

## MANAGEMENT OF STATE-FUNDED PENSION SCHEME ASSETS

### GENERAL INFORMATION

On 30 September 2009 the assets of the State-funded pension scheme (second-tier of pension scheme) were managed by 10 investment management companies that offered 27 investment plans.

### STATE-FUNDED PENSION SCHEME PARTICIPANTS

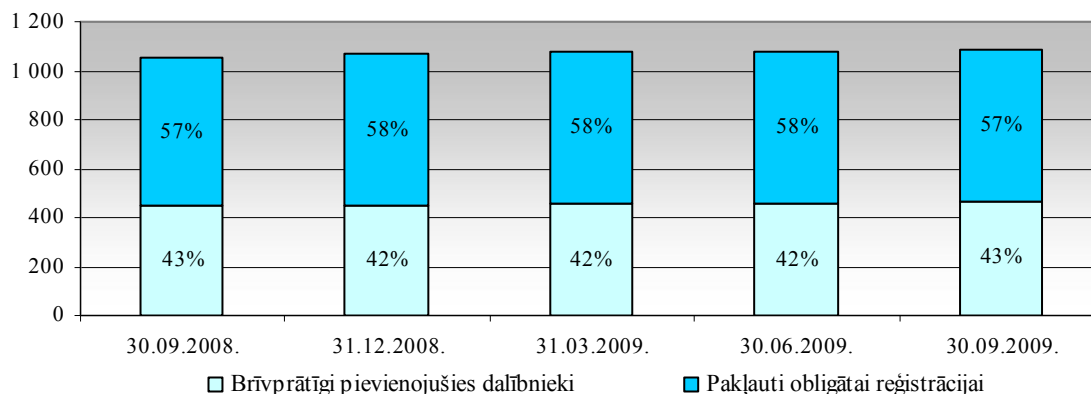
Until 30 September 2009, 1,080,418<sup>1</sup> participants, or 93.2% Latvia's economically active population<sup>2</sup> had joined the second-tier of State pension scheme.

Of total participants of the State-funded pension scheme, 624,601 or 57.3% had joined the scheme on a compulsory basis<sup>3</sup>, while 464,754 participants or 42.7% had joined the scheme voluntarily (see Figure 1).

*Figure 1*

#### STRUCTURE OF STATE-FUNDED PENSION SCHEME PARTICIPANTS

(number at the end of period; thousand)



In three quarters of 2009, 195,228 participants of State-funded pension scheme (17.9% of total State-funded scheme participants) had switched their investment plans.

### STATE-FUNDED PENSION SCHEME ASSETS

On 30 September 2009, the volume of net investment plan assets in the State-funded pension scheme grew by 65.6% in comparison with 30 September 2008 and totalled 665 million lats.

Stabilization of the world financial market had a positive impact on the activities of the State-funded pension scheme investment plans. The average return on State-funded pension scheme investment plans<sup>4</sup> on 30 September 2009 was 12.4% (compared to -7.3% on 30 September 2008), for several investment plans ranging between 5.2% and 21.6% (from -18.0% to 8.2% in comparison with 30 September 2008) (see Table 1). State-funded pension investment plan performance depends on the type of the respective investment plan (conservative, balanced or active). The assets of conservative plans were mostly placed in low risk assets, and their return on investment plans was 8.3% on average, while performance of balanced and active investment

<sup>1</sup> Hereinafter the data collected by the State Social Insurance Agency on the State-funded pension scheme participants..

<sup>2</sup> Data from the Central Statistics Board [www.csb.lv](http://www.csb.lv).

<sup>3</sup> All persons born after 1 July 1971 and registered for state pension insurance are registered by the State Social Insurance Agency as scheme participants on a compulsory basis.

plans depended on the fluctuations in the financial market, and therefore average return on investment plans was 9.7% and 13.5%, respectively.

Table 1

**REKADOWN OF STATE FUNDED PENSION ASSETS PER INVESTMENT PLAN  
ACCORDING TO WEIGHTED AVERAGE YIELD OF INVESTMENT PLANS**

Type of investment plan	30.09.2008			30.09.2009		
	Weighted average yield, annually (%)	Number of plans	Market share (% of total assets)	Weighted average yield, annually (%)	Number of plans	Market share (% of total assets)
Conservative	-1.6 – 8.2	9	16.1	5.2 – 13.3	10	24.1
Balanced	-3.7 – 0.8	4	7.4	9.1 – 13.4	4	8.4
Active	-18.0 – -1.1	12	76.5	7.2 – 21.6	13	67.5

Investment plan management expenses are comprised of remuneration to the asset manager<sup>5</sup>, remuneration to the custodian bank<sup>6</sup> and other investment plan management expenses<sup>7</sup>. In 3Q 2009, 1.52% of average investment plan net assets were used for investment plan management (as from the beginning of the year), of which 1.1% were used for conservative investment plans, as well as 1.6% and 1.6% - for balanced and active investment plans, respectively.

