



VER

VALTION ELÄKERAHASTO
STATENS PENSIO NSFOND
THE STATE PENSION FUND

ASPECTS OF INVESTING IN AN UNUSUAL INTEREST RATE ENVIRONMENT

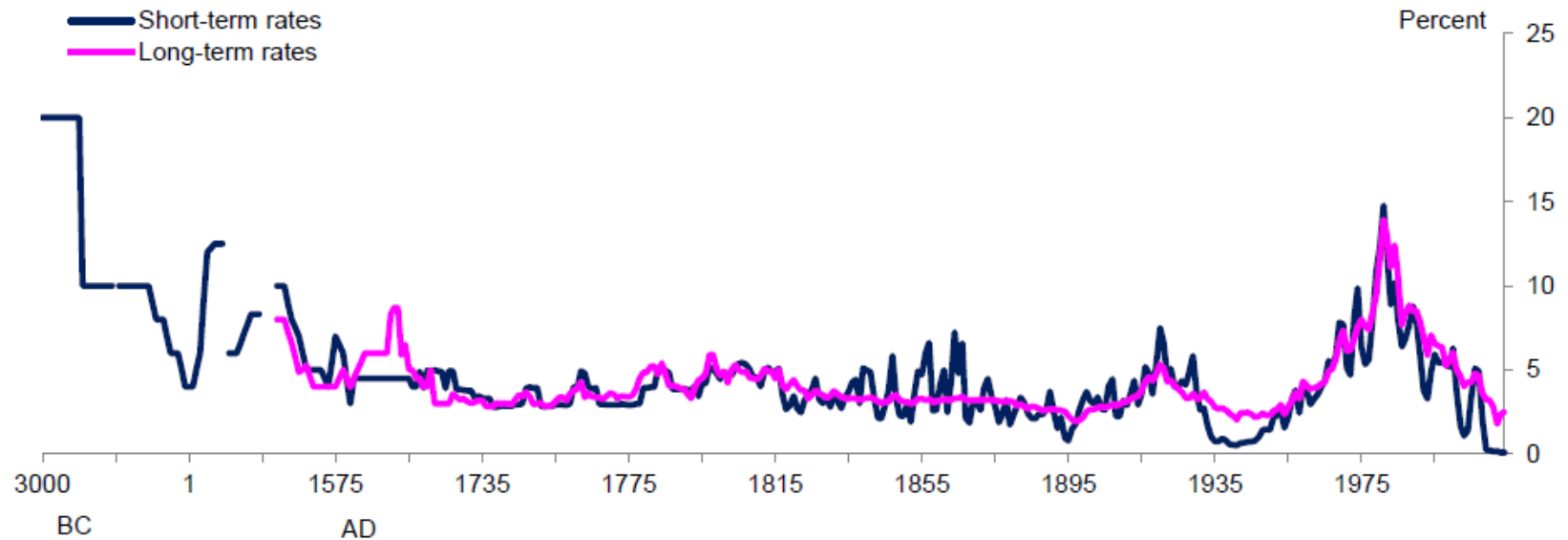
GIC / BoF 6.6.2016

CEO Timo Viherkenttä

The State Pension Fund of Finland (VER)

