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Keva reports record EUR 9.1bn return on investments

Keva, which is responsible for the funding of local government pensions and the investment of pension funds, reported a total return of 15.8% or a record EUR 9.1 billion on investments at market value for 2021.

Of Keva's investment assets, the best performers were private equity investments at 48.3%, listed equities at 19.9% and hedge funds at 17.3%. The return on real estate investments was 9.6% and fixed income investments 1.4%.

Keva's investment assets had a market value totalling EUR 66.8 billion at year-end 2021. Of this, listed equities accounted for 35.8%, fixed income investments (including the impact of derivatives) for 35.8%, private equity investments (including unlisted equities) for 16%, hedge fund investments for 6.4% and real estate for 6.0% of risk-based distribution.

"Investment performance was exceptionally good. It was driven by strong growth in global stock markets and successful allocation choices," Keva CEO **Jaakko Kiander** notes.

The return on private equity investments, excluding unlisted equities, was 51.4% in 2021. CIO **Ari Huotari** says that this was driven by strong economic growth, the very good financial development of investees and a record number of breakaways. On top of which, valuation levels were up and the market was marked by a strong sense of optimism.

"The good return on private equity investments is the result of systematic work. The portfolio has been constantly and determinedly built up since back in the 1990s. For example, the average return on private equity investments over the past 10 years is 17.2%," Huotari says.

Huotari considers that a successful strategy and adequate diversification combined with high-quality, responsibly-operating asset managers creating added value, are the basis for good performance. Headed by Senior Portfolio Manager **Markus Pauli**, the small, cohesive private equity investments team has boldly developed investment operations and challenged old business models.

"We now have a good quality private equity investment portfolio, which withstands various market conditions and which we can continue to expect to perform well," Pauli says.

The year currently underway is marked by exceptionally great uncertainty.

"At the time of writing, the geopolitical situation in Europe is highly uncertain. A set of circumstances, which at worst could erupt into military intervention, is causing concern on the markets. At the same time, the effects of global inflation on the actions of central banks and thus interest rates are being

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considered. Nor should it be forgotten that earlier actions by central banks have inflated risky markets to record levels," Ari Huotari points out.

Excellent result also long term

Keva's long-term return on investments has been excellent. The cumulative capital-weighted real return in investments since funding began in 1988 to year-end 2021 was 4.4% a year. The average real return, excluding capital weighting, over the same period was 5.5%. The Finnish pension sector normally calculates long-term returns excluding capital weighting. Keva's five-year real return excluding capital weighting has been 6.1% (nominal return 7.4%) and the ten-year return 6.6% (nominal return 7.8%).

Rapid growth in sum of wages and salaries in local government sector

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 5.3% in 2021. The sum of wages and salaries paid in the public sector grew in consequence of the increased need for human resources in healthcare because of the pandemic. A total of EUR 5.7 billion in contribution income accrued. Keva paid out EUR 5.9 billion in local government pensions. The difference between contribution income and pension expenditure was met out of investment income.

In 2021, Keva paid out pensions totalling EUR 5.2 billion to State, Evangelical Lutheran Church, Social Insurance Institution of Finland (Kela) and Bank of Finland personnel. Keva assumed responsibility for administering the pension coverage of Bank of Finland employees from the beginning of 2021. The State, Church, Kela and Bank of Finland fund their own pensions and Keva's investment assets are used solely to provide local government pensions.

Fall in number of persons retiring on full disability pension

In 2021, Keva received a total of almost 65,000 pension and benefit applications. Processing times of all pension benefits were shorter or remained unchanged compared to the previous year. The percentage of electronic applications grew in particular in disability pensions and rehabilitation applications. Around 57% of all pension applications were made electronically through the Keva My Pension service. The customer satisfaction of pension applicants remained at an excellent level.

The number of persons taking partial disability pension remained at the same level as a year earlier. The biggest changes emerge in the review between pension benefits. There were almost 10% fewer people retiring on full disability pension than a year earlier.

"The start of disability pension during the corona period has surprisingly reduced. It remains to be seen whether this is a permanent change," Jaakko Kiander reflects.

[[LINK release about disability pensions](#)]



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Keva's key figures 2021

	2021	2020	2019	2018	2017
Sum of wages and salaries of Keva member organisations, €m	19 462	18 487	18 126	17 410	16 844
Share of contribution of Keva member organisations, €m	5 489	5 252	5 127	4 920	4 793
Number of people insured in Keva member organisations 31 Dec. *)	560 145	541 239	544 942	535 000	528 000
Number of pension recipients in Keva member organisations, 31 Dec.	423 827	418 696	413 084	406 286	398 000
Amount of pensions paid out in Keva member organisations, €m	5 915	5 728	5 488	5 230	5 005
Fair value of investments, 31 Dec., €m	66 849	58 009	56 166	50 129	51 871
Return on investments at fair value	15,8 %	4,7 %	12,8 %	-3,0 %	7,7 %
Annual real return on investments since funding at start of 1988 (capital weighted)	4,4 %	4,0 %	4,0 %	3,8 %	4,3 %
Annual real return on investments since funding at start of 1988 (not capital weighted)	5,5 %	5,2 %	5,2 %	5,1 %	5,5 %
Operating costs, €m	79,9	76,6	82,2	74,9	76,1
Employees, permanent 31 Dec.	485	496	513	515	519
Number of State pension recipients, 31 Dec.	237 008	242 145	246 874	251 505	256 000
Amount of State pensions paid out, €m **)	4 879	4 857	4 761	4 675	4 597
Number of Evl. Church recipients, 31 Dec.	19 573	19 509	19 469	19 250	19 000
Amount of Evl. Church pensions paid out, €m **)	223	217	212	204	196
Number of Kela pension recipients, 31 Dec.	5 965	5 958	5 942	5 945	6 000
Amount of Kela employee pensions paid out, €m **)	108	106	105	102	99
Number of Bank of Finland pension recipients, 31 Dec.	1 404				
Amount of Bank of Finland pensions paid out, €m **)	29				

*) Due to the Incomes Register and new reporting practice in employment relationships, there is a break in the time series between 2018 and 2019. The figure for 2020 has been updated.

*) 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.

Keva's administration of Bank of Finland pensions began on 1 January 2021.

The figures in this release are preliminary and have not been subject to audit.

Keva's financial, interim and annual reports are published at <https://www.keva.fi/en/this-is-keva/financial-information/>.

The Report of the Board of Directors and the financial statements will be published on our website after the meeting of Keva Councillors on 9 March 2022.