Q2 2020 overview of pension and investment fund sector

The investment and pension fund sector did not escape unscathed from the Covid-19 crisis any more than the rest of the financial sector. The impact of the crisis on the liquidity and the number of owners of public funds was not substantial though. This was shown by the data received by Finantsinspektsioon during the crisis on managers of real estate and euro, or UCITS, funds. Finantsinspektsioon required additional reporting at the end of the first quarter from real estate fund managers and euro fund managers on the crisis period so it could monitor the liquidity of funds, the redemption of shares, and the risks around asset pricing. The data that were received did not show any mass withdrawals by shareholders.

Main indicators	Q1 2020	Change	Q2 2020
The value of the assets of public funds	5.079 billion €	?	5.535 billion €
Share of second pillar funds	87.7%	?	88.1%
Number of unit holders in public funds (not including pension funds)<	12 547	?	13 289
Number of unit holders in pension funds	830 443	?	822 128
Number of public funds operating	48	?	48

The total volume of assets in the Estonian funds sector grew by 9% in the second quarter, or 456 million euros, to reach 5.54 billion euros. This meant the assets of the sector were larger than they were before the crisis. Growth in the second quarter of 2019 was 3.6%.

The fastest growth was in the assets of mandatory pension funds, which were 9.5% or 420 million euros larger than in the first quarter. The assets of mandatory pension funds stood at 4.88 billion euros at the end of the second quarter. The growth was much slower at other types of funds. The assets of equity funds grew by 26 million euros and the assets of voluntary pension funds by 24 million. The assets of real estate funds shrank by 18 million euros though, as real estate investments were repriced and corrections were made for future cash flows.

The move that started a year ago to replace direct investment in funds with fund investment continued in the second quarter. The main cause of the reduction in direct investment was the redemption of Lithuanian and Spanish sovereign bonds and US financial sector bonds. The share of bonds in the aggregate portfolio of pension funds declined from 48% to 32%, while equities declined from 17% to 15%. Investments in other funds increased over the year from 31% of the aggregate assets of mandatory pension funds to 49%.

Investments in Estonia by mandatory pension funds stood at 668 million euros at the end of June, which is 13.7% of the assets of mandatory pension funds. At the end of March 2020, investments in Estonia were 14% of the assets of pension funds. The largest part of the investments in Estonia were the 375 million euros in total in bonds. By the end of the second quarter, 108 million euros had been invested in Estonian equities, and 181 million euros in funds investing in Estonia.

Main development trends and risks

- Even though financial markets have recovered rapidly after the crisis, the global economy could yet be hit by the paucity of industrial growth and by businesses falling into difficulties. This could cause volatility to increase in markets over a longer period and so could affect the fund sector.
- Although the number of shareholders in passive mandatory pension funds is rising rapidly, having doubled over the year, the assets of those funds are smaller than those of actively managed funds and account for 5% of the aggregate assets of mandatory pension funds. The aggregate portfolio of mandatory pension funds is affected more by actively managed funds.
- Finantsinspektsioon required additional reporting at the end of the first quarter from real estate fund managers and euro fund managers on the crisis period so it could monitor the liquidity of funds, the redemption of shares, and the risks around asset pricing. The reporting data received show that the impact of the crisis on the liquidity and the number of owners of public funds was not substantial. There was no mass withdrawal by shareholders.

[Quarterly reviews of the investment and pension fund sector]

Page last edited on 21/10/2020