Summary

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

1 Investment portfolio development during first two quarters provides solid basis for the rest of the year

The investment portfolio has experienced a total growth of EUR 4.1 billion over a period of six months due to two divergent quarters. The combined investment portfolio totalled EUR 153.7 billion at the end of June 2013. Despite a slight slump in the second quarter, the overall development during the first half of the year provides a solid basis for the rest of the year.

Over the years (2004-2012), the average annual growth rate of the investment portfolio has been EUR 7.7 billion.

During the second quarter, the development of the investment portfolios of the earnings-related pension community groups (pension insurance companies, public sector pension providers, company pension funds, industry-wide pension funds and special pension providers [the Seafarer's Pension Fund and the Farmers' Social Insurance Institution Mela]) have been observed to follow slightly different paths. Viewed in euro amounts, the investment portfolio of the public sector pension providers has shrunk more than that of the other groups. The portfolios of company pension funds and industry-wide pension funds, as well as those of special pension providers (the Seafarer's Pension Fund and the Farmers Social Insurance Institution Mela), remained virtually unchanged, while that of pension insurance companies decreased slightly.

2 Minor allocation changes – slight risk level adjustments

2.1 Less shares, more investments in interest-bearing instruments, stable real estate

The overall allocation of the sector in the second quarter resembles that of the beginning of 2013. The changes during the second quarter have been small in size, amounting to one third compared to the changes in the first quarter. The most significant change in the weight of the sector's main investment categories was the reduction of the allocation of investments in shares and share-like instruments of 0.6 percentage points. This change was countered by an increase in the allocation of investments in interest-bearing instruments and real estate of 0.4 and 0.2 percentage points. The allocation structure of the entire investment portfolio was as follows at the close of June 2013 (end of March 2013): investments in interest-bearing instruments 45.3 per cent (44.9%), in shares and share-like instruments 43.9 per cent (44.5%) and in real estate 10.8 per cent (10.6%).

2.2 From listed shares and bonds to money markets and other shares and share-like instruments

Based on an examination of the lower level investment categories, the largest changes occurred when money market investments that are part of interest-bearing instruments (+EUR 2.0 billion, +1.4 percentage points) and other investments in shares (+EUR 0.8 billion, +0.6 percentage points) and hedge funds (+EUR 0.5 billion, +0.3 percentage points) increased and investments in listed shares (incl. funds) (-EUR 2.6 billion, -1.5 percentage points) and bonds (-EUR 1.7 billion, -0.9 percentage points) decreased.

The development of the investment portfolio shows signs of a return to the lower-risk situation prevailing at the beginning of the year. Some of the actors have lowered their risk level, others have settled for slight revisions. Underlying this shift was the weak economic and financial market situation of the late spring and early summer, which seemed to continue, in particular in the eurozone, including Finland. The weak market situation, the drop in share prices and the rising interest level reduced the market value of these investments. This was perceived most clearly in listed shares (incl. funds), but also in bonds.

With limited profit-making opportunities, return is sought through other means than traditional investments in shares and interest-bearing instruments. This is evident through the growth in both other share investments (+EUR 0.8 billion, +0.6 percentage points) and hedge fund investments (+EUR 0.5 billion, +0.3 percentage points).

2.3 Differences between earnings-related pension community groups - each seeking profit in its own way

For public sector pension providers, the most evident change in the investment allocation is a decrease in listed shares (incl. funds) and an increase in money market investments. Minute growth is found in nearly all other investment categories except bonds, which have been reduced due to an increase in the interest level. In the public sector, as in the entire field, investments in hedge funds are on the rise.

Company pension funds and industry-wide pension funds appear to seek profit through other means than traditional investments in shares and interest-bearing instruments. In this situation, the natural approach of company pension funds and industry-wide pension funds is an expansion of investments in real estate. Traditionally, the pension fund and industry-wide pension fund sector has focused more on real estate investments than have the other earnings-related pension provider groups.

Private sector actors outsizing company pension funds and industry-wide pension funds, i.e. the earnings-related pension insurance companies, dominate the entire private sector as well as the development of the field's investment allocation. The most notable changes in the companies included, on the one hand, increasing investments in money markets, other shares and hedge funds and, on the other hand, decreasing investments in listed shares (incl. funds) and bonds.

