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## Q3 2019 overview of pension and investment fund sector

The total volume of assets in the public funds sector grew by 3.5% in the third quarter, or 177 million euros, to reach 5.21 billion euros. Growth in the third quarter of the previous year was 3.5%. The growth was primarily due to mandatory pension funds, which grew by 171 million euros in volume. The assets of mandatory pension funds stood at 4.56 billion euros at the end of September.

The fastest growth in mandatory pension funds in recent years has been at index funds. The assets of actively managed pension funds have grown by 3%-5% a quarter on average in recent years, but the assets of pension funds that follow indexes have grown on average by 22% a quarter.

Key indicators	Q2 2019	Change	Q3 2019
The value of the assets of public funds	5.031 billion euros	?	5.208 billion euros
Share of second pillar funds	87.2%	?	87.5%
Number of unit holders in public funds (not including pension funds)	11 501	?	11 575
Number of unit holders in pension funds	802 549	?	804 899
Number of public funds operating	45	?	45

The rapid growth in the assets of index funds has been helped by their low management fees and high returns. The return on index funds over the past 12 months was 9%-10%, while that on the majority of other mandatory pension funds did not exceed 4%.

The higher return has made potential investors more interested in those funds. This was reflected in the sharp rise in the third quarter in the number of shareholders that have invested in index funds from 21,395 to 28,689. The number of shareholders in actively managed funds continued to fall, from 736,194 to 731,016. Although the assets of the index funds are relatively small, rapid growth in them can be expected in the near future.

A similar trend to that in mandatory pension funds can also be observed among voluntary pension funds. The number of shareholders has in recent years only increased at funds that follow indexes, and the number of shareholders who had invested in index funds rose in the third quarter from 1133 to 1431. The number of shareholders in all other voluntary pension funds fell though, in total from 43,827 to 43,763.

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The number of shareholders in mandatory and voluntary pension funds and in other public investment funds has in total risen throughout 2019.

The structure of investments of mandatory pension funds did not change in the third quarter. Direct investment increased substantially last year and remained at a high level in the third quarter, accounting for 63% of all investment. Investment through other funds accounted for 34% of the total and term deposits and current accounts for 3%.

Investments by mandatory pension funds in shares came to 834 million euros at the end of the third quarter. The largest amount of this was the 326 million euros that was invested in the shares of US companies, while 71 million euros were invested in the shares of British companies and 57 million euros in the shares of Japanese companies. A total of 88 million euros had been invested in Estonian shares, accounting for 1.9% of the aggregate portfolio of mandatory pension funds.

Investments by mandatory pension funds in bonds came to 2 billion euros at the end of the third quarter. The biggest investments were in Estonian bonds, and they totalled 334 million euros or 7.3% of the aggregate portfolio of mandatory pension funds, while 270 million euros were in Lithuanian bonds, and 192 million euros in Spanish bonds. The majority of the bonds were issued by central governments and credit institutions.

Taken together with the funds investing in Estonia, which mainly invest in real estate and land, the share of the assets of mandatory pension funds invested in Estonia was 12.8%. This figure was 13.9% at the end of the second quarter of 2019.

## **Main development trends and risks**

- The low management fees of index funds are attracting the interest of investors. There were seven index funds in the market at the end of the third quarter, five of which were mandatory funds and two of which were voluntary.
- A mandatory pension fund that was added in the third quarter was SEB Pensionifond 100, which follows an aggressive strategy and which brought the number of mandatory pension funds up to 24.
- Investment in securities, whether equity or bonds, issued in Estonia accounted for 9.3% of the aggregate portfolio of mandatory pension funds. At the end of the second quarter of 2019, 10.5% of the investment was in Estonian shares and bonds. Investment in Estonian issuers may fall in the near future following the pension reform and given the need for liquidity.

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