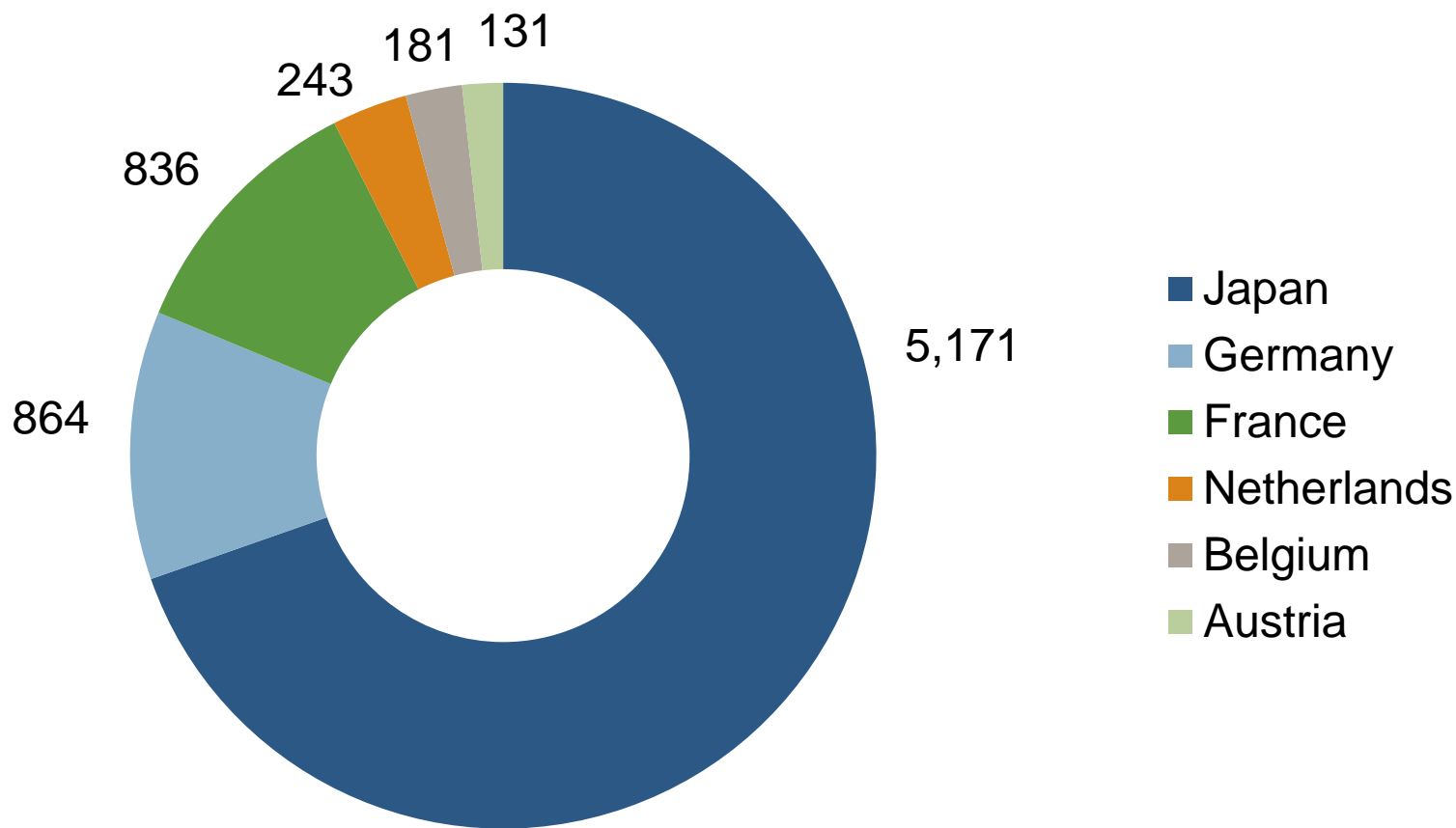
- VER is a buffer fund helping the state to finance the future pensions of government employees
- The state pension system is only partly funded, *i.e.* 19 %, with a funding ratio target of 25 %
- VER manages and invests the funded part
- The market value of VER's assets (end 2015) is 17.9 billion €

A longer perspective on interest rates



Source: Andrew Haldane, Bank of England 2015.

