Retirement Income
JOURNAL

How does an unshackled pension fund invest? Ask Sweden's SPK

By Editorial Staff *Wed, Jul 9, 2014*

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Hungry for yield and free from a mandate to hold mainly long-dated Swedish government bonds, the Swedish pension fund SPK has begun executing a plan to diversify into foreign bonds, infrastructure and "alternative risk premia," *IPE.com* reported.

The SEK24bn (€2.6bn, $3.54bn) pension fund for savings bank employees is switching from an allocation of 70% Swedish government bonds and 30% equities to a "more diversified and modern" approach, according to its chief executive, Peter Hansson. Planning for the switch began about 18 months ago.

"Our allocation looks completely different now, and we have about 10 asset classes instead of just two," said Hansson. The fund has split its portfolio into liability-hedging and return-seeking sections. It also diversified its bond allocation and intends to invest 20% of its assets in alternatives, including real estate.

Swedish manager Brummer & Partners will manage a small part of the fund's 12% hedge fund exposure in a multi-strategy fund. Most of the fund's 12% hedge fund exposure will be dedicated to an alternative risk premia strategy – the latest fashion in institutional asset management. A manager is expected to be named by end of summer.

Alternative risk premia strategies aim for exposure to the types of uncorrelated return sources that hedge funds typically pursue, but at half the cost. Two other Scandinavian institutional investors, the Danish pension company PKA and Swedish state fund AP2, already invest in alternative risk premia.

SPK's fixed income portfolio has been completely overhauled. Formerly, under a government mandate to match its long-dated liabilities with long-dated assets, the fund invested only in long-term domestic government and mortgage bonds. Since a change in regulations, it will now invest in foreign government and mortgage bonds as well as a domestic corporate fund run by Handesbanken. Swedbank Robur also manages some of SPK's bonds.

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SPK's 8% allocation to real assets is equally split between infrastructure and real estate. The infrastructure fund is a global core fund run by an as-yet unnamed manager. "Our real estate exposure is made up of a more cautious Aberdeen euro-zone fund we are topping up with a Nordic value-added strategy, a mandate that will be finalized shortly," Ros said.

The fund's total equity exposure remains unchanged, but it has added a Handelsbanken Swedish small-cap fund and reduced the number of global equity managers to two from four. T. Rowe Price and Carnegie will stay on as external equity managers, but SPK has sold its Aberdeen and JP Morgan funds.

Although SPK, which invests only in funds, manages the money internally, it turned to Danske Bank, Deutsche Bank, Goldman Sachs, JP Morgan and Nordea for help shaping the new strategy.