

Q2 2020 overview of fund managers sector

The Covid-19 crisis has caused the volume of assets of fund managers measured quarterly to be very volatile this year. The volume of assets was 10.3% smaller in the first quarter than a year earlier, but in the second quarter it was up 7.7%, or half a billion euros, on the first quarter. This volatility was caused by the crisis in financial markets that was sparked off by the pandemic in March and that affected almost all the business lines of fund managers. The funds had almost recovered in value by the end of the second quarter, though assets under management had not yet returned to their level of the end of 2019 before the crisis erupted.

Key indicators	Q1 2020	Change	Q2 2020
Value of assets managed of which assets of funds (including non-open funds)	6.71 billion € 5.57 billion €	?	7.27 mlrd € 5.99 mlrd €
Quarterly growth in the market value of funds	-6.2%	?	7.7%
Value of balance-sheet assets of fund managers	124 million €	?	120.4 million €
Profit	-1.8 million €	?	5.08 million €
Annualised return on equity	-1.5%	?	16.6%
Equity coverage ratio	448%	?	448%

The volume of managed funds increased by 426 million euros in the second quarter to its level of the end of 2019. The second largest business line by volume is the provision of asset management services as a subcontractor to other funds and financing institutions, and this business line grew by 12% in volume in the second quarter. The volume of this business line was down 40% on the previous quarter though, and that had a major knock-on effect for the results of the second quarter. Three fund managers in Estonia provide subcontracting over asset investment, and subcontracting accounted for 16.1% of all the assets under management at the end of June. Changes in the securities portfolio management business line were not synchronised with the trend of the crisis, as that line grew in the first quarter and shrank in the second. There were most likely commercial

reasons for these changes.

To monitor the liquidity of funds during the emergency situation imposed because of the crisis, Finantsinspeksioon introduced an additional reporting requirement for real estate funds and other public funds at the end of the first quarter. The fund management sector is very well capitalised and the funds have liquidity.

Fund managers made a loss of 1.8 million euros in the first quarter, but in the second quarter they earned more than 5 million euros in profit. This is less than they made in profit a year earlier, but the profit of the current year has at least remained positive by 3.3 million euros because of the results achieved in the second quarter. The profitability in the second quarter meant that the return on equity rose to 16.6%, which is better than the 14.2% recorded for 2019.

The equity coverage requirement of the sector was met by 448% at the end of the second quarter, which is 50 percentage points higher than the minimum equity coverage in the first quarter.

Main development trends and risks

- The Covid-19 pandemic did not affect the profitability of fund managers as strongly in the second quarter, and they moved back into profit. The profit was enough to cover the losses of fund managers in the first quarter. The accumulated profit in 2020 is 3.3 million euros.
- The profitability of the sector was brought down by the coefficient to reduce management fees, which was introduced on 1 February. The total management fees paid for mandatory pension funds was 7% lower than in the second quarter. The management fees available to mandatory pension funds were 9.7-19% lower than in the fourth quarter of 2019, when fees were not yet as strictly limited.
- The situation has been quite stable for alternative funds and euro funds throughout the crisis and there have been no liquidity problems. Positive trends were also apparent in the real estate market and in global stock markets generally by the end of the second quarter, and that should have a positive effect on the results of the fund management sector.
- The sector is at risk from legislative changes that could arise in the fund management market for mandatory pension funds and force a change of business model.

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