the end of December 2019, Veritas managed an investment portfolio worth €3.4 billion, of which €267 million, or 6.0 percent, comprised hedge fund investments.

According to Vatanen, Veritas is probably not the only institutional investor reassessing the allocation to hedge funds at the moment, amid indication that few strategies protect portfolios against risk-off events similar to the recent the financial panic driven by the spread of COVID-19 and concerns over its implications for the global economy. “Many investors will have to critically evaluate the role of alternative strategies in their portfolio,” Vatanen tells

Bloomberg. Veritas is currently evaluating where to cut risk and allocation.

Prior to joining Veritas, Vatanen had formerly worked as head of cross-asset derivatives and allocation at Varma Mutual Pension Insurance Company. The risk-premia research he conducted shows that “during market crises, there are few alternative strategies that don’t correlate with tail risks.” In a sell-off, “it’s a bit naïve to think that a hedge fund portfolio or alternative portfolio would automatically help,” Vatanen tells Bloomberg.

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