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

1. Investment portfolio rose to nearly EUR 173 billion

During 2014, the total amount of assets put into funds by earnings-related pension insurers, i.e. the investment portfolio, increased by EUR 10.3 billion. The investment portfolio totalled EUR 172.5 billion. Expressed in euros, this growth exceeded the annual average growth rate (EUR 8.4 billion) for the previous ten years (2004–2013).

This increase of over ten billion euros in the investment portfolio was distributed almost equally between private-sector and public-sector pension insurers. Since the public sector accounts for a good third of the whole investment portfolio, a shift of 1.0 percentage points from the private sector to the public sector occurred in the relative shares of these two pension institution groups.

2. The share of equities rose while the shares of fixed-income investments and real estate fell

At the end of 2014, the distribution of investments for the whole sector was roughly as follows: investments in equities and equity-like instruments [1]48.9 per cent (EUR 84.4 billion); fixed-income investments [2]41.2 per cent (EUR 71.0 billion); and real estate investments 9.9 per cent (EUR 17.1 billion).

During 2014, the distribution of investments changed as follows: the share of equities and equity-like instruments increased (+2.5 percentage points, EUR +9.2 billion); the share of fixed-income investments shrank (-1.9 percentage points, EUR +1.0 billion); and the share of real estate investments also shrank (-0.6 percentage points, EUR +0.1 billion).

2.1 Money market investments and loan portfolios shrank while bonds increased

When expressed in euros, bonds were the investment category with the second fastest growth rate in 2014. The increase was EUR +4.1 billion, or +0.4 percentage points. Nearly all of the increase in the bond portfolio can be attributed to the favourable market trend, i.e. falling interest rates. With falling interest rates, the prices of interest-bearing instruments rise and the market values of portfolios containing fixed-income investments increase.

Although bonds rose briskly, the growth rate of fixed-income investments as a whole was considerably more modest. Growth amounted to one billion euros, while money market investments (EUR -2.2 billion, -1.6 percentage points) and loan portfolios (-0.9 billion euros, -0.7 percentage points) continued to decline. 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 subsequent quarters. Within the past eight years, money market investments have accounted for about 5–8 per cent of all investments (during the preceding ten years, between 2 and 5 per cent). At the end of 2014, the figure was 4.4 per cent.

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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.

The decline typical of investment loans and TyEL relending during the past few years continued in 2014 as well. Most of this trend can be attributed to TyEL relending among private-sector pension insurers, which shrank by EUR 0.7 billion to EUR 1.6 billion. At the level of the whole sector, the amount of investment loans granted by pension insurers shrank less (EUR 0.2 billion). At year's end, the portfolio totalled EUR 2.9 billion. The loan portfolios had last been at this level before the financial crisis set in, i.e. before 2008.

During 2014, new investment loans and TyEL relending granted by pension insurance companies outside their own group companies totalled EUR 0.5 billion. This was a typical amount before the financial crisis (EUR 0.3–0.6 billion). After the worst years of the financial crisis (EUR 1.5–3.8 billion), the sums have gradually returned to those of the 'normal' times. 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.

2.2 Equities and hedge fund investments increased

During the year, investments in equities and equity-like instruments increased by a total of EUR 9.2 billion. Hedge fund investments increased by EUR 3.6 billion. Among the investment categories, listed shares (incl. funds) increased the most: by EUR 4.4 billion. The growth recorded by statistics for other investments in equities was EUR 1.2 billion, as the net value of derivatives (EUR -0.8 billion) reduced the growth trend in this category. In consequence, equity investments and unlisted shares, both included in other investments in equities, increased by a total of EUR 2.0 billion.

The good market trend has contributed to the development of investments in equities and equity-like instruments. When calculated in euros, a typical stock index in an industrialized country gave a return of well over 10 per cent during the year. In all, the purchases of equities and equity-like instruments outweighed their sales by EUR 1.6 billion. In the same way as in 2013, the purchase and sales data on equities and equity-like instruments indicate a continuing trend where investments in equities other than listed ones are favoured. 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.

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

In 2014, domestic investments shrank by a total of EUR 4.1 billion. In contrast, investments in the rest of the euro area increased by EUR 2.4 billion and outside the euro area by EUR 12.0 billion on the previous year. Thus, the regional distribution of investments showed a shift from Finland (-4.2 percentage points), and also slightly from the rest of the euro area (-0.1 percentage points), to countries outside the euro area (+4.3 percentage points)

At year's end, domestic investments totalled EUR 45.4 billion (26.3 per cent). Investments outside the euro area totalled EUR 84.5 billion, or 49.0 per cent of all investments. The remaining investments were allocated to the euro area (excluding Finland), totalling EUR 42.6 billion, or 24.7 per cent.

The most notable changes in domestic investments were the reductions in money market investments (EUR -2.2 billion), listed shares (EUR -1.0 billion) and in loan portfolios (EUR -0.9 billion). Although now, during the past year, some domestic investments have been replaced by investments in other countries, this was preceded by a nine-year period when the euro amount of domestic investments increased year by year. Only in 2012, the growth came to a halt and the portfolio shrank slightly. 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.

The most important sources of growth for investments in the euro area were bonds and listed shares (incl. funds). Of this growth (EUR +2.4 billion), new additional purchases accounted for about half, while the other half was attributable to the favourable market trend. The new purchases focused slightly more on government bonds than on listed shares.

Just under two thirds of the growth in investments outside the euro area (EUR 12.0 billion) was attributable to the good market trend of listed shares, hedge fund investments and bonds. The remaining one third consisted largely of the following purchases exceeding new sales: hedge fund investments, investments in equity and unlisted shares, and bonds.

4. A very good year for returns

The nominal total return for the earnings-related pension sector reached an excellent 7.4 per cent in 2014. Broken down by pension institution groups, the return figures ranged from 6.8 per cent attained by pension insurance companies to 8.5 per cent attained by public-sector pension insurers. With their return rate of 7.1 per cent, company pension funds and industry-wide pension funds placed between these two groups.

Requirements for solvency have only been laid down for private-sector pension providers, which explains in part why the return figures are higher in the public sector. Since the returns in 2014 were good especially for equities, public-sector pension providers with their greater weight on equities attained a better total return.

The average annual real return for the entire sector is 4.2 per cent when calculated over the past 18 years (1997–2014). The corresponding return rate in the private sector is 4.1 per cent and for the public-sector pension providers 4.5 per cent. During the past nearly 20 years, the return trend for the sector has been stronger than the long-term real return assumption of 3.5 per cent used by the Finnish Centre for Pensions in its basic calculations.

Despite uncertainties associated with, for instance, geopolitics and financial developments, the return trend continued to be good from one quarter to the next. The sources of returns remained varied throughout the year. The best average return rates, or 10.7 per cent, were obtained from shares and holdings. In particular, equity investments and investments in unlisted shares had an excellent yield, just over 15 per cent. The returns from listed shares and hedge funds were also good, about 6–10 per cent. Falling interest rates and the narrower risk premiums of corporate bonds have supported fixed-income investments, for which earnings-related pension providers achieved returns of 4.4 per cent. Indirect real estate investments raised the rate of return for the whole category of real estate investments to 5.4 per cent. Mere direct real estate investments would have left the rate of return just below that for fixed-income investments.