Investment asset amounts, allocation and returns at the end of the second quarter of 2015

1. The investment portfolio decreased slightly in the second quarter of the current year

At the end of June 2015, the total amount of assets put into funds by earnings-related pension insurers, i.e. the investment portfolio, came to EUR 182.9 billion. The investment portfolio for the whole sector decreased moderately in the second quarter, or by EUR 1.3 billion, when compared against the first quarter. Private-sector pension insurers' assets decreased by EUR 0.4 billion, while public-sector pension insurers' assets decreased slightly more, or by EUR 0.9 billion. These changes in the portfolio figures mean that a shift of 0.2 percentage points from the public sector to the private sector took place in the relative shares of the two pension institution groups.

Both in 2014 and during the first six months of 2015, the returns on pension investments exceeded the financing needed for pensions and derived from investments. Most of the returns have been invested in funds.

2. Fixed-income investments rose, equities down and real estate steady

At the end of June 2015, the investment portfolio for the whole sector was distributed between the main categories as follows: investments in equities and equity-like instruments, [1]47.9 per cent (EUR 87.6 billion); fixed-income investments, [2]42.7 per cent (EUR 78.0 billion); and real estate investments, 9.4 per cent (EUR 17.1 billion).

During the second quarter of the year, the share of equities and equity-like instruments shrank by 1.0 percentage points (EUR -2.6 billion) when compared against the first quarter, whereas the share of fixed-income investments rose by 0.9 percentage points (EUR +1.0 billion). Real estate investments showed no changes in euros. but their relative share rose by 0.1 percentage points while the investment portfolio as a whole declined. The various investment categories thus developed unevenly in the second quarter.

The combined effect of the two quarters when compared against December 2014 was as follows: the share of equities and equity-like instruments shrank (-1.0 percentage points, EUR +3.2 billion), as did the share of real estate investments (-0.5 percentage points, EUR +0.0 billion), while the share of fixed-income investments increased (+1.5 percentage points, EUR +7.0 billion).

2.1 Money market investments on the rise, bonds and loan portfolios shrank

The trend that had characterized money market investments in the first quarter continued during the second quarter. In contrast to the net increase of one billion euros in fixed-income investments

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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.

during the second quarter, the change in the first quarter was mainly attributable to the rise in money market investments (EUR +2.1 billion). Unlike in the first quarter, the net increase in fixed-income investments in the second quarter was dampened by the decline in the amount of bonds and convertible bonds (EUR -0.9 billion) and TyEL relending (EUR -0.2 billion). In contrast, the amount of investment loans remained unchanged.

The decline in the amount of bonds and convertible bonds was attributable to value changes and the relations between purchases, sales and maturities. When interest rates rise, the prices of interest-bearing papers fall. This means that the market values of interest investors' portfolios decline.

New investment loans and TyEL relending granted by pension insurance companies totalled about EUR 0.24 billion during the second quarter of the current year. The figure is fairly typical for the second quarter of a year. After two quarters, the overall situation is that the value of new investment loans and TyEL relending granted during the current year totals EUR 0.36 billion. However, this figure is not as high as it was at the same time the year before, when these two loan types totalled as much as EUR 0.75 billion. These figures give an indication of the availability of financing for Finnish companies from sources other than earnings-related pension providers. The higher the figures for these two types of loans are, the more challenging it is for companies to obtain financing from other sources.

2.2 Listed shares sold moderately in the second quarter when compared against the first quarter

The net decrease in investments in equities and equity-like instruments (EUR -2.6 billion) was mainly caused by value changes. Another reason for the net decrease was the net sales of investments, which came to about EUR -0.4 million. Thus, the gross value of the negative value changes during the second quarter totalled about EUR 2.2 billion. Since this investment category increased by EUR 5.8 billion in the first quarter and fell by EUR 2.6 billion in the second quarter, the total change during the first half of the year was a rise of EUR 3.2 billion.

