International outlook – the Swedish example

Reforming Baltic Pension Funds
Tallinn

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Agenda

• Internationalisation of the Swedish capital market – where it started and why?

• What took Sweden to the global markets and the global markets to Sweden?

• Where are we today and what to expect?
Where it started

Four types of investors that all have had major impacts on the Swedish capital market, but in different ways and in different times:

✔ The life insurance companies

✔ The AP-funds

✔ “The others”

✔ Retail investors
Where it started (Cont’d)

✔ The life insurance companies

Overall, the life insurance companies are the institutions that most likely have made the largest impact in the local capital market. This is due to their historically more flexible investment regulation. The life insurance companies were not only early but also heavily into equities, combined with a big “home bias”. (Skandia, Länsförsäkringar, Folksam, Alecta, SPP etc.).

✔ The AP-funds

The AP-funds became not only international, but also equity investor reasonably late. Before 1997, the predecessors to the current 1-4\textsuperscript{th} AP-funds (“1-5 Fondstyrelsen”) where initially not in equities at all, and came into local equities only at the end of their life time for regulatory reasons.

✔ “The others”

“The others” are institutions managing defined benefit plans for parties to the labour market (employer organisations & unions) as well as health & accident insurance etc. on behalf of the parties (AMF, AFA etc.) but this category also includes a number of corporate pension trusts.
What took Sweden to the global markets and the global markets to Sweden?

Five significant events that made Sweden global

✔ The end of the currency regulation

Up till the early 90’s, there had been significant capital accumulation in the Swedish institutions. This was partly due to regulation within in particular 1-5 AP-fund, but also due to the currency regulation. Before this was finally abandoned in 1989, the institution had to buy foreign currency from the central bank through what was called the ”switch-currency”, i.e. foreign currency at a premium. All in all, that made foreign investments relatively more expensive, hence having a negative impact on the returns.

✔ The globalisation of the capital markets

”Home bias” was an international phenomenon until the early-mid 90’s. The capital markets – and in particular in Europe – was extremely fragmented in terms of currencies, trading rules, regulations etc. This is essentially the reason for the ”Lisbon Agenda” which eventually resulted in MiFiD in 2007. The objective was to create an integrated European capital market which would be competitive against - in particular - the US.
What took Sweden to the global markets and the global markets to Sweden? (Cont’d)

✔ The geographical expansion of the intermediaries

Following the increased internationalisation of the capital markets, the swedish based intermediaries started to expand into new markets in order to serve their clients with brokerage, research and asset management services on a wider – and more international - scale. Initially, the expansion was in the Nordics, but soon enough they also went to London, Hong Kong, Singapore, Frankfurt and in particular to New York. In the late 90’s, smaller firms like Carnegie and Alfred Berg as well as the investment bank divisions of banks such as SEB and Handelsbanken had presence far away from Stockholm (less so by now, though...)

✔ A liquid and well perceived Stock Exchange

Next to Nasdaq, the Stockholm Stock Exchange has among the highest exposure to technology stocks. This made Stockholm a popular market place in particular in the late 90’s as well as in the early 2000. The part of the market capitalisation of the NasdaqOMX that is still owned by non-swedes is currently about 40 per cent, which in an international context still is very high.
Sweden is an equity country!

The equity markets have been important to the Swedish economy more or less since the country became industrialised.

The stock exchanges as a market for venture & risk capital has been an extremely important factor for the success of most of the Swedish export depending companies.

In 1984, a political initiative to stimulate the Swedish household to further increase their savings in equities was launched – ”Allemansfonderna”. ”Allemansfonderna” had certain tax benefits that made them very attractive, and the initiative became a massive success. Even though ”Allemansfonderna” increasingly became less attractive, the equity interest was here to stay and has resulted in a very diverse and accessible fund market with asset managers not only in the major banks but also from smaller, independent firms that are distributing through various platforms. The Swedish households have currently their highest exposure ever to the equity markets, but this time through funds.
Where are we today and what to expect? (Cont’d)

- As the globalisation and the integration has continued, national borders become less and less important to the sophisticated investors. However, ”home bias” will most likely continue to be a part of the system. For example, the AP-funds have approximately 12 per cent in Swedish equities, which is 12 times higher than the Swedish weight in the world index.

- As the world has changed, integration into other markets, but also being an attractive market for others, are becoming increasingly important. Lack of integration will eventually lead to limited, if any, capital inflows and/or outflows.

- Ultimately, moving into a new market is an asset allocation decision, not a decision to invest in a particular security. Overall, the first requisite in order to attract foreign investors is to have a healthy economy with a sufficient growth as well as a sound economical and financial policy.

- Secondly, any market aiming at attracting foreign investors needs to play by the rules! The rule book includes issues like corporate governance, CSR, generally accepted and widely known listing and trading rules, market integrity etc. It is debated to what extent currency is an issue, but given the efficiency of the derivative markets today, whatever importance currency may have, it is much less than it used to be.
Thank you!
"Prudent Man Rule"

"to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

Massachusetts court Harvard College v. Amory (1830)
Niklas Johansson (1961) is the founder of Niklas Johansson & Partners AB, a firm advising professional clients in the areas of capital market and asset management. Before founding the company, Mr. Johansson was the group CEO of the Nordic investment bank Carnegie, a position he assumed in 2009 leaving the position as head of asset management for the bank.


Mr. Johansson has, among other assignments, been advising the Swedish Financial Supervisory Authority, the Ministry of Enterprise and currently also the Ministry of Finance. He is also a member of European Venture Capital Association’s (“EVCA”) expert working group on risk management in Private Equity & Venture Capital. Mr. Johansson is also the chairman of the board of the Swedish State Pharmacy Pension Trust as well as Telia Pension Trust. He is also a member of the Board of Directors of the Second Swedish National Pension Fund (“AP2”).

Mr. Johansson holds a Bachelor of Science from the University of Linköping and a Master of Business Administration (“MBA”) from the University of Uppsala. In addition, he is also a Certified European Financial Analyst (“CEFA”) from Stockholm School of Economics and holds a Certificate in Private Equity Investing from Oxford Business School. He is a retired member of the board of directors of the Swedish Securities Dealers Association and of the board of directors of the Swedish Society of Financial Analysts.

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