

Keva's Interim Report 1 January to 30 June 2016:

Keva did well in difficult circumstances

Keva, which is responsible for the funding of local government pensions and the investment of pension assets as well as for looking after pension matters for the entire public sector, recorded a 0.9% return on investments, i.e. EUR 430 million, for the first half of the year. The figure for the same period last year was 6.6%. The market value of Keva's investments at the end of June was EUR 44.8 billion, while the corresponding figure a year earlier was EUR 44.9 billion.

During the first half of the year, contribution income totalled EUR 2.6 billion and EUR 2.4 billion was paid out in pensions under the Local Government Pensions Act. Around 521,000 employees were insured under the local government pension system at the end of June.

Keva CEO **Timo Kietäväinen** regards the investment performance as good considering the exceptional changes affecting the capital markets. He does, however, caution that the freedom of choice, corporatisation and increasingly market-based solutions relating to Finland's health and social services reform pose a clear threat to Keva's pensions funding over the longer term.

- If the private and third sectors increase their market share in health and social service provision, as seems to be the aim of the reform, Keva's contribution income will be reduced immediately while it will take a very long time until any reductions are seen in costs. A transitional contribution will be needed between the earnings-related pension systems to mitigate the impacts of the market changes brought about by the reform on the pensions system, says Kietäväinen.

- The transitional contribution would offset some of the opportunities to cut the contributions of the growing earnings-related pension system and the pressure to raise the contributions of the system being cut down and would therefore help reduce the pressure towards tax hikes caused by increases in public-sector pension contributions.

The return on investments at market value was 0.9% during January–June. Fixed income investments yielded 3.6%, while listed equities and equity funds were -2.9%. Real estate investments (including real estate funds) returned 1.9% and private equity investments and unlisted equities 5.7%. Hedge funds were 2.1% in the negative.

The market value of Keva's investments at the end of June was EUR 44.8 billion (EUR 44.9 billion on 30 June 2015). Fixed income investments (including the impact of derivatives) accounted for 46.7%, listed equities and equity funds for 34.4% and real estate investments for 6.6% of Keva's entire investment portfolio.

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Private equity investments accounted for 6.2% and hedge funds for 6.1%.

- This first half of 2016 was yet another highly restless period for the market. Added restlessness alongside the persisting concerns relating to overall economic growth was brought about by the UK Brexit vote, which will be shaking the EU's foundations for a long time. The positive vibe seen in the market since late June has, however, still continued, but upcoming events such as the US presidential election are bound to increase market concerns as we get closer to them, says CIO **Ari Huotari**.

The local government pension payroll totalled EUR 8.5 billion in January–June. Contribution income decreased slightly compared to the previous year and totalled EUR 2.6 billion. At the end of June the number of local government pension recipients totalled around 382,000, with just under EUR 2.4 billion or a little over 4% more than during the corresponding period last year paid out in local government pensions during the first half of 2016. Operating costs and depreciation were reduced year-on-year.

State, Church and Kela employees' pensions implemented by Keva

Keva is responsible for the implementation of the pension cover of almost the entire Finnish public sector. In January–June, Keva paid out more than EUR 2.2 billion in State pensions, EUR 92 million in Evangelical-Lutheran Church pensions and EUR 48 million in pensions of Kela's salaried employees. The State, the Evangelical-Lutheran Church and Kela fund their own pensions and pay their share of the operating costs to Keva.

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The figures presented in this release are unaudited.

Market value profit and loss account, EURm

	1-6/2016	1-6/2015	Change	2015
Contribution income	2,598	2,611	-0.5%	5,244
Pension expenditure	-2,355	-2,258	4.3%	-4,559
Net investment income	430	2,783	-84.6%	2,030
Net operating costs, depreciation, etc.	-33	-37	-12.7%	-71
Market-value result	641	3,099	-79.3%	2,643

Key figures

	1-6/2016	1-6/2015	Change	2015
Number of local govt. pension decisions	27,187	27,009	0.7 %	51,330
Number of State pension decisions	7,218	7,662	-5.8%	13,930
Number of Church pension decisions	943	975	-3.3%	1,908
Number of Kela pension decisions	272	268	1.5%	533
Number of local govt. pension recipients	382,402	373,438	2.4%	378,223
Number of State pension recipients	260,447	263,772	-1.3%	262,971
Number of Church pension recipients	18,550	18,223	1.8%	18,421
Number of Kela pension recipients	5,930	5,908	0.4%	5,920
Local government payroll, EURm	8,453	8,447	0.1%	16,820
Number of local government employees	521,000	523,000	-0.4%	522,000
Market value of investments, EURm	44,827	44,935	-0.2%	44,214
Return on investments at market value	0.9%	6.6%		4.8%
Number of Keva's permanent employees	520	535	-2.8%	530