

# Swedbank Pension Fund K2 (Balanced Strategy)

March 31, 2013

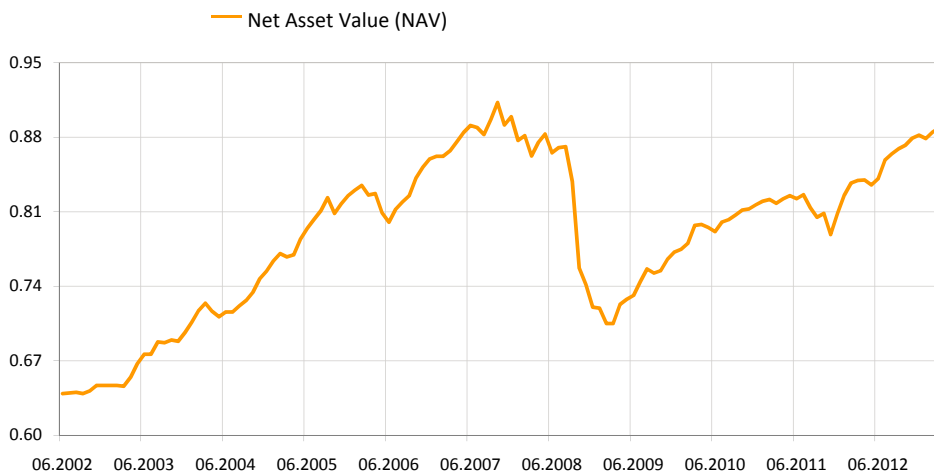
## Investment Principles

Swedbank Pension Fund K2 (Balanced 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 up to 25% of the assets in equities, equity funds and other instruments similar to equity and the remaining part of the assets in bonds, money market instruments, deposits, immovables and other assets.

## General information

Fund Management Company	Swedbank Investeerimisfondid AS
Fund Manager	Katrin Rahe
Inception	2002
Net Asset Value (NAV)	0.88893 EUR
Net Assets	160 019 882 EUR
Standard deviation (computed over 3 years)	3.2%
Average management fee per annum**	1.43%
Subscription Fee	0.0%
Redemption Fee	1.0%

## Fund performance\*



	YTD	1 month	3 months	1 year	2 years	3 years	5 years	Inception
<b>Performance* Annualized</b>	0.8%	0.5%	0.8%	5.9%	8.7%	11.5%	3.1%	39.1%
				5.9%	4.3%	3.7%	0.6%	3.1%
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Performance*</b>	9.4%	4.2%	4.6%	-19.9%	7.2%	5.8%	-1.0%	9.1%

## Largest investments TOP 10

Equity portfolio	Weight
Hansa CEE Fund of Funds	3.5%
Swedbank Robur Indexfond USA	2.3%
Morgan Stanley Europe Equity Alpha Fund	1.9%
MSCI Japan Source ETF	1.7%
Alpha Cee LI L.P.	1.4%
Fixed Income portfolio	Weight
iShares Markit iBoxx € Corporate Bond Fund	8.0%
PIMCO Global Inv Grade Credit Fund	7.9%
Bluebay Inv Grade Bond Fund	7.3%
Lyxor ETF Euro Corp Bond Fund ex Financials	6.9%
iShares Barclays Euro Corp Bond Fund	6.1%

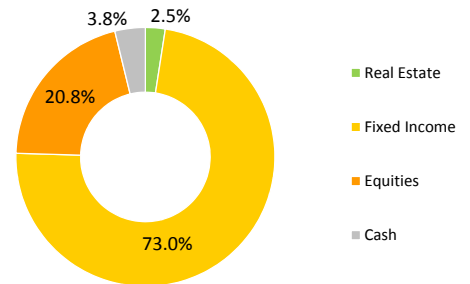
## Risk level

Lower risk Higher risk  
Typically lower rewards Typically higher rewards

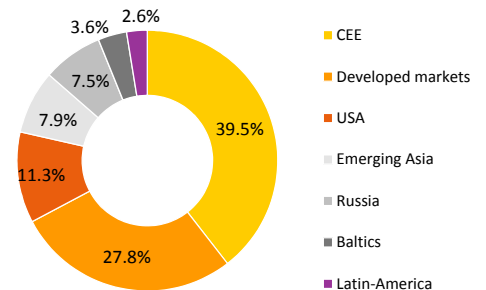


The categories specified in the risk scale are based on the fluctuation of the value of the Fund's assets during the last five years.

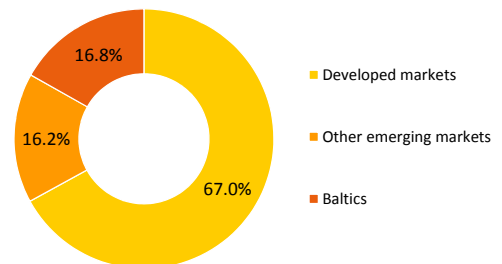
## Portfolio by instruments



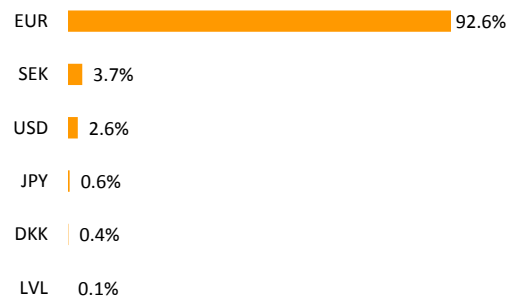
## Equity portfolio by regions



## Fixed Income portfolio by regions



## 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.

\*\* Methodology of calculating fund's average management fee can be found in the prospectus of mandatory pension funds.

