Investment asset amounts, allocation and returns at the end of the first quarter of 2014

Investment portfolio continued to grow – EUR 165 billion exceeded

At the end of March 2014, the funded assets of pension insurance providers totalled EUR 165.5 billion. Since the end of 2013, the portfolio had grown by EUR 3.3 billion.

Slight changes: fixed-income investments up, equities down and real estate steady

At the end of March 2014, the investment portfolio for the whole sector was distributed between the main categories as follows: investments in equities and equity-like instruments, 45.7 per cent (EUR 75.7 billion); fixed-income investments, 43.9 per cent (EUR 72.6 billion); and real estate investments, 10.4 per cent (EUR 17.3 billion).

Only minor changes occurred during the first three months of the year. The most significant change in the relative shares of the main investment categories was the rise in fixed-income investments (0.8 percentage points, or EUR 2.6 billion) and the corresponding decline in the shares of equities and equity-like instruments (-0.7 percentage points) and real estate investments (-0.1 percentage points). Although the relative share of investments in equities and equity-like instruments shrank, their euro amounts continued to rise: EUR 0.4 billion. The slight and steady growth typical of real estate investments continued during this quarter as well: EUR 0.3 billion.

Loan portfolios continued to shrink; other fixed-income investment increased

The value of money market investments and bonds rose by a total of EUR 2.9 billion. Investments in bonds rose by EUR 2.0 billion. New purchases exceeding sales and maturities accounted for almost half of this total. The rest of the change was due to a fall in interest rates; this meant that the prices of interest-bearing papers and the market values of fixed-income investments rose.

Money market investments increased by EUR 0.9 billion. This may be explained, for instance, by preparation for a potential rise in uncertainty, or the assets may be kept on the money market for a while before they are invested in longer-term instruments.

Investment loans and TyEL relending declined by EUR 0.3 billion. Outstanding investment loans came to EUR 3.0 billion, while the value of TyEL relending reached EUR 2.1 billion. The loan portfolios had last been at this level before the financial crisis set in. New investment loans and TyEL relending granted by pension insurance companies totalled about EUR 0.5 billion. Although the total sum of new loans was fairly high, over 90 per cent of them were granted to group companies, not to enterprises outside the groups. It would still seem that there are no major problems in the availability of financing for Finnish enterprises. Enterprises can get financing on competitive terms from sources other than pension insurers.

New investments in unlisted shares and private equity

Investments in equities and equity-like instruments increased by EUR 0.4 billion, as new investments were made in unlisted shares and in private equity. Listed shares (including funds) and hedge funds were sold for about EUR 0.5 billion. This is roughly as much as the increase recorded in the market value of equities and equity-like instruments arising from the positive share market trend. At the end of the first quarter, a typical share index in an industrialized country was about 0–2 per cent higher than at the start of the year.

In the same way as last year, the purchase and sales data on equities and equity-like instruments indicate a continuing trend where investments in equities other than listed ones seem to be favoured. This trend can be ascribed, on the one hand, to the investment environment, in which it is difficult to achieve returns on fixed-income investments and, on the other hand, to the need to improve the diversification of the portfolio and to reduce the portfolio's dependence on the development of listed equities.

The trend of the past few years continued: investments outside the eurozone on the rise

A shift of 0.6 percentage points from domestic investments to investments outside the eurozone was recorded during the first quarter of 2014. Although the relative share of domestic investments (29.9 per cent) did fall, the sum in euros remained the same as at the start of the year, or EUR 49.5 billion. Investments outside the eurozone totalled EUR 75.0 billion, or 45.3 per cent of all investments. Investments in the eurozone (excluding Finland) totalled EUR 41.1 billion, which corresponds to 24.8 per cent.

Only minor changes occurred in domestic investments. The most important changes concerned money market investments (EUR +0.6 billion) and bonds (EUR -0.4 billion). During the past ten years, the relative share of domestic investments has remained steady, ranging from 30 to 35 per cent.

Although the amount of domestic bonds (more precisely, bonds issued by public organizations) decreased in the whole sector, investments in bonds issued in the rest of the eurozone and outside the eurozone each increased by EUR 1.2 billion, or together by EUR 2.4 billion. Bonds issued by public organizations in the eurozone (excluding Finland) and global fixed-income investment funds rose the most.

Investments in equities and equity-like instruments in the eurozone (excluding Finland) decreased by EUR 0.4 billion for the whole sector. In contrast, investments in equities and equity-like instruments outside the eurozone increased by EUR 0.9 billion along with the rise in investments in listed shares and private equity.

A positive start for returns

The returns of the seven largest earnings-related pension insurers during the first quarter of 2014 ranged from 1.1 to 2.0 per cent. The average total return came to 1.6 per cent. The total return trend at the group level could hardly have been more even, as both groups, the five largest pension insurance companies and the two largest public-sector pension providers reached the same return percentage of 1.6. Requirements for solvency have only been laid down for private-sector pension providers.

The best average group-level return percentages were obtained from investments in unlisted shares and in private equity. Indirect real estate investments, hedge funds, listed shares and corporate bonds also did well. The average annual real return for the entire sector from the beginning of 1997 to the end of March 2014 is 4.1 per cent. The corresponding return rate in the private sector is 4.0 per cent and for the public-sector pension providers 4.3 per cent. The Finnish Centre for Pensions uses 3.5 per cent as the assumption of real return in its long-term projection.

A cautious start to the year

As has been the case so many times within the past few years, the investment environment has been challenging for earnings-related pension providers this year, too. The crisis in Ukraine and China's uncertain economic outlook have given rise to concern during the first quarter. However, a downturn in interest rates and narrower risk margins in corporate loans have reduced the concerns of investors in fixed-income instruments. Likewise, the situation has recently become easier for the emerging markets.