Negative-Rate Bonds (April 2016)



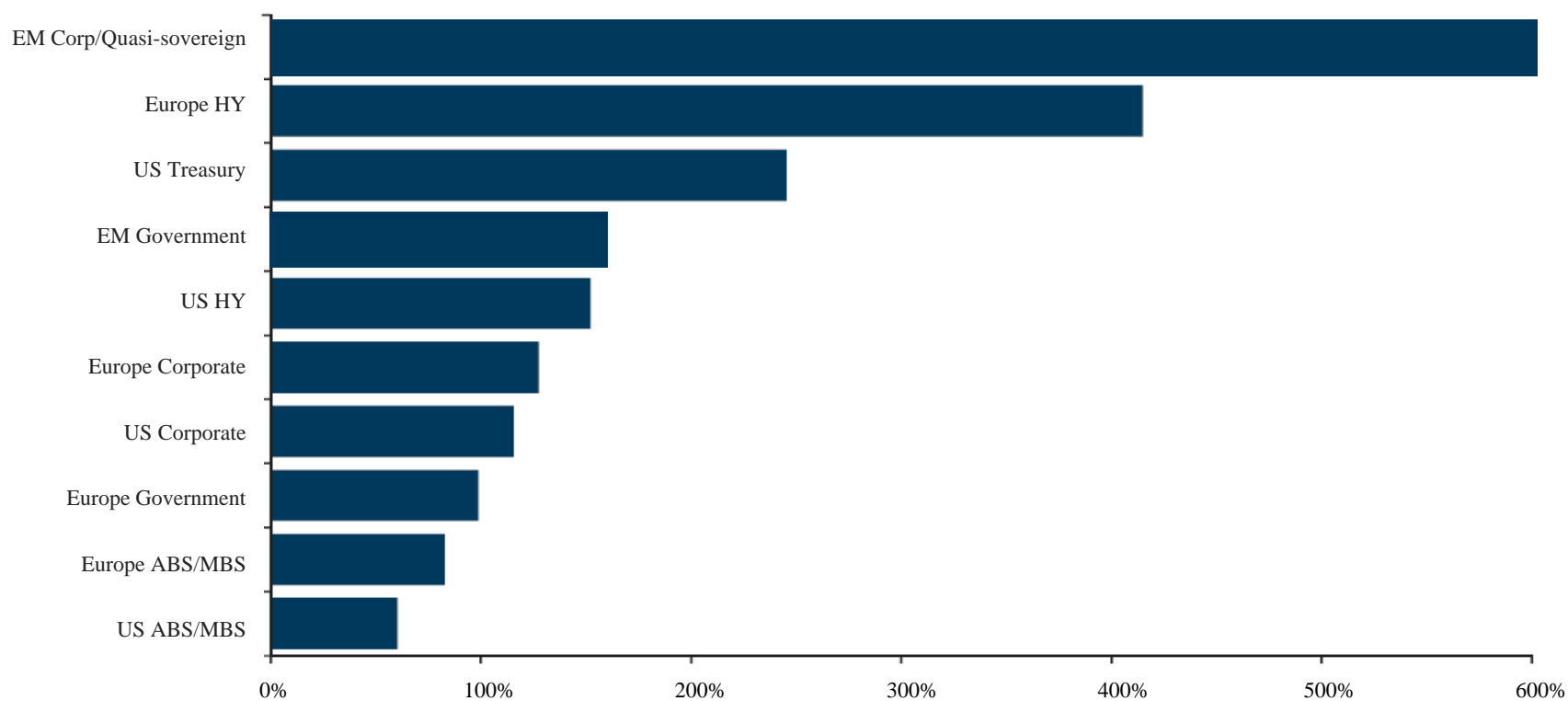
In billions of dollars

Source: Bloomberg

Unprecedented Growth of Credit Markets

Over the last ten years, EM corporate credit has grown over 600% and European HY has grown over 400%.

