Key results

At the end of 2011, 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 2011 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 2011 in 11 OECD countries. In Belgium, for example, 46.0% of total pension funds' assets were invested in bonds, while 34.8% were in equities, giving Belgian pension funds an aggregate average weighting of 80.7% in equities and bonds. The combined proportion of bonds and equities relative to the total pension funds' portfolio in 2011 was 99.1% for Mexico, 98.6% for Chile, 94.5% for Hungary, 93.1% for Poland, 91.3% for Norway, 87.3% for Sweden, 87.1% for the Czech Republic, 85.4% for Israel, 82.8% for Luxembourg and 82.8% for Estonia. At the other extreme, this combined proportion was below 50% for Germany (44.7%), Japan (44.6%) and Korea (5.4%).

Proportions of equities and bonds vary considerably in pension funds' portfolio across countries. Although there is, in general, at the end of 2011, a greater preference for bonds, the reverse is true in some OECD countries, namely Australia, where equities outweigh bonds by 49.7% to 9.0%; Finland by 41.3% to 35.4%; and the United States by 45.7% to 22.3%.

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 94.7% of total direct bond holdings in Poland, 92.5% in Hungary, 88.1% in Austria, 87.1% in Iceland, and 85.1% in Israel, but only 45.1% in Slovenia, 38.1% in Norway, 21.9% in Australia, and 8.8% 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 2011 was as high as 28.8% for the Slovak Republic, 31.6% for Slovenia, 40.4% for Greece, and 59.0% 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 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.

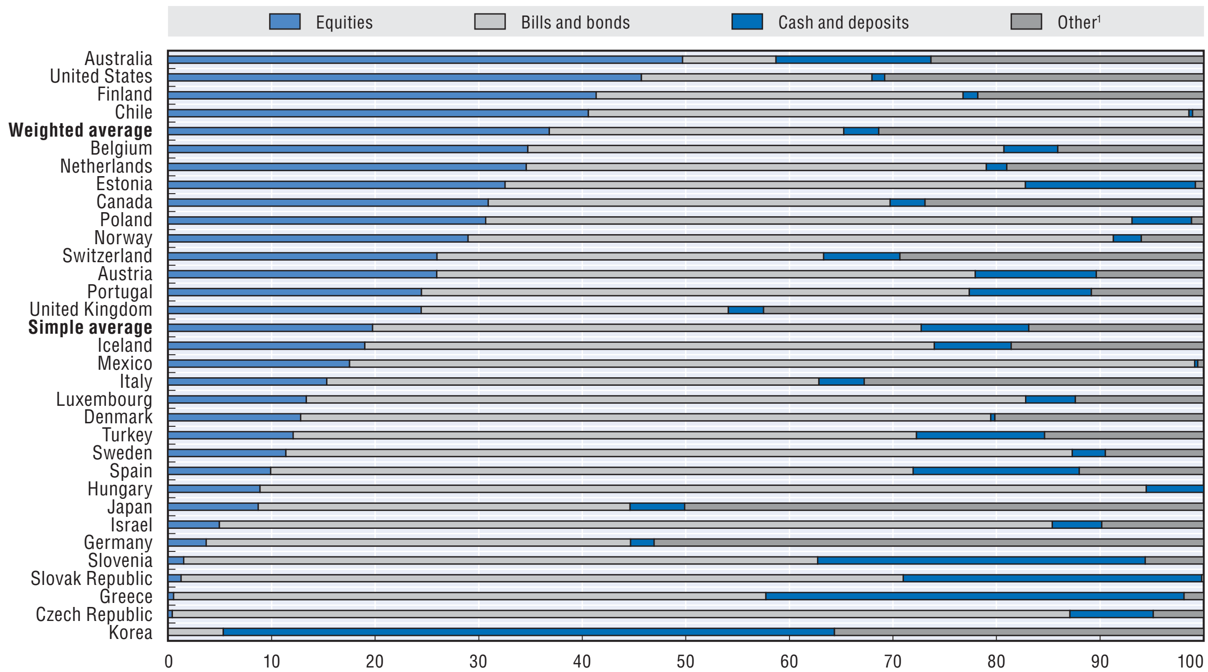
Bonds and equities were also the predominant asset classes within PPRF portfolios at the end of 2011. There was also a strong equity bias in some reserve funds, which reflects their long-term investment outlook and generally greater investment autonomy. For example, in 2011, Norway's Government Pension Fund invested 57.3% of its assets in equities and 37.4% in bonds, while the figures for Sweden AP funds were around 50% and 36% (AP2, AP3 and AP4 funds), 42.1% and 21.3% for the Quebec Pension Plan. The reserves in the main Canadian reserve fund, Canada Pension Plan Investment Board (CPPIB), were roughly evenly split between public equities (34.3%) and bonds (33.6%). On the other hand, reserve funds in Chile, Japan, Mexico, Portugal and Poland invested much more in bonds than equities in 2011.

