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## Keva's interim report for 1 January to 30 June 2018

### Positive performance in jittery investment environment

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a 0.7% return on investments, equating to EUR 366 million for the first half of 2018. At the end of June, Keva's investments had a market value of EUR 52.1 billion, compared to EUR 49.6 billion a year earlier.

Contribution income during the first half of the year exceeded EUR 2.5 billion and just under EUR 2.6 billion was paid out in local government sector pensions. At the end of June, some 523,000 employees were insured for earnings-related pension.

Keva's return on investments at market value was 0.7% in June. The top performer was private equity funds, which generated a return of 7.3%. Real estate and hedge fund investments both generated a return of 2.8%, whereas the returns on listed equities and fixed income investments edged into negative territory with a return of -0.2% since the start of the year.

Keva CEO **Timo Kietäväinen** is pleased that investment performance has returned to a positive trajectory since after the first quarter.

"Challenges in the investment environment have increased, especially taking into account the risk to growth posed particularly in conjunction with a trade war," he says. Kietäväinen points out that the pension investor takes a longer term view of investment performance.

Keva's long-term return on investments is at a good level. The capital-weighted annual cumulative real return on investments since the inception of funding (1988) until the end of the report period was 4.2%. The non-capital weighted average real return for the same period was 5.4%. The nominal return for the past five years without capital weighting has been 6.2% and for the past ten years 4.9%.

Fixed income investments (including the impact of derivatives) accounted for 41.2% and listed equities and equity funds for 37.8% of Keva's investment portfolio. Of the smallest asset classes, private equity investments accounted for 8.0%, hedge funds for 6.9% and real estate investments for 6.1% of Keva's investment portfolio.

CIO **Ari Huotari** notes that the sentiment during the first half of the year will continue during the second half of the year.

"Besides the threat of trade wars, concerns about the sustainability of economic development as well as interest rate hikes, for example, are also casting a shadow over the markets," he says.

The payroll total in the local government sector was around EUR 8.7 billion for the first half of 2018, up 2.8% compared to a year earlier. Contribution income rose 1.7% and pension expenditure 4.5%. EUR 2,591 million was paid out in local government pensions during the first half of the year.

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Last year was the first year that Keva's income contributions failed to cover all pension expenditure and the difference had to be funded through returns on investments. The current and coming years will see a growing share of pension expenditure being covered through returns on investments or ultimately by dipping into investment capital. Keva's operating costs and depreciation during the first half of the year were at the same level as a year earlier.

### **Pensions paid by Keva to State, Church and Kela employees**

Keva is the largest earnings-related pension provider in Finland and is responsible for instituting the pension cover of almost the entire Finnish public sector. During the first half of the year, Keva paid out EUR 2,332 million in State pensions, EUR 100 million in Evangelical Lutheran Church pensions and EUR 50 million in Social Institution of Finland (Kela) pensions. The State, Evangelical Lutheran Church and Kela pay their own pension expenditure and share of operating costs to Keva.

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The figures in this release are unaudited.

### **Market value profit and loss account, €m**

	H1/2018	H1/2017	Change,%	2017
Contribution income	2 540	2 498	1,7 %	4 968
Pension expenditure	-2 591	-2 479	4,5 %	-5 005
Net income from investment operations	375	1 786	-79,0 %	3 733
Net operating costs, depreciation, etc.	-34	-34	0,6 %	-70
Market value result	290	1 772	-83,7 %	3 627

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## Key figures

	<b>H1/2018</b>	<b>H2/2017</b>	<b>Change, %</b>	<b>2017</b>
Pension and benefit decisions, local govt.	27 956	29 956	-6,7	55 126
Pension and benefit decisions, State	6 409	7 821	-18,1	13 636
Pension and benefit decisions, Evl. Church	988	1 091	-9,4	2 008
Pension and benefit decisions, Kela	282	306	-7,8	516
Pension recipients, local govt.	402 001	393 116	2,3	397 667
Pension recipients, State	253 242	257 372	-1,6	255 877
Pension recipients, Evl. Church	19 121	18 913	1,1	19 027
Pension recipients, Kela	5 951	5 995	-0,7	5 972
Local government payroll, €m	8 671	8 438	2.8	16 844
No. of local govt. employees insured (est.)	523 000	517 000	1.2	524 000
Market value of investments, €m	52 102	49 625	5.0	51 871
Return on investments at market value, %	0.7	3.7		7.7
No. of Keva's permanent employees	518	523	-1.0	519