

Swedbank Pension Fund K1 (Conservative Strategy)

December 31, 2013

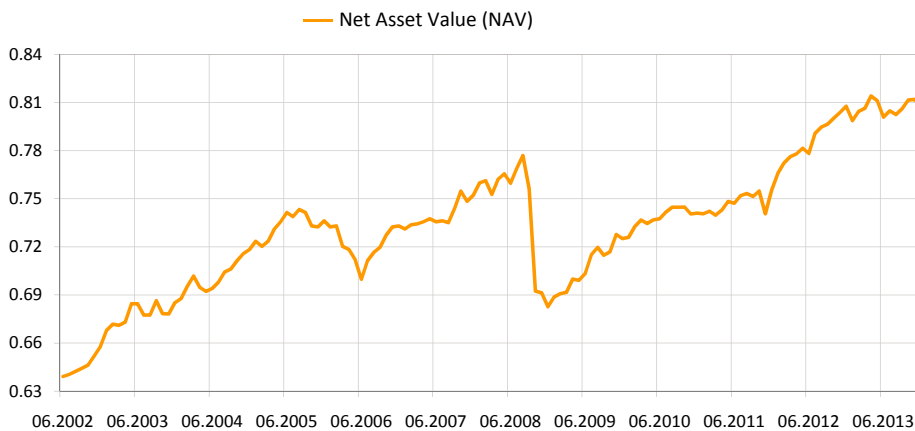
Investment Principles

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)	0.80793 EUR
Net Assets	45 261 476 EUR
Weighted average rating	A
Weighted average modified duration, years	6.4
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	0.0%	-0.5%	0.2%	0.0%	7.0%	9.0%	18.4%	26.4%
				0.0%	3.4%	2.9%	3.4%	2.1%

	2006	2007	2008	2009	2010	2011	2012	2013
Performance*	-0.4%	2.6%	-9.3%	6.2%	2.2%	1.9%	6.9%	0.0%

Largest investments TOP 10

Portfolio	Weight
Depositiit - Pohjola Bank Plc Eesti filiaal (EUR) - 30/360	2.9%
Rabobank EUR 3.875% 20.04.2016	2.9%
Morgan Stanley EUR 4.5% 23.02.2016	2.5%
Depositiit - Danske Bank A/S Eesti filiaal (EUR)	2.2%
Depositiit - Swedbank AS (EUR)	2.2%
Lloyds TSB Bank Plc EUR 6.5% 24.03.2020	2.1%
Barclays Bank EUR 4% 20.01.2017	2.1%
BNP Paribas EUR 3.75% 25.11.2020	2.1%
Volkswagen International Finance EUR 1.875% 15.05.17	2.1%
Atlantia SpA 3.375% EUR 18.09.17	2.0%

Risk level

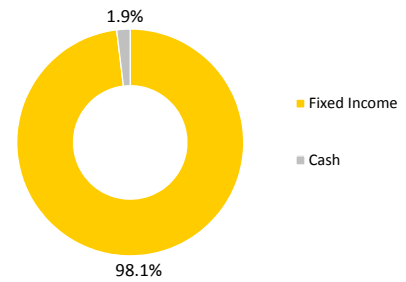
Lower risk ← Higher risk
Typically lower rewards ← Typically higher rewards



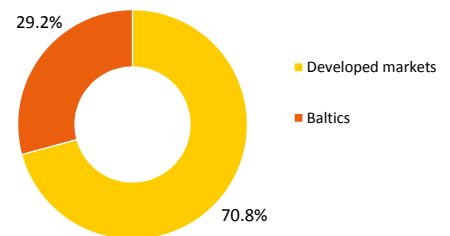
The categories specified in the risk scale are based on the fluctuation of the value of the Fund's assets during the last five years.

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

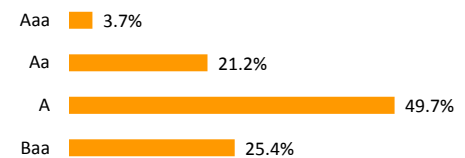
Portfolio by instruments



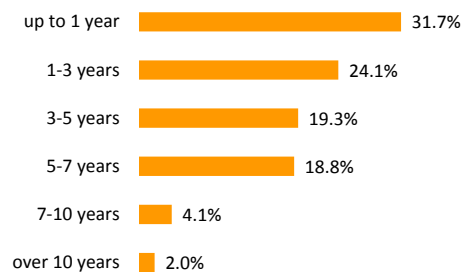
Portfolio by regions



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.

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Manager Commentary

Swedbank's Pension Fund K1 returned -0.5% in December and 0.0% since the start of the year.

Market overview

December rather expressively summed up the entire year in financial markets – interest rates with low risk bonds increased, especially with regard to longer terms. The risk premiums of both investment grade and lower quality bonds decreased. The same pattern applies to the whole year of 2013.

The growth rate of global economy continued to accelerate a little within the month. Nevertheless, the published economic statistics was more positive in developed industrialised economies rather than in emerging markets. A positive trend in the US labour market continued and the country's unemployment rate decreased by 0.3% to 7%. The ISM Index in the industrial sector of the United States remained strong – 57.0 points (a figure above 50 points indicates a growth). The Purchasing Managers Index in the European industrial sector strengthened for a sixth month in a row (up to 52.7 points) and that of the Chinese industrial sector also remained at the level indicating a slight increase. At the same time, the economic growth in India, Russia and Brazil has recently been clearly disappointing.

The US Federal Open Market Committee decided at their meeting held in the second half of December to taper by USD 10 billion a month (from USD 85 billion to USD 75 billion). Unlike May and June when the statement of Federal Reserve Chairman Ben Bernanke regarding the potential tapering of purchases caused a huge wave of sell-offs of equities and bonds with higher risk, the response of markets was quite composed this time.

The Monetary Policy Committee of the European Central Bank left the key interest rate unchanged at its December session and no other new measures were applied. In his statement at the press conference, Draghi confirmed the rightness of the monetary policy steps taken so far and the statement as well as forecasts of the European Central Bank also implied a continuing trend of stimulating monetary policy.

As a result of the activities of the Federal Reserve, the interest rates of government bonds grew in the US, Japan and the euro area. The interest rates of German 2 and 10-year government bonds rose by 10 and 24 basis points, respectively. At the same time, December was slightly positive for risk premiums – those of both investment grade and lower quality bonds decreased. Therefore, the weakest component of the fund's bond portfolio turned out to be government bonds of the highest quality, i.e. with AAA-A rating, that weakened by 1% in December. The index of the euro area investment grade corporate bonds lost 0.6%.

Short-term outlook

Although the European Central Bank continues to foster more lenient monetary policy, bond markets started to forecast a certain upcoming change in the direction last year. We find that the probability that the potential gain from the persistence of the low level of interest rates is bigger than the potential loss upon their increase is relatively low. Thus, we significantly shortened the average maturity of the bond portfolio, i.e. took a more defensive position against the further growth in interest rates.

*The commentary is an unofficial English translation of the original Estonian version. In case of any discrepancies, the text of the Estonian version shall prevail.

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