Key results

At the end of 2009, traditional asset classes (primarily bonds and equities) were still the most common kind of investment in pension fund and public pension reserve fund portfolios. Proportions of equities and bonds vary considerably across countries but there is, generally, a greater preference for bonds.

In most OECD countries for which 2009 data were available, bonds and equities remain the two most important asset classes, accounting for over 80% of total pension funds' portfolio at the end of 2009 in nine OECD countries. In Austria, for example, 54.9% of total pension funds' assets were invested in bonds, while 26.8% were in equities, giving Austrian pension funds an aggregate average weighting of 81.7% in equities and bonds. The combined proportion of bonds and equities relative to the total pension funds' portfolio in 2009 was 96.7% for Poland, 95.4% for Mexico, 93.8% for Chile, 89.7% for Norway, 88.4% for Denmark, 85.2% for Israel, 84.7% for the Czech Republic and 82.2% for Hungary. At the other extreme, this combined proportion was below 50% for Estonia (37.9%), Korea (36.5%) and Luxembourg (44%).

Proportions of equities and bonds vary considerably in pension funds' portfolio across countries. Although there is, in general, at the end of 2009, a greater preference for bonds, the reverse is true in some OECD countries, namely Australia, where equities outweigh bonds by 54.4% to 12.8%; Finland by 40.6% to 37.5%; and the United States by 45.4% to 31.4%. Equities and bonds were in the same range as bonds in Canada and Chile, with more than one-third of all pension funds' investments.

Within the "bonds" category, public sector bonds, as opposed to corporate bonds, comprise a significant share of the combined bond holdings of pension funds in many countries. For example, public sector bonds comprise 100% of total bond holdings in Greece and Turkey, 96.6% in Poland, 85.8% in Israel and 85.5% in Hungary, but only 30.7% in Norway, 26.7% in Chile and 8.9% in Germany.

Cash and deposits also account for a significant share of pension funds' portfolio in some OECD countries. For example, the proportion of cash and deposits in total portfolio in 2009 was as high as 20.7% for Slovenia, 27.8% for Turkey, 32.1% for Greece, 40.2% for Korea and 42.6% for Luxembourg.

In most OECD countries, loans, real estate (land and buildings), unallocated insurance contracts and private investment funds only account for relatively small amounts of pension funds' assets although some exceptions exist. Real estate, for example, is a significant component of pension fund portfolios in Switzerland, Portugal, Finland, Canada and Australia (in the range of 5 to 10% of total assets). Anecdotal evidence shows that pressure to decreased DB funding gaps and raise returns is driving a move into alternative investments with pension funds increasingly using derivatives to hedge risks and as an alternative to direct investment in the underlying markets.

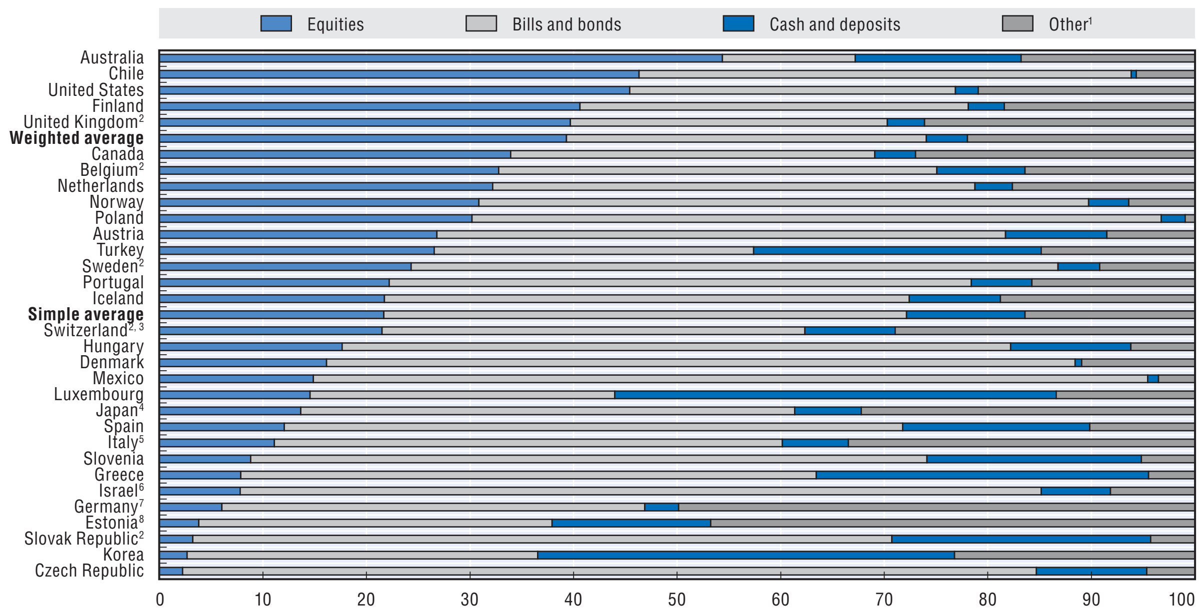
Bonds and equities were also the predominant asset classes within PPRF portfolios at the end of 2009. There was also a strong equity bias in some reserve funds, which reflects their long-term investment outlook and generally greater investment autonomy. For example, in 2009, Ireland's national pensions reserve fund invested 72.0% of its assets in equities and 5.5% in bonds, while the figures for Norway were 61.4% and 33.9%, for Sweden (AP3 fund) 50.2% and 35.6%, and 44.2% and 23.7% for Australia. On the other hand, reserve funds in Japan, Portugal, Poland and Mexico invested much more in bonds than equities in 2009.

