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Keva's Interim Report 1 January – 30 June 2013:

Keva's result developed moderately in the first half of 2013

Keva, which looks after the funding of local government pensions and pension asset investments, as well as pension matters for the entire public sector, recorded a 2.3 per cent return on investments, i.e. EUR 800 million, in the first half of the year. The market value of Keva's investments was EUR 35.3 billion at the end of June, which is an increase of 3.5 billion from the corresponding period of the previous year.

During the six-month period, contribution income totalled EUR 2.5 billion, and more than EUR 2 billion worth of pensions were paid out under the Local Government Pensions Act. The number of employees insured under the local government pension system was around 520,000 at the end of June.

“The second quarter of the year was more challenging than the first quarter, and the second half of 2013 will be very interesting in terms of investment activities. Pension expenditure developed as expected between January and June, but contribution income fell somewhat short of the forecasts,” says Keva's CEO, **Merja Ailus**.

The market value return on investments was 2.3 per cent in January–June. Listed equities and equity funds yielded a return of 5.7 per cent, whereas fixed income investments declined and produced a negative return of -0.6 per cent. The return on real estate investments (including real estate funds) was 1.9 per cent. Among the smaller asset categories, the return on private equity investments was 5.8 per cent, on hedge funds 5.7 per cent, and on commodities -7.5 per cent.

The market value of investments amounted to EUR 35.3 billion at the end of June (EUR 31.8 billion on 30 June 2012). Fixed income investments accounted for 47.6 per cent, listed equities and equity funds for 36.6 per cent and real estate investments for 7.6 per cent of the entire investment portfolio. Private equity investments and unlisted equities accounted for 5.0 per cent, hedge funds for 2.6 per cent and commodity investments for 0.6 per cent of Keva's investment portfolio.

“Equity markets experienced quite a substantial drop towards the end of the second quarter. With the equity result, our total result declined in comparison to the end of the first quarter. After June, the equity markets picked up again,” recounts Keva's CIO, **Ari Huotari**.

The local government pensions system's payroll amounted to EUR 8.3 billion for the period. Contribution income increased slightly from the 2012 comparison period and stood at EUR 2.5 billion. The number of local government pension recipients was

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around 358,000 at the end of June. During the period, EUR 2 billion worth of pensions, i.e. some 7.8 per cent more than the same period last year, were paid out.

Keva implements the pensions of State, Church and Kela employees

Keva is responsible for the implementation of pension cover for nearly the entire public sector. State pensions paid out between January and June amounted to EUR 2.1 billion and Evangelical Lutheran Church pensions to some EUR 83 million. Pensions for the Social Insurance Institution Kela's salaried employees amounted to roughly EUR 43 million. The State, the Evangelical Lutheran Church and Kela pay their respective pension expenditure as well as their share of the operating costs to Keva.

Funding for the local government pension system still in the accrual phase

Contribution income in the local government pension system currently exceeds the amount of pension expenditure. According to the latest calculations, the turning point will come around 2017. When pension expenditure exceeds contribution income, the profits from the local government pension system's funds will then be used to partly finance pensions. The local government pension system has been preparing for this turning point since 1988, i.e. since the government pension liability fund was established.

The local government pension scheme is on a solid foundation. There is currently a need to increase contributions in the pension system by 0.3 percentage points, and this increase will be implemented within the next few years.

In future, too, the majority of pension funding will come from the pension contributions of employers and employees. Investment returns will help to balance out the pressure to increase pension contributions. Extending people's careers and reducing early retirement will also relieve the pressures related to raising pension contributions. This is why Keva has considered it important to support employers and employees in issues related to continuing at work.

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The six-month figures presented in this release are unaudited.

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Market-value profit and loss account, EUR million

	1-6/2013	1-6/2012	Change	2012
Contribution income	2,506	2,465	1.6%	4,825
Pension expenditure	-2,042	-1,894	7.8%	-3,827
Net investment income	802	1,799	-55.4%	3,897
Operating costs, depreciation, etc.	-43	-39	10.5%	-75
Market-value result	1,223	2,331	-47.6%	4,821

Key figures

	1-6/2013	1-6/2012*	Change	2012
Number of local gov. pension decisions,	26,286	18,582	41.5%	36,969
Number of State pension decisions,	8,270	6,455	28.1%	12,463
Number of Church pension decisions,	1,110	713	55.7%	1,381
Number of Social Insurance Institution pension decisions,	274	170	61.2%	363

*The introduction of the new pension-processing system caused a temporary backlog in pension processing in 2012.

Number of local gov. pension recipients	358,012	349,970	2.0%	354,000
Number of State pension recipients	269,901	272,870	-1.0%	272,000
Number of Church pension recipients	17,625	17,300	2.0%	17,300
Number of Social Insurance Institution pension recipients	5,838	5,770	1.0%	5,800
Local government payroll (EUR million)	8,278	8,091	2.3%	16,121
Number of local gov. employees	520,000	517,000	0.6%	520,000
Market value of investments, EUR mill.	35,333	31,830	11.0%	33,528
Return on investments at market value	2.3%	6.0%		12.9%
Number of Keva's permanent personnel	529	523	1.1%	524