

## Q1 2019 overview of pension and investment fund sector

The terms and conditions of one new voluntary pension fund, the Swedbank Pensionifond V100 index were registered. This is the fourth voluntary pension fund managed by Swedbank Investeerimisfondid AS. This raised the number of public investment funds in the Estonian market to 45, of which 33, or almost three quarters, are pension funds.

Key indicators	Q4 2018	Change	Q1 2019
Volume of assets of public funds	4,507 bln €	?	4,858 bln €
Share of second pillar funds	87,4%	?	87,7%
Number of unit-holders of public funds (excl. pension funds)	10 297 tk	?	10 334 tk
Number of unit-holders of pension funds	800 570 tk	?	803 116 tk
Number of operating public funds	44 tk	?	45 tk

The volume of assets of the public funds sector was up by 8% or 351 million euros over the year in the first quarter at 4.86 billion euros. The growth in the first quarter of 2018 was 1% or 64 million euros. The unusually fast growth was helped by the recovery of securities markets from their fall in 2018.

The most common type of fund by a large margin was mandatory pension funds, which account for 88% of the assets of public funds. The assets of mandatory pension funds increased over the year in the first quarter by 321 million euros. These funds are followed more or less equally by equity funds, public real estate funds and voluntary pension funds, each with 4%, or 12% between them. The quarterly growth in the assets of mandatory pension funds was larger than the total assets of 220 million euros of equity funds, the second largest type of fund.

The biggest change in the division of market share for public funds in the first quarter of 2019 was the increase in the market share of AS Swedbank Investeerimisfondid from 40% to 42%. Swedbank was followed by AS LHV Varahaldus with 26% market share, and AS SEB Varahaldus with 17%. The fall in the market share of AS Trigon Asset Management from 4% to 0% was caused by the move of Trigon Uus Euroopa Fond to Luxembourg in 2018. The market share of AS Tuleva Fondid increased from 1% to 2%.

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The number of shareholders in public funds increased by 2583 over the quarter to 813,450 at the end of the first quarter. The biggest growth of 2498 came in mandatory pension funds, while the number of shareholders in other public funds changed little. The number of shareholders in public real estate funds fell over the quarter by 28, while the number of shareholders in equity funds rose at the same time by 65 and the number in voluntary pension funds rose by 48.

Direct investments increased substantially in the structure of mandatory pension funds last year, and they remained at the same high level of 66% of total investment in the first quarter of 2019.

Investments through other funds accounted for 31%, and term deposits and overdrafts remained at 3%.

The rise in global stock markets lifted the values of equity investments by mandatory pension funds, and this in turn supported the strong growth in the value of the whole mandatory pension fund portfolio.

Mandatory pension funds had invested 685 million euros in shares at the end of the first quarter, of which 255 million euros, the largest share, was invested in the shares of US companies, while 61 million euros were invested in the shares of British companies and 47 million euros in the shares of Japanese companies. The 32 million euros, or 0.8% of the total portfolio of mandatory pension funds, that was invested in the shares of Tallinna Sadam was again the largest single part of the portfolio of Estonian shares. Other investments in Estonian shares were much smaller. A total of 81 million euros, or 2% of the aggregate portfolio of pension funds, had been invested in Estonian shares.

Investments by mandatory pension funds in bonds came to 2.1 billion euros at the end of 2018. The biggest investments were of 307 million euros, or 7.2% of the aggregate portfolio of mandatory pension funds, in Estonian bonds, 270 million euros in Lithuanian bonds, and 218 million euros in French bonds. The majority of the bonds were issued by central governments and credit institutions.

Together with the investments of funds investing in Estonia, which mainly focus on real estate and land, investment in Estonia accounted for 12.6% of the invested assets of mandatory pension funds, having been 13.1% at the end of 2018.

## **Main development trends**

- The timetable for reforming the second pension pillar could lead to large changes for the Estonian fund sector in the near future, as it is very centred on mandatory pension funds. Opening the second pillar for everyone before they reach retirement age could cause a substantial reduction in the size of mandatory pension funds and the number of shareholders.
- The small rise of 48 in the number of shareholders in voluntary pension funds indicates again that there is a lack of interest in building up pension assets voluntarily.
- Investment in securities issued in Estonia accounted for 9.1% of the aggregate portfolio of mandatory pension funds in the first quarter of 2019. At the end of 2018, 9.4% of the investment was in Estonian shares and bonds.

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