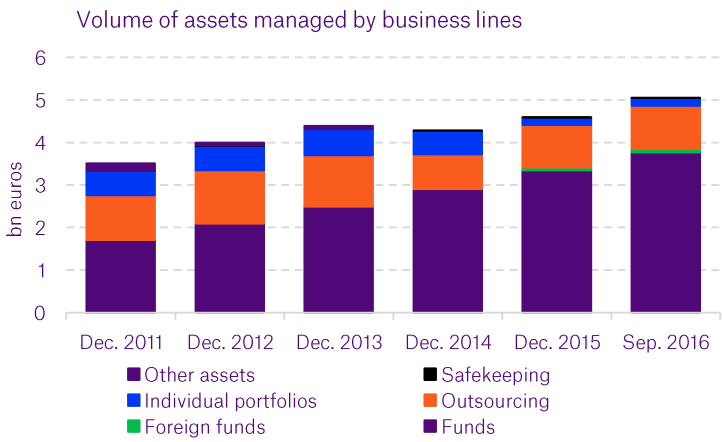
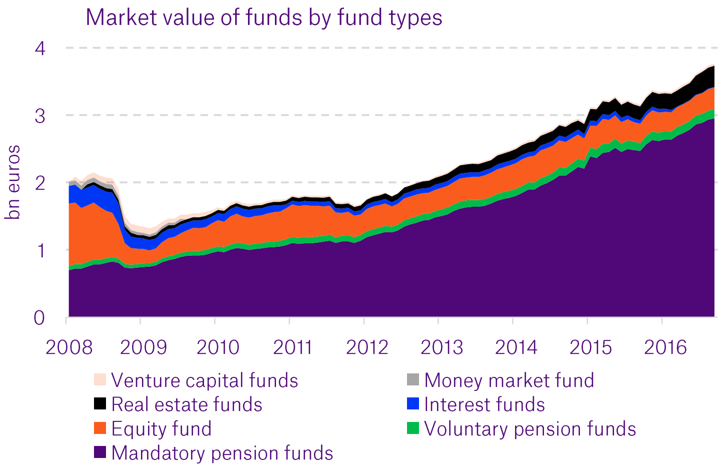
Overview of fund management companies in the 3rd quarter of 2016

	Q2 2016	Q3 2016
• Volume of managed assets	4.8	↑ 5.1 bn euros
incl. volume of assets of funds	3.6	↑ 3.8 bn euros
• Quarterly growth of market value of funds	6.4%	↓ 4.2%
• Volume of summarised balance sheet	156.7	↓ 155.5 million euros
• Profit	4.8	↑ 6.2 million euros
• Ratio of fixed costs to net fee income	42%	↓ 38%
• Return on equity (annual basis)	6%	↑ 13%
• Coverage of own funds' requirement	331%	↓ 330%

The volume of assets managed by fund management companies operating in Estonia increased 4.5% in Q3 2016, reaching above the 5 billion euro level for the first time, namely 5.1 billion euros. 96% of these assets were collective portfolios, i.e. their own as well as other management companies' funds whose investments are managed through outsourcing. The volume of client assets in outsourcing grew 2% over the quarter, to 1 billion euros.

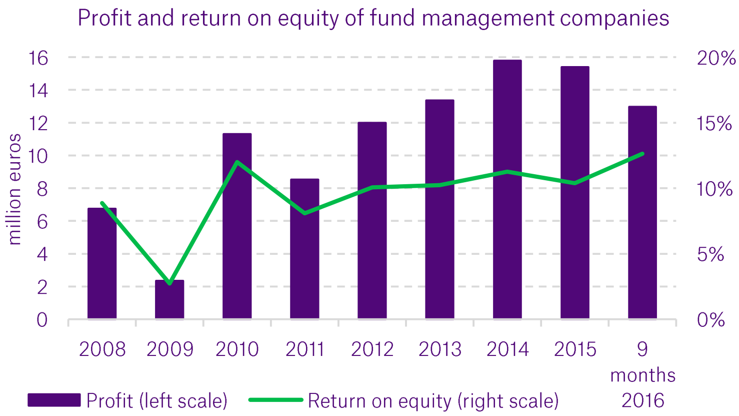


The market value of funds increased 4.2% in Q3, reaching 3.8 billion euros. The value of real estate and equity funds grew the fastest – 12.2% and 7%, accordingly –, but these funds make up a relatively small share of the total funds. The market value of funds with the largest share, mandatory pension funds increased 3.2% over the quarter, reaching 3 billion euros. At the same time, the value of voluntary pension funds grew by 2.4%. The market value decreased only for interest funds, by 0.6% over the quarter.



Although fund management companies earned a larger profit than usual in Q3, the volume of their assets decreased: by 0.7% compared to Q2, to 155.5 million euros. This was impacted by the merger of two companies, LHV Varahaldus and Danske Capital: among other things, this transaction decreased the volume of financial investments and increased the volume of intangible assets in the sectors' summarised balance sheet. In addition, other market participants made several transactions with their own capital as well. The biggest share of the sectors' summarised balance sheet is made up by money and money equivalents (43% of total), loans (24%) and shares of pension funds (21%). The volume of all these asset types increased during Q3. However, the structure of assets varies a lot between fund management companies.

Net profit of fund management companies was 6.2 million euros in Q3, 30% bigger than in Q2. Fixed costs have not changed much, while net fee income has increased. Ratio of fixed costs to net fee income thus declined further in Q3, from 42% to 38%. Growing profit has also been supported by an increase in financial income. The profit during the first three quarters of 2016 was 13 million euros, 9% bigger than a year before.



On an annual basis, the return on equity of the fund management companies' sector was up from 6% in the first half-year to 13% at the end of Q3.

All market participants met the prudential requirements set for the fund management companies at the end of Q3. In addition, all management companies of mandatory pension funds met the requirement for units held by the unit-holder. The capitalisation of the fund management companies' sector remained very good: coverage of own funds' requirement did not change much during the quarter and was 330%.

Main developments and risks

- The merger of LHV Varahaldus and Danske Capital took effect at the end of July 2016. All authorisations of Danske Capital were revoked. Danske Capital transferred all its pension funds and one UCITS to LHV Varahaldus, all other funds and business lines were liquidated. As a result of the merger, the market concentration of funds increased: the three biggest management companies held 74% of the market before and 80% after the merger.
- The discussion over pension funds with lower management fees intensified in Q3. Several management companies have lowered the fees of existing funds. At the end of 2016, the Financial Supervision Authority registered the first fund rules for pension funds that invest into index funds. The impact of these changes to the fund market and management companies, foremost to market shares, will become clearer in 2017.
- In September 2016, the Riigikogu started the proceedings on the new Investment Funds Act prepared by the Ministry of Finance. The bill was passed at the end of December and the law came into force in the beginning of January. One of the objectives of the new law is to make the Estonian fund market more attractive to investors and fund service providers. The Act enables to found new types of investment funds in Estonia and to lessen the administrative burden of funds meant for professional investors. In addition, the Act supports more competition in the pension funds market. The capital requirements set for pension fund management companies were lowered to help new pension fund managers to enter the market. The new act specified the requirements for the control audit system of management companies.
- The biggest risks for fund management companies are market and operational risk. However, risks and their importance varies notably between companies. Management companies of mandatory pension funds are more open to market risk, because a large share of their assets are made up of own pension fund units.