

MANAGEMENT OF STATE-FUNDED PENSION SCHEME ASSETS

GENERAL INFORMATION

On 31 December 2009 the assets of the State-funded pension scheme (second-tier of pension scheme) were managed by 10 investment management companies that offered 27 investment plans.

STATE-FUNDED PENSION SCHEME PARTICIPANTS

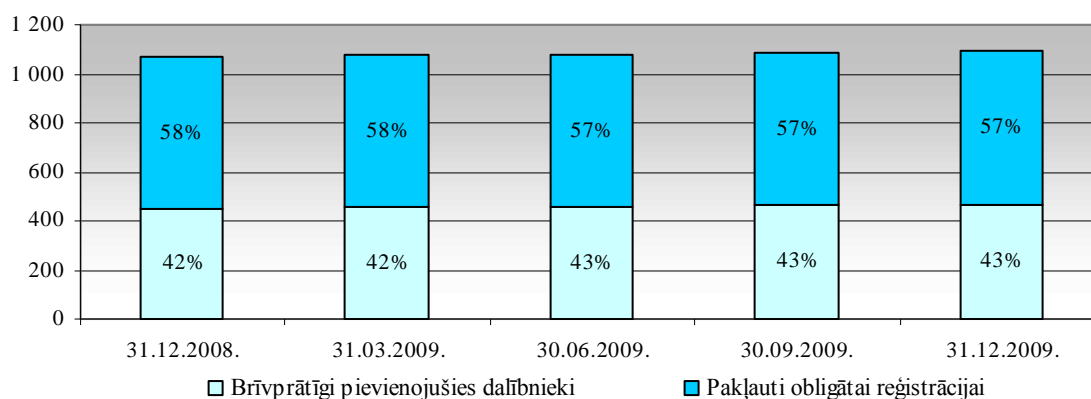
By 31 December 2009, 1,096,007¹ participants or 94.3% of Latvia's economically active population² had joined the second-tier of State pension scheme.

Of total participants of the State-funded pension scheme, 627,292 or 57% had joined the scheme on a compulsory basis³, while 468,715 participants or 43% had joined the scheme voluntarily (see Figure 1).

Figure 1

STRUCTURE OF STATE-FUNDED PENSION SCHEME PARTICIPANTS

(number at end period; thousand)



In 2009, 248,995 participants of State-funded pension scheme (22.7% of total State-funded scheme participants) had switched their investment plans.

STATE-FUNDED PENSION SCHEME ASSETS

At end-2009 the volume of net investment plan assets in the State-funded pension scheme grew by 51.9% compared to end-2008 and totalled 704 million lats.

Stabilization of the global financial market had a positive impact on the activities of the State-funded pension scheme investment plans. The average return on State-funded pension scheme investment plans⁴ in 2009 was 12.3% (compared to -11.5% at end-2008), for several investment plans ranging between 4.8% and 20.8% (from -24.5% to 7.4% in comparison with 31 December 2008) (see Table 1). State-funded pension investment plan performance depends on the type of the respective investment plan (conservative, balanced or active). The assets of conservative plans were mostly placed in low risk assets, and their return on investment plans was 9.0%, on average, while performance of balanced and active investment plans depended on the

¹ Hereinafter the data collected by the State Social Insurance Agency on the State-funded pension scheme participants.

² Data from the Central Statistics Board www.csb.lv.

³ All persons born after 1 July 1971 and registered for state pension insurance are registered by the State Social Insurance Agency as scheme participants on a compulsory basis.

⁴ Return on investment plans - the ratio of changes in an investment plan unit within the period to its value at the beginning of the period, expressed in annual percentage.

fluctuations in the financial market, and therefore average return on investment plans was 9.7% and 13.3%.

Table 1

**REKDOWN OF STATE FUNDED PENSION ASSETS PER INVESTMENT PLAN
ACCORDING TO WEIGHTED AVERAGE YIELD OF INVESTMENT PLANS**

Type of investment plan	31.12.2008			31.12.2009		
	Weighted average yield, annually (%)	Number of plans	Market share (% of total assets)	Weighted average yield, annually (%)	Number of plans	Market share (% of total assets)
Conservative	-7.8 – 7.4	10	18.3	4.8 – 13.4	10	24.8
Balanced	-9.9 – -0.79	4	8.0	10.0 – 12.2	4	8.6
Active	-24.5 – -0.2	13	73.7	7.4 – 20.8	13	67.5

Investment plan management expenses are comprised of remuneration to the asset manager⁵, remuneration to the custodian bank⁶ and other investment plan management expenses⁷. In 2009, 1.5% of average investment plan net assets were used for investment plan management as from the beginning of the year), of which 1.1%, were used for conservative investment plans, as well as 1.6% for balanced investment plans and 1.6% - for active investment plans.