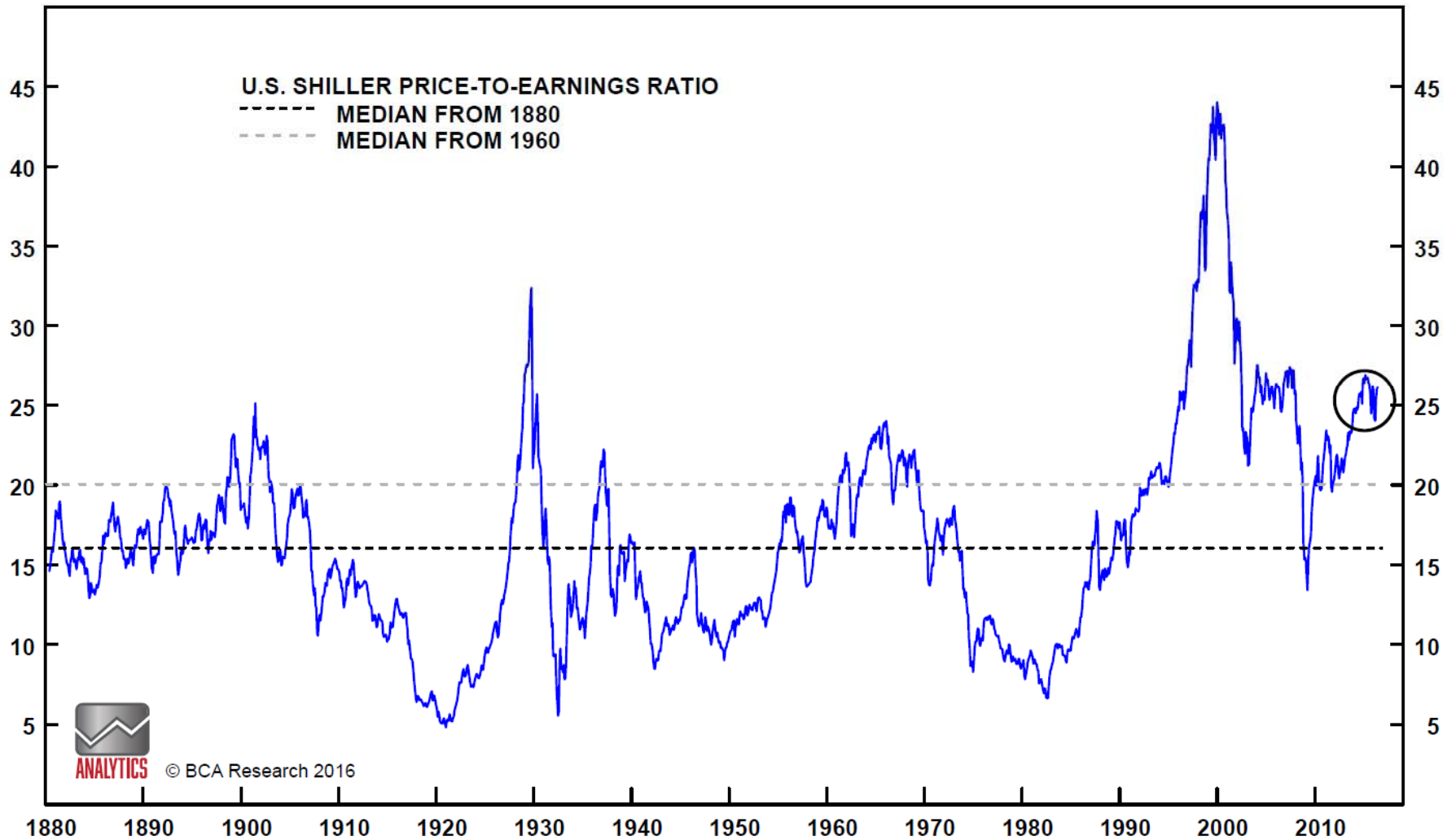
Asset Class Growth Over the Last 10 Years



