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Staffan Hansén

Interview with AP3's CEO

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Being prepared for the unexpected

Staffan Hansén, the CEO of Swedish buffer fund AP3, talks about taking on new assets from AP1, the importance of being data-driven and fact-based in asset management and the benefits coming from the sustainability backlash.

By: **Niklas Tell** Photo: **Peter Phillips**

For Staffan Hansén, the CEO of Swedish buffer fund AP3, there are no stressful moments or difficult questions that can't be overcome with a 10K run around Kungsholmen, in Stockholm. Preferably together with someone else. "I have stopped chasing times," he says but admits that he still runs half marathons.

One of the topics high on the to-do-list at AP3 during this fall is the work that goes into preparing for taking on half of the capital from AP1. The consolidation of the AP funds means that AP3 will grow from some SEK 550 billion (EUR 50 billion) in assets under management at the end of June to some SEK 800 billion (EUR 73 billion) in the beginning of January next year.

The behind-the-scenes work has been ongoing ever since the decision to consolidate was approved at the beginning of the year.

"We have collaborated with both AP1 and AP4 throughout this project to ensure we are prepared for an orderly receipt of capital at the end of the year," says Staffan Hansén during an interview at the funds office at Vasagatan in Stockholm. He adds that it's a complex project and says that it's not just about transferring funds from one pocket to another.

"It's not money in dollars and cents that comes in, but it is securities that are transferred," he says. The listed assets are fairly straight forward according to Staffan Hansén. It becomes more complex when it comes to the unlisted assets.

"There are more challenges on the unlisted side. These are more tailored and more contractually regulated," he says and adds that there are also other things to be aware



STAFFAN HANSÉN

AGE: 59

EDUCATION: Lic. degree in political science (economics), Åbo Akademi University

CAREER:

2022	CEO, AP3
2015	CEO, SPP Pension & Försäkring
2013	CEO, Storebrand Asset Management & EVP, Storebrand Bank
2013	CEO, SPP Livförsäkring
2011	Head of balance sheet management, Storebrand
2008	Chief investment officer, SPP Livförsäkring
2006	Head of asset allocation, SPP
2003	Head of government and covered bond trading, Handelsbanken
2000	Head of fixed income, Alfred Berg
1996	Head of bond trading, Alfred Berg
1994	Trainee, Pohjola Bank

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– Staffan Hansén, AP3

of such as potential tax considerations.

“We have from the beginning had respect for the complexities to ensure we do a proper job and make sure that we are well prepared as the capital is transferred,” he says.

What will make the transfer a bit less challenging is the fact that the fund will have a new cloud-based portfolio system in place before the transfer of capital. “It’s of course a huge advantage that we get the new system in place before we receive the capital. We are in the midst of the implementation phase,” he says.

The procurement of a new portfolio management system was done in cooperation with AP4 and in 2023 the funds announced that it would go ahead with Simcorp and its solution called Dimension.

“It means that we are moving into a cloud-based system that will secure future system and process needs. It gives us the flexibility to meet and to be ready for the future. We move from an old and fragmented system flora that’s not well suited for future needs. There are a lot of things happening in financial markets and both flexibility and adaptability are features in a futureproof system platform,” says Staffan Hansén.

Coming back to the unlisted assets, Staffan Hansén says that alternatives today make up some 27 per cent of the portfolio, with a mix of real estate, private equity, infrastructure and timberland investments. “With the capital we will receive from AP1 the allocation to real estate and private equity will increase slightly while the allocation to infrastructure and timberland holdings will be slightly reduced. There are however no major changes,” he says.

He adds that AP3 will continue to evaluate the portfolio but there are no changes planned before the new portfolio is in place. “We are of course evaluating different alternatives, but unlisted assets are also by definition more long-term in nature and not as easy to transact as listed holdings,” he says.

Another area of the portfolio where AP3 has been active over the recent past is emerging markets equities. The fund decided to launch a review of investments in

emerging markets during 2022, which resulted in a significant reduction in the allocation. What had been a 4.5 per cent allocation to emerging market equities at the end of 2021 was only a 0.1 per cent allocation at the end of 2022. In the annual report from 2022, Staffan Hansén explained that it had become more relevant than ever to take a more proactive approach about which countries to invest in following Russia’s invasion of Ukraine. He wrote: “In the autumn, we phased out investments in emerging markets and in 2023 we will define a political risk analysis model. After that, we plan to resume investments in emerging countries based on our analysis. In simple terms, we are approaching this issue based on the ‘G’ in ESG.”

The country governance analysis framework was completed during 2023 and focus on three parameters: democratic development, rule of law and corruption. With the new framework in place the fund re-entered emerging markets last year with the selection of three external equity managers to invest in emerging Asia. According to a previous interview with Jonas Thulin, CIO of AP3, the next step would be to expand to global emerging markets with internal management.

Asked about the main pros and cons of using external managers, Staffan Hansén says the main advantage is to gain competence that’s currently not available internally. “Typical examples, in addition to emerging markets, could be the US and global small cap equities and sector equities,” he says. When it comes to challenges, Staffan Hansén points to sustainability and how to ensure that the funds sustainability criteria are fully implemented by an external manager.

