

25.8.2014

## Keva reports good investment performance

Keva, which is responsible for the funding of local government pensions, the investment of pension assets and for looking after pension matters for the entire public sector, recorded a 4.9 per cent return on investments, i.e. EUR 1.9 billion, for the first half of the year. The market value of Keva's investments at the end of June was EUR 39.9 billion compared to EUR 35.3 billion a year earlier.

During the first half of the year, contribution income totalled EUR 2.6 billion and EUR 2.2 billion was paid out in pensions under the Local Government Pensions Act. Around 521,000 employees were insured under the local government pension system at the end of June.

"Our investment performance for the first half of the year was good. Concerns about economic growth together with numerous upheavals in various parts of the world had an adverse impact on the capital markets. Pension expenditure under the local government pension system developed as forecast, but contribution income was slightly lower than that forecast. However, our overall performance was good," reports Keva's CEO, Jukka Männistö.

The market value return on investments was 4.8 per cent during January-June. Listed equities and equity funds yielded a return of 6.2 per cent, fixed income investments 3.6 per cent and real estate investments (including real estate funds) 2.6 per cent. Among the smaller asset categories, the return on private equity investments was 9.5 per cent, hedge funds 4.8 per cent and on commodity investments 9.6 per cent.

The market value of Keva's investments amounted to EUR 39.9 billion at the end of June 2014 (30 June 2013: EUR 35.3 billion). Fixed income investments (including the impact of derivatives) accounted for 43.3 per cent, listed equities and equity funds for 39.0 per cent and real estate investments for 6.9 per cent of the entire investment portfolio. Private equity investments and unlisted equities accounted for 5.5 per cent, hedge funds for 4.8 per cent and commodity investments 0.5 per cent of Keva's entire investment portfolio.

"As has been the case in many previous years, there was plenty of cause for concern on the capital markets during the first half of 2014. News about economic growth in Europe and in the eurozone was very modest. News emerging from the United States was generally more positive, but there were also disappointments there, too. During the early part of the year, the markets held up surprisingly well in the wake of difficulties in Russia and Ukraine, the Middle East and even the news about the outbreak of Ebola in Africa. Nevertheless, these concerns will remain with us also during the rest of the year," anticipates Keva's CIO, Ari Huotari.

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The local government pension system's payroll amounted to EUR 8.3 billion for January-June. Contribution income was up slightly year on year at EUR 2.6 billion. The number of local government pension recipients totalled 367,000 at the end of June. During the report period, a total of EUR 2.2 billion was paid in local government pensions, up 6 per cent compared to a year earlier.

### Pensions of State, Church and Kela employees implemented by Keva

Keva is responsible for implementing pension security for almost the entire public sector. State pensions paid out During January-June amounted to EUR 2.2 billion, Evangelical Lutheran Church Pensions to EUR 87 million and pensions to salaried employees of Kela – the Social Insurance Institution of Finland amounted to EUR 45 million. The State, Evangelical Church and Kela pay their respective pension expenditure as well as their share of operating costs to Keva.

### Local government pension system funding is on a solid basis

According to a report commissioned by the Ministry of Finance, local government system funding is secure and there are no threats in sight that would require immediate action. According to Jukka Ahtela who was responsible for the report, there is, however, reason to monitor the impact of major changes concerning the arrangement of local government services on the funding base.

The sustainability level of local government pension contributions has been determined so as to secure pension benefits and, among other things, has allowed for a slow decrease of around 10 per cent in the number of persons insured. There is currently a need to increase contributions to the local government pension system by 0.2 percentage points. There are plans to implement this increase during the next couple of years.

The aim is to keep local government pension contributions steady and predictable by active use of the pension fund. Pension expenditure currently accounts for over 26 per cent and pension contributions for a total of around 29.7 per cent of the local government pension system's payroll. This means the pension fund is still growing from funds transferred from pension contributions. The rise in pension expenditure will clearly outpace the anticipated growth in the local government pension system's payroll and, in around 2017, will result in contribution income falling below pension expenditure. Even after this, pension contributions can be kept steady by using pension fund returns and funds to pay pensions.

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25.8.2014

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

Market value profit and loss account, EUR million

	1-6/2014	1-6/2013	Change	2013	
Contribution income	2 562	2 506	2.2%	5 050	
Pension expenditure	-2 165	-2 042	6.0%	-4 141	
Net investment income	1 877	802	234.0%	2 629	
Operating costs, depreciation, etc.		-42	-43	-2,7%	-82
Market-value result	2 232	1 223	182.8%	3 455	

Key figures

	1-6/2014	1-6/2013	Change	2013	
Number of local govt. pension decisions	25 929	26 094	-0.6%	50 122	
Number of State pension decisions	7 794	7 697	1.3%	14 838	
Number of Church pension decisions	1 012	1 048	-3.4%	2 067	
Number of Kela pension decisions	245	267	-8.2%	543	
Number of local govt. pension recipients	367 068	358 012	2.5%	367 000	
Number of State pension recipients	267 085	269 901	-1.0%	274 000	
Number of Church pension recipients	18 006	17 625	2.2%	18 100	
Number of Kela pension recipients	5 871	5 838	0.6%	5 900	
Local government payroll	8 309	8 278	0.4%	16 528	
Number of local government employees	524 200	520 000	0.8%	524 200	
Market value of investments, EUR mill.	39 909	35 333	13.0%	37 819	
Return on investments at market value	4.8%	2.3%		7.5%	
Number of Keva's permanent employees	543	529	2.6%	537	