

Alternatives, ESG and capital control limitations

At the end of December, **Tell Media Group**, in cooperation with **Schroders**, invited Icelandic pension funds to discuss asset allocation going into 2022. Tell Media Group founder Niklas Tell and Nordic Fund Selection Journal editor Caroline Liinanki moderated the roundtable.

By: **Niklas Tell**

The discussion started out with Caroline Liinanki asking the Icelandic pension fund participants about the main changes to their investment portfolio and strategy over the past year.

SIGURBJÖRN SIGURBJÖRNSSON: “Our main focus has been on alternatives, especially abroad, and we’ve been increasing that part of our portfolio. We have been focusing a little bit on the listed equity market as well but our main focus has been on alternatives. We started with that strategy in 2000 but had to stop in 2008 due to the capital controls. We re-started in 2014 and have been working on that ever since.”

ARNE VAGN OLSEN: “It’s similar for us and I think you will probably see the same in most portfolios today. The pricing in some of the public markets has left institutional investors to look towards the alternative space. However, we’ve also seen our equity ratio grow over the past two or three years – both as a result of the strong markets but also due to additional allocations to equities. Although equity markets are expensive, the same can be said for most markets, hence the acronym ‘TINA’ – There Is No Alternative.”

LESLEY-ANN MORGAN: “From a tactical asset allocation perspective, it was important for us to get the big asset class calls right in 2021 and being positioned for a broad recovery. It was important to get the call right about being long US equities, which was really hard when it has felt like the market was so expensive, but we can still see strong earnings from US equities. Thankfully, we were right last year on US equities and we’ve also been right when to be long small caps and when to be long large caps. Stock selection was less important last year but I think it will be different this year.”

ARNE VAGN OLSEN: “You touch upon a subject that we’ve also been monitoring in our portfolio, which is that our active managers have been struggling. This has prompted some discussions on our side on whether we should increase the

index or the passive part of the portfolio. However, do you believe that there will be a comeback for active management in 2022, i.e. will stock selection become more important?”

LESLEY-ANN MORGAN: “I think the timing to cut active managers might not be quite right. Last year, we had really strong earnings numbers for many companies across the board, especially in the US, and we just don’t see that those earnings will be sustained this year. When we look at client portfolios, we do see that asset allocation added value last year and that less value was added from the selection side but we think that’s going to turn.”

NIKLAS TELL: WHAT HAVE BEEN SOME OF THE BIGGEST SURPRISES OVER THE PAST YEAR?

LESLEY-ANN MORGAN: “I think the biggest surprise for us has been the persistent level of inflation, driven by the bottlenecks and the tightness in the labour markets. Initially, we thought it was going to be transitory but now that really doesn’t look the case – or at least the definition of transitory is much longer than we originally thought it would be. Also, people not coming back into the labour market, particularly in the US, has been a surprise.”

ARNE VAGN OLSEN: “I would agree. Inflation definitely caught us by surprise – both the speed of it and the current level. Lesley-Ann mentioned bottlenecks and we can see that both in our portfolio companies and on a more personal level. I have, for example, been waiting three months for a bigger screen for my desk at work. Also, if I look back a year, I didn’t think we would be in a new wave of Covid at this point in time. That has also been a bit of a surprise and it’s impacting the markets in many ways. I think many assumed that certain parts of the market, such as travel and leisure, would have picked up but they’re still struggling.”

SIGURBJÖRN SIGURBJÖRNSSON: “Firstly, I must say I was

quite surprised how strongly equity markets have performed across the globe. I also agree when it comes to inflation – especially in the US. I think the US has a big task ahead with the labour market and the question around whether people are coming back to work or not and also with all the stimulation that’s going on. The same applies to Iceland of course. There has been a lot of stimulation around the globe due to the pandemic and the big task for central banks around the world is how to fine-tune the markets again.”

CAROLINE LIINANKI: WHAT DOES THIS MEAN FOR YOU WHEN IT COMES TO ASSET ALLOCATION IN 2022?

