

## Q1 2020 overview of fund managers sector

The total volume of assets managed by the fund management sector fell by 10.3% in first quarter of 2020, returning them to the same level as a year earlier. The drop of 768 million euros meant the value of assets managed by the sector stood at 6.7 billion euros by the end of the quarter. The fall was primarily caused by the crisis in financial markets provoked by the outbreak of the Covid-19 virus in March. However, the financial crisis did not affect all of the business lines offered by fund managers in the first quarter. The business line of securities portfolio management grew by around 10% in value for example, while the business line of fund management lost 29% and investment of fund assets fell by 6%.

Key indicators	Q4 2019	Change	Q1 2020
Value of assets managed of which assets of funds (including non-open funds)	7,48 bln € 5,94 bln €	?	6,71 bln€ 5,57 bln €
Quarterly growth in the market value of funds	4,6%	?	-6,2%
Value of balance-sheet assets of fund managers	134 mln €	?	124 mln €
Profit	3,9 mln €	?	-1,8 mln €
Annualised return on equity	14,2%	?	-1,5%
Equity coverage ratio	421%	?	448%

The volume of assets on the balance sheets of fund managers fell in the first quarter of 2020 from 134 million euros to 124 million. The fall was caused primarily by a drop of 7.2% in own funds and by dividends paid out from the profit of 2019.

The Estonian fund management sector suffered losses in the first quarter and return on equity fell to -1.5% from 14.2% a year earlier. One reason the results were modest was that a coefficient was introduced on 1 February to reduce management fees, which brought service fee income in the sector down sharply. The sector also suffered losses on securities investments because of the

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declines in securities markets in the first quarter.

The fund management sector remains well capitalised despite the losses. The equity coverage requirement of the sector was met by 448% at the end of the fourth quarter, which is 27 percentage points higher than the year-end minimum requirement for own funds.

## **Only three fund managers provide outsourcing services**

Some of the funds operating in Estonia also provide asset management services to funds that they are not fund managers of. This service can be called outsourcing. Outsourcing accounts for 15% of all the assets managed by Estonian fund managers. The assets invested by outsourcers are divided with almost 93% in shares and 7% in cash. Earlier, some two thirds of the clients of outsourcers were financing institutions, but in recent quarters the share of financing institutions within all clients has fallen to around 56%. A little over a quarter of the clients of outsourcers are now other investment funds, while the remainder is central governments. Of the clients of outsourcers, 53% come from Luxembourg, 17% from Norway and 15% from Canada.

## **Main development trends and risks**

- The Covid-19 pandemic has substantially affected the profitability of fund managers. The fund management sector made a loss for the first time in more than four years.
- The profitability of the sector was brought down by the coefficient reducing management fees, which was introduced on 1 February. The management fees for mandatory pension funds fell by more than 10% in the first quarter. The management fees available to mandatory pension funds were 26% lower than in the second quarter of 2019, when fees were not yet as strictly limited.
- Despite the losses in the quarter, the fund management sector remained well capitalised.

[Quarterly reviews of the fund management sector](#)