

Active management of Swedish equities

In 2019, Andra AP-fonden continued to integrate sustainability in the active management of Swedish equities. This requires a dynamic process and multi-faceted decisions.

The Fund's management of Swedish equities is based on two mandates: one for large companies that has an investment universe of around 60 companies, and one for small companies that has around 270 companies. Since there is a certain overlap, there are around 300 companies in total to monitor.

"We're stockpickers and base our selection on our separate fundamental analysis. We cannot monitor all 300 companies closely all the time, but we seek to have and maintain a dynamic dialogue with as many as possible," says Jonas Eixmann, Head of Equities at AP2.

Fundamental analysis entails a close analysis of a company's accounts, business model, markets and future outlook. When the Fund takes the view that an equity deviates from the market, this is expressed by overweighting or underweighting the equity in relation to the benchmark index. To a great extent, the size of the deviation will depend on the degree of conviction, and if the Fund has a strong conviction, the deviation may be high.

The benchmark index for the large-company portfolio is an internally created "equal-weighted Swedish index", which has achieved significantly better historical returns than the customary market-value-weighted indices. For the small-company portfolio, the benchmark index is the Carnegie Small Cap Return Index.

Higher active share

The portfolio's active element, which is the deviation compared to the benchmark index, has increased in recent years. This has generally gone well, and the small-company portfolio, for example, achieved a positive excess return for eight of the last ten years, with a excess return of 118 percentage points, although performance was poorer in 2019.

"We've had some positions that went against us, and this stung us. One challenge of being an active manager is to stay cool in such situations, while still being able to change course quickly if necessary. We have the advantage of being able to operate in the long term, but this should not be used as an excuse," says Jonas Eixmann.

Sustainability has become an increasingly important issue for society and, just like other social trends, it affects some companies positively and others negatively. The asset management team therefore work with the Fund's sustainability analysts to map the companies risks and opportunities in a way that makes this a dynamic part of the investment process.

"We don't want this to be a one-off event. Just like other investment risks, sustainability must be monitored and assessed continuously," says Jonas Eixmann.

Sustainability is an important part of the analysis

The question of how an active asset manager should relate to sustainability is multi-faceted, however, and the Fund has never practised the method of disregarding entire sectors. Jonas Eixmann cites the example of SSAB. This steel company accounts for around 85 per cent of carbon emissions in the small-company portfolio.

"If we were to sell all SSAB shares we would drastically reduce our carbon footprint, but SSAB is also one of the better steel producers in the world and is very focused on significantly reducing its carbon emissions in the future. If the company is successful with this, the share should perform well, so it's not always as simple as just selling the shares with the greatest impact," says Jonas Eixmann.

118%

A excess return of 118 percentage points in the small-company portfolio in the last ten years.