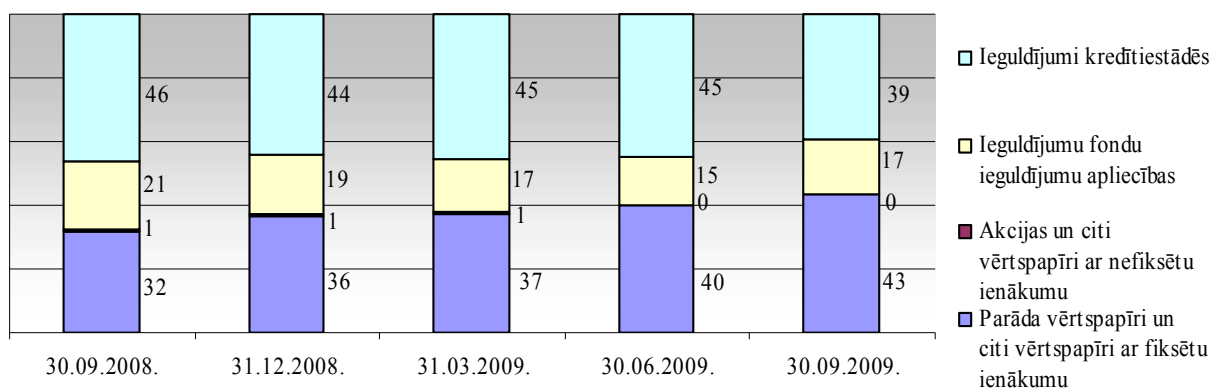
The volume of financial investments of the State-funded pension scheme's investment plans on 30 September 2009 had grown to 668 million lats and was by 66.2% up from 30 September 2008.

The trend of increasing investments in debt securities and other fixed income securities continued in the investment structure, growing by 11.6% percentage points in comparison with 30 September 2008 and by 30 September 2009 totalled 289 million lats, or 43.3% of total investments. Meanwhile investments in credit institutions fell by 7.4 percentage points, totalling 260 million lats, or 38.9% of total investments, whereas investments in investment fund certificates decreased by 3.4 percentage points, totalling 117 million lats, or 17.4% of total investments (see Figure 2).

Figure 2

**STRUCTURE OF STATE-FUNDED PENSION SCHEME INVESTMENTS**

(as a percentage)



<sup>4</sup> Return on investment plans - the ratio of changes in an investment plan unit within the period to its value at the beginning of the period, expressed in annual percentage.

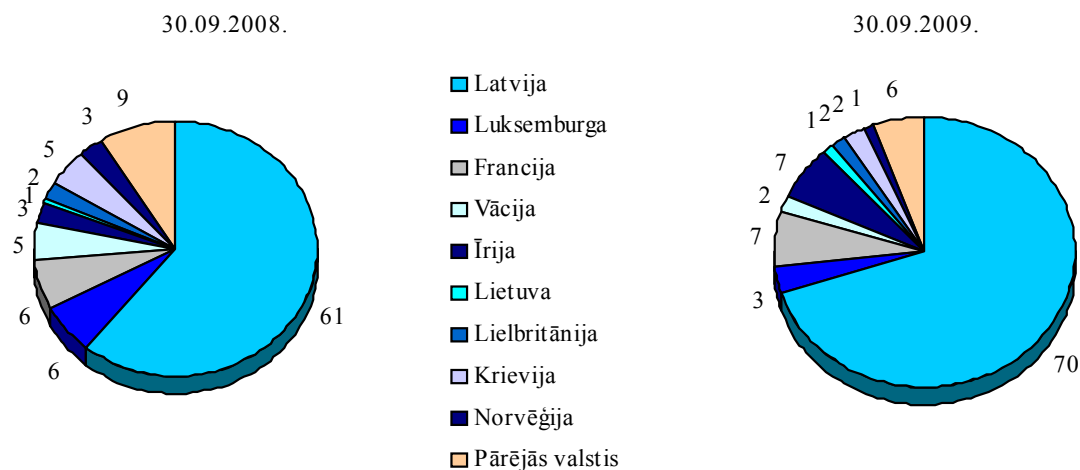
<sup>5</sup> Commission due to the asset manager under the management agreement.

<sup>6</sup> Commission due to the custodian bank under the management agreement and custodian bank agreement.

<sup>7</sup> Remuneration due to auditors as well as other investment plans management expenses.

On 30 September 2009, the share of investments in Latvia made up 70.1% of total investments, or 468.2 million lats, whereas 199.6 million lats were invested in 30 more countries, as well as in international financial institutions (see Figure 3). Of total foreign investments, 95.4% were placed in the European Union states.

*Figure 3*  
**GEOGRAPHICAL BREAKDOWN OF STATE-FUNDED PENSION ASSETS<sup>8</sup>**  
 (as a percentage)



<sup>8</sup> Securities (incl. investment certificates of investment funds) are classified according to the country of origin (registration) of the issuer of securities.