



BANK OF FINLAND BULLETIN

BANK OF FINLAND ARTICLES ON THE ECONOMY

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11 SEP 2020 2:30 PM • BANK OF FINLAND BULLETIN 4/2020 • MONETARY POLICY



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The Bank of Finland manages financial assets worth EUR 11 billion, which consists of the foreign reserves, euro-denominated fixed-income assets, equity and property funds, and gold. The bulk of the financial assets comprise fixed-income holdings that follow an active investment strategy against benchmark indices. The central bank's core activities and fulfilment of the central bank's obligations lay the foundation for responsible financial asset management. The Bank of Finland has had responsible investment practices in place for several years and is committed to developing responsible investment activities on an ongoing basis. The Bank of Finland signed the UN Principles for Responsible Investment in December 2019.



The decisions on the management of the Bank of Finland's own financial assets are taken at the Bank of Finland and they are governed by the objectives of the central bank: *within the constraints of security and liquidity, the Bank of Finland's asset management aims for the best possible return.* The Bank of Finland's investment activities are designed to secure the value of its financial assets and ensure its ability to underpin the liquidity of the banking system and the economy. In addition, investment operations are governed by risk and sustainability aspects. Financial asset management is the responsibility of the Bank's Market Operations Department, where portfolio managers take individual investment decisions. Management of the Bank of Finland's

own financial assets has been separated from the implementation of monetary policy purchase programmes and refinancing operations.

At the end of June 2020, the value of the Bank of Finland's own financial assets was a little over EUR 11 billion. The majority (nearly EUR 7 billion) of the financial assets are fixed income assets, but the Bank of Finland has also holdings in equity and property funds. In addition, the financial assets comprise gold and Special Drawing Rights (SDR), but they have not been subject to investment activities in recent years.

Table 1.

The Bank of Finland's financial assets

	30 June 2020
	EUR mn
Gold	2,489
Foreign reserves	6,638
SDR	540
USD-denominated fixed-income assets	4,588
GBP-denominated fixed-income assets	719
JPY-denominated fixed-income assets	791
Euro-denominated fixed income asset portfolio	754
Equity funds	1,018
Property funds	118
Total	11,017

The Bank of Finland's fixed-income portfolios are managed in accordance with the investment policy decided annually by the Board of the Bank of Finland. The investment policy sets a strategic allocation for each asset category and determines an appropriate level of interest rate risk for each currency. On the basis of the risk limits applied to the fixed income asset portfolio, strategic market-based indices are designed for use as benchmark indices for fixed income investments. Portfolio managers make direct fixed income investments, seeking to obtain additional return by diverging from the strategic asset allocation and exceeding the return of benchmark indices. In addition to risk management restrictions and investment objectives investment decisions, the portfolio managers' market views and the market situation as well as sustainability aspects have a bearing on investment decisions.

At the end of June 2020, the fixed income portfolios comprised sovereign bonds and

central bank deposits (52.1%), supranational or government-related bonds (20.9%), collateralised covered bonds issued by credit institutions (6.8%), corporate bonds (19.3%), and cash instruments (0.9%). Of these fixed income assets, 61.3% were held in AAA– and AA+ rated bonds, with the lowest official credit rating being BBB– (0.7%). In addition, EUR 642.6 million was invested in debt securities issued by unrated companies. The average duration, measuring the interest rate risk of the fixed-income portfolio, was around 2 years at the end of June^[1].

Table 2.

Allocation of the Bank of Finland's fixed-income asset portfolio	
Fixed-income portfolios	30 June 2020 (%)
Government bonds and central bank deposits	52.1
Government-related bonds	20.9
Covered bonds	6.8
Corporate bonds	19.3
Cash holdings	0.9
Total	100

In addition to its fixed income portfolios, the Bank of Finland manages a long-term investment portfolio, which has lower liquidity requirements and a higher expected return compared to other portfolios. At the end of June 2020, the long-term investment portfolio consisted of equity and property holdings. The equity portfolio amounted to EUR 1,018 million and the property portfolio to EUR 118 million at 30 June 2016. Portfolio managers do not invest directly in equities or properties but investments are made via funds. The Bank of Finland has diversified its equities portfolio into exchange-rated funds (ETF) that invest in global developed markets. Its real-estate investments are diversified across a number of European funds. Each fund owns property in desirable locations, which makes the properties easy to rent and ensures a steady long-term return.

Greater focus on investment responsibility as investments expand into new asset categories

The central bank's core functions and fulfilment of the central bank's obligations lay the foundation for responsible financial asset management. Greater focus has been placed, however, on investment responsibility, both over time and with the expansion of

1. Excluding the investments in domestic commercial papers made as of March 2020.

investment activities into new asset categories. Traditionally, the Bank of Finland invests primarily in government bonds. In response to the changeover to the euro, investments have expanded to cover corporate bonds and, subsequently, equities and properties. With the new asset classes, all aspects of sustainability have been integrated into investment decisions. Responsible investment generally means the appropriate recognition of environmental and social and corporate governance issues in investment practices. By signing the UN Principles for Responsible Investment (PRI) in December 2019, the Bank of Finland publicly committed itself to incorporating these factors into its investment decisions as well as ownership policies and practices.

With the signing of the PRI, in the management of its financial assets the Bank of Finland committed itself to sustainability, to the active development of responsible investment activities and to providing annual progress reports on this. Among central banks, very few have signed the UN PRI. That said, other central banks have also stepped up their involvement in this issue and consider incorporation of the different aspects of sustainability into investment activities important. Several central banks, e.g. de Nederlandsche Bank and Banque de France, have made considerable progress in integrating sustainability into their investment activities.

Responsible investment practices in place at the Bank of Finland for several years

The Bank of Finland has had responsible investment practices in place for several years. This approach has been based both on thoughts of how to avoid investing in the debt securities of issuers that raise concern from the sustainability perspective and of how to do good with investments in our own investment environment. The Bank has set up its own working group on responsible investment, which convenes regularly to discuss issues of responsible investment and the Bank of Finland's investments from a sustainability perspective. In practice, all portfolio managers engage in responsible investment activities as the Bank of Finland's responsible investment strategy is applied in all investment decisions.

As regards fixed-income investments, all issuers of corporate bonds and covered bonds are expected to comply with international standards. This means in practice that the Bank of Finland only invests in the debt instruments of issuers that comply with the principles of corporate sustainability defined in the United Nations Global Compact. The principles are derived from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. The Bank of Finland, moreover, does not make direct fixed-income investments in companies who deal in weapons prohibited by international conventions. The Bank employs an external analysis services provider to help identify issuers that are in breach of the standards. On a quarterly basis, the working group on responsible investment takes decisions on issuers to be excluded from its investment activities. Portfolio managers have continuous access, however, to the external service provider's timely information and analysis on breaches of standards to support its investment decisions.

As part of its responsible investment activities, the Bank of Finland makes investments in green bonds issued to fund environmental projects and in bonds issued to promote social and sustainability projects. In addition, the Bank of Finland is a major investor in bonds issued by development banks, i.e. national or international consortia that provide funding and expertise to development projects.

In the case of equity and property fund investments, the selection of funds and fund managers plays a key role in the implementation of the responsible investment strategy. Only actors who are strongly committed to sustainability and the promotion of their own practices in terms of both corporate responsibility and the sustainability of the fund qualify as fund managers. The Bank of Finland also expects fund management companies to pursue an active ownership strategy and exert influence on the companies they invest in, so that sustainability aspects are fully taken into account. The performance of the funds of the portfolio is monitored on a regular basis and an active dialogue is maintained with fund managers. Achievement of the sustainability objectives of property funds is monitored, as are the sustainability measures of the funds relative to similar funds.

The Bank of Finland endeavours to be an active promoter of sustainability

In addition to maintaining responsible practices in the investment of its own financial assets, the Bank of Finland endeavours to be an active player in sustainability issues within the Eurosystem and on various fora, internationally. The Bank of Finland is a member of the Network for Greening the Financial System (NGFS), a global forum formed by central banks and supervisors, thus contributing to the debate on green finance and cooperating with other authorities and financial sector participants. The NGFS plays a key role in formulating consistent definitions and promoting the dialogue. In 2019, it published recommendations encouraging central banks to recognise sustainability factors in the management of their own financial assets.

Climate change has also become one of the main issues to be considered in responsible investment. By analysing the effects of climate change, new types of risks and opportunities can be identified in the asset portfolio. The Bank of Finland's sustainability programme, published in December 2019, also emphasises the promotion of sustainable growth and wellbeing, exerting influence via information and cooperation as well as management of climate risks, which will also be reflected in the design and development of the Bank of Finland's responsible investment strategy. The Bank of Finland's activities will in future be governed more by aspects of sustainability. This is an area considered to be extremely important, and additional resources have therefore been allocated to it. In July, the Bank recruited a Principal Sustainability Specialist, which demonstrates the Bank's will and commitment to devote resources to continuous development of responsible investment activities.

Tags

[coronavirus](#), [financial asset management](#), [responsible investment](#), [sustainability](#)

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