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Keva's financial statement bulletin 2020: Good return on Keva's investments

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a total return of 4.7% or EUR 2.7 billion on investments at market value.

Of Keva's investment assets, the best performers were private equity investments at 11.6%, listed equities at 7.0% and hedge funds at 2.8%. The return on fixed income investments was 1.5% and real estate investments 0.7%.

Keva's investment assets had a market value totalling EUR 58.0 billion at year-end 2020. Listed equities accounted for 40.2% of investment assets, fixed income investments (including the impact of derivatives) for 35.0%, private equity investments (including unlisted equities) for 12.3%, real estate for 6.4% and hedge fund investments for 6.1%.

Excellent long-term result

Keva's long-term return on investments has been excellent. The cumulative capital-weighted real return on investments since funding started in 1988 to year-end 2020 was 4.0% a year. The average real return, excluding capital weighting, over the same period was 5.2%. The Finnish pension sector normally calculates long-term returns excluding capital weighting. Keva's five-year real return excluding capital weighting has been 5.0% (nominal return 5.8%) and the ten-year return 4.9% (nominal return 6.1%).

Keva CEO **Timo Kietäväinen** is pleased with the result.

"Our performance was good in what was in many ways a difficult year. Keva's mission makes us an investor with a genuine long-term investment horizon. This is why it is particularly pleasing to note that over the past ten years, for example, Keva leads the major Finnish pension fund investors in terms of investment returns," Kietäväinen notes.

Keva Chief Investment Officer **Ari Huotari** describes 2020 as a different - or actually an exceptional - year in many ways also on the capital markets.

"With the coronavirus, March saw the most dramatic collapse in high-risk investments in modern times. However, rock bottom was reached really quickly and the markets began to rise in a way also never seen before. However, the upswing in the capital markets was not so much based on any correction of the real economy, but on public actors, primarily massive support from central banks," Huotari says.

"All these measures did little more than push solving the basic problems in the capital markets further down the road. This means that 2020 will leave a mark over a much longer term," Huotari predicts.

Responsibility reflected in survey results

According to Kietäväinen, Keva successfully managed to revise its services in response to customer requirements, which was also visible in good reputation and customer survey results.

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"In particular our work with responsibility has been noticed and responsibility increased the most in the extensive reputation survey conducted in the autumn," Kietäväinen says.

Responsibility is an integrated part of Keva's investment strategy. We implement responsibility together with our international partners and by participating in many cooperation projects. The UN's PRI (principles for responsible investment) organisation has once again awarded Keva the top A+ rating for responsible investment in the Strategy and Governance category.

With regard to direct real-estate, Keva aims to be carbon-neutral in energy use by 2030 and to proceed to the timeline planned.

"We were also able in emergency conditions to successfully reform our organisational structure and management system since the beginning of June. We maintained our good level of service and, for example, were able to further speed up pension decisions," Kietäväinen notes.

Shorter pension processing times

Last year, Keva received a total of 66,800 pension and benefit applications. Processing times of all pension types were on average shorter than a year earlier: Keva made old-age pension decisions in an average of 12 days and disability pension decisions in an average of 38 days. Processing times of partial early old-age pension applications were fastest, with decisions being issued in an average of two days.

Almost 80% of old-age pension applications and just over half of all applications were made electronically.

Increase in sum of wages and salaries in local government

The sum of wages and salaries of Keva member organisations - towns and cities, municipalities, joint municipal authorities and municipal limited liability companies - grew by a total of 2% in 2020. The sum of wages and salaries paid in the public sector rose despite the pandemic, whereas in the private sector there was a slight contraction. A total of EUR 5.3 billion in contribution income accrued. Keva paid out EUR 5.7 billion in local government pensions. The difference between contribution income and pension expenditure was met out of investment income.

In 2020, Keva paid out pensions totalling EUR 5.2 billion to State, Evangelical Lutheran Church and Social Insurance Institution of Finland (Kela) personnel. The State, Church and Kela fund their own pensions and Keva's investment assets are used solely to provide local government pensions.

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Keva's key figures 2020

	2020	2019	2018	2017	2016
Sum of wages and salaries of Keva's member organisations, €m	18 487	18 126	17 410	16 844	16 888
Share of contribution of Keva's member organisations, €m	5 252	5 127	4 920	4 793	4 966
Number of people insured in Keva's member organisations, 31 Dec. *)	538 567	544 942	535 000	528 000	519 000
No. of pension recipients in Keva's member organisations, 31 Dec.	418 696	413 084	406 286	398 000	387 000
Amount of pensions paid out in Keva's member organisations, €m	5 728	5 488	5 230	5 005	4 754
Fair value of investments, 31 Dec., €m	58 009	56 166	50 129	51 871	48 524
Return on investments at fair value	4.7%	12.8%	-3.0%	7.7%	7.4%
Annual real return on investments since funding at start of 1988 (capital weighted) ***)	4.0%	4.0%	3.8%	4.3%	4.2%
Annual real return on investments since funding at start of 1988 (not capital weighted) ***)	5.2%	5.2%	5.1%	5.5%	5.4%
Operating costs, €m	76.6	82.2	74.9	76.1	73.7
Employees, permanent, 31 Dec.	496	513	515	519	520
No. of State pension recipients, 31 Dec.	242 145	246 874	251 505	256 000	259 000
Amount of State pensions paid out, €m **)	4 857	4 761	4 675	4 597	4 502
No. of Evl. Church pension recipients, 31. Dec.	19 509	19 469	19 250	19 000	18 700
Amount of Evl. Church pensions paid out, €m **)	217	212	204	196	188
No. of Kela pension recipients, 31 Dec.	5 958	5 942	5 945	6 000	5 900
Amount of Kela employee pensions paid out, €m **)	106	105	102	99	96

*) Due to the Incomes Register and new reporting practice in employment relationships, there is a break in the time series between 2018 and 2019

*) An update of the accounting principles for insured persons was made for 2020: zero-earning insured persons not in employment or service are excluded. The reference year 2019 has been calculated retrospectively using the updated accounting principles.

**) These payments have no impact through profit and loss on Keva's financial statements

***) The figure for 2019 has been adjusted.

Keva's financial, annual and interim reports are published at www.keva.fi/en/this-is-keva/financial-information/. The Report of the Board of Directors and the financial statements will be posted on our website after the meeting of Keva Councillors on 11 March 2021.