Summary

Investment asset amounts, allocation and returns by the end of the third quarter of 2013

1. Exemplary performance of investment portfolio - approaching EUR 160 billion

The combined investment portfolio of pension insurance providers was EUR 158.4 billion at the end of September 2013. From the beginning of year 2013 the portfolio has grown by EUR 8.8 billion. The growth since the end of June 2013 totals EUR 4.7 billion. Given in euros, the portfolio has grown more briskly during the first nine months of the year than on average per year (EUR 7.9 billion) over the past decade (2003-2012).

The growth of the combined portfolio is due to both investment returns and pension contributions. Part of the pension contributions are used to finance pensions currently in payment. The remaining part is funded and invested so that future pension contributions can be lower than in an alternative in which no investments of this type are made. More than 90 per cent of the EUR 8.8 billion growth of the combined portfolio from the beginning of the year to the end of September 2013 came from investment returns, while slightly less than 10 per cent stemmed from pension contributions.

During the third quarter of 2013, the investment portfolio grew steadily in all earnings-related pension community groups (pension insurance companies, public sector pension providers, company pension funds, industry-wide pension funds and the special pension providers [the Seafarer's Pension Fund and the Farmers' Social Insurance Institution Mela]). This uniform development is evident, in particular, in the mutual, relative proportions of the groups, in which a mere 0.2 percentage point shift from pension insurance companies to public sector pension providers occurred. The evenness is even more obvious in the development from the beginning of 2013 to the end of September that year: the proportion of public sector pension providers was reduced by 0.1 percentage point while that of pension insurance companies grew correspondingly.

2. More equities, less fixed-income investments, stable real estate

The allocation of the overall investment portfolio of the sector at the end of September 2013 was as follows: investments in equities and equity-like instruments 45.3 per cent (EUR 71.8 billion), fixed-income investments 44.2 per cent (EUR 69.9 billion) and real estate investments 10.5 per cent (EUR 16.7 billion). The most significant change in the weight of the sector’s main investment categories was a 1.4 percentage point increase in the allocation of investments in equities and equity-like instruments. This change was countered by a reduction in the allocation of fixed-income investments and real estate: 1.1 and 0.3 percentage points respectively.

2.1 Investments in equities and equity-like instruments on the rise due to healthy stock market performance and additional purchases

The extensive growth in the sector’s allocation of equities (EUR 4.2 billion) was thanks to a healthy stock market performance (EUR 2.9 billion) and additional purchases outweighing sales (EUR 1.3 billion). The extensive equity allocation includes investments in hedge funds. Increasing this type of investment has become a clear trend in 2013. At the end of September 2013, investments in hedge funds amounted to EUR 8.7 billion, i.e. 5.5 per cent. In nine months, this investment category has grown by at least two billion euros, i.e. by one percentage point. The growth of investments in hedge funds can most likely be ascribed to, on the one hand, the investment environment, in which it is difficult to achieve a return on fixed-income investments and, on the other hand, the need to improve the diversification of the portfolio and to reduce the portfolio's dependency on the improvement of listed equities.

2.2 Rising interest level reduced investments in bonds

The proportion of fixed-income investments of the total investment portfolio decreased by 1.1 percentage points. Nevertheless, given in euros, this investment category managed to grow by EUR 0.3 billion as investments in money markets rose by EUR 0.7 billion. Investments in other fixed-income instruments, including investments in bonds and loans, decreased. The bond portfolio shrank by EUR 0.2 billion although new purchases outweighing sales were made to the amount of EUR 0.3 billion.

The contraction of the bond portfolio is explained by the increase in interest rate level from May to August. When the level of interest rates rise, the prices of interest-bearing papers go down. For an investor in fixed income securities, the reduction in prices means a lower market value of the fixed income portfolio and leads to a reduced fixed income allocation. Some investors react to the rising interest rate level by reducing their fixed-income allocation as they expect the interest rate level to continue to rise. Other investors, on the other hand, view the lower prices as an opportunity to expand their fixed income portfolio. Both these views have reigned among earnings-related pension insurers. In addition, the views of single actors may have changed greatly during the third quarter since the interest rate level developed in a bipartite manner, rising from July to August and dropping in September.

2.3 Continued decrease of loan portfolios

The development of earnings-related pension companies' new investment loans and TyEL relending has been slightly slower during the first nine months of 2013 than in 2011 and 2012. The total amount of new loans in the first three quarters of the year is the second lowest in the period from 2004 to 2013. The investment loan portfolio of pension insurance companies contracted by EUR 0.1 billion during the third quarter of the year. The TyEL relending portfolio, on the other hand, contracted by EUR 0.3 billion in the equivalent period. Combined, these two loan portfolios have contracted by a total of EUR 1.1 billion during the first three quarters of the year. In light of this data, it would seem that the availability of funding is not a major problem for companies at the moment.

3. Second quarter trends continuing into the third quarter: towards domestic markets

In terms of the regional distribution of investments, the trend of the second quarter continued in the third quarter: the proportion of domestic investments grew. In the third quarter, investments in Finland grew by 0.4 percentage points, i.e. by EUR 2.1 billion. Investments in other geographical areas also rose: in the eurozone (excl. Finland) by + EUR 0.6 billion and, in particular, in countries outside the eurozone by +EUR 1.9 billion. Nevertheless, the relative ratios of these areas were reduced as that of Finland increased.

4. Improved investment returns as the year progresses

Data on investment returns were provided by the eight largest earnings-related pension providers, whose combined investment portfolio constitutes approximately 94 per cent of the entire sector's investment portfolio. In light of this data, the investments of earnings-related pension providers have performed well in 2013. The best average group-specific return rates were achieved from investments in equities, particularly listed equities. The more modest returns of fixed-income investments were affected by the slowing rise in interest level since late spring, a rise that came to a complete halt in the early autumn. In the first three quarters of the year, the average total return of the eight largest earnings-related pension providers was 5.2 per cent. The average total return of the two largest public sector earnings-related pension providers was 4.6 per cent, while the equivalent figure for the six largest earnings-related pension insurance companies reached 5.5 per cent. Private sector earnings-related pension insurers are governed by national solvency regulations, which do not apply to public sector pension providers.

Returns have improved as the least favourable outlooks since the second quarter of the year are left in the past. Favourable returns are evident also when viewed long-term. The average, annual real return of the entire sector is 4.0 per cent, calculated over the period from the beginning of 1997 to the end of the third quarter of 2013. The corresponding return rate of pension insurance companies was 3.8 per cent and of the public sector pension providers 4.2 per cent. The Finnish Centre for Pensions uses 3.5 per cent as the assumption of real return in its long-term projection.

5. Cautiously optimistic future outlook

The basis for an improved real economy has gained strength during the past year. However, strengthening the foundation for economic growth takes its time. In the future, central banks must disengage from extreme stimulus measures. The task is challenging, as financial markets must be made to trust in their own ability to survive without implementing these extensive stimulus measures. Despite likely temporary set-backs also in the future, the premises for an improved real economy seem brighter than for quite a long time. Financial communications during the last part of the year concerning employment, economic growth, industrial production and confidence rates will be scrutinized for proof of a continued positive trend.