SIGURBJÖRN SIGURBJÖRNSSON: “I’ve been in this business for a long time and I must say that I’m a bit worried going into 2022. There’s a mismatch in markets where there’s pressure on central banks to reduce stimulus but at the same time, a lot of people are unemployed and are heavily reliant on the government’s stimulation. As I said before, we will see how well central banks and governments around the world will be able to fine-tune this. If they’re successful and if inflation will be low, things could be fine. Personally, I’m a bit worried about the equity markets as prices are quite high.”

LESLEY-ANN MORGAN: “Going into 2022, we’re still overweight equities but we just don’t expect to get similar returns as in 2021. There are some managers out there that are very concerned about possible corrections but I think a lot depends on how well inflation is managed and at this point, the Fed seems to be on top of that. We’re still underweight government bonds going into 2022 and I think it’s quite difficult to make money out of government bonds at the moment. We’re neutral when it comes to credit, with the exception of European high yield, where we are positive. The reason for that is that these companies are actually able to borrow at very low rates – negative real rates in some circumstances – and the chance of default is quite slim. In fact, one of my colleagues said to me that you would have to

have a special skill to be able to default in this market. Also, we’re still overweight commodities when we think about how we position our portfolio as we start to get into a more mature part of the cycle.”

ARNE VAGN OLSEN: “It’s a little bit of a mind-boggling market. The trouble is that even if you want to exit equities, where do you go? Also, it’s pretty hard to call the top of the market. I could have called it in 2016, 2017, 2018, 2019, 2020 and 2021 but it’s still going strong and there are still some pretty good underlying profits being generated. So it’s really a tough call. What we’re trying to analyse and understand better at the moment is the impact of ESG. Both from a regulatory perspective but also the impact on the mindset of investors, because that’s something that’s dominating and will dominate for a long time. It’s something that will disrupt markets and it will have an impact on both asset allocation and stock selection and we’re trying to understand how to ensure we’re not hurt by this and also how we can gain from it.”

LESLEY-ANN MORGAN: “From an asset allocation perspective, three years ago we were probably thinking it was much more of a bottom-up thing but now we have to embrace it from a top-down perspective as well. For example, we

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started to incorporate climate into our longer-term asset allocation assumptions a few years ago. Our CIO previously said that for 25 years in her career, she has had to think hard about interest rates and now she has to think about interest rates and carbon policy from the different policy makers. They're the things that will make the big difference."

NIKLAS TELL: DOES THAT MEAN THAT YOU SHOULD REDUCE YOUR EXPOSURE TO EMERGING MARKETS BECAUSE THAT WOULD BE WORSE FROM A CO2 PERSPECTIVE?

LESLEY-ANN MORGAN: "Based on our assumptions, we've made changes to all of the asset classes across the board. However, the hurdle for emerging markets to make it into the portfolio became a little bit higher than before we included climate into our asset allocation assumptions."

NIKLAS TELL: WILL THIS MEAN THAT MONEY WILL DISAPPEAR FROM EMERGING MARKETS AT A TIME WHEN THEY NEED IT TO TRANSITION TO A LOW CARBON ECONOMY?

LESLEY-ANN MORGAN: "I think it depends on whether governments are actually going to do this 'Just Transition' that has been talked about at COP26, where more developed governments give money to less developed governments for the transitions to happen. I think that we all have to wait to see how that pans out."

ARNE VAGN OLSEN: "When you start digging more into ESG matters, you quickly understand that there are so many layers to this conversation that it's difficult to grasp. Fossil free indices, for example, are not necessarily outperforming because they have cut out energy companies but rather because they have an increased weight in technology companies, for example. Also, what if everyone just invests in the small universe of 'green' companies where everything is already priced in? Better opportunities are probably found in companies that are bad citizens today but are on the right trajectory. There are so many aspects to consider when allocating within an ESG framework or strategy, which brings us back to the question of emerging markets. If an emerging market was a company, you would have to analyse it and consider whether it's on the right trajectory. Is the government doing what it can? It's such a multi-layered conversation and for me, there's not any right or wrong answer. You simply have to weigh the pros and the cons every single time."

