

27.2.2015

Keva's financial statement bulletin 2014:

## Good return on Keva's investments

Keva, which is responsible for funding local government pensions and investing pension funds, recorded an 8.7% return on investments in 2014.

At year-end 2014, Keva's investments had a market value of €42.3 billion (€38.2 billion in 2013). €3.4 billion of the growth in the fund was accounted for by investment activities and €0.7 billion by funded contribution income. Contribution income under the local government pensions system amounted to €5.0 billion and pension expenditure to €4.4 billion.

Since the start of 2013, Keva has also collected state pension contributions. During 2014, contribution income under the state pension system amounted to over €1.7 billion. State pension contributions have no material impact on Keva's financial statements since the contributions are transferred to the State Pension Fund.

According to Keva's CEO, Jukka Männistö, Keva's investments gave an excellent return under the circumstances.

"The fixed-income markets in particular went through difficult times, but we can be more than satisfied with Keva's returns on fixed interest. The outlook on the stock markets improved on the back of relatively positive news in the global economy from, for example, the United States," Männistö notes.

"Whilst shortcomings in the new pension-processing system were reflected in longer pension processing times in 2013, during 2014 pension processing times returned to the very good level they were at previously."

Männistö also notes the gloomier outlook in municipal finances during the year.

"Savings measures targeted at local government employees also meant that real growth in the local government pension system's payroll fell short of the estimate. Statistics on the development of services purchased by municipalities are not available yet for 2014."

### **Investments performed well**

In 2014, Keva's total investment return at market value after expenses was 8.7% (7.5% in 2013). The capital-weighted, annual cumulative real return on investments since inception (1988) until the end of 2014 was 4.0%. The non-capital-weighted average real return for the same period was 5.4%. The Finnish pension sector normally uses the non-capital-weighted return for long-term returns. The five-year real return without capital weighting has been 5.6%, and the ten-year real return has been 4.3 %.

27.2.2015

Of the different asset classes, the best result was generated by private equity investments (22.8%), equities (listed equities 12.5%) and hedge funds (6.2%). Fixed-interest investments (4.9%) and real estate investments (5.6%) also gave clearly positive returns. The result on the small allocation in commodities was negative at -36.0%.

At year-end 2014, the risk appropriate market value of Keva's investments totalled €1.5 billion. Fixed-income investments (including the impact of derivatives) accounted for 38.9%, listed equities for 42.1%, real estate for 6.8%, private equity funds for 6.2%, hedge funds for 5.4% and commodities investments for 0.5% of the market value.

### **Further growth in local government contribution income**

At year-end 2014, some 525,000 employees, about the same number as a year earlier, were insured under the Local Government Pensions Act (KuEL). The local government payroll totalled €6.7 billion, which is 0.9% more than in 2013.

Local government contribution income rose 1.7% year on year and amounted to approximately €5.0 billion in 2014 (€4.9 billion in 2013). Local government contribution income is made up of the employer's and employee's pay-based contributions as well as of the employer's contributions based on pension expenditure and early retirement expenditure.

The value of the benefits that have accrued, but which have not yet been paid out, in the local government pension system considerably exceeds the value of the pension liability fund. The value of these accrued benefits was estimated to have been €03 billion at year-end 2014. Since the value of the pension liability fund grew more than the present value of benefits, the present value of unfunded benefits decreased by roughly €2 billion during the year.

### **State pensions amounted to €4 billion**

At year-end 2014, around 150,000 people were insured under the State Employees' Pensions Act (VaEL). Keva paid out €4.4 billion in state pensions during the year, an increase of 3% on the previous year.

At year-end 2014, around 19,000 people were insured under the Evangelical-Lutheran Church Pensions Act (KiEL). Pension expenditure of the Evangelical-Lutheran Church amounted to €76 million. Staff pension expenditure for employees of the Social Insurance Institution Kela amounted to €1 million.

Each pension system is responsible for its own pension financing and for the investment of its funds. Keva is responsible for the funding of local government

27.2.2015

pensions and for investing pension assets, as well as for executing earnings-related pension matters within the entire public sector.

Since the beginning of 2011, Keva has been statutorily in charge of implementing the state pension system for employee customers and, since the beginning of 2012, for the collection of the Evangelical Lutheran Church's and Social Insurance Institution of Finland's pension system.

Since the start of 2013, Keva has handled the statutory tasks related to the state pension insurance matters of state employers and the contract-based collection of the Evangelical Lutheran Church's pension contributions.

Keva does not publish a printed annual report. Our financial statements and annual reports are published on our website at [www.keva.fi](http://www.keva.fi). The Report of the Board of Directors and Financial Statements will be available on our website in Finnish as of 11 March 2015, after being reviewed and approved by Keva's Council.

The interim report for the first quarter of 2015 will be published during week 17.

**For further information, please contact:**

Jukka Männistö, CEO, tel. +358 20 614 2201 or +358 50 407 6381

Ari Huotari, CIO, tel. +358 20 614 2205 or +358 400 451 099

Tom Kåla, CFO, tel. +358 20 614 2211 or +358 40 772 7832