

Inspired by AP7, Carnegie Launches Leveraged Global Equity Fund

Stockholm (HedgeNordic) – As Carnegie Credit Edge comes to a close, Emil Nordström, who managed the fund's derivatives strategy, is now steering a new initiative at Carnegie Fonder. Nordström has assumed the role of lead portfolio manager for Carnegie Global Plus, a new derivatives-based equity fund that aims to replicate the success of the AP7 Equity Fund. The fund is designed to maintain 140 percent exposure to the global equity market using derivatives.

Historically, equity markets have produced strong positive returns over the long term, making leveraged equity exposure – such as maintaining a 140 percent net exposure – a potentially rewarding strategy for investors. This strategy is particularly well-suited for those with high risk tolerance, the ability to endure significant short-term volatility, and, most importantly, a long investment horizon. "If you are 40 years old and retiring at 65, you have a 25-year investment horizon," Nordström points out. "Since the beginning of the 1970s, the return for the global equity market has been positive for every investment period longer than eleven years," he continues, emphasizing that a longer investment horizon reduces the likelihood of losses from equity investing.

Nordström cites the AP7 Equity Fund as a successful example of applying leverage to equity exposure. With approximately €105 billion in assets under management, the AP7 Equity Fund has generated an annualized return of 14.3 percent since its launch in May 2010 by leveraging its investments. "The AP7 Equity Fund has been a huge success," says Nordström, noting that the fund has reduced its leverage from around 1.7 times at inception to about a maximum of 1.2 times at the moment. Carnegie Global Plus aims to replicate the AP7 Equity Fund's strategy by maintaining a 140 percent net exposure to the MSCI World Climate Paris Aligned Index over time.

A Clone of AP7 Equity Fund

Carnegie Global Plus seeks to keep a steady 140 percent net exposure to the MSCI World Climate Paris Aligned Index, which offers exposure to nearly 600 companies globally. Structured as a daily-traded UCITS fund, Carnegie Global Plus exclusively uses derivatives to maintain a net market exposure ranging from 135 percent to 145 percent on a daily basis.

Given the low capital utilization of derivatives, Nordström plans to invest the available cash in low-duration, high-quality bonds to generate market-like returns that offset the costs associated with the use of derivatives. "These bond investments are really high-grade instruments, and we aim to generate returns slightly above the SOFR rate, which is the funding rate for the futures derivatives we use to leverage up," Nordström explains. While both the market rate of the fund's bond investments and the funding rate will fluctuate over time, the goal is to "provide our exposure at zero cost over the long term," he emphasizes.

Another key feature of the fund is its exposure to the U.S. dollar, which can serve as a partial hedge for Swedish investors during turbulent market conditions. "This fund is fully invested in U.S. dollars, so from a Swedish perspective, if the market crashes, the Swedish krona tends to weaken, providing a cushion from the dollar exposure," says Nordström. The ultimate aim of Carnegie Global Plus is to offer 140 percent net exposure to the global market with "more or less the same volatility as the Swedish market" thanks to greater diversification. Based on historical data, a global stock portfolio with 140 percent leverage is expected to exhibit volatility comparable to that of the Swedish stock exchange.

Much like the AP7 Equity Fund, Carnegie Global Plus is primarily targeted at insurance companies, with the individual investor as the ultimate beneficiary. "Short-term fluctuations are of little significance for the long-term investor," concludes Nordström. "This is especially true when savings are accumulated over a long period, as is typically the case with pension plans," he continues. Drawing inspiration from the success of the AP7 Equity Fund, Nordström and the Carnegie Fonder team have developed a fund that offers leveraged global equity exposure within a UCITS framework, making it accessible through insurance platforms.