The extreme cases are those of the Belgian, Spanish and US PPRFs, which are by law fully invested in government bonds (except 1.5% of total assets invested in cash and deposits for the Spanish fund, which is otherwise practically fully invested in domestic 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 Australia (25.1% of total in 2011), Canada (16.3%) and New Zealand (11.3%).

8.7. Pension funds' asset allocation for selected investment categories in selected OECD countries, 2011

As a percentage of total investment



Note: The *OECD Global Pension Statistics Database* provides information about investments in Collective Investment Schemes and the look-through Collective Investment Schemes investments in cash and deposits, bills and bonds, shares and other. When the look-through was not provided by the countries, estimates were made assuming that Collective Investment Schemes' investment allocation in cash and deposits, bills and bonds, shares and other was the same as pension funds' direct investments in these categories. Therefore, asset allocation data in this Figure include both direct investment in shares, bills and bonds and indirect investment through Collective Investment Schemes.

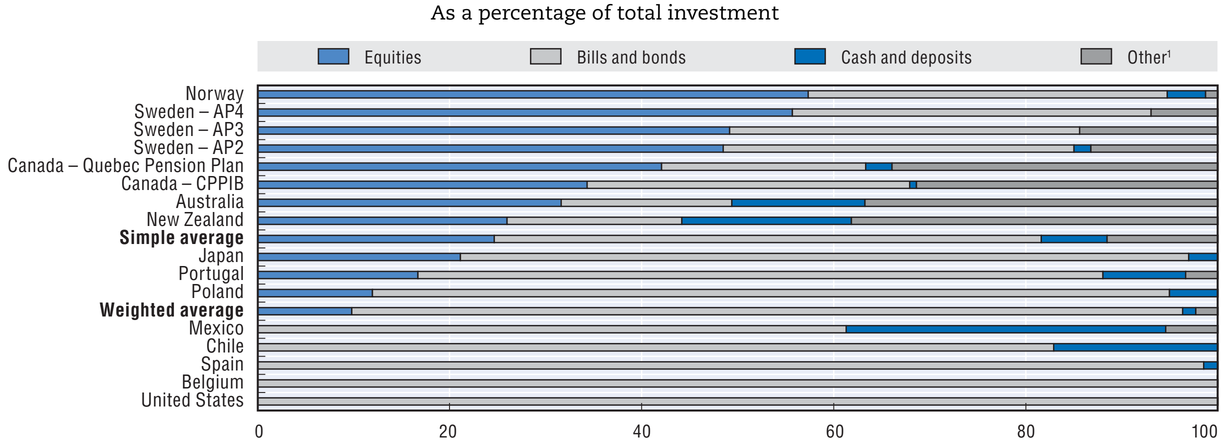
1. The "Other" category includes loans, land and buildings, unallocated insurance contracts, hedge funds, private equity funds, structured products, other mutual funds (i.e. not invested in cash, bills and bonds, shares) and other investments.

Source: OECD, Global Pension Statistics.

StatLink http://dx.doi.org/10.1787/888932908155

8.8. Public pension reserve funds' asset allocation for selected investment categories in selected OECD countries, 2011

As a percentage of total investment



1. The "Other" category includes loans, land and buildings, private equity, unlisted infrastructure investment, hedge funds, commodities, and other investments.

Source: OECD, Global Pension Statistics.

StatLink http://dx.doi.org/10.1787/888932908174

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