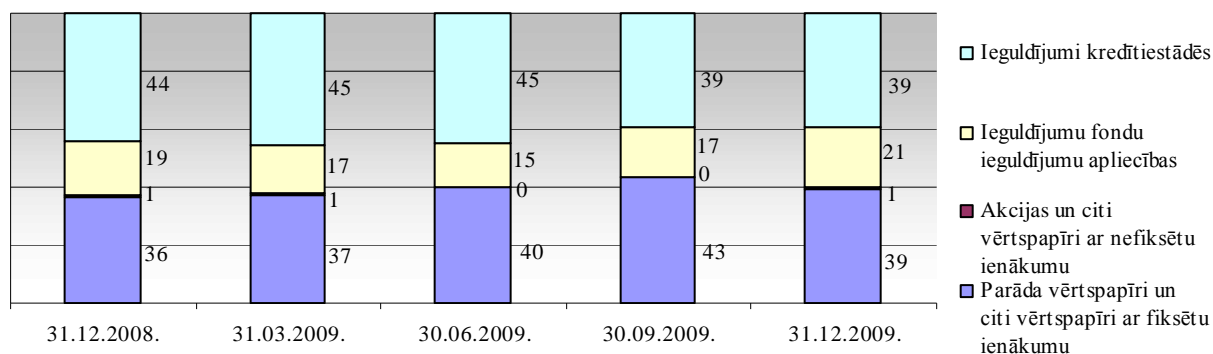
The volume of financial investments of the State-funded pension scheme's investment plans on 31 December 2009 had grown to 709 million lats and was by 52.9% up from 31 December 2008.

No material changes were observed in investment structure over the year, it has retained the level of previous accounting periods – major investments were made in debt securities and other fixed income securities, 279 million lats, as well as investments in credit institutions, 277 million lats, or 39.4% and 39.1%, respectively, as compared to 31 December 2008 investments in debt securities and other fixed income securities grew by 3.1% percentage points, while investments in credit institutions shrank by 5.1% points. Meanwhile investments in investment fund certificates grew by 2.1 percentage points, totalling 148 million lats, or 20.9% of total investments (see Figure 2).

Figure 2

STRUCTURE OF STATE-FUNDED PENSION SCHEME INVESTMENTS

(as a percentage)



⁵ Commission due to the asset manager under the management agreement.

⁶ Commission due to the custodian bank under the management agreement and custodian bank agreement.

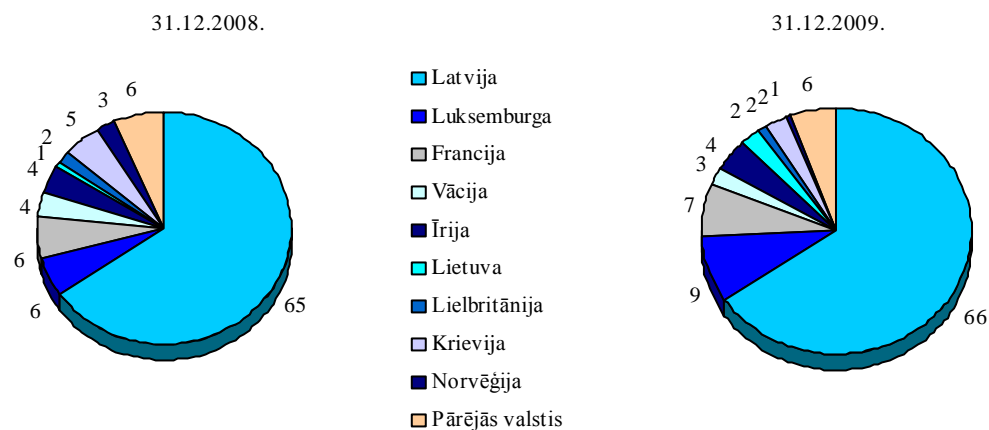
⁷ Remuneration due to auditors as well as other investment plans management expenses.

On 31 December 2009 the share of investments in Latvia made up 65.6% of total investments, or 465.6 million lats, whereas 243.9 million lats were invested in 32 more countries, as well as in international financial institutions (see Figure 3). Of total foreign investments, 95.4% were placed in the European Union states.

Figure 3

GEOGRAPHICAL BREAKDOWN OF STATE-FUNDED PENSION ASSETS⁸

(as a percentage)



⁸ Securities (incl. investment certificates of investment funds) are classified according to the country of origin (registration) of the issuer of securities.