

Swedbank Pension Fund K1 (Conservative Strategy)

September 30, 2013

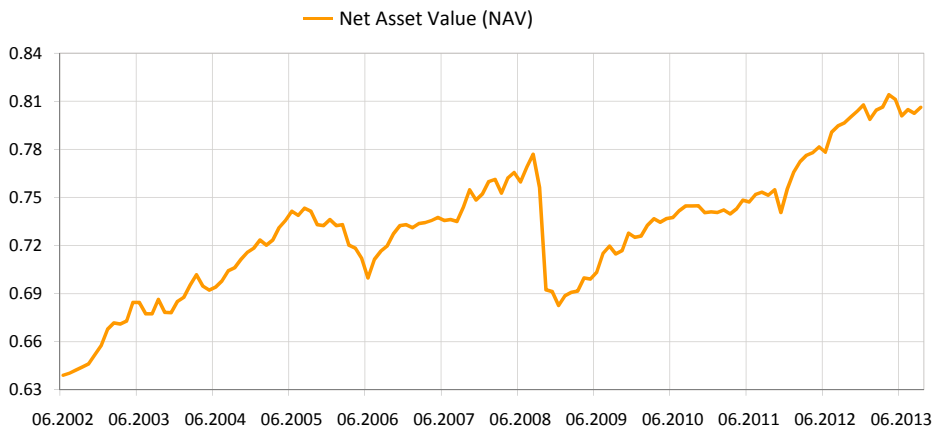
Investment Principles

Swedbank Pension Fund K1 (Conservative Strategy) is a contractual investment fund founded for providing mandatory funded pension. The objective of the Fund is a long-term growth of the value of the Fund's assets by means of investing 100% of the assets in bonds, money market instruments, deposits, investment funds, which assets may be invested in the above securities and deposits, and other similar assets. The Fund invests neither in equities and immovables nor respective investment funds.

General information

Fund Management Company	Swedbank Investeerimisfondid AS
Fund Manager	Katrin Rahe
Inception	2002
Net Asset Value (NAV)	0.80617 EUR
Net Assets	45 155 219 EUR
Weighted average rating	A
Weighted average modified duration, years	6.8
Management Fee per annum	0.90%
Subscription Fee	0.0%
Redemption Fee	1.0%

Fund performance*



	YTD	1 month	3 months	1 year	2 years	3 years	5 years	Inception
Performance* Annualized	-0.2%	0.5%	0.7%	1.2%	7.3%	8.2%	6.6%	26.1%
				1.2%	3.6%	2.7%	1.3%	2.1%
Performance*	2005	2006	2007	2008	2009	2010	2011	2012
	2.5%	-0.4%	2.6%	-9.3%	6.2%	2.2%	1.9%	6.9%

Largest investments TOP 10

Portfolio	Weight
Enel Finance EUR 5% 14.09.2022	3.3%
Rabobank EUR 3.875% 20.04.2016	3.1%
Deposiit - Pohjola Bank Plc Eesti filiaal (EUR) - 30/360	2.9%
Deposiit - Swedbank AS (EUR)	2.2%
Deposiit - Danske Bank A/S Eesti filiaal (EUR)	2.2%
Barclays Bank EUR 4% 20.01.2017	2.1%
ING Group EUR 3.375% 03.03.2015	2.0%
Deposiit - Bank DNB A/S Eesti filiaal (EUR)	2.0%
Volkswagen International Finance EUR 1.875% 15.05.17	1.9%
BNP Paribas EUR 3.75% 25.11.2020	1.9%

Risk level

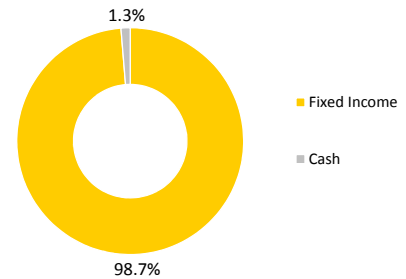
Lower risk ←————→ Higher risk
Typically lower rewards Typically higher rewards



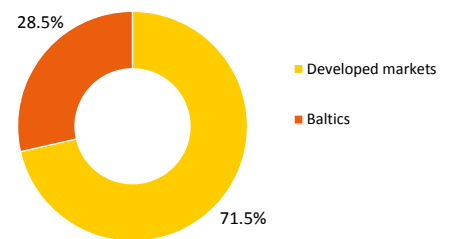
The categories specified in the risk scale are based on the fluctuation of the value of the Fund's assets during the last five years.

