

IIFA Country Report 2015 - FINLAND

1. Economic and Financial Background

Table 1: Key Economic and Financial Indicators

	2014 (EUR)	2014 (USD)
Population (million)	5.47	5.47
GDP (billion)	205.2	253.0
Real GDP growth (%)	-0.4	-0.4
Inflation rate (%)	1	1
Unemployment rate (%)	8.7	8.7
Stock market capitalisation (billion)	167.8	203.8
Stock market capitalisation (% of GDP)	81.77	81.77
Bond market capitalisation (billion)	97.28	118.1
Bond market capitalisation (% of GDP)	47.41	47.41
Household gross savings ratio (%)	0.6	0.6
Household financial wealth (billion)	261.6	317.6
Average per capita financial wealth	47,818	58,056

2. Data on Funds under Management and Portfolios

Table 2a: Total Assets by Fund Type 31.12.2014

	EUR billion	USD Billion	Change from 31.12.2013
Equity	31.66	38.44	11.33 %
Bond	26.43	32.09	19.25 %
Balanced	12.79	15.53	18.43 %
Money market	12.44	15.10	2.46 %
Other	1.73	2.10	10.60 %
Total	85.06	103.27	13.23 %

Table 2b: Total Assets by Fund Type 30.6.2015

	EUR billion	USD billion	Change from 31.12.2014
Equity	35.57	43.19	12.33 %
Bond	28.57	34.69	8.07 %
Balanced	17.70	21.49	38.42 %
Money market	13.86	16.83	11.38 %
Other	1.68	2.04	-3.12 %
Total	97.37	118.22	14.48 %

The Finnish investment funds enjoyed robust growth in 2014. The total net assets of Finnish investment funds grew by 13% during 2014 to stand at EUR 85 billion to end the year. This growth was largely due to net subscriptions during the year. Demand for investment funds remained positive in 2014 and net subscriptions were EUR 8.5 billion in total. In addition, this development has accelerated on the first half of 2015. Net subscriptions increased by EUR 7.9 billion and total assets stood at their all-time record EUR 97 billion. Additionally, large part of the growth in 2014 was due to an appreciation in the value of assets. Positive market development influenced the net asset growth by 53%.

With record low deposit interest rates in 2014 investment funds attracted new money due to their higher expected returns. Additionally, general market developments increased investment fund net assets. However, the growth of Finnish investment fund net assets was slowed down by fund relocations to Sweden. Management companies functioning in several Nordic countries have sought improvements in their operative efficiency by integrating their funds in different countries to a particular Nordic country. Investment funds have also been moved from other Nordic countries to Finland. In Finland, the redomiciliation of funds affected net assets by EUR -3.8 billion in 2014.

Insurance sector is the biggest investor in mutual funds. Additionally, insurance sector's share of ownership of investment funds increased most in 2014. However, a major proportion of the insurance sector's fund holdings are ultimately owned by households through unit-linked insurance policies. In addition, households increased their investments in mutual funds in 2014 from previous year, and they are the second biggest investor in mutual funds. The low level of interest rates being paid on deposits has resulted on households seeking better expected returns from alternative sources. First half of 2015 demonstrates no major alterations in ownership of mutual funds.

3. Key Trends in Flows and Assets under Management

Table 3a: Net Sales of Funds by Fund Type 1.1.2014 - 31.12.2014

	EUR million	USD million
Equity	1,115.0	1,347.9
Bond	4,634.2	5,714.6
Balanced	2,584.3	3,186.8
Money market	6.9	8.5
Other	120.5	148.6
Total	8,461.0	10,433.5

Table 3b: Net Sales of Funds by Fund Type 1.1.2015 – 30.6.2015

	EUR million	USD million
Equity	-7.8	-9.6
Bond	2,135.3	5,119.1
Balanced	4,404.9	2,423.4
Money market	1,318.9	1,429.4
Other	53.5	57.7
Total	7,904.8	8,813.5

In 2014 assets under equity funds enjoyed growth of 11.33% or EUR 3.22 billion to end the year at EUR 31.66 billion. Net subscriptions amounted by total EUR 1.12 billion and positive market development boosted values more. Best performing equity funds were those investing in North American equity market: they posted average annual returns of 24.2% in 2014. Equity funds investing in Finland as well as Europe were among the worst performers. They both showed on average 4.3% annual returns.

Bond funds enjoyed significant growth of 19.25% or EUR 4.267 billion. Net subscriptions were highest of the asset classes and valuation change was at EUR 1.46 billion. The highest returns were posted by bond funds investing in European government bonds, which gained 10.2% annual average return. Worst performing bond funds were the funds investing in Eurozone and global high yield bonds. However, investment returns remained positive at 3.0% and 3.9% accordingly.

Balanced fund net assets registered strong growth of 18.34% or EUR 1.98 billion in 2014. Growth was largely due to increased net inflows in 2014. Money market funds increased by 2.46 % or EUR 0.30 billion in 2014. Net subscriptions were EUR 0.007 billion during the year.

4. Product Developments

No major developments regarding new products. It seems that cross-border activity within EU is increasing and cross-border fund managers will improve their effectiveness. This means cross-border mergers of funds but also management companies.

A small but growing phenomenon has been the introduction of open-ended real estate funds. These funds invest in housing and commercial property. They are open for subscriptions and redemptions quarterly or semiannually.

5. Regulatory and Self-Regulatory Developments (Including Tax)

In March 2014 there was a major change in the structure of Finnish investment fund legislation. This was due to implementation of the EU alternative investment fund directive (AIFMD). Funds are regulated as UCITS-funds or alternative funds (non-UCITS).

6. Corporate Governance – Major Developments

No changes.

7. Fund Governance

No changes.

8. Other Major Issues and Developments

There are currently a number of European regulatory initiatives which are likely to affect regulation of investment funds. They include the recent proposals on money market funds (with potentially detrimental effects) and on long term investment funds (including some positive signals). The final content will depend on the negotiations between EU institutions.