

DISTRIBUTION OF THE NATIONAL SWEDISH PENSION FUND'S ASSETS

Summary

SOU 2000:94
SWEDISH GOVERNMENT OFFICIAL REPORTS

Report by

Carl Johan Åberg
Ministry of Finance
103 33 Stockholm
ph. + 46 8 405 1973
carl-johan.berg@finance.ministry.se

secretary
Erik Utterström
Ministry of Finance
103 33 Stockholm
ph. + 46 8 405 28 55
erik.utterstrom@finance.ministry.se

Summary

In this report I propose how the assets of the First – Fourth National Pension Funds (AP Funds) are to be redistributed. On 29 June 2000 I submitted a progress report "Principer för fördelning av AP-fondens tillgångar" – SOU 2000:71 – (Swedish Government Official Reports - Principles for distribution of the National Swedish Pension Fund's assets). The report dealt with general principles for dividing up the assets and the transferring of SEK 155 billion to the National Debt Office as resolved by the Riksdag (Swedish Parliament). A proposal for the composition of the transfer was subsequently submitted to the government in a separate document (Fi 2000:3525) on 27 September.

Special management

In accordance with a previous resolution, the assets of the First and Second AP Funds that may not be held under the new investment rules coming into force on 1 January 2000 must be transferred for special management in the First AP Fund, where they are to remain until they mature or are disposed of in some other way. The total value of these assets, which must be separated from the other management at the end of the year, is SEK 24 billion. In my progress report of last summer I proposed that the Third and Fourth AP Funds' holdings of unlisted shares, convertible debt instruments and promissory notes with

the right of option to new subscription that are not issued for general trading should correspondingly be detached and managed separately by the Fourth AP Fund. According to the original Riksdag resolution these assets were to have been taken over by the Sixth AP Fund for a consideration. The government has subsequently proposed, in the bill "Vissa frågor om AP-fonderna" (Certain matters concerning the AP Funds - Bill 2000/2001:14) that the Act (2000:194) on the introduction of new legislation for National Pension Funds be changed mainly in accordance with my proposal. The total holding of these assets amounts to an estimated market value on 31 August 2000 of SEK 1.5 billion, which is also to be separated for special management at the end of the year. The proceeds generated from the special management – after a deduction for costs - will be divided equally among the Funds.

Distribution of the assets

The intention for the distribution of assets remaining after the transfer to the National Debt Office and the transfer of assets to special management, is that they are to be distributed proportionally between the First-Fourth AP Funds. The assets to be distributed in this way had a market value of about SEK 560 billion on 31 August 2000, of which SEK 370 billion are interest-bearing securities, about SEK 184 billion are shares and the remaining SEK 6 billion or so are property assets. Within each type of asset, however, I propose certain deviations from the proportionality principle. These deviations are the result of a joint agreement between the First-Fourth AP Funds in the form of a document addressed to the government commission (Appendix 2). I have not found any reason to oppose the Funds on this matter. In connection with the deviations from the proportionality principle the Funds must compensate each other. Such compensation is mainly provided within the type of asset that is to be distributed.

Among the interest-bearing assets it is proposed that the First AP-Fund retains its own and the Second AP-Fund's foreign holdings, which amount to about SEK 58 billion. The holdings are linked to so-called exchange hedging contracts that may not be transferred to any other party without requiring time and entailing great expense. Furthermore, the First AP Fund has a sound knowledge of the properties of these papers, while the other Funds do not as yet have experience of investments in foreign interest-bearing securities. Furthermore, it is proposed to retain certain relatively minor holdings of Swedish credit bonds with low ratings in the First AP Fund. In the division of real interest rate bonds the Funds have agreed between themselves amounts that deviate somewhat from a strictly proportional distribution. For the foreign holdings the First AP Fund will compensate other Funds with holdings of Swedish interest-bearing government bonds and with short-term securities consisting of treasury discount notes and housing securities maturing within the first quarter of 2001.