SIGURBJÖRN SIGURBJÖRNSSON: "I fully agree with what Arne just said in that you should be able to invest in something that's considered 'brown' today but is on a trajectory towards 'green'. In doing that, you have to look at the big picture - what the governments are doing and so forth. However, sitting here in the north, we're in a specific situation and it's always difficult to decide from our perspective how the world should be when it comes to ESG."

NIKLAS TELL: WHAT ARE YOUR THOUGHTS ON DIVERSIFICATION?

LESLEY-ANN MORGAN: "As we get into a more mature stage of the cycle, diversification becomes more important. I think there are some difficulties in trying to figure out whether bonds will protect as well as in the past if equities fall. Correlations have been somewhat unstable between equities and bonds and when you get a fluctuation, you find that bonds don't always do what you want them to do in the portfolio. We've looked for substitutes for bonds to find a hedge or protection against falling equities, such as gold and currencies, but neither of those really act as a particularly good hedge. We're trying to think as broadly as possible at this point and we have for example started looking at carbon as a factor. It's not that well correlated with equities but it's reasonably correlated with energy."

"I've been in this business for a long time and I must say that I'm a bit worried going into 2022"

- Sigurbjörn Sigurbjörnsson, Söfnunarsjóður lífeyrisréttinda

CAROLINE LIINANKI: WHAT DO YOU MEAN SPECIFICALLY WITH THAT? ARE YOU USING CARBON AS A DIVERSIFIER?

LESLEY-ANN MORGAN: "There are companies that have to buy carbon offsets, such as airlines, and there's only a certain amount of these that are put out into the market at any one time. If you want to buy some of these, you have to buy them from an auction or you buy them from somebody else who has a surplus. As an asset manager, you can buy these carbon credits, which pushes up the price of the carbon and forces emitters to decarbonise. It has been interesting to look at. It's early days but I think it's one area where you can find a different diversifier to portfolios."

ARNE VAGN OLSEN: "I think that's a very good idea and we actually contacted some of our asset managers a couple of months ago asking if we can invest into carbon quotas. Nobody has a product yet but it's definitely something that we've been conscious of and think would be interesting to look at. In general, diversification is always important and probably even more so now with stretched equity markets. But we also know that most correlations move towards one in a downturn and then people just exit whatever market they're in and jump into cash. I think we just need a good diversification policy and stick to that, even though it's going to be turbulent."

SIGURBJÖRN SIGURBJÖRNSSON: "It used to be quite easy to go to from equities to fixed income but with this low interest rate environment, it's more complicated to find the right strategy and harvest from your equity portfolio in real terms. I think the theme that there is no alternative [TINA] is correct - there is really no other alternatives than the equity part of the market right now."

CAROLINE LIINANKI: WHAT IS THE ROLE OF TRADITIONAL FIXED INCOME FOR YOU? ICELANDIC INVESTORS HAVE BEEN IN A SLIGHTLY BETTER POSITION THAN MANY OTHER NORDIC INVESTORS AS THE DOMESTIC GOVERNMENT BOND MARKET AT LEAST HAS GIVEN YOU SOME RETURN.

SIGURBJÖRN SIGURBJÖRNSSON: "That's true but you have to bear in mind that our aim is to get 3.5 per cent in real yield annually. Today we can buy a bond, secured by the Icelandic government and index-linked to inflation, with a yield of some 0,7 per cent. You can buy that and that's better than nothing but it's not enough to meet the liabilities. It's still an important part of the market because you don't

want to put everything into equities and we, of course, can't do that according to the law. We have a cap on what we're allowed to invest abroad and how much we can investing in local equities. So we still have this niche part of the market but it's not delivering what it should be."

