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Keva’s Interim Report 1 January to 30 September 2016:

Keva’s investments perform well in challenging market circumstances

Keva, which is responsible for the funding of local government pensions and the investment of pension assets as well as for looking after pension matters for the entire public sector, recorded a 4.2% return on investments, i.e. EUR 1.9 billion, for the first nine months of the year. The figure for the same period last year was 1.9%. The market value of Keva’s investments at the end of September was EUR 46.6 billion, while the corresponding figure a year earlier was EUR 43.1 billion.

- Keva’s investment performance has been good this year, especially as we have kept lowering the risk level of our investments significantly for more than a year now. However, the rest of the year is overshadowed by uncertainty on the capital markets, estimates CEO **Timo Kietäväinen**.

- Compared to these short-term results, it is a much larger challenge to safeguard the longer-term funding of Keva’s pensions in the midst of the social and healthcare reform. If a transitional contribution between the pension systems is not outlined as part of the social and healthcare reform’s freedom of choice principle, the odds for funding pensions with tax increases are high. In terms of the sustainability of long-term funding of the Finnish earnings-related pension system, it is crucial that this country can strengthen its competitiveness and improve employment.

The return on investments at market value was 4.2% during January – September. Fixed income investments yielded 5.7%, and listed equities and equity funds 2.6%. Real estate investments (including real estate funds) returned 2.6% and private equity investments and unlisted equities 8.0%. Hedge funds returned 0.0%.

The market value of Keva’s investments at the end of September was EUR 46.6 billion (EUR 43.1 billion on 30 September 2015). Fixed income investments (including the impact of derivatives) accounted for 46.5%, listed equities and equity funds for 35.3% and real estate investments for 6.4% of Keva’s entire investment portfolio. Private equity investments and unlisted equities accounted for 6.2% and hedge funds for 5.6%.

- So far, 2016 has been yet another exception to the norm with interest rates falling to levels that no one could have predicted. The actions taken by the Central Banks and the lack of alternatives have bolstered higher-risk markets such as equities, notes CIO **Ari Huotari**.

- There's still time left this year, and the election results in both Italy and the USA can rock the markets in a big way.

Changes in Keva's organisation

Keva reforms its management system and organisation as of 1 January 2017. The most significant changes concern Customer Relations and Shared Services functions, which will be merged into Customer Relations and Services. Responsibility for this new function falls unto the Deputy CEO Kimmo Mikander.

With this reform, Keva prepares to serve the new regional government corporations from the beginning of 2019 along with the municipal corporations.

-This change is aiming for good customer experience which is generated by seamless internal cooperation through the revamping of our procedures. At the same time, the Communications will be strengthened to better meet the requirements of the changing operating environment. In addition, cooperation between business and IT and responsibilities in developing online services will be clarified. Internal control will be reorganised by strengthening the compliance activities in investment operations, says CEO Kietäväinen.

Cooperation negotiations with staff regarding the organisation's restructuring were concluded on 17 October 2016. The negotiations concerned all personnel in Customer Relations and Shared Services, altogether totalling 169 employees. The aim of the negotiations was not work reduction. The Board of Directors decided on the reorganisation on 27 October 2016.

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The figures presented in this release are unaudited.