3 Towards domestic investment targets - investments in money markets and bonds

The medium-term trend - a shift towards countries outside the eurozone - has come to a halt or was at least on hold at the end of the second quarter in 2013. The relative share of investments outside the eurozone remained unchanged, but the absolute amount experienced a reduction as the share of investments in bonds (interest-bearing investment funds) outside the eurozone dropped by EUR 0.5 billion. This decline stems from sales exceeding acquisitions as well as from a weak development of the markets, affecting the debt instruments of the developing markets in particular.

In terms of regional distribution, the share of domestic investments grew by +1.2 percentage points (+EUR 1.5 billion), while investments in other countries of the euro area declined by -1.2 percentage points (-EUR 2.2 billion).

Of all earnings-related pension investment, 30.8 per cent were in Finland, 24.7 per cent in the eurozone (excl. Finland) and 44.6 per cent outside the euro area.

Viewed per community group, the weight of the eurozone (excl. Finland) has decreased in all groups. The weight of targets outside the eurozone has grown among the public sector pension providers and private sector company pension funds and industry-wide pension funds, but among the pension insurance companies, it has declined in comparison to the end of March 2013. The weight of investments in Finland has grown for all actor groups. At the close of the first quarter in 2013, the Finland allocation was at the bottom of the fluctuation range (28.6% - 59.1%) that prevailed between 2000 and 2012. At the close of the second quarter, the situation was tilting upwards, mainly through an increase in the share of investments in domestic money markets by earnings-related pension insurers. Further, as acquisitions exceeded sales, the share of investments in domestic bonds grew by a total of EUR 0.4 billion. Of that amount, one fourth stemmed from an increase in business loans and the remaining three fourths from an increase in general government bonds.

4 Moderate half-year returns

The earnings-related pension providers succeeded well in their investments during the first quarter of the year. Contributing factors included a global, positive development trend of the stock markets and a successful management of the share allocation of the actors, including choices made and timings selected. In the second quarter, the challenging market circumstances, the rising interest levels and the declining stock markets made it considerably more difficult to achieve profits. Thus, the investment income was negative in the second quarter of the year. The whole of these two different quarters - the first half of the year - was fairly moderate in terms of rates of return.

The total return of the earnings-related pension sector in the first half of 2013 was 2.3 per cent. The best average rate of return per group, 4.5 per cent, came from investments in shares and holdings. The rise in the stock markets in the first quarter was prominently strong and thus provided a good buffer for the decline in the second quarter. Investments in real estate yielded a return of 2.5 per cent. The return on investments in interest-bearing instruments was close to naught at -0.1 per cent. The rise in interest level dragged the return on interest-bearing investments below zero as the low running interest returns were not sufficient to cover the loss due to the decline in the price of interest-bearing papers.

The returns of pension community groups ranged between 1.8 and 2.6 per cent. The pension insurance companies reached the highest total returns (2.6 per cent), while the public sector pension providers and the small private sector actors, i.e. the company pension funds and the industry-wide pension funds, ended up at the same figure per group, 1.8 per cent. The most significant impact on the diverging total returns of these earnings-related pension community groups seems to stem from the return from interest-bearing instruments, which fluctuated between -0.1 per cent and +0.6 per cent.

Even though the development in returns would be negative in a short-term period (in the second quarter of 2013) or only moderately positive (in the first quarter of 2013), the long-term returns remain at a good level. The average, annual real return of the entire sector is 3.9 per cent, calculated over the period from the beginning of 1997 to the end of the second quarter of 2013. The corresponding rate of return of the private sector was 3.8 per cent (insurance companies 3.7) and of the public sector pension providers 4.1 per cent. The Finnish Centre for Pensions uses 3.5 per cent as the assumption of real return in its long-term projection. There are solvency regulations in place for earnings-related pension insurers in the private sector which limit the opportunities to pursue returns, whereas their counterparts in the public sector are not subject to solvency regulations.

5 Outlook for the remainder of 2013

Since the outbreak of the financial crisis, uncertainty has reigned more often than not in both real economy and on the financial markets. Partly, this has been the case also in 2013. At the same time, a change in the overtones towards a more stable development of the global economy can be seen. The key economic indicators have become stronger, a trend that is expected to continue. Approaching the end of the summer, there were signs indicating that the recession on the Old Continent is about to break and that Europe, which has been lagging behind in this development, is facing a brighter future.

However, nothing is as certain as uncertainty. Close attention will be paid to financial communications during the latter half of the year. The employment, economic growth, industrial production and confidence rates are hoped to indicate a continued boost for the foundation of economic growth.