

New tool to measure sustainability in quantitative management

Due to the increasing data volumes, quantitative management opportunities are growing. In 2019, Andra AP-fonden used new tools to further integrate sustainability factors in asset management.

Quantitative management entails using statistical analysis to identify characteristics of companies, called factors, that either individually, or together with others, can indicate future returns. This is part of the Fund's active management and takes place in the areas of foreign equities, global credits and Swedish fixed-income securities.

Rapid development

There is currently a lot going on in the quantitative investment world. The exponential increase in processor power has made it possible to analyse and process data in new ways, while the volumes and types of available data have increased strongly.

"We're on the way into a new world. I get enquiries several times a week about buying more or less unusual data. This might, for example, be the number of in-store visits, or how often a brand is mentioned on the Internet," says Tomas Morsing, Head of Quantitative Strategies.

There has been a rapid pace of development "Texts, for example, that were not perceived as data ten years ago, can now be easily analysed. Images and sound recordings can also now be analysed," says Tomas Morsing. But concurrently with the increase in data volumes, an old saying still holds true: data that is used by everyone is reflected in the market's pricing.

Own data

AP2 is therefore working independently to pull its own factors from others' raw data, and to gather its own data. In a project run during the year, the Fund used text analysis tools to find companies with what can be described as "green" activities, for example in such obvious areas as renewable energy.

"We can also dig very deeply and look for companies that, for example, make sub-components for lithium-ion batteries. We want to find all these companies, sort them by type of 'green' activities, and then continue with our customary analysis," says Tomas Morsing.

Sustainable credit indices

In its equities management, AP2 has worked actively for many years on applying sustainability factors in its management. In 2018, new, internally created, multi-factor indices with sustainability aspects were implemented for the foreign shareholdings. The Fund worked on further development of the indices in 2019, and also on creating similar indices for the credit portfolios.

"This is easy to do in theory, since the factors are generally the same as for equities. In practice, however, it is much more difficult, for the reason that there may be poor liquidity in the market. There may quite simply not be any sellers of the corporate bonds you want to buy," says Tomas Morsing.

Precisely as for the equities indices, the objective was to devise multi-factor indices with clear sustainability characteristics and at least the same risk-adjusted return as the current portfolio.

"This has been an enormous project, but it has gone well. We hope to be able to launch the indices in 2020," says Tomas Morsing.