Key results

At the end of 2013, 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 2013 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 2013 in 15 OECD countries. In Belgium, for example, 42.0% of total pension funds' assets were invested in bonds, while 39.0% were in equities, giving Belgian pension funds an aggregate weighting of 81.0% in equities and bonds. The combined proportion of bonds and equities relative to the total pension funds' portfolio in 2013 was 99.0% for Mexico, 93.2% for Poland, 92.7% for Norway, 90.6% for Sweden, 90.2% for Luxembourg, 89.3% for Hungary, 88.9% for Chile, 86.9% for the Czech Republic, 83.0% for Turkey, 82.5% for Austria, 82.5% for Estonia, 81.8% for Denmark, 80.4% for the Netherlands and 80.0% for Israel. At the other extreme, this combined proportion was below or close to 50% for a few countries, including Korea (9.0%) and the United Kingdom (53.8%).

Proportions of equities and bonds vary considerably in pension funds' portfolio across countries. Although there is, in general, at the end of 2013, a greater preference for bonds, the reverse is true in some OECD countries, namely Australia, where equities outweigh bonds by 48.9% to 8.6%; Finland by 38.2% to 31.1%; and the United States by 49.4% to 20.9%.

Within the "bonds" category, public sector bonds, as opposed to corporate bonds, comprise a significant share of the combined direct (i.e. excluding investment via mutual funds) bond holdings of pension funds in many countries. For example, public sector bonds comprise 92.4% of total direct bond holdings in Hungary, 89.8% in Iceland, 86.5% in Israel, 85.6% in the Czech Republic, and 85.5% in Turkey, but only 39.4% in Luxembourg, 26.3% in Norway, and 9.9% in Korea.

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 2013 was as high as 23.1% for the Slovak Republic, 24.6% for Greece, and 56.5% for Korea.

In most OECD countries, loans, real estate (land and buildings), unallocated insurance contracts and private investment funds (shown as "other" in the figure) 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 (directly or indirectly through collective investments schemes) in Australia, Canada, Finland, Portugal and Switzerland (in the range of 5 to 20% 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.

Fixed income and equities were also the predominant asset classes within PPRF portfolios at the end of 2013. 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 2013, Norway's Government Pension Fund invested 59.7% of its assets in equities and 36.5% in fixed income, while the figures for Sweden AP funds were around 50% and 30% (AP1, AP2, AP3 and AP4 funds), and 44.9% and 20.7% for the Quebec Pension Plan. The reserves in the main Canadian reserve fund, Canada Pension Plan Investment Board (CPPIB), were roughly evenly split between equities (32.1%) and fixed income (33.0%). On the other hand, reserve funds in Chile, Japan, Portugal and Poland for instance invested much more in bonds than equities in 2013.

The extreme cases are those of the Belgian, Spanish and US PPRFs, which are by law fully invested in government bonds.

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 those in Mexico (54.3% in total in 2013) and Australia (22.3%).

10.5. Pension funds' asset allocation for selected investment categories in selected OECD countries, 2013

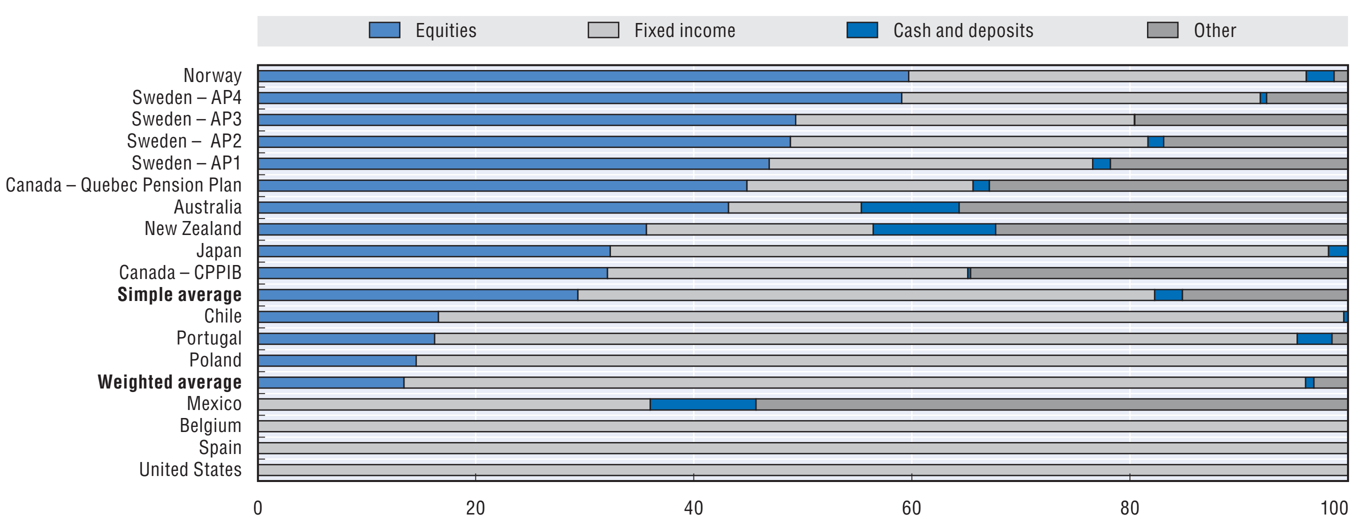
As a percentage of total investment

Source: OECD Global Pension Statistics.

StatLink http://dx.doi.org/10.1787/888933300893

10.6. Public pension reserve funds' asset allocation for selected investment categories in selected OECD countries, 2013

As a percentage of total investment



Source: OECD Annual Survey of Public Pension Reserve Funds.

StatLink http://dx.doi.org/10.1787/888933300900

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