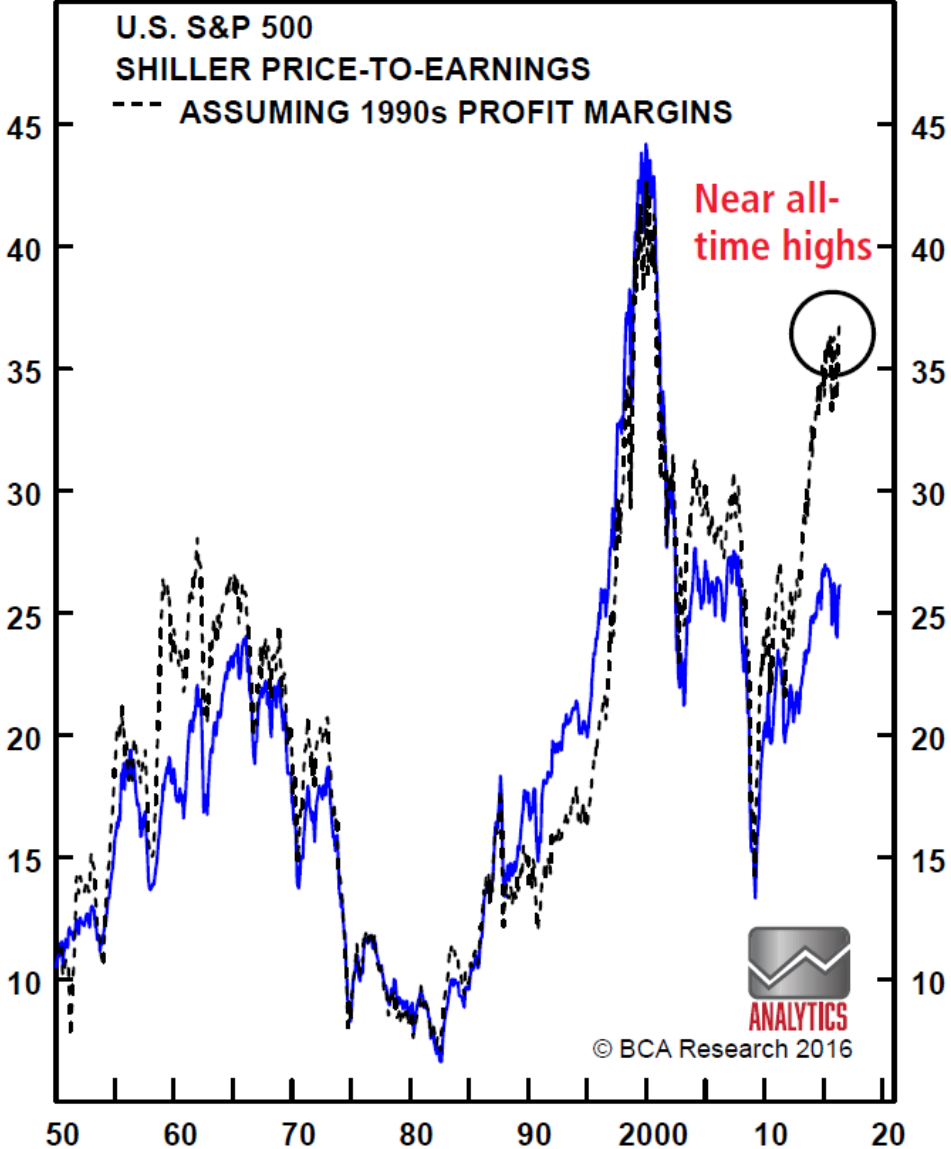
Source: "Emerging Markets Corporate Credit," Barclays, June 8, 2015.