The extreme cases are those of the Belgian, Spanish and US PPRFs, which are by law fully invested in government bonds (except 3.3% of total assets invested in cash and deposits for the Spanish fund).

Some PPRFs also started to invest in real estate and non traditional asset classes like private equity and hedge funds. For example, the funds with the highest allocation to private equity and hedge funds were New Zealand (26.7% of total in 2009), Canada (17.1%) and Australia (12.7%).

Pension funds' asset allocation for selected investment categories in selected OECD countries, 2009

As a % of total investment



Note: The *GPS Database* provides information about investments in mutual funds and the look-through mutual fund investments in cash and deposits, bills and bonds, shares and other. When the look-through was not provided by the countries, estimates were made based on asset allocation data for open-end companies (mutual funds) from the *OECD Institutional Investors' Database*. Therefore, asset allocation data in this Figure include both direct investment in shares, bills and bonds and cash and indirect investment through mutual funds.

1. The "Other" category includes loans, land and buildings, unallocated insurance contracts, private investment funds, other mutual funds (*i.e.* not invested in cash, bills and bonds or shares) and other investments.
2. Data refer to 2008.
3. The high value for the "Other" category is mainly driven by land and buildings (11%) and other mutual funds (8%).
4. Bank of Japan's data. The high value for the "Other" category is mainly driven by outward investments in securities (26%), for which the split between various securities is not available.
5. The high value of the "Other" category is mainly driven by unallocated insurance contracts (22%).
6. The "Shares" category includes all mutual funds' investments, as the split between various securities is not available.
7. The high value for the "Other" category is mainly driven by loans (30%) and other mutual funds (16%).
8. The high value for the "Other" category is mainly driven by private investment funds (46%).

Source: OECD *Global Pension Statistics*.

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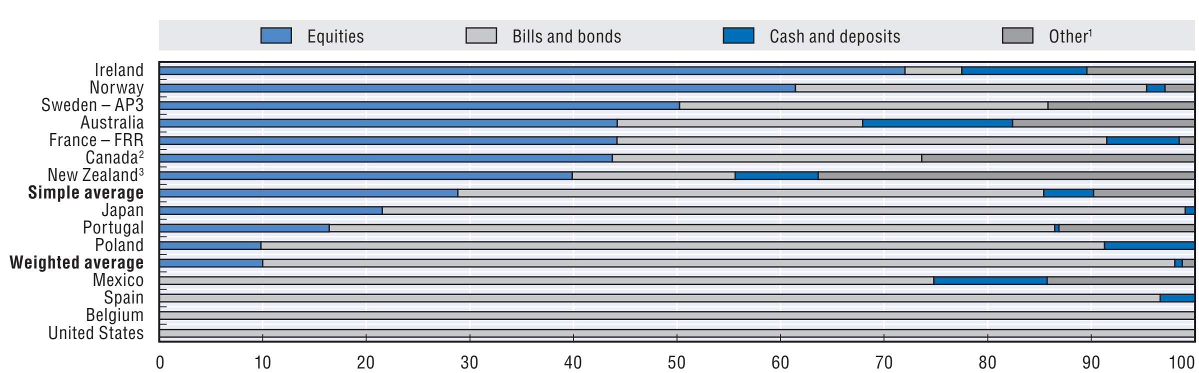
Public pension reserve funds' asset allocation for selected investment categories in selected OECD countries, 2009

As a % of total investment



1. The "Other" category includes structured products, land and buildings, private investment funds, loans, unallocated insurance contracts, and other investments.
2. The high value for the "Other" category is mainly driven by private investment funds (17%).
3. Data refer to June 2009. The high value for the "Other" category is mainly driven by private investment funds (27%).

Source: OECD *Global Pension Statistics*.

StatLink http://dx.doi.org/10.1787/888932371215

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