

Timo Löyttyniemi

The Institutional Investor and the Waves of the Market

Blogs from 2020-2025



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Texts have been published as VER blogs and part of VER annual reviews during 2020-2025.
Source: https://www.ver.fi/en-US/Publications/VERs_blog

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Kannen suunnittelu: Timo Löyttyniemi
Sisuksen taitto: Timo Löyttyniemi, Reija Löyttyniemi
Kustantaja: BoD · Books on Demand,
Mannerheimintie 12 B, 00100 Helsinki, bod@bod.fi
Kirjapaino: Libri Plureos GmbH, Friedensallee 273,
22763 Hampuri, Saksa

ISBN: 978-952-80-7525-7



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Foreword

This volume brings together my VER blog posts written during my tenure as CEO of VER over a five-year period. In total, there are approximately fifty entries. They reflect both individual events and phenomena in the investment markets, as well as key strategic themes relevant to institutional investors. In addition, they address current trends and topics related to pension investing and pension markets.

The period from 2020 to 2025 encompassed several crises that shook global investment and financial markets. Each crisis created its own storm at the time, but markets eventually recovered from them:

- The Covid-19 crisis disrupted financial markets unexpectedly in early 2020.
- The rise in interest rates during 2021–2022 created a challenging investment environment.
- Energy companies faced liquidity shortages and derivatives exchanges struggled with insufficient collateral.
- UK pension funds suffered from a sudden surge in interest rates triggered by domestic policy.
- US regional banks incurred losses in the bond markets.
- Credit Suisse ran into severe difficulties in Switzerland.

For a pension investor, the investment universe encompasses the entire world and everything within it. At any given moment, certain developments become particularly relevant. Surprises are part of daily life in the investment markets, and probabilities often describe the future and reality more accurately than forecasts. Nevertheless, over the long term, many forecasts eventually materialize.

Russia's invasion of Ukraine threatened the global order and, in concrete terms, deepened divisions between countries and geopolitical blocs. Other conflicts and

natural disasters also made their presence felt, causing temporary corrections in equity markets. All this unfolded within a short span of time. The blog entries in this book explore many of these events using the concepts and analyses available at the time.

The blogs also discuss the transformation of pension systems in Europe and Finland. In many countries, systems are being reformed and modernized. Pension systems differ significantly from one country to another—and even within a single country, multiple parallel systems may exist. Therefore, direct comparisons are difficult. However, these experiences provide valuable insights for policymakers seeking to improve their own national systems. A common thread running through these developments is the transfer of investment risk to individuals, alongside growing recognition of the advantages of collective arrangements.

For institutional investors, the economic environment is an ever-present factor. The blogs examine issues such as economic growth and central bank policy rates. The period was characterized by a “zero-rate” environment in which as much as USD 17 trillion in government bonds carried negative yields. This abnormal situation changed as inflation surged, leading to a sharp increase in interest rates and a shift from ultra-loose to tight monetary policy between 2021 and 2023. Thereafter, from late 2023 onward, markets began anticipating a gradual easing of rate policy.

The work of an institutional investor is systematic and probability-based investing, where return expectations and their realizations are the main drivers, and risk management forms an integral part of both investment activity and its governance. Often, achieving a sufficiently good outcome is more important than striving for the best possible one. In fact, the pursuit of perfection can easily become the enemy of the good. Reaching for the absolute best would imply taking excessive risks, dependent on chance and isolated successes—which can just as easily turn into losses. In investment markets, risks and losses are a daily threat, yet as long as expected returns materialize over the long term, these risks do not hinder disciplined, well-planned investing.

Investment work frequently prompts reflection on the meanings and nuances of various concepts: investment beliefs, return assumptions, return expectations, forecasts, and realized returns. These are terms investors must employ when articulating their perspective on the future. In several blog posts, these concepts are used deliberately to highlight their distinctions.

This book brings together around fifty blog posts written in my role as the CEO of the State Pension Fund (Finland). The texts capture both everyday realities and extraordinary disruptions in the investment markets, while also reflecting on the strategic themes of institutional investing. They offer readers a unique perspective on how a pension fund views global events and their impact on financial markets.

The years 2020-2025 were marked by turbulence: the Covid19 crisis shook markets, rapid interest rate hikes challenged investors, energy companies and derivatives exchanges faced liquidity shortages, and several banks, including Credit Suisse, ran into serious difficulties. At the same time, geopolitical tensions such as Russia's war in Ukraine reshaped global alignments and directly influenced market dynamics.

Yet the book is not only about crises. It also highlights recovery, resilience, and the long-term logic of investing. Surprises are part of daily life in the financial world, but probabilities and long-term forecasts support that the system endures. Through these blogs, readers can follow how global events intertwine with the work of a pension investor and how analysis is formed in real time, based on the knowledge available at each moment.

Author

Timo Löyttyniemi

The writer of the blog texts is Timo Löyttyniemi. Löyttyniemi has served as the CEO of the State Pension Fund (VER) from 2003 until early 2026 when he retired. During 2015-2020 he was in Brussels as a Vice Chair for the Single Resolution Board and absent of leave from VER. Earlier in his career during 1987-2003 he worked in various roles in investment banking and investments in banks and investment companies. He has also served in number of boards and investment committees. Dr Löyttyniemi is Professor of Practice at Aalto University School of Business.

