

Q2 2019 overview of pension and investment fund sector

Changes to the terms and conditions came into force in the second quarter at the pension fund managers LHV Varahaldus, Swedbank Investeerimisfondid, SEB Varahaldus and Luminor Pensions Estonia. These followed from the new draft of the Investment Funds Act that came into force at the start of 2019 and that removed the limits on equity risk and set looser investment limits and rules for success fees.

Key indicators	Q1 2019	Change	Q2 2019
The value of the assets of public funds	4.858 billion euros	?	5.031 billion euros
Share of second pillar funds	87.7%	?	87.2%
Number of unit holders in public funds (not including pension funds)	10 334 tk	?	11 501 tk
Number of unit holders in pension funds	803 116	?	802 549
Number of public funds operating	45	?	45

The assets of the public funds sector increased by 4%, or 173 million euros, to reach 5.03 billion euros; in the second quarter of 2018 they grew by 0.01%, or 0.7 million euros. The growth was driven by growth of 126 million euros in mandatory pension funds and 46 million euros in public real estate funds.

Mandatory pension funds are still by far the largest type of fund, accounting for 87% of the total assets of the fund sector. They are followed by public real estate funds with 5% of the total assets, and equity funds with 4%. Voluntary pension funds are 3% of the total assets of public funds.

The biggest change from the second quarter of last year in market shares in the public fund market was that the market share of Swedbank Investeerimisfondid declined from 42% to 41%. Swedbank Investeerimisfondid remains the largest fund manager in the Estonian market, where it is followed by LHV Varahaldus with 26% market share, and SEB Varahaldus with 17%. Tuleva Fondid increased its market share from 1% to 2%.

The number of owners of shares in public funds increased by 600 over the quarter to reach 814,050 at the end of the second quarter (The number of unit holders covers unit holders in all the funds, so people and companies holding multiple fund investments are recorded more than once in the

statistics). The biggest increase was of 1068 in the number of shareholders in public real estate funds.

There was substantial growth last year in the structure of investments in mandatory pension funds in the share of direct investment, and it remained the same size in the second quarter at 65%. Investment through other funds accounted for 31% of the total and term deposits and current accounts for 4%.

Mandatory pension funds had invested 747 million euros in shares at the end of the first quarter, of which 271 million euros, the largest share, was invested in the shares of US companies, while 69 million euros were invested in the shares of British companies and 52 million euros in the shares of Japanese companies. The 30 million euros, or 0.7% of the total portfolio of mandatory pension funds, that was invested in the shares of Tallinna Sadam was the largest single part of the portfolio of Estonian shares. Investments in other Estonian shares were much smaller. A total of 75 million euros had been invested in Estonian shares, accounting for 1.7% of the aggregate portfolio of mandatory pension funds.

Investments by mandatory pension funds in bonds came to 2.1 billion euros at the end of the year. The biggest investments were of 384 million euros, or 8.8% of the aggregate portfolio of mandatory pension funds, in Estonian bonds, 286 million euros in Lithuanian bonds, and 193 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 13.9%, up from 12.6% at the end of the first quarter of 2019.

Main development trends and risks

- The proposed reform of the second pension pillar will lead to major changes in the Estonian fund sector in the near future, as mandatory pension funds are a very large part of that sector. If it is permitted to withdraw funds from the second pillar before retirement age, the size of mandatory pension funds and the number of shareholders in them could drop sharply. The reform will also increase the liquidity risk of the fund substantially in the short term.
- Interest in real estate funds continues to grow. Public real estate funds have the most in assets among voluntary investment funds at 249 million euros, exceeding the 219 million euros of equity funds and the 175 million euros of voluntary pension funds. The real estate funds invest mainly in real estate in the Baltic states.
- Investment in securities, whether equity or bonds, issued in Estonia accounted for 10.5% of the consolidated portfolio of mandatory pension funds, having been 9.1% at the end of the first quarter.

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