For shares, a proportional division is proposed, with the exception of a lower limit for holdings that are too small to divide. For Swedish shares it is proposed that this limit should be SEK 50 million and for foreign shares SEK 20 million. Compensation for the assets that are not distributed shall be paid either in cash (if the amount is less than SEK 300 million) or in the form of an extra allotment of the three largest shareholdings. The proposed date of the valuation of the assets is 29 December 2000.

It is proposed to divide the real estate assets equally between the Funds, with the exception of the First AP Fund's office property.

Summary of the distribution proposal

As already emphasised in the Commission's report this summer (Swedish Government Official Reports SOU 2000:71, page 31)

both my distribution proposals and the government's decision on the matter will be made before the exact composition of the Funds' assets is known.

What are known and available at present are the balances at the close of the second four-month period of 2000. On the basis of this information and applying the principles and exceptions to these that have been described above, a provisional distribution has been made of the remaining assets after the transfer to the National Debt Office. This is presented in the table below:

Summary of the AP Funds' assets on 1 January 2000 after transfer to the National Debt Office and after separation of assets to wind-up up portfolios. In SEK billions and values as at 31 August 2000.

| Type of asset | AP 1-4 | AP 1 | AP 2 | AP 3 | AP 4 |
|---|--------------|--------------|--------------|--------------|--------------|
| <i>Total interest-bearing SEK</i> | <i>313.3</i> | <i>36.8</i> | <i>92.1</i> | <i>92.2</i> | <i>92.3</i> |
| of which nominal bonds in SEK ¹ | 181.1 | 17.1 | 54.0 | 54.8 | 55.2 |
| of which real bonds | 40.6 | 12.7 | 10.1 | 9.1 | 8.7 |
| of which money market instruments | 46.0 | 4.2 | 13.7 | 14.0 | 14.1 |
| <i>Total foreign interest-bearing securities and compensation</i> | <i>56.1</i> | <i>56.1</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> |
| <i>Total shares²</i> | <i>184.0</i> | <i>46.0</i> | <i>45.8</i> | <i>45.8</i> | <i>46.3</i> |
| of which shares SEK | 164.3 | 41.1 | 41.1 | 41.1 | 41.1 |
| of which foreign shares ³ | 19.0 | 4.8 | 4.8 | 4.8 | 4.8 |
| <i>Total real property</i> | <i>6.5</i> | <i>1.9</i> | <i>1.6</i> | <i>1.6</i> | <i>1.6</i> |
| Wind-up portfolios ⁴ | 26 | - | - | - | - |
| <i>Total market value of the new portfolios</i> | <i>585.9</i> | <i>140.0</i> | <i>140.0</i> | <i>140.0</i> | <i>140.0</i> |

1 AP 1 will receive a smaller share because the foreign portfolio is not distributed

2 The value of the share portfolio will vary between the funds as a consequence of the lowest limit for distribution

3 Foreign shares are qualified here under the present rules. Some holdings that at present are Swedish will be classified as foreign when the new rules come into force at the end of the year.

4 The assets are managed in the First and Fourth AP Funds respectively. The return is distributed equally between the funds after a deduction for costs.

The technical implementation

In the autumn preparations will be made so that the distribution can take place as smoothly as possible. The distribution will take place so that the distributable assets will be collected in a "virtual" portfolio specification and thereafter divided up in accordance with the criteria laid down. The main part of the assets is thus expected to be possible to divide between the Funds already on the first working day of the New Year. At the same time as the division of assets takes place, the transfer of the SEK 155 billion to the National Debt Office will be made.

The responsibility for ensuring that both the division and redistribution take place without complication and with a high level of security lies with the offices of the four funds. Despite this, a special function may be needed whose task it will be to ensure that the implementation takes place in accordance with the government's decision and, where necessary, to deal with problems arising. On 19 October 2000 the government resolved to prolong my mandate as investigator until 31 March 2001, with the task of assisting in the implementation of the government's decision as well as where necessary making decisions referring to this implementation. Questions of principle must be referred to the government.