CHART 2

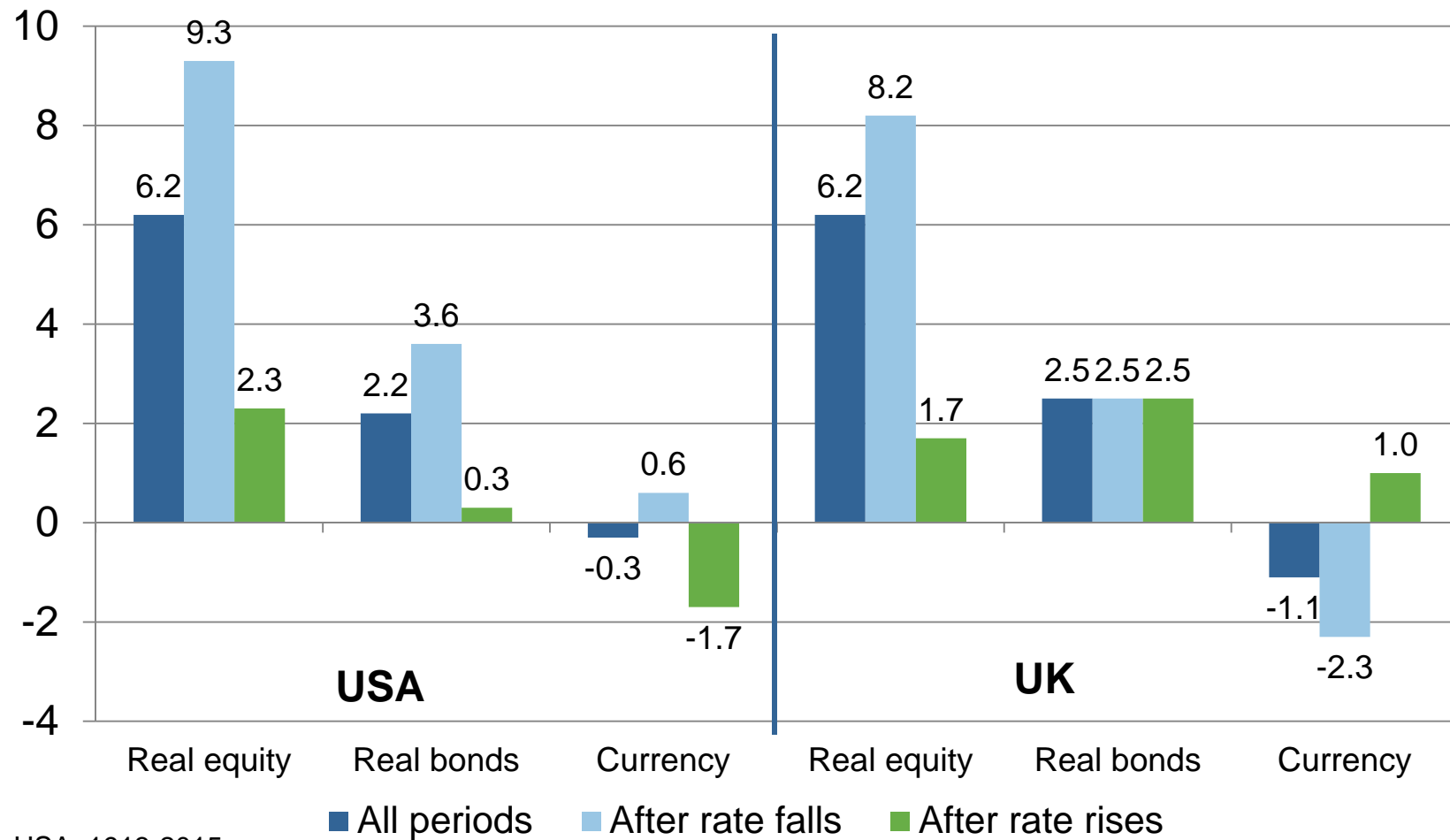
The Current Shiller P/E Ratio Is Well Above Its Historic Average