ARNE VAGN OLSEN: "I think one of the reasons why most international allocations of Icelandic pension funds have gone into equities is that we simply haven't had the need to source fixed income abroad as we have gotten pretty high risk-free yields in local currency."

NIKLAS TELL: SIGURBJÖRN, YOU MENTIONED THE LIMITS ON WHAT YOU CAN INVEST IN. WHAT DO YOU SEE AS THE MAIN REGULATORY CHALLENGES RIGHT NOW?

SIGURBJÖRN SIGURBJÖRNSSON: "The biggest hurdle for us is the cap on international investments, which is currently at 50 per cent of assets. We have some 41 per cent of assets invested abroad and in practice, you can't invest more than some 45 per cent abroad because you need to have some room for currency and market movements. I had hoped that there would have been a change to the cap on international investments at the end of 2021 but we have a new government and maybe they need to time to do it. There have been a lot of studies on this and I agree that the cap should at least be in line with our imports, which would be 50 to 60 per cent."

NIKLAS TELL: IF YOU DIDN'T HAVE THOSE LIMITS, WHAT WOULD BE YOUR OPTIMAL PORTFOLIO IN TERMS OF DOMESTIC VERSUS INTERNATIONAL EXPOSURE?

SIGURBJÖRN SIGURBJÖRNSSON: "I would say 40 per cent domestic and 60 per cent abroad. We have a fairly small domestic equity market and liquidity is a problem."

ARNE VAGN OLSEN: "The problem that we're facing in Iceland is that the pension fund system is two times as big as the economy and is growing twice as fast as the economy. So you have large fish in a small pond that are growing larger and larger and if you don't allow those fish to swim outside of the pond, you will have even more competition for whatever food is left in that small pond. That will create asset bubbles here in Iceland, which is bad for everyone. We need to get more money from the pension system invested outside of Iceland. I think where the cap should be should depend on each single pension fund, taking liabilities into account. For our pension fund, we would prefer if there was no cap at all. We would just like to make our asset allocation based on best practice and be allowed to decide where we should invest."

CAROLINE LIINANKI: DO YOU NEED A CAP ON THE FOREIGN ALLOCATION AT ALL? IT'S NOT LIKE INVESTORS THAT DON'T HAVE SOME KIND OF LIMIT PUT 100 PER CENT OF THEIR ASSETS ABROAD ANYWAY.

ARNE VAGN OLSEN: "I guess you couldn't remove the cap fully right away because we also have a fairly small currency

that probably couldn't handle the outflow. So maybe the logical way forward is to take a few steps along the way but with an end goal of abolishing the cap fully. I don't know how long that's going to take but it's becoming an increasingly pressing issue and something that's very important to focus on from the regulatory side in Iceland."

SIGURBJÖRN SIGURBJÖRNSSON: "I just want to add that we're a small nation but we're getting economic growth from the rest of the world through our investments abroad. We have a global portfolio that's investing in companies with revenues from the US and China and that contributes to the economic growth that we're bringing into the system in the long run. I therefore don't think that the central bank will need as much currency reserves in the future."

LESLEY-ANN MORGAN: "When I was head of retirement and defined contribution, I used to work with lots of different regulators around the world, such as Mexico, Brazil and China, to try and persuade them to do exactly what you're arguing for to happen in Iceland now. It's a perpetual problem in many different countries but as you said Arne, you can't make that change overnight. Coming back to the question regarding the main regulatory challenges, I think the first is the transition to net zero and the amount of money that will flow towards those areas. We've already talked a bit about pricing and we've seen that it has been quite difficult to make money in some of the greener parts of the equity market currently because of pricing. The other challenge concerns possible regulation on technology, particularly in the US. This is not necessarily a downside risk. If we look back at the 1980s and 1990s when there was a probe on IBM with the unbundling of the software from the hardware, we ended up with Microsoft doing very well. Also, when Microsoft had to open up to allow for other companies, then Google did very well. So I wouldn't say that all regulatory challenges on the investment side are necessarily bad."

