Alecta’s Hunger for Private Businesses

Stockholm (HedgeNordic) – Many up-and-coming companies with great prospects are no longer racing to list their shares on public markets. Despite the extra challenges coming with private asset investing, institutional investors increasingly recognize the diversification and return benefits of investing in private companies. Swedish pension provider Alecta now has about $1 billion allocated to unlisted equities. Four years ago, this number stood at zero.

“The main benefit of investing in unlisted companies is the shareholder value creation and growth opportunities some companies can provide,” Marcus Lüttgen *(pictured)*, portfolio manager at Alecta, highlights the benefits of investing in private companies. “By also having the opportunity to invest in unlisted companies, Alecta can gain access to some attractive investment opportunities among unlisted companies and does that as a strong financial partner with a long-term investment horizon.”

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“Currently, between 1-2 percent of the total equities portfolio or almost $1 billion are allocated to unlisted equities,” Lüttgen tells HedgeNordic. “There are a lot of interesting, big companies away from the stock exchange and we have appetite for more,” the portfolio manager told Swedish business daily Dagens Industri earlier this year. Many private companies today no longer feel the need to go public to raise money via an initial public offering, with this private-for-longer trend benefiting investors who can invest in these companies at a faster stage of growth.

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“Some private companies are strong and mature but at the same time in an earlier or more dynamic stage of their growth cycle or company development,” Lüttgen highlights one advantage of investing in private companies over public ones. “The private equity space has grown a lot with larger companies that are developed during an extended period with private ownership,” the portfolio manager discusses the private-for-longer trend. “Therefore, the number of relevant investment opportunities in the private space is also rising” for large institutional investors such as Alecta.

Current Portfolio

“We communicate what kind of investment candidates we are looking for, very high-quality businesses that are providing outstanding customer value and a proven, scalable platform for further development and growth,” Lüttgen describes Alecta’s selection approach in the unlisted space. Alecta has so far made four investments in unlisted companies.

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“The veterinary chain IVC Evidensia, pest control company Anticimex and online pharmacy Apotea are such examples of highly successful privately-held companies that we recently have invested into as a co-investor," Lüttgen tells HedgeNordic. Most recently, Alecta has also invested SEK 300 million in music rights tech company Epidemic Sound.

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"We follow a careful process to evaluate the potential for each company we choose to invest in," Lüttgen and his colleague Leif Törnvall, who are both responsible for the investment, commented in connection to Alecta's investment in Epidemic Sound. "Epidemic Sound meets many of the criteria we are looking for – they are a global market leader in their industry, have a strong corporate management, great growth potential and an ability to scale up their business profitably," they added. "Alecta is a long-term investor and we believe that Epidemic Sound and the company's management will create value for our customers at a level above the rest of the stock market for many years to come."


Hans Sterte, the chief investment officer of Alecta.

"Through the investment in Epidemic Sound, we continue to build up a portfolio of holdings in unlisted companies with great growth potential," Hans Sterte, the chief investment officer of Alecta, commented on the investment in Epidemic Sound. "In recent years, we have made investments in Anticimex, Apotea and IVC Evidensia and are looking for more attractive investments in this area," asserted the CIO. Elaborating on Alecta's approach to investing in private companies, Sterte says that "for unlisted companies, Alecta acts as an independent financial partner, which has the ability to follow as an investor for a long time."

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Although Alecta has primarily invested in unlisted companies based in Sweden, the portfolio management team is looking at a much broader list of predominantly European companies to build its unlisted equity portfolio. And Alecta is looking for more large-sized investments in unlisted equity in Europe. "We want the unlisted investments to have a relevant size for the portfolio," Lüttgen recently told Dagens Industri. "This means that investments in new companies of less than SEK 500 million will become unusual."

Illiquidity Premium

"The lack of liquidity and the complexities of executing transactions in the unlisted space are examples of disadvantages compared to listed companies," Lüttgen tells HedgeNordic about the downsides of investing in private companies. Even so, investors' increasing allocations to private assets enable them to pick up an illiquid premium or even a premium stemming from the complexity of private investments, which translate into higher expected returns over publicly traded assets of broadly similar quality. "When liquidity is high in many markets, we can get a relative premium for investments in unlisted companies with less liquidity," says Lüttgen.

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However, private equity is not the only asset class rewarding investors for illiquidity and complexity. Many other alternative asset classes can offer better returns than publicly traded assets to compensate investors for tying up their capital. For long-term-oriented investors such as Alecta, the illiquidity of its investments in private assets may not matter too much as long as the lack of liquidity is adequately compensated for. "We are looking for that premium in all asset classes in our portfolio, not just equity," concludes Lüttgen.

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