

Systematic approach to the best

With some €9bn under management, Tapiola may rank as only the third largest among Finnish mutual pension funds but, in terms of performance, it is number one. Whether reviewing returns over three, five or 10 years, Tapiola has beaten its domestic peers with flying colours. It is this consistency and low volatility of returns that sets Tapiola apart.

Tapiola's investment strategy concentrates on conventional asset classes such as fixed income, equities and real estate. It also invests in alternative investments if deemed tactically appropriate. "Our primary objective has been to develop an in-house asset allocation capacity. We now manage 85% of our investments in-house and we undertake extensive research of any potential investment. It's our focus on risk management and an efficient allocation process that has enabled us to consistently achieve the highest return among large pension funds in Finland," says the firm.

AMID THE DOOM AND GLOOM

Last year saw Tapiola's returns reach 17.9%, beating the local industry average return by more than two percentage points. Tapiola is keen to demonstrate the keys to its success. "At the beginning of 2009 the global economy was extremely weak and the outlook remained highly uncertain. The vast majority of investors were nursing the wounds of negative returns, including ourselves, for 2008. But we reverted to a more optimistic view at the start of 2009 and began to gradually increase risk levels in our portfolio whereas others continued to be pessimistic," it explains.

The first change was a considerable increase in equity exposure. Tapiola considered 2009 with a 15% equity weighting. By the end of the year, this reached 30%. Fixed income was also significantly reviewed. "Compared with previous years, the proportion of corporate bonds issued by well-established companies with good credit ratings was considerably higher in 2009. Their exposure rose to about one third of our fixed income investments. Overall, we considerably increased company risk in our investment activities within different asset classes during the review period," Tapiola confirms.

There were also divestments to help balance the books. "Some markets did not improve but got worse. A prime example was debt issued by European peripheral sovereign countries. We therefore reduced our exposure to these areas. This strategy paid off and our bond portfolio returned 15.9% in 2009, outperforming our local market average by over five percentage points," Tapiola says. "Fixed income investments as a whole returned 13.2% beating local industry average by more than one percentage point. Equity investments returned 43.7%, easily outperforming the local industry average of 33.4%. Real estate returned 3.9%, whereas alternative investments returned 5.3%."

THE FIGURES DO NOT LIE

Tapiola's optimism is proof of the confidence it has in its ability to fulfil its objective to ensure stable, predictable and solid returns in all market conditions. After ranking number one among Finnish mutual pension funds and beating the local industry average return by more than eight percentage points

during the height of the financial turmoil in 2008, Tapiola says it was also able to capture the swift recovery in asset prices during the review period. "As early as September 2009, the gap caused by the losses during 2008 had been closed. In total, the returns on our investments for the whole review period reached 17.9%. The key issue in achieving this consistency is an investment strategy that concentrates on rigorous risk management, an efficient allocation process and an in-house asset management capacity. Our team of 30 investment professionals ensures that information flows freely across all asset classes, thereby enabling us to implement an efficient and flexible asset allocation process."

Tapiola thoroughly researches all investments before any decision to allocate is taken. "Careful analysis and value appraisal of investments is one of the key areas the success of our investments rely on," says the scheme. Running a large internal investment department also helps Tapiola keep a keen eye on risk. "By managing the majority of all investments in-house we are able to monitor risks transparently and react quickly if necessary. In total, around 85% of all our assets are managed in-house."

For those areas of the portfolio that are managed externally, only high yield and emerging markets debt investments are outsourced among fixed income. For equities, Tapiola manages stocks in geographical areas close to Finland in-house as well as its direct real estate and private equity investments. Other equity investments are carried out through mutual funds. "One of Tapiola's main focus areas has always been an efficient allocation process. Our primary objective has been to develop an in-house asset allocation capacity. We use three levels of asset allocation: strategic, tactical and dynamic. The strategic allocation between the main asset classes is based mainly on our solvency ratio, our risk positioning and historical market trends. Tactical asset allocation between and within asset classes can be altered within limits based on the house view of the financial markets throughout the year. Dynamic asset allocation is reserved for short-term opportunities."

A MATTER OF PROCESS

For all its investment activities, Tapiola Pension focuses on processes rather than reacting to highly unstable market conditions. "We believe that although good results can be achieved in the short term by luck alone, only good processes will generate excellent results over the longer term. Therefore, within each asset class, all processes have been modelled and documented. Furthermore, rigorous risk management is applied across all asset classes to ensure that the processes are executed as intended," it says.

The past decade as a whole was a successful period for Tapiola's investments and a good example of the efficiency of a systematic, independent investment approach. "Over the last 10 years, the average annual return on investment activities was 5.4% and the cumulative return was 68.2%. With figures like these, Tapiola has clearly distinguished itself from the rest of the industry and demonstrated its ability to fulfil its objective to ensure stable, predictable and solid returns in all market conditions."

TAPIOLA
Tapiola Pension

Name of fund

Tapiola Pension (Tapiola Mutual Pension Insurance Company)

Type of fund

Pensions insurance company

Date established

1962

Fund structure

Defined benefit

Members

Active 270,000
Retirees 115,000

Market value of fund in €m

31 Dec 09 8,500
31 Dec 08 7,300
31 Dec 07 7,870

Performance

2009 13.5%
2008 -8.3%
2007 4.1%

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