“Sustainability can absolutely be a challenge when working with external managers. There are a lot of practicalities that you need to be able to handle. It can be operationally complicated and driving costs. The more we can manage internally, the greater the economies of scale and the lower the costs,” he explains.

Coming back to the country governance analysis framework, Staffan Hansén says that the methodology is in place



but not yet applied to decide on the investability of developed markets. Asked specifically about how the US comes out in the ranking Staffan Hansén says that it’s clear that there are things happening that’s not moving in the right direction. “However, these are usually slow processes – from one person speaking out to things actually flowing through systems and becoming a system change. But we keep an eye on it. The big question is of course how to handle a potential situation where the model says that a very large country falls below the limit that we have set for where we invest or not. That’s an assessment that we haven’t really dealt with yet and I hope we never get there,” he says.

According to Staffan Hansén, the data is currently not supporting the talk that investors are massively moving out of the US and into Europe following the tariff announcements in April.

“There is a lot of talk but it’s not really visible in the data. The US is still an important country where there is strong growth and where the business community is mainly doing very well. So sometimes these headlines are not quite the same as what you see in the numbers. In our asset management we try to avoid headlines and leave emotions aside and try to study data and be fact-based. Emotions and asset management are not usually a good combo. Being able to be data-driven and fact-based provides predictability and it makes it possible to deduce why you have done things. It’s hard to deduce decisions that are based on emotions or that are based on fear or that are based on headlines,”

Staffan Hansén says.

Asked about his own role and where he spends most of his time, Staffan Hansén says that he is curious by nature and wants to know about all the things going on at the fund. “I talk to people and ask questions and try to live by the motto that you have two ears and one mouth for a reason. I try to use my ears more than my mouth,” he says. He also stresses that he shouldn’t be too involved in all decisions. “I very much believe in delegation and that decisions need to be taken at the right level and by the right people,” he says.

It’s however clear that financial markets are what makes him tick. “I have worked in the financial markets for many years and when I started back in 1994, I sat in front of the screen trading. Financial markets are very interesting to me and to work in an AP fund you’re at the heart of markets. It gives me energy and I’m very much in an environment that I thrive in,” he says.

Asked about what he would highlight as some of the major changes during his career Staffan Hansén smiles and says that at the risk of sounding old – when he started trading, he called a broker who had the order executed in the pit on the stock exchange floor. “What I experienced wasn’t something that impressed me. I thought it felt very fragile so when electronic trading came in the second half of the 1990s it was very welcome,” he says.

With changes continuously going on, Staffan Hansén says that it’s almost impossible to set out a roadmap for



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– Staffan Hansén, AP3

the fund to follow. “I think you have to get better at being prepared for the unexpected. I think we’re going to enter a time where it’s not so easy to see what’s going to happen, but it’s easy to see that things can go wrong. What we need is a roadmap for how we will be prepared to face the future. Do we have systems that can handle change? Are we flexible and are we ready to adapt to change,” he says.

Reflecting on change, Staffan Hansen doesn’t fully subscribe to the narrative that the changes in interest rates can be used to explain movement in different asset classes over the last many years.

“During the low interest-rate period I was quite convinced that this created bubbles and when inflation rose, I was convinced that it would create major difficulties for the world economy. However, in the light of history I’m not sure that my conclusions were correct. It is very easy to conclude that the real estate market was booming because of low interest rates. Despite interest rates having crept down again real estate markets continue to have a hard time. It is easy to draw conclusions that when the listing market was very active, it was easy for venture capital funds to raise capital and have an active portfolio. But how much of it depends on the level of interest rates and how much can be explained by market dynamics? If you go back and look at interest rates over the last 100 years, we’ve had low

interest rates and high interest rates in the past as well,” he says. He adds that the financial industry always tries to be rational and that we want to build explanatory models. So, for example that low interest rates mean one thing and high interest rates mean another thing.

“I don’t think the facts always point in that direction. I think it’s more complex than that. Interest rates have come down quite a bit – maybe not so much in the US yet, but certainly in Europe. We’re however still not seeing a lot of activity so maybe there isn’t as strong correlation between risk appetite and interest rates as we thought. There are other explanations,” he says.

Moving on to the question of sustainability, Staffan Hansén says that there is a clear trend fuelled by the backlash from the US.

“This has spillover effects around the world, and the question is how we deal with it. From what I can see, Swedish companies and Swedish managers are just as committed to sustainability as they were before,” he says. He adds however that what has changed is that both companies and investors have become more precise.

“It’s becoming much more data driven. You have to be able to measure change. You have to be able to measure outcomes. You must be able to defend and explain what you are doing. I think that you hear less of these big vague broad sustainability statements today. You have to be able to set goals to follow and you have to be able to demonstrate the outcomes. I think this is a very positive development,” he says.

When asked about what he considers to be some of the most common misconceptions regarding AP3’s sustainability work, he says it mostly comes down to the definition.

“What I think is the most difficult is the definition of sustainability because it will mean different things to different people. If you say that a company is sustainable or not sustainable, you must be able to explain what you base your statement on and you must be able to back up your claim,” he says. ●