NIKLAS TELL: IF WE LOOK AT KEY INVESTMENT THEMES GOING INTO 2022, WOULD THAT BE INFLATION AND ESG OR ARE THERE OTHER TRENDS THAT YOU ARE LOOKING AT AS WELL?

ARNE VAGN OLSEN: "I think those two are definitely correct and I also think we will see an increased allocation to alternatives. Furthermore, I think the flow of money to passive strategies will continue. We have a pretty flexible portfolio construction process with a core/satellite approach but our active satellites have become smaller and I suspect that's going to continue for a while. Ideally, we would like to have everything allocated to active managers because that would mean we believed they would outperform but that hasn't been the case for a while."

CAROLINE LIINANKI: WHY HAVE ACTIVE MANAGERS STRUGGLED TO DELIVER?

ARNE VAGN OLSEN: "Well, if only I knew the answer. There have been so many key changes and drivers in the market.

You've had production bottlenecks, inflation, ESG and of course Covid. So many things have changed the trajectory of the market and what we're hearing from our active managers is that it has been very hard to read."

LESLEY-ANN MORGAN: "I mentioned earlier that we've been very fortunate that we got a lot of the calls right from an asset allocation perspective but it has been a really hard market to deal with. For equity managers, it has been a narrow market and if you run a global equity portfolio, it's really difficult to outperform when US tech is flying away from you."

SIGURBJÖRN SIGURBJÖRNSSON: "Our strategy for a long time has been to have 40 to 60 per cent of our listed equities in index funds and that part has done quite well. It has performed in line with the index and the index has been doing extremely well. But our active managers have been struggling, so the index part is growing bigger."

LESLEY-ANN MORGAN: "If I look at trends, we do see a move into private assets. We do an annual institutional investor study and in 2020, some 26 per cent of institutional investors said they would put more money into private assets over the following year. When we asked the same question in 2021, that number had jumped to 47 per cent. Obviously, there's a wall of money chasing these private assets and some of those really big private asset companies have struggled to deploy that cash. So I think there are pros and cons with this move towards private assets and you need to pick your sweet spot. We also have this move into sustainable investing but how that's done really depends on the part of the world that you're based. In the US, it has been slightly less about climate and more about social policies - making sure that people who are less advantaged are able to get on the housing ladder etc. But I think investors that are even further along that sustainable spectrum are now wanting to show that they're having an impact as well."

NIKLAS TELL: ARNE AND SIGURBJÖRN, BOTH OF YOU MENTIONED THAT MAY ALLOCATE MORE TO PASSIVE. HOW DO YOU COMBINE THAT WITH AN INCREASED FOCUS ON ESG?

SIGURBJÖRN SIGURBJÖRNSSON: "That's a great question, even if I don't have a perfect answer. Of course, we want everybody to have an ESG policy and if a fund company is running an index fund, we will look at the ESG policy and ask them how they vote in meetings and so forth. So we're trying to do our best to capture what's going on in the world but it's difficult."

ARNE VAGN OLSEN: "One of the challenges we have is that sometimes when we identify a good ESG fund, we can't allocate enough capital because the fund is too small. I think some of the changes that will happen is that we will see more allocations to mandates or segregated accounts where investors can express their ESG policy in a more structured way. We recently issued our first responsible investments policy

“For equity managers, it has been a narrow market and if you run a global equity portfolio, it’s really difficult to outperform when US tech is flying away from you”

– Lesley-Ann Morgan, Schroders

and exclusion list. The exclusion list will probably never fully align with a fund. Therefore, mandates would be a solution."

CAROLINE LIINANKI: CONSIDERING THE POPULARITY OF MOST ALTERNATIVE ASSETS AND THE HIGH VALUATIONS, HOW DO YOU NAVIGATE THIS MARKET? WHERE ARE SOME OF THE INTERESTING OPPORTUNITIES AND WHAT DO YOU NEED TO WATCH OUT FOR?