Please read fund's rules and prospectuses available on the web-site [www.swedbank.ee/fondid](http://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

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Swedbank's Pension Fund K2 returned 0.5% in March and 0.8% since the start of the year.

### Market overview

March offered a lot of turmoil for financial markets: issues relating to macroeconomics lost their appeal and the critical situation in the Cypriot banking sector and North Korea's aggressively intimidating attitude towards the rest of the world rose to the fore. However, equity markets (except Russia) were not bothered by it much and continued rising in March. Several bond asset classes also ended the month in positive territory: although risk premiums largely rose, the rise was compensated by a noticeable fall in underlying interest rates. Yet the developments in Cyprus, which undermined the single currency area, did not have a positive impact on the euro and it weakened 1.8% against the US dollar over the month.

The initial solution to the Cypriot banking crisis was to tax insured depositors (individuals and businesses holding deposits below 100 000 euros). Upon the nationalisation of major banks in the euro area, depositors' money has been left untouched so far, but the developments in Cyprus fuelled insecurity about the possible restructuring model of banks. Although the solution was later set aside and the funds of minor depositors remained untouched, it remains to be seen which model will be applied in the event of bailing out nonperforming banks in the future. The coming months will tell what the impact of the event on the banking sector on the periphery of the euro area is and whether the outflow of funds that had come to a halt in the meantime has started again.

In March, the global business climate largely became cooler. The weakening of the business cycle-sensitive ISM Index in the US due to the automatic spending cuts (sequester) at the beginning of March was especially steep. Also, various temporary factors had increased the pace of growth at the beginning of the year. The average industrial sector sentiment of euro area peripheries weakened noticeably, but economic activity also weakened in Germany. Industrial sector growth picked up among the major powers of the developed world only in Japan where the Purchasing Managers' Index rose for the third consecutive month and finally reached positive territory. The economic growth rate also weakened in the BRIC states, although the slowdown was less pronounced in China.

Governor Draghi of the European Central Bank (ECB) remained cautious at the press conference following the meeting of the Monetary Policy Committee at the beginning of March and did not give a clear signal about a possible interest cut. However, the ECB lowered its forecasts regarding the growth expectations and inflation rate in the euro area. The inflation expectation for 2014 is now merely 1.3%, which is much lower than the 2% inflation rate that is in line with the central bank's price stability target. The rhetoric of the March and April meetings of the ECB's Monetary Policy Committee was much different from that of the January meeting, referring to the possibility that a reduction in the base rate in the coming months may not be unlikely.

In March, Japan led regional equity markets with a return of 7.1% (all return rates are indicated in euros). Japan was supported by investors' expectations that Kuroda, the newly appointed president of the Japanese central bank, would make the monetary policy far more aggressive in order to put an end to the 15-year deflation spiral. As for other developed markets, the US did well (+5.8%), while European equity markets ended the month with merely 1.6% return due to the problems in Cyprus. The month was good in the Baltic States (+6.9%). The local low-liquidity equity market was guided by non-confirmed rumours about a possible takeover bid of Tallink stocks. The strongest of the equity indices of emerging markets was Eastern Europe (+2.8%), with Turkey adding positiveness to the region. This was followed by Latin America (+2.04%), while Emerging Asia slightly weakened (-0.2%) and the month turned out to be weak on Russian equity markets (-2.5%). The latter can largely be attributed to developments in Cyprus, because Russian businesses and individuals are the largest non-resident depositors in Cypriot banks and the Russian business world has actively used Cyprus as an offshore financial centre. Although a direct economic impact on Russian listed companies and the economy will probably remain weak, it made investors insecure.

On bond markets, risk-free asset classes became wanted again. The interest rate of shorter-term bonds returned to negative and due to their limited chances of falling investors preferred moving into longer-term bonds. The interest rate of German two-year government bonds fell 6 bp and that of 10-year government bonds by 17 bp. Euro area AAA to A-rated government bonds did in fact end the month with the best result among all bond classes (+0.8%). Euro-nominated emerging market bonds did not lag far behind (+0.7%). Although risk premiums of investment-grade as well as lower grade bonds rose, the price developments were slightly more influenced by an overall decrease in interest levels and the high-quality bonds of euro area companies found in our fund portfolio ended the month on the positive side (+0.3%).

### Near-term outlook

We face April with a share of equities that has been increased to the neutral level. The reason behind the improvement of the outlook is the strengthened liquidity on global markets owing largely to the more aggressive steps of the Japanese central bank. The growth of corporate earnings also started supporting equity markets. At the same time, businesses are more cautious in their earnings projections and this