

Never Let a Crisis Go to Waste

Stockholm (HedgeNordic) – After Hans Sterte joined Alecta as chief investment officer in the first quarter of 2018, the Swedish pension fund has embarked on a plan to increase its allocation to alternative investments to 20 percent of the total portfolio from about eight percent. One year into the five-year journey, Sweden's largest pension fund may complete its plan sooner than expected as the coronavirus-induced economic crisis may provide good investment opportunities.

Alecta's total investment assets amounted to SEK 962.7 million at the end of December, of which 10.4 percent comprised alternative investments such as real estate. Alecta currently allocates about 12 percent of its investment portfolio to alternative investments, most of which represent real estate investments. The Swedish pension provider plans to increase its real estate allocation to 15 percent of the overall portfolio, as well as maintain a three percent allocation to infrastructure and two percent to private debt. "That's the plan, but as the market is changing very rapidly, it is going to be very opportunistic," Hans Sterte, Alecta's CIO and deputy chief executive officer, tells IPE.

The potential to improve risk-adjusted returns stands behind the decision to increase the allocation to alternative investments. "A few years back, the Alecta portfolio consisted of public equity, fixed income, credit and real estate, but by adding a few assets classes we hope to reduce the risk but add the same return," Sterte tells IPE. "We are only going to buy when it is right to buy, however, in volatile markets, there is no problem in going a bit more quickly and we are flexible."

The coronavirus outbreak has far-reaching consequences beyond the spread of the disease itself, which can create attractive investment opportunities. "At the beginning, it is more of a liquidity problem for companies, but available liquidity – including that from central banks – is not going to last as long as the partial lockdowns," reckons Sterte. However, the temporary liquidity issues could eventually turn into solvency problems, creating opportunities for Alecta to increase its allocation to alternative investments.

Unique opportunities sometimes emerge in extreme times. "If you look back to the financial crisis of 2008 and 2009, the best opportunities appeared in 2009, so we don't need to be in a hurry," says Sterte. Alecta is open to investments in Sweden, the rest of Europe and the United States, but does not have a pre-defined target for the geographical allocation. "It will depend on where we find the opportunities," Sterte tells IPE, adding that right now more opportunities are being discovered abroad.

Picture courtesy of Alecta.