Record-High Profit Margins Have Flattered Equity Valuations



Performance of assets after rate rises and rate falls

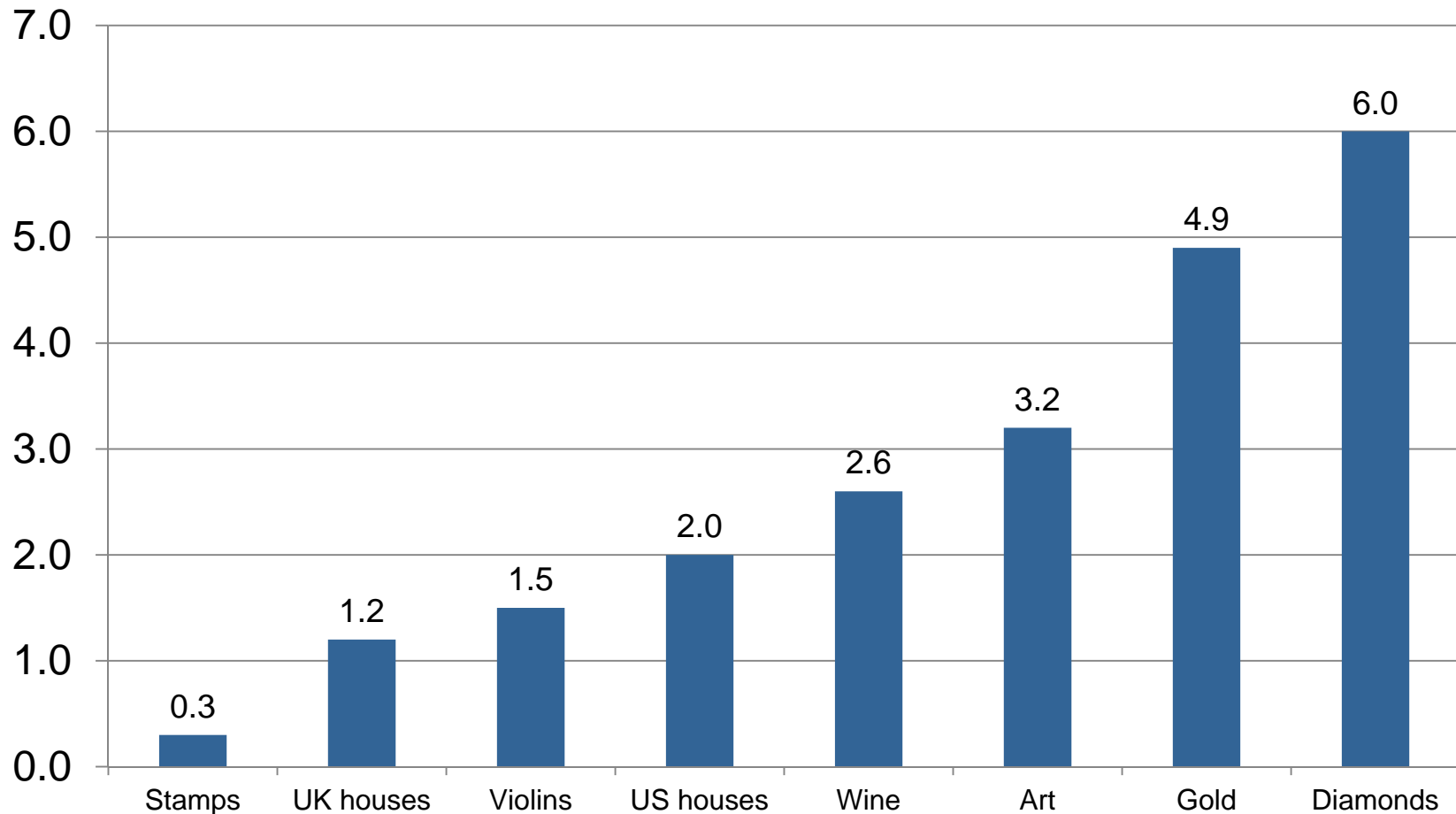


USA: 1913-2015
UK: 1930-2015

Source: Credit Suisse Global Investment Yearbook 2015 (Dimson, Marsh and Staunton)

Impact of rate changes on *real asset* returns

Annualised return in the 2 years following rate *cuts* vs. the 2 years after rate *hikes* (%)



Source: Credit Suisse Global Investment Yearbook 2015 (Dimson, Marsh and Staunton)