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Keva's Interim Report 1 January to 30 June 2017

## Keva's investments performed well

Keva, which is responsible for the funding of local government pensions and the investment of pension funds as well as administering pension matters for the entire public sector, reported a 3.7% return on investments, equating to EUR 1.768 million, for the first half of 2017. The figure for the first half of last year was 0.9%. At the end of June, Keva's investments had a market value of EUR 49.6 billion, compared to EUR 44.8 billion a year earlier.

Contribution income during the first half of the year totalled EUR 2.5 billion and EUR 2.5 billion was paid out in pensions over the same period under the Local Government Pensions Act. Around 517,000 employees were insured under the local government pension system at the end of June.

Keva CEO **Timo Kietäväinen** considers the investment performance to be good.

"Keva is a long-term investor and this aspect is highlighted in, for example, Keva's new investment strategy approved by Keva's Board of Directors in June. The aim of investment operations is to safeguard the good long-term return of the local government pension fund," says Kietäväinen.

"This year is a remarkable one for Keva since it is the first time that the amount of pensions paid out has exceeded the employer and employee contributions paid in. This change was expected and further highlights the importance of long-term investment returns," Kietäväinen points out.

Kietäväinen reminds us of the plans to overhaul pension contribution criteria in the local government sector in conjunction with health, social services and regional government reform. The plan is to simplify employer pension contributions in many ways. There are plans to charge Keva's limited liability company and other member bodies at least a contribution corresponding to the average TyEL level. As Keva clients, companies can also safeguard the supplementary pension benefits of their employees without the need for separate supplementary pension insurance.

The return on investments at market value was 3.7% during the January-June. With a return of 7.4%, listed equities and equity funds showed the best performance. Fixed income investments returned 1.1%. The return on real estate investments (including real estate funds) was 2.6% and private equity investments and unlisted equities returned 3.3%. Hedge funds returned 3.1%.

The market value of Keva's investments at the end of June was EUR 49.6 billion (EUR 44.8 billion on 30 June 2016). Fixed income investments (including the impact of derivatives) accounted for 43.5%, listed equities and equity funds for 37.6% and real estate investments for 6.2% of Keva's entire investment portfolio. Equity funds and private equity investments accounted for 6.6% and hedge funds for 6.1%.

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"The first half of 2017 was like a continuation of last year, with share markets continuing to rise to reach all-time highs in many markets," says CIO **Ari Huotari**.

"However, it needs to be pointed out that the prolonged rise of many asset categories, especially the riskier ones, has also increased concern as to future development. Keva's result for the first half of the year is very good considering we anticipated a gloomier market outlook. During the rest of the year, it will certainly be interesting to see how far the current market psychology goes as it is," reflects CIO Ari Huotari.

The local government payroll totalled EUR 8.4 billion in January-June, 0.2% lower compared to a year earlier. The cut in public sector holiday bonuses can be seen largely in the trend in the total payroll in July, which showed a downturn. Therefore the payroll is likely to shrink more in the second half of the year than in the first half. Contribution income was EUR 2,498 million during the first half of the year down by EUR 100 million or around 4% compared to a year earlier. At the end of June, the number of local government pension recipients was around 393,000. Pensions totalling EUR 2,479 million were paid out during the first half of the year, more than 5% more than in the corresponding period a year earlier. Operating costs and depreciation rose 3% year on year.

#### **State, Church and Kela employees' pensions instituted by Keva**

Keva is responsible for instituting the pension cover of almost the entire Finnish public sector. In January-June, Keva paid out EUR 2,292 million in State pensions, EUR 96 million in Evangelical-Lutheran Church pensions and EUR 49 million in pensions to of Kela's salaried employees. The State, Evangelical-Lutheran Church and Kela fund their own pensions and pay their share of operating costs to Keva.

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The half-year figures in this release are unaudited.

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**Market value profit and loss account €m**

	1-6/2017	1-6/2016	Change	2016
Contribution income	2 498	2 598	-3.8%	5 157
Pension expenditure	-2 479	-2 355	5.3%	-4 754
Net investment income	1 786	430	315%	3 350
Net operating costs, depreciation, etc.	-34	-33	3.0%	-67
Market-value result	1 772	641	176%	3 686

**Key figures**

	1-6/2017	1-6/2016	Change	2016
No. of local govt. pension and benefit decisions	29 971	27 187	10.2%	51 652
No. of State pension and benefit decisions	7 825	7 218	8.4%	13 177
No. of Evl. Church pension and benefit decisions	1 091	943	15.7%	1 829
No. of Kela pension and benefit decisions	306	272	12.5%	546
No. of local govt. pension recipients	393 116	382 402	2.8%	386 787
No. of State pension recipients	257 372	260 447	-1.2%	259 187
No. of Evl. Church pension recipients	18 913	18 550	2.0%	18 650
No. of Kela pension recipients	5 995	5 930	1.1%	5 938
Local government payroll, €m	8 438	8 453	-0.2%	16 888
No. of local govt. employees	517 000	520 000	-0.6%	517 000
Market value of investments, €m	49 625	44 827	10.7%	48 524
Return on investments at market value	3.7%	0.9%		7.4%
No. of Keva's permanent employees	523	520	0.6%	520