
Q1 2020 overview of pension and investment fund sector

The Estonian fund sector was affected most in the first quarter by the worldwide crisis caused by the Covid-19 virus and the consequent crash in global financial markets. The total volume of assets in the Estonian public funds sector grew by 6.8% in the first quarter, or 371 million euros, to reach 5.08 billion euros; the growth in the first quarter of 2019 was 7.8%. The net value of shares in more than half of funds fell by 10-30%.

Key indicators	Q4 2019	Change	Q1 2020
The value of the assets of public funds	5,451 bln €	?	5,079 bln €
Share of second pillar funds	87,2%	?	87,7%
Number of unit holders in public funds (not including pension funds)	11 796	?	12 547
Number of unit holders in pension funds	825 969	?	830 443
Number of public funds operating	47	?	48

The largest fall by volume was at mandatory pension funds, where the volume of assets dropped by 6.3% over the quarter, or 300 million euros. The assets of mandatory pension funds stood at 4.46 billion euros at the end of March, which was similar to the level of July and August 2019. The assets of voluntary pension funds decreased by 11.8% over the quarter to 176 million euros.

The biggest drop in percentage terms was in the volume of assets in equity funds, which lost 22.3% in the first quarter. The result was that the volume of assets of pension funds fell to its level of 2009 at 171 million euros.

Direct investments in the aggregate portfolio of mandatory pension funds have started to be replaced again in the past six months by fund investments. Direct investments in mandatory pension funds were more than double fund investments in volume a year ago, but by now they are practically equal in value as direct investments have 50% of the aggregate portfolio and fund investments 45%.

Investments by mandatory pension funds in bonds declined by 21% in the first quarter to stand at 1.6 billion euros. Their share of the aggregate portfolio fell from 42% to 35%. Investments in US, French and Spanish bonds dropped by around half. At the end of March, the largest investments were in bonds from Estonia, Lithuania and Germany. A total of 348 million euros had been invested in Estonian bonds, accounting for 8% of the aggregate portfolio of mandatory pension funds.

Investments by mandatory pension funds in shares came to 634 million euros at the end of the first quarter, as they declined by 9% over the quarter, and they accounted for 14% of the aggregate portfolio of mandatory pension funds. The largest amounts were again invested in the shares of US, Estonian and British companies. A total of 100 million euros had been invested in Estonian shares, accounting for 2% of the aggregate portfolio of mandatory pension funds.

Together with the investments of funds investing in Estonia, investment in Estonia accounted for 14% of the invested assets of mandatory pension funds, having been 13.1% at the end of 2019.

Main development trends and risks

- The global crisis caused by the Covid-19 virus hit pension funds hard, as they invest large amounts in financial instruments traded on global markets.
- Finantsinspeksioon required additional reporting from real estate fund managers and euro fund managers during the crisis so it could monitor the liquidity of funds, the redemption of shares, and the risks around asset pricing.
- The deadline for the pension reform was postponed as the President of the Republic declined for a second time to sign the pension reform law and submitted to the Supreme Court that it was unconstitutional.

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