LESLEY-ANN MORGAN: "From our perspective, one challenge is what I mentioned earlier in that some of the really large private equity companies have found it difficult to deploy capital. We're seeing opportunities in some of the small and medium-sized enterprises and we're also seeing opportunities in real estate loans. That has partly to do with regulation that is pushing banks away from capital intensive loans and opening up opportunities for alternative lenders. But again, let's remember that private assets can't be done passively. It's also a massive dispersion of returns between different managers, so having some scale and being able to select the right manager is a massive challenge."

SIGURBJÖRN SIGURBJÖRNSSON: "You're absolutely correct. There are a lot of really good managers out there so you have to be careful and selective. But you have to take risk somewhere and the alternative space is the risky part of our portfolio. There's a premium there for us to capture and these funds can also make a difference when it comes to ESG. They can do things that maybe the listed market can't because they are majority shareholders. Private equity has been a very good part of our portfolio since 2000 and we don't need the capital to pay to our members yet, so we have a long horizon and we can stay with these funds for many years."

ARNE VAGN OLSEN: "Our main focus has been private equity and it's absolutely correct that we have a lot of money chasing those companies. But what is often forgotten in that conversation is that the private market is much larger than the public market in terms of the number of companies. However, I'm a bit concerned about how the largest private equity funds are getting larger and then we have good managers that don't even manage to get on the radar. The balance of power is also shifting. All of a sudden, you have large GPs with plenty of money and they can choose whatever LP they want and decide the terms and conditions. When you're a small investor in the global context - like we

are - you don't have a seat at the table to be able to influence that. So that's why it's so important that the larger LPs take a more active role when it comes to governance etc."

NIKLAS TELL: WHAT ABOUT REAL ESTATE?

SIGURBJÖRN SIGURBJÖRNSSON: "That's the part of alternatives where we have done the least number of investments. We've focused on core assets rather than value-add investments and that has worked for us. Returns are at the lower end but we want to be conservative."

ARNE VAGN OLSEN: "It's similar for us. We've had our private equity program for more than 15 years and we started to invest in real estate and infrastructure a couple of years ago. We have, however, paused the real estate part of the portfolio for a little while in order to focus more on infrastructure. We're still a little bit concerned about the structural shift that seems to be taking place in the real estate market - not least as a result of Covid with more people working from home. We're therefore a bit hesitant to commit money to real estate as we think we still can get some of the same diversification benefits from infrastructure."

NIKLAS TELL: I WOULD LIKE TO COME BACK TO THE DRIVE TOWARDS NET ZERO AND HEAR MORE OF YOUR THOUGHTS ON THAT.

LESLEY-ANN MORGAN: "I think it's important to think about it in two dimensions in that net zero is your target and that decarbonisation is the path. One of the challenges, of course, relates to measuring carbon in different asset classes and that's very difficult at the moment, except for equities and credit. Progress is being made on sovereign bonds but even those are difficult to measure at the moment. So any analysis that you do will only be for a part of your portfolio. Then you also have to decide whether you should include scope one, scope two or scope three - so a lot of different decisions even before you get on this journey. We've also looked at what happens if you go too fast and what happens if you go too slow. For example, if you go too fast towards net zero, you could end up taking lots of different things out of your portfolio and actually reduce your diversification. Some clients are very sure that they want to do net zero today and we're getting asked about carbon credits, which would offset the bits of a portfolio that don't look good today."

“I think some of the changes that will happen is that we will see more allocations to mandates or segregated accounts where investors can express their ESG policy in a more structured way”

– Arne Vagn Olsen, *Lífeyrissjóður verzlunarmanna*

CAROLINE LIINANKI: HAVE YOU COMMITTED TO NET ZERO?

LESLEY-ANN MORGAN: “We have at Schrodgers. We were one of the founding members of the Net Zero Asset Manager initiative and have committed to work with our asset owner clients to reach net zero by 2050 or sooner across all assets under management.”

SIGURBJÖRN SIGURBJÖRNSSON: “No, we haven’t.”

ARNE VAGN OLSEN: “We also haven’t committed to net zero but it’s something we look at. We have committed to various alliances that to some extent have similar goals or are about reducing our carbon footprint. We’re maybe not as far ahead as some of our Nordic peers and I think part of the problem is that there are so many alliances you can pick from. It’s a little bit of a jungle to some extent. Coming back to what I said earlier, it’s such a multi-layered conversation and you need a really strong cup of coffee just to start talking about it.”

LESLEY-ANN MORGAN: “When we started thinking about this from a multi asset perspective, I said to a colleague that it’s like going on a journey to the North Pole. You’re dropped off by a helicopter and you don’t know where you should go and you don’t have the right clothes on. That’s kind of how it felt when we first started doing this.”

ARNE VAGN OLSEN: “Absolutely. At the same time, you have to address it because it will have such a big influence on markets for the coming years and decades.”

LESLEY-ANN MORGAN: “And you don’t want to get left behind because that could be a worse situation.”

ARNE VAGN OLSEN: “And to your earlier point, it can also be a challenge to move too fast. It’s like the efficient frontier – you just want to be where you can get the best return with a minimum of risk but it’s a difficult area to navigate.”

NIKLAS TELL: WHAT IS YOUR TAKE ON CLIMATE RELATED RISKS AND OPPORTUNITIES WHEN IT COMES TO ICELANDIC ASSETS OR COMPANIES?

SIGURBJÖRN SIGURBJÖRNSSON: “I think we have a lot of opportunities, especially if the government would allow us to access and finance certain infrastructure projects. We have a state-owned power plant and we have power plants owned by the municipalities, so there are all kinds of opportunities there. They’ve been issuing fixed income and we’ve been buying those. I also see positive changes when it comes to our fishing industry with new fishing methods, new engines for the boats and so forth. There are a lot of positive things going on.”

ARNE VAGN OLSEN: “I agree. That being said, it’s worth adding that climate change doesn’t care about country borders, so even if we can’t see it right now, Iceland is going to be affected. That could be due to an increase in the temperature of the sea, which could mean that the fish move somewhere else outside of our zone for example. It’s difficult to pinpoint exactly what will happen.”

LESLEY-ANN MORGAN: “I guess the next big thing that’s coming down the track is what’s called natural capital, which is where you start to invest in things like sustainable forestry and regenerative agriculture. It’s really interesting area but at the moment it’s often quite small investments, so if you’re a very big asset owner it can be difficult to get a meaningful exposure. It’s also quite difficult to figure out the pricing on some of these things.”

NIKLAS TELL: WHAT ARE YOUR BIGGEST WORRIES RIGHT NOW AND OVER THE COMING YEAR?

SIGURBJÖRN SIGURBJÖRNSSON: “There are three main things that concerns me at the moment. The first is equity market valuations, which we have talked about earlier. Inflation is, of course, another risk because we haven’t seen such high inflation, especially in the US, for a very long time. The third point relates to how central banks and governments are able to fine-tune the market stimulus after Covid.”

LESLEY-ANN MORGAN: “I would agree with that. I also think that we all worry about the central banks tightening appropriately at the right time. We need more of a Goldilocks situation where it’s managed a bit more carefully compared to the 1970s when inflation was allowed to run and also compared to after the global financial crisis when it was tightened too fast. I think that’s what the Fed is trying to signal but it’s still a worry. A rapid rise in interest rates would spook equities so that’s something that could be of concern. Also, Omicron can still cause problems. We’ve had supply chain issues and that could worsen due to Omicron. That’s a risk that we just need to keep an eye on.

ARNE VAGN OLSEN: “For me, it’s definitely central bank missteps and if they’re managing the rate cycle correctly, which is going to affect everything else. The big uncertainty at the moment is, of course, Omicron. Looking back 12 months ago, I absolutely thought that we would be in a better position now but it seems like we still have some way to go.” ●