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

1. Investment portfolio rose to EUR 172 billion

During the third quarter, the total amount of assets funded by earnings-related pension insurers increased by EUR 2.5 billion. The investment portfolio totalled EUR 171.7 billion. During the period from the start of 2014 to the end of September, the investment portfolio increased by EUR 9.5 billion. Expressed in euros, this growth exceeded the annual average (EUR 8.4 billion) for the past ten years (2004–2013).

2. During the third quarter, the share of equities rose while the shares of fixed-income investments and real estate fell

At the end of September 2014, the investment portfolio for the whole sector was distributed between the main categories as follows: investments in equities and equity-like instruments [1], 48.1 per cent (EUR 82.6 billion); fixed-income investments [2], 42.0 per cent (EUR 72.0 billion); and real estate investments, 9.9 per cent (EUR 17.1 billion).

During the third quarter, the shares of fixed-income investments and real estate investments fell (-0.5 and -0.5 percentage points), while the share of equities and equity-like instruments rose (+1.0 percentage points). The changes that took place in fixed-income investments and in equity and equity-like investments during the third quarter were similar to the changes during the second quarter, although more moderate. The share of real estate investments, which for the past three years or so had remained between 10.5 and 11.0 per cent, fell just below 10 per cent in the third quarter.

The joint effect of the first three quarters of 2014 on the distribution of the investment portfolio was as follows: the share of equities and equity-like instruments increased (+1.7 percentage points, EUR +7.4 billion); the share of fixed-income investments shrank (-1.1 percentage points, EUR +2.0 billion), as did the share of real estate investments (-0.6 percentage points, EUR +0.1 billion). As the euro sums indicate, all these three categories had a rising trend, but since the increase in equities and equity-like instruments was more rapid than in the other two categories, their relative share rose while the shares of the other two declined.

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[1] When the analysis refers to investments in equities and equity-like instruments, this means the following categories of investment figures: listed shares (incl. funds); hedge funds; and other investments in equities, which include, for instance, equity investments and investments in unlisted shares.

[2] When the analysis refers to fixed-income investments, this means the following categories of investment figures: money market investments; investment loans; TyEL relending; and bonds.

2.1 A repeat of the previous quarter: money market investments shrank while bonds, listed shares and hedge fund investments rose

In many respects, the changes of the second quarter continued, but were less pronounced during the third quarter. The rise in bonds was attributable to the favourable market trend: EUR +1.2 billion (+0.2 percentage points). Between the start of the year and the end of September, the euro sum of bonds increased more than any other investment category: EUR +5.1 billion (+1.1 percentage points). A little less than one third of the growth in euros during the current year consisted of purchases exceeding maturities and sales. The rest was attributable to the decrease in interest rates. With falling interest rates, the prices of interest-bearing instruments rise and the market values of portfolios containing fixed-income investments increase. This trend has been stronger for corporate bonds than for government bonds.

Although bonds increased by EUR 1.2 billion during the third quarter, the period was a zero-sum game for the whole category of fixed-income investments, as the volumes of loans remained steady and money market investments continued to shrink: EUR -1.2 billion. It would seem that during the first quarter, assets were left waiting in money market instruments that were easy to convert into cash, until they were invested in longer-term instruments during the second and third quarters.

During the third quarter, investments in equities and equity-like instruments (hedge funds, listed and unlisted shares and equity investments) increased by a total of EUR 2.9 billion. During the current year, investments in equities and equity-like instruments have increased by a total of EUR 7.4 billion. In the same way as last year, the purchase and sales data indicate that other than listed shares are favoured. During the current year, the sales of listed shares (incl. funds) have exceeded the purchases by EUR 1.0 billion. Hedge fund investments (EUR +1.9 billion) and unlisted shares and equity investments included in other shares (EUR +0.9 billion) have been purchased more than they have been sold. As before, 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.

2.2 Changes to the trend in the previous quarter: loan volumes remained steady

The trend typical of investment loans and TyEL relending during the past few years continued in the first half of 2014. This trend came to a halt during the third quarter; in consequence, the loan volumes at the end of September equalled those recorded in late June. During the current year, the total sum of these loans has decreased by EUR 0.6 billion. At the end of September, the loan portfolio came to EUR 4.8 billion. Most of this decline can be attributed to TyEL relending among private-sector pension insurers, which shrank by EUR 0.5 billion to EUR 1.8 billion. The loan portfolios had last been at this level before the financial crisis set in, i.e. before 2008.

During the third quarter, new investment loans and TyEL relending granted by pension insurance companies totalled EUR 0.2 billion. This is a typical figure for one quarter in what are known as ‘normal times’. Between the start of 2014 and the end of September, the amount of new investment loans and TyEL relending was fairly high, or EUR 0.95 billion. However, 60 per cent of these loans were granted to pension insurers' group companies; the remaining 40 per cent was granted to enterprises outside a corporation's own group. 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.

3. The trend of the past few years continued: investments outside the euro area on the rise

With regard to the regional distribution of investments, the third quarter of 2014 kept up the trend of the second quarter: the volumes of domestic investments declined. A shift of 1.0 percentage points from domestic investments to investments in the rest of the euro area (+0.1 percentage points) and outside the euro area (+0.9 percentage points) was recorded during the third quarter. At the end of September, domestic investments totalled EUR 45.6 billion (26.6 per cent). Investments outside the euro area totalled EUR 82.5 billion, or 48.1 per cent of all investments. The remaining investments were allocated to the euro area (excluding Finland): EUR 43.5 billion, or 25.3 per cent.

During the past six months (from the end of March to the end of September), the amount of domestic investments decreased by EUR 3.9 billion. The most notable decreases have taken place in money market investments and in listed shares (incl. funds). Although, in the short term, domestic investments have been replaced by investments in other countries, the euro amount of domestic investments has increased year by year for the past decade. Only in 2012 did the sum remain unchanged. The figure of EUR 30.2 billion at the end of 2004 rose to EUR 49.5 billion at the end of 2013. Apart from the size of the sum invested in Finland, it is worth noting that investments in Finland exceed the sum invested in the rest of the euro area in total.

During the past six months, investments in the euro area (excluding Finland) have increased by EUR 2.4 billion. New investments have been made particularly in government bonds and listed shares. During the past six months, investments outside the euro area have increased by EUR 7.5 billion. New investments have been made in hedge funds, listed shares (incl. funds), and in equity and unlisted shares.

4. The return trend has remained good

During the period from the start of 2014 to the end of the third quarter, the rates of return of the seven largest earnings-related pension insurers ranged from 4.5 to 7.1 per cent.[3] The average total return came to 6.1 per cent. The five largest pension insurance companies achieved an average rate of return of 5.6 per cent. For the two largest earnings-related pension insurers in the public sector, the corresponding rate of return was 6.9 per cent. Requirements for solvency have only been laid down for private-sector pension providers.

The average annual real return for the entire sector from the beginning of 1997 to the end of September 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 4.4 per cent. The

Finnish Centre for Pensions uses 3.5 per cent as the assumption of real return in its long-term projection.

The trend in the third quarter of the current year remained similar to the those in the previous two quarters. Despite uncertainties associated with the geopolitical situation and economic trends, the current year has so far been fairly good in terms of returns. The sources of returns have remained varied throughout the year. The best average group-level return rates were obtained from investments in equities. In particular, equity investments and investments in unlisted shares had an excellent yield, slightly over 10 per cent. The returns from listed shares, hedge funds and indirect real estate investments were also good, about 6–9 per cent. Falling interest rates and the narrowing of risk premiums of corporate bonds have supported fixed-income investments, for which earnings-related pension providers achieved returns of about 4 per cent. The steady trend of direct real estate investments yielded returns of about 3 per cent.

The investment of pension assets is likely to remain challenging for the remainder of the year. Improvement of the geopolitical situation and acceleration of economic growth are pivotal for dissipating uncertainties. In consequence, eyes are now fixed on political issues between the great powers and on searching for signs of economic growth.

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[3] Each quarter, Tela's seven largest members – the five largest pension insurance companies and the two largest pension insurers in the public sector – report on the breakdown of their investments and on their returns voluntarily and in keeping with the same principles. The reporting takes place as return-risk tables, which cover about 94 per cent of all earnings-related pension investments. For more information: Quarterly information by pension provider

Using independent but uniform principles, all Tela's members report on their returns from these return-risk tables every six months, according to the situation at the end of June and at the end of December. For more information: Summaries of returns