

8.8.2019

Keva's interim report for 1 January to 30 June 2019

Good investment performance for Keva

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a 7.6%, or EUR 3,776 million, return on investments for the first half of 2019. At the end of June, Keva's investments had a market value of EUR 53.5 billion, compared to EUR 52.1 billion a year earlier.

Contribution income during the first half of the year was EUR 2.5 billion and EUR 2.7 billion was paid out in local government sector pensions. At the end of June, some 545,000 employees were insured for earnings-related pension.

Keva's return on investments at market value was 7.6% in June. The top performer was listed equities, which generated a return of 13.8%. Fixed income investments generated 4.8%, private equity and hedge funds both generated a return of 4.2% and real estate investments (including real estate funds) generated a return of 1.8%.

Keva CEO **Timo Kietäväinen** is pleased with investment performance.

"Good performance ensured that all investment types were in positive territory," he says. "We have also progressed to plan in our reform projects: implementation of Keva's strategy, which was adopted in the spring, and the development of e-services are progressing apace. At the same time, pension application processing times have remained good," Kietäväinen reports.

Keva's long-term return on investments is at a good level. The capital-weighted annual cumulative real return on investments since the inception of funding in 1988 until the end of the report period was 4.0%. The non-capital-weighted average real return for the same period was 5.3%. The nominal return for the past five years without capital weighting has been 4.9% and the real return for the past ten years 7.1%.

Fixed-income investments (including the impact of derivatives) accounted for 40.4% and listed equities and equity funds for 36.3% of Keva's entire investment portfolio. Of the smaller asset classes, private equity investments accounted for 9.6%, hedge funds for 7.4% and real estate investments for 6.3% of the portfolio.

Keva CIO **Ari Huotari** expects the rest of the year to be nervous as regards the investment outlook.

"Nervousness will continue as economic growth expectations fade and the markets are overshadowed by different stages in the trade war," he states.

The payroll total in the local government sector was around EUR 8.5 billion for the first half of 2019, down 2% compared to a year earlier. A delay in Incomes Register notifications from some employers means that the payroll total and the pension payment calculated based on it differ from reality. Contribution income contracted 1.7% and pension expenditure rose 5.1%. During the first half of 2019 EUR 2,724 million were paid out in local government sector pensions.

8.8.2019

The current and coming years will see a growing share of pension expenditure being covered through returns on investments or ultimately by dipping into investment capital. Keva's statutory payments, net operating costs and depreciation amounted to EUR 36 million for the first half of 2019 (EUR 34 million for H1/2018).

Pensions paid by Keva to State, Church and Kela employees

Keva is the largest earnings-related pension provider in Finland and is responsible for instituting the cover of almost the entire Finnish public sector. During the first half of the year, Keva paid out EUR 2,378 million in State pensions, EUR 105 million in Evangelical Lutheran Church pensions and EUR 52 million in Social Insurance Institution of Finland (Kela) pensions. The State, Evangelical Lutheran Church and Kela pay their own pension expenditure and share of operating costs to Keva.

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The figures in this release are unaudited.

Market value profit and loss account, €m

| | H1/2019 | H1/2018 | Change, % | 2018 |
|-----------------------------------------|---------|---------|--------------|--------|
| Contribution income* | 2 496 | 2 540 | -1.7 | 5 053 |
| Pension expenditure | -2 724 | -2 591 | 5.1 | -5 230 |
| Net income from investment operations** | 3 786 | 375 | 909.6 | -1 522 |
| Net operating costs, depreciation, etc. | -36 | -34 | 5.7 | -69 |
| Market value result | 3 521 | 290 | 1116.1 | -1 768 |
| Member organisations' payroll* | 8 494 | 8 671 | -2.0 | 17 410 |

* A delay in Incomes Register notifications from some employers means that the payroll total and the pension payment calculated based on it differ from reality.

** excl. investment operation costs

8.8.2019

Key figures H1/2019

| | H1/2019 | H1/2018 | Change, % | 2018 |
|--------------------------------------------|----------------|----------------|------------------|-------------|
| Pension and benefit decisions, local govt. | 27 344 | 27 956 | -2.2 | 55 302 |
| Pension and benefit decisions, State | 6 080 | 6 409 | -5.1 | 12 447 |
| Pension and benefit decisions, Evl. Church | 998 | 988 | 1.0 | 1 984 |
| Pension and benefit decisions, Kela | 285 | 282 | 1.1 | 526 |

| | June/2019 | June/2018 | Change, % | Dec/2018 |
|---------------------------------|------------------|------------------|------------------|-----------------|
| Pension recipients, local govt. | 409 977 | 402 001 | 2,0 | 406 286 |
| Pension recipients, State | 249 015 | 253 242 | -1.7 | 251 505 |
| Pension recipients, Evl. Church | 19 345 | 19 121 | 1.2 | 19 250 |
| Pension recipients, Kela | 5 934 | 5 951 | -0.3 | 5 945 |

| | June/2019 | June/2018 | Change, % | Dec/2018 |
|----------------------------------------------|------------------|------------------|------------------|-----------------|
| No. of local govt. employees insured (est.)* | 545 000 | 523 000 | 4,2 | 535 000 |

* Due to the roll out of the Incomes Register, the number of employees insured is not fully comparable with the figure for the previous year.