
Q3 2020 overview of pension and investment fund sector

The division of the funds market between fund managers was not notably changed from the second quarter. Swedbank Investeerimisfondid had the largest market share, with 40% of the whole fund sector market at the end of September. It was followed by LHV Varahaldus with 26%, and SEB Varahaldus with 17%.

Key indicators	Q2 2020	Change	Q3 2020
The value of the assets of public funds	5.535 mld €	?	5.704 mld €
Share of second pillar funds	88.1%	?	88.4%
Number of unit holders in public funds (not including pension funds)	13 289	?	13 899
Number of unit holders in pension funds (first and second pillars total)	822 128	?	829 388
Number of public funds operating	48	?	47

The total volume of assets in the Estonian funds sector grew by 3% in the third quarter, or 169 million euros, to reach 5.7 billion euros. Growth in the third quarter of 2019 was 3.5%.

The fastest growth was in the assets of mandatory pension funds, which were 3% or 163 million euros larger than in the second quarter. The assets of mandatory pension funds exceeded 5 billion euros for the first time in the third quarter. The assets at other types of funds and changes in them were much smaller. The assets of voluntary pension funds grew by 14 million euros over the quarter, those of equity funds shrank by 8 million euros, and there was no change in the assets of real estate funds in the third quarter. The number of shareholders increased in all types of funds despite the Covid-19 crisis.

The structure of the aggregate portfolio of mandatory pension funds did not change in the third

quarter. The move that started a year ago to replace direct investment in funds with fund investment slowed. Direct investment accounted for 47% of the aggregate portfolio at the end of September, and fund investment for 50%. The largest part of direct investment was in debt instruments, which were 32% of the aggregate portfolio, while equities made up 15%. The ratio of equity risk and debt risk in fund investment was the other way round, as 32% of aggregate assets were invested in funds investing in equity, and 17% in other funds.

Investments in Estonia by mandatory pension funds declined a little in the third quarter and stood at 626 million euros at the end of September, which is 12.4% of the assets of mandatory pension funds. At the end of June 2020, investments in Estonia were 13.7% of the assets of pension funds. The largest part of the investments in Estonia were the 347 million euros in total in bonds, which was 7% of the aggregate assets of mandatory pension funds. By the end of the third quarter, 101 million euros, or 2% of the aggregate assets, had been invested in Estonian equities, and 177 million euros, or 4%, in funds investing in Estonia.

Main development trends and risks

- Even though financial markets have recovered rapidly from the first wave of the Covid-19 crisis, the prices of units in funds remained at the same level as at the start of the year and no more major growth was seen. The second wave of the Covid-19 crisis may have an additional negative impact on investments.
- The Supreme Court passed a decision on the constitutionality of the pension reform, and the reform will come into force from 1 January 2021. From that day on, people will be able to apply to withdraw the sums they have built up. The payouts will be made in September 2021.
- Extraordinary reporting introduced by Finantsinspektsioon has shown that the impact of the crisis on the liquidity and number of shareholders in public funds was not substantial, and there was no large-scale withdrawal by shareholders.

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