

INTERVIEW

An innovative view



David Adams speaks to Kasper Ahrndt Lorenzen, executive vice-president and CIO at Danish pension fund ATP, about how and why the Nordic region has acquired its reputation for pension fund innovation

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Do pension funds in the Nordic countries deserve a reputation for being innovative?

Well, that depends. Are you going to rank yourself as being innovative, or part of an innovative community? Most people, given the chance to do that, would say yes. But you always want to be humble about how innovative you really are. If you think about asset management and investment processes, no matter what you do there's a good chance somebody else has done it before. Quite often that will have happened in academia.

But in Denmark I think maybe that open-mindedness about taking some inspiration from outside – maybe that's something about being part of a small country?

Which elements of ATP's investment strategy do you believe are proving to be particularly innovative?

To go back a little bit, I think in Denmark, the decision by the Danish FSA in 2002 to impose conditions that meant pension funds needed to use hedging mechanisms around interest rates meant there was some discipline in investment strategies. When the global financial crisis came these hedges turned out to be extremely valuable.

So that put some strength into the system and sometimes it's easier for organisations to build on strength. So I think it's important to give some credit to the Danish FSA.

If we then think about what we do at ATP, I think the first thing is being very precise about your balance sheet, looking at what your liabilities and assets are, that's something we've worked on a lot. Our portfolio construction is risk-based and we try to line up a number of risk factors across asset classes. I think that's quite powerful.

So when we look at private markets, at private equity, infrastructure, real estate and so on, we do what we can to map those exposures onto their public market equivalents. That gives us a metric to compare private and public market exposures. Those two areas compete for the same budget, so it's good to have a common currency you can use to compare them. That's something any pension fund could do. It gives you portfolio integration and it gives organisational integration.

Point number two would be how we look at illiquidity. I think that's fairly innovative. In public markets you can buy and sell assets easily – you have flexibility. If you take a similar exposure in private markets

you don't have that flexibility. We penalise private market investments in our portfolio because of that inflexibility. That's an approach we learned from academia. But that approach is also related to how we are organised: I'm not sure it would be of so much use to other funds.

The third point is around alternative risk premia strategies. It's a whole family of strategies, including going long or short on equities and volatility risk premia strategies where you sell options. These are hedge fund-inspired strategies, although they are described by academia as well.

We have spent quite a bit of time on most of these strategies and implemented some of them. Some are used by other funds too now, so perhaps some of these do not look so innovative today as they did a couple of years ago.

But one thing we have learned is that being involved in the markets in such a deep way is also useful: we can bring that experience into our management of the broader portfolio.

Again, it's about being open-minded and learning things from elsewhere. It's something I like to think is part of Danish and Scandinavian culture.

The last thing relates to ESG and sustainable and green investments. I don't want to claim that we are the most innovative investors in this area, but we are constantly working on improving ESG integration across our portfolios. Sustainable investing is a big area and it's going to get bigger in future. We are involved in green bonds and we embrace that development. We do try to take a risk-based approach to ESG.

There are also a lot of other innovative funds out there, and we try to be inspired by funds we see in Scandinavia and elsewhere and by what we can learn from academia. ■