Q4 2020 overview of pension and investment fund sector

The total volume of assets in the Estonian public funds sector grew by 5.7% in the fourth quarter, or 324 million euros, to reach 6 billion euros. The biggest growth was of 260 million euros at mandatory pension funds. Volumes have also grown at other funds, as the assets of voluntary pension funds increased by 39 million euros, those of equity funds by 22 million euros, and those of real estate funds by 3 million euros.

The aggregate portfolio of mandatory pension funds continued to replace direct investment with fund investment. Direct investment accounted for 46% of the aggregate portfolio at the end of the year, and fund investment for 51%. The largest part of direct investment was in debt instruments, which were 31% of the aggregate portfolio, while equities made up 15%. The ratio of equity risk and debt risk in fund investment was the other way round, as 34% of aggregate assets were invested in funds investing in equity, and 17% in other funds.

Key indicators	Q3 2020	change	Q4 2020
The value of the assets of public funds	5,7 billion €	?	6,0 billion €
Share of second pillar funds	88,4%	?	88,0%
Number of unit holders in public funds (not including pension funds)	13 899	?	15 061
Number of unit holders in pension funds (first and second pillars total)	829 388	?	927 268
Number of public funds operating	47	?	51

Investments in Estonia by mandatory pension fund declined further in the fourth quarter and stood at 607 million euros at the end of the year, which is 11.5% of the assets of mandatory pension funds. At the end of September 2020, investments in Estonia were 12.4% of the assets of pension funds. The largest part of the investments in Estonia were the 295 million euros in total in bonds, which was 6% of the aggregate assets of mandatory pension funds. By the end of the fourth quarter, 112 million euros, or 2% of the aggregate assets, had been invested in Estonian equities, and 201 million euros, or 4%, in funds investing in Estonia.

The number of owners of shares in funds increased substantially in the voluntary pension fund segment

The number of shareholders increased in all types of funds, but especially in voluntary pension funds. A major contributory factor in this was that tax benefits would be available in future to those joining the third pillar by the end of the year. As a result the number of shareholders increased by a record 243% over the quarter from 55,000 to 133,000. The great rise in the number of shareholders did not lead to any significant growth in assets though. The division of the funds market between fund managers did not change notably from the third quarter to the fourth. Swedbank Investeerimisfondid had the largest market share, with 40% of the whole fund sector market at the end of the year. It was followed by LHV Varahaldus with 26%, and SEB Varahaldus with 17%.

At the start of 2021, pension savers were able to submit an application to leave the pension system. This application would allow them to withdraw all the money they had invested in pension funds in September 2021. It also allows them to withdraw their pension fund money from the pension investment account and invest it instead by themselves. The withdrawal of money from the pension funds will substantially increase the need of the funds for liquidity, and so will increase their liquidity risk. Fund managers follow various investment policies in their funds and the Estonian market has both highly liquid index funds and less liquid funds that prefer long-term projects. Finantsinspektsioon carried out stress tests of the pension funds in the fourth quarter of 2020 to assess their liquidity risks.

Main development trends and risks

- It became clear by the fourth quarter that the pension reform would be enacted and would be carried out in 2021. It is important how the pension reform affects the portfolios and strategies of pension funds in both the short and the long terms. Many funds will have to dispose of liquid assets to ensure the necessary amounts are available to investors leaving the funds in autumn 2021. In the longer term the fund managers will have to start to manage with a greater need for liquidity.
- •The number of shareholders in voluntary pension funds rose sharply because people want to take advantage in the future of the tax rebate that will cease from 2021. The amount invested by the shareholders is minimal, but it may increase in future.

Quarterly reviews of the investment and pension fund sector

Page last edited on 24/05/2021