

Dutch pension funds keep adding to mortgage portfolios

Dutch pension funds poured billions of euros more into mortgages in 2021. The asset class is still seen as more attractive than government or corporate bonds, according to mortgage funds.

These funds have all seen additional investments from pension funds, in addition to regular re-investments of interest income and payments of monthly instalments.

DMFCO, which runs the mortgage label Munt Hypotheken, received some €7bn in additional funding, increasing its total assets under management to €23bn. Some €3bn of this money originated from Dutch pension funds.

Aegon Asset Management's second mortgage fund grew even faster, by €5bn to €12bn, with a third of the new money coming from pension funds.

Syntrus Achmea's Private Mortgage Fund saw €1.5bn of new money flowing in, 95% of which came from pension funds. The recent rise in interest rates has not dented appetite: earlier this month Syntrus Achmea announced a new €80m mandate from Provisum pension fund, which manages the pension assets of retailer C&A and its founding family. It was Provisum's first venture into mortgages.

According to figures from regulator DNB, Dutch pension fund investments in mortgages totalled some €75bn at the end of September 2021, up from €56bn three years earlier. Mortgage investments now account for over 4% of total pension assets under management.

Attractive spreads

The rise came despite the spreads on mortgages (compared to the swap rate) coming down from 2% to 1.4% in the meantime. However, spreads remain attractive compared to those on corporate and government bonds.

"This is why pension funds prefer mortgages," said Frank Meijer, a fund manager at Aegon. "The spread on a mortgage with a 20-year duration was around 1.75% higher than the spread on a comparable Dutch government bond, even though credit risk is not materially higher."

He added: "The reason for the spread difference is the ECB, which buys government and corporate bonds but no mortgages."

Contrasting the losses pension funds suffered on their bond portfolios, Aegon's mortgage fund made a return of 2.6%, comprising of 2% in interest income and 0.6% in spread compression.

The loan-to-value ratios of Dutch mortgage portfolios are also coming down thanks to the steep increases in house prices over the past few years.

Meijersaid: “In our fund it currently stands at 65%, down from 75-80% two years ago. This had reduced risk for our mortgage pool. Something really significant should happen, such as a housing market crash, for us to incur any losses.”

Rising rates

Interests rates have been creeping up since the start of the year, but this hasn't dented pension funds' appetite for the asset class. This year, DMFCO, Syntrus Achmea and Aegon all received extra funding from pension funds already.

Meijer expects interest rates to continue rising. “Reasons for this include the ECB winding down its asset purchasing programme and higher wage demands in Europe because of the tight labour market. Higher interest rates tend to directly translate into higher mortgage rates.”

The higher rates are not an immediate threat to the creditworthiness of existing mortgages, he added. “Most mortgage financed by pension funds have fixed interest rates for 20- to 30-year periods. An interest rate rise tends not to lead to payment problems.”

The higher interest rates do, however, translate into losses on the value of mortgage portfolios. Aegon's mortgages declined 1% in value in January alone, although this loss was mitigated somewhat by a 0.15% return in interest.

“This is not much of a problem for pension funds, because their liabilities are probably coming down by more because of the rising interest rates,” commented Meijer.