



**Alecta** has been an occupational pension specialist since 1917. Its task is to provide collectively agreed occupational pensions for both corporate clients and private customers. It managed approximately \$80 billion (SEK 685 billion) as at year end 2014 on behalf of two million private individuals and 33,000 corporate clients.

Alecta is a mutual life insurance company, which means it is owned by its customers. Alecta's task is to ensure that the occupational pensions negotiated by the Confederation of Swedish Enterprise (Svenskt Näringsliv) and the Council for Negotiation and Co-operation (PTK) maintain the highest possible value for both employers and employees.



**Arne Karlsson** has been at Alecta since 1995 and is a buy-side analyst covering capital goods and industrial stocks. He spent three years in the Greenwich, CT office (2001 - 04). Before joining Alecta, he was at Ohman Fondkommission (1992 - 95). Previously he worked at

United Securities in London (1990 - 91) and United Brokers. He was also an auditor. He started his investment career at Sparbankern (now Swedbank) in 1984. He has a MSc in Business & Economics from Uppsala University.

**Alecta is Sweden's largest pension fund, how does your investment approach compare to the APs and AMF for example?**

"Compared with the AP-Funds, Alecta has no index portfolio. Instead we have a focused and 100% internally active managed portfolio. There is less difference with AMF."

**How many investment professionals in-house at Alecta?**

"There are approximately 30-35 people covering equities, fixed income and real estate."

**Do you split sectors and geographies?**

"We split sectors in equities among analysts but we have a global mandate although our focus is mostly on the developed markets of Europe and North America."

**Of the \$80 billion of AUM at Alecta, what percentage is invested internally?**

"All our assets are managed internally. We don't outsource."

**AUM in European equities?**

"Approximately 80% of \$33.5 billion (SEK 285 bn). So about \$27 billion in European equities."

**AUM in US equities?**

"Close to 20%, so depending on the exchange rate, we have about \$7 billion invested in US equities."

**AUM in emerging markets?**

"We don't have any emerging market equities for the time being."

**Do you have an investment style? i.e. value, growth, GARP etc?**

"We have no particular investment style. We are more a 'buy and hold' investor. We like quality companies - they can be growth, they can be value. About quality, we have our own checklist and

look at management, corporate culture, markets, profitability, etc. We try to think like Warren Buffett - we are a long term investor."

### **Which screens do you use? How do you know if you want to meet a company?**

"We meet the companies we hold. Besides that, our analysts know fairly well what could fit our portfolio in terms of quality but they also search for new ideas. If we don't know a company well we aim to get some information about them and their business and take it from there."

### **Which benchmarks do you use?**

"We have composed our own index through a mix of relevant indexes from the markets where we are active, to compare how the portfolio is doing."

### **Do you have a target price when you buy a stock? i.e. 20% upside?**

"We do our research and we come up with a valuation. If a company has the quality we think it's worth having a look at. The less quality and the more uncertainty, the greater the upside has to be. There's no specific number for upside that triggers our investment."

### **Average length of a holding?**

"We have patience for at least 3 - 5 years but some holdings we've had for 10, 20 or 30 years. If they still have upside potential we tend to hold them. We've been invested in companies that became fully valued or, after learning more about them, weren't the quality we thought – then we have divested."

### **Average market cap? Market cap cut off?**

"\$2 - 3 billion would be our minimum market cap cut off."

### **Typically - what size of positions do you take? Value of largest position?**

"It depends on the portfolio. For example, we have a mid cap portfolio and a position at the start could be very small but we tend to think in terms of a \$50-100 million position. Factors like liquidity can hold us back but we don't want lots of small positions that we don't have time to focus on. In the US for example, we have around 25 names. So it's a concentrated portfolio."

### **Any sectors you won't invest in?**

"We tend to avoid sectors such as tobacco and defence."

### **Any sectors/themes you don't favour?**

"Some sectors we don't really have a good feeling about we have avoided for some time. Utilities for example. The better companies grow, the better it is. We are not so keen on highly cyclical industries like steel so it would have to be an exceptional case to invest."

### **Does a company have to be profitable?**

"Yes. It would be very hard to buy something that doesn't make money. We have a checklist and consider profitability, if there are no profits it would have to be an extremely strong case to convince us to believe there was going to be a turnaround."

### **Recent purchases and why?**

"Speaking for my sector, Rockwell Automation in the US. It's an extremely strong company, focused in one sector - automation with an extremely good track record and respected in the industry they work in. They have promising future opportunities. We met with management and got a solid impression. It flashes green all over!

We hold John Deere as well. It has a long history, extremely good positions in its markets, probably the best position. We like their thinking. They have some headwinds currently but we think that is priced into the stock so it's okay."

### **Recent sales and why?**

"We haven't sold anything completely in my sector but recently sold minor holdings as they were too small and we cleaned up the portfolio a little bit. And we've sold a couple of things on valuation recently."

### **Do you have to meet management before you buy a stock?**

"Our ambition is to meet management before we buy a stock but sometimes we invest a little and then initiate a process how to meet them."

### **Where do you prefer to meet management?**

"Where, does not matter that much. The best quality is to meet them one-on-one in their office or where they have operations. If they come here to Stockholm that's also fine. At conferences, meetings can be of less quality as management are busy, they meet many investors, they are not so relaxed and if you are in a group meeting we find it hard to put forward our type of questions which are boring long term questions, compared to a hedge fund which wants to have a look at the quarter. So we prefer one-on-ones."

### **How does Alecta approach governance?**

"The principal objective for Alecta's investment management, within the risk limits set by Alecta's Board, is to:

- (i) guarantee the commitments that Alecta has made to its insured,
- (ii) work to achieve the highest possible long-term return on assets under management.

This is also the objective for Alecta's shareholdings. The owner influence that follows from Alecta's shareholdings shall be exercised solely to promote this objective.

As an owner and investor, Alecta shall conduct itself in an exemplary manner that inspires respect and confidence both from Alecta's customers and from the companies where Alecta is an owner."

### **Some Pension funds are becoming increasingly "activist" in their engagement with companies. What is Alecta's position on using proxy voting and more direct dialogue to impact companies?**

"Alecta exercises the voting rights attached to Alecta's shares in all Swedish holdings and in all large international holdings where we own more than one percent of the company.

Alecta's investment operation takes ethical, environmental and social issues into account. Alecta is of the opinion that well thought-out handling of such issues leads to long-term advantages for listed companies."

### **Typically how many companies (US and European) do you meet a year?**

"We probably have 300-400 meetings with companies every year. Mainly with companies we have a position in, but also new companies. We own 25-30 US names and between 80 - 100 European names."

### **Why should corporates target pension funds such as Alecta?**

"We are long term holders. We care about how the company is managed. The better it is managed, the stronger and more promising the future is, the more likely for us to stick with our holding. So our long term profile is clearly our best selling point."

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