

Nordic Institutions Seek to Diversify Portfolios and Favor Asset Managers with Broad Offerings

2015 Greenwich Quality Leaders: Nordic Institutional Investment Management

Q3 2015

Institutions in the Nordics already have continental Europe's biggest allocations to equities, and those exposures—along with investments in other risk assets—are poised to grow further as institutions continue to adapt to persistently low interest rates by seeking out sources of badly needed return.

"We are, like everybody else, moving up the risk curve," said the representative of a Danish public pension fund participating in Greenwich Associates 2015 Continental Europe – Nordic Institutional Investors Study.

Fixed income made up 40% of Nordic institutional assets in 2015, versus an average fixed-income allocation of two-thirds of total assets across the rest of continental Europe. Equities represent an average 40% of Nordic institutional assets, compared with only 19% across Europe. Among corporate pension plans in Nordic countries, equity allocations stand at nearly 50% in 2015.

Many Nordic institutions' first response to stubbornly low interest rates was to increase their investment in real estate, which now represents an average 8% of total assets, and alternatives, which have grown to an average 5% of Nordic institutional assets. As a further step, 27% of the Nordic institutions participating in the study plan to significantly increase allocations to European corporate bonds in the next three years, and fully one-quarter are planning sizable increases to U.S. equities allocations.

"Nordic institutions are quite comfortable with equity exposures, so many are now moving to diversify their established equity portfolios with more specialized strategies," says Greenwich Associates consultant Lydia Vitalis.

Nearly 1 in 3 Nordic investors have indicated that they expect their allocations to domestic government bonds to significantly decrease. Instead, more than a quarter of Nordic institutions are planning to boost allocations to active European corporate bonds and 1 in 4 intends to significantly increase U.S. equity exposure.

Regulations Pose Real Challenges

Like institutions across Europe, Nordic institutions are grappling with the challenge of managing investments, structuring portfolios and generating required investment returns against the backdrop of a strict, changing and increasingly unpredictable regulatory framework.

Uncertainty about how regulatory reforms will play out in Sweden and other Nordic countries is complicating institutions' long-term planning. Among the many comments on the topic made by institutions participating in the Greenwich Associates study were the following:

- "Norwegian regulations will force us to close our DB Plan and replace it with a DC plan. The result of such a forced change will be increased administration costs and an increased risk level for the members of the plan." — Norwegian Corporate Pension Fund.
- "Our biggest challenge is meeting liquidity regulations imposed by the Swedish Financial Inspection Board as well as the European imposed rules." — Swedish Bank.

Greenwich Quality Leader — 2015



Overall Nordic Institutional Investment Management Service Quality

Nordea Investment Management

Note: Based on interviews with 142 institutions. Leaders are displayed in alphabetical order. Source: Greenwich Associates 2015 Continental Europe – Nordic Institutional Investors Study

Greenwich Quality Leaders

As Nordic institutions consider the best way forward while facing persistently low interest rates, new regulations and a challenging return environment, they are looking for support in their decision making. Nordea Investment Management has responded well to institution's new demand by positioning themselves to successfully provide advice on investment policy and strategy issues. The 2015 Greenwich Quality Leader in Nordic Institutional Investment Management Service is Nordea Investment Management.

Greenwich Associates asked institutional investors participating in this year's study to rate the investment managers they employ in a series of investment and service categories. The results were then used to compile Greenwich Quality Index (GQI) scores for each manager.

Firms with GQI scores that top those of competitors by a statistically significant margin are named Greenwich Quality Leaders.

Consultants Marc Haynes and Lydia Vitalis advise on the investment management market in Continental Europe.

Methodology

Between January and April 2015, Greenwich Associates conducted interviews with professionals at 142 of the largest institutional investors in the Nordics. Institutions included corporate pension funds, public pension funds, banks, Sparkassen, foundations, churches, and insurance companies. Interview participants were asked about their investment service providers, their business practices and their future expectations.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

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