Net sales focused, in particular, on equity funds that invest outside the euro area (EUR -0.8 billion). The second highest net sales were recorded for listed shares and holdings outside the euro area (EUR -0.3 billion). In contrast, the highest net purchases were recorded for listed shares and holdings in the euro area (excl. Finland), i.e. about EUR 0.4 billion. The second highest figure was recorded for hybrid funds outside the euro area (EUR 0.2 billion).

3. The trend of the past few years continues: investments in the euro area countries are decreasing

The share of investments in countries outside the euro area remained unchanged from the first to the second quarter of 2015 (0.0 percentage points, share about 50.1 per cent). In contrast, the share of investments in Finland increased by about 0.6 percentage points, to 27.6 per cent. As the heading indicates, the biggest fall took place in the rest of the euro area, the share of which decreased by about 0.6 percentage points, to 22.3 per cent.

Expressed in euros, investments outside the euro area shrank from EUR 92.3 billion to 91.7 billion. In contrast, investments in Finland rose from EUR 49.7 billion to 50.4 billion during the quarter. The share of the rest of the euro area continue to decline, as it had done in the first quarter as well. At the end of June, investments in the rest of the euro area totalled EUR 40.8 billion. At the end of March the figure had still been 42.3 billion.

4. Trend for returns during the first half of the year

For the whole sector, the nominal six-month returns came to 5.5 per cent. The real returns were slightly higher, i.e. 5.7 per cent. The nominal six-month returns for the seven largest earnings-related pension providers in 2015 ranged between 3.7 and 6.6 per cent, while the corresponding real returns were between 3.9 and 6.8 per cent.

Clearly the best nominal six-month returns for the whole sector came from investments in equities and equity-like instruments: 10.3 per cent. Among the seven largest pension providers, the returns on listed shares ranged between 8.5 and 15.4 per cent. Real estate investments produced a return of 3.4 per cent, while the return on fixed-income investment was a moderate 0.9 per cent.

It has been particularly challenging to obtain returns on fixed-income investments. Above all, the Expanded Asset Purchase Programme (EAPP) launched in March in the euro system (the European Central Bank + national central banks) pressed interest rates down globally during the first half of the year. Despite the low interest level, however, the rate of return on fixed-income investments has exceeded the current inflation in the euro area.

The nominal six-month returns for the various groups of earnings-related pension providers (public-sector pension providers, pension insurance companies, company pension funds and industry-wide pension funds) ranged between 5.1 and 6.3 per cent.

The average annual nominal return for the entire sector from the beginning of 1998 to the end of December 2014 is 5.7 per cent. The corresponding real return is 3.9 per cent. The nominal return rate for the private sector is 5.5 per cent and for the public-sector pension providers 6.0 per cent. The real returns are 3.7 and 4.2 per cent, respectively. The Finnish Centre for Pensions uses 3.5 per cent as the assumption of real return in its long-term projection.

5. The challenging second quarter

The second quarter of the current year was rather lame, especially for listed shares, the world over. In the first quarter, markets had a positive risk sentiment that persisted at the beginning of the second quarter. This was mostly attributable to the European Central Bank’s lenient monetary policy. However, the mood on the market changed after mid-June, when the downturn on the Chinese stock market reverberated all around the world. The growing risk sentiment on the Chinese stock market, combined with the haltingly proceeding negotiations with Greece, increased uncertainty on the financial markets. Since the start of the year, there has also been intense speculation concerning the monetary policy pursued by the Federal Reserve in the USA. In particular, it has been pondered when the Fed will tighten its monetary policy by raising interest rates. Finally, the increased volatility of government bond markets in the euro area can be seen as a major event affecting the second quarter.

The volatility that prevailed on the financial market during the first half of the year made earnings-related pension investors prepare for negative developments more resolutely than usual already in the first quarter of the year. To a certain extent, the same preparations were also seen during the second quarter. The sales of equities and the increase in the relative share of money market investments are indications of this.

Earnings-related pension providers in the private sector must meet the statutory solvency requirements. The solvency of pension providers was strong at the end of June. This is also one element when preparing for potential uncertainties on the financial market. The solvency ratios of the five largest pension insurance companies ranged between 17.2 and 35.3 per cent at the end of June.