Standard deviation of returns (over the last 3 years) 2.6%

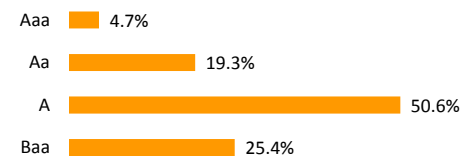
Portfolio by instruments



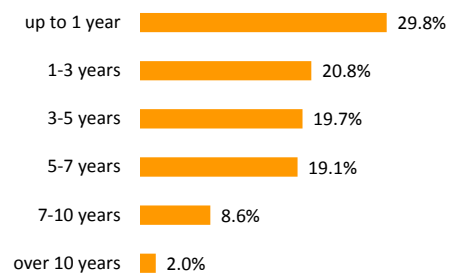
Portfolio by regions



Portfolio by ratings



Portfolio by modified duration



Portfolio by currencies



* The value of fund units may rise or fall over time. The fund's historical performance does not promise or offer any indications regarding future performance. Investments in foreign markets are sensitive to changes in foreign currency exchange rates, which may cause a rise or a fall in the net value of the fund unit.

Please read fund's rules and prospectuses available on the web-site www.swedbank.ee/fondid or visit a Swedbank office. If necessary, consult with a teller or an investment consultant on phone number +372 613 1606.

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Manager Commentary

Swedbank's Pension Fund K1 returned 0.5% in September and -0.2% since the start of the year.

Market overview

September proved to be positive on both the bond and equity markets. The direct reason for the rise of financial markets was the surprising decision of the Federal Reserve to not taper the bond purchase programme. The monetary policies of the Federal Reserve, which was more stimulating than expected, led to a rise in almost all financial assets – those which had lost the most while waiting for the central bank's reduction in liquidity supply the whole summer now gained the most.

Politics was once again in sharp focus during the month, and in very different contexts: the action in Syria and the possibility of Western countries intervening in the conflict influenced the commodity markets. The threat of a new governmental crisis came to the fore again after the conviction of Berlusconi on the tax offence, as he threatened to stop supporting the coalition in power and recall his ministers from the government. The deadlines for 2013/14 budget approval and deciding on the debt ceiling were approaching in the United States. By the end of September, the Republicans and Democrats had not agreed on either issue and thus the public sector partially stopped providing services in the USA at the beginning of October. This likely has an actual influence on the country's economic indicators.

The economic growth indicators for the month mostly exceeded the expectations of analysts. Activity in the industrial sector increased somewhat in the United States – the ISM Index rose to 55.7 points. The same index in the industrial sector of the euro area also remained in positive territory (i.e. above 50 points), indicating the possibility that economic growth in the euro area may surprise us positively in the third quarter. Another positive surprise was the economic statistics of China, as the country's export volume increased significantly.

Japan is discussing whether to raise VAT in order to reduce its high budget deficit and how to stop the growth in public debt, which is the highest of any developed industrial country. Increasing the rate of VAT is seen as a major risk to the economy. Governor of the Central Bank Kuroda has said that if the negative impact of a tax increase should endanger the inflation objective (2%), the Central Bank is prepared to additionally stimulate the Japanese economy. The government is also willing to increase its expenditure temporarily in order to mitigate the negative influences of a tax increase.

Bond markets could breathe easier after the decision of the Federal Reserve to delay the reduction in bond purchasing. European bond markets went along with the decrease in overseas interest rates. The interest rate of German two-year government bond fell by 7 bp and that of ten-year government bond by 13 bp. The risk premiums of investment grade bonds did not change significantly, but the risk margins of lower quality bonds decreased. The index of the highest quality government bonds with an AAA-A rating gained 0.9% over the month, while the index of the bonds of investment-grade companies in euro area countries strengthened by 0.6%.

Near-term outlook

In October the important factor that will influence financial markets will probably be politics, especially the events in the USA. Most analysts and investors are expecting the Republicans and Democrats to reach an agreement on raising the debt limit on time, as both parties have a lot to lose if they fail to agree. Otherwise the US government will be obliged to reduce governmental costs to such an extent that it will probably lead to a new recession. In the worst case scenario the United States will be temporarily incapable of fulfilling its debt obligations. If this rather improbable scenario were to unfold, the consequences for the global economy would be extremely negative, given the important role US bonds play in the international financial system.

We are still maintaining the average duration of the bond portfolio at slightly below neutral, protecting assets from an increase in interest rates. In the coming weeks there will be a certain risk that the interest rates of countries in a more stable financial situation will fall due to the increased volatility of the financial markets and the resulting heightened fear of risk. However, this is not our primary scenario and, in the long term, today's price level of safer bonds does not offer enough protection against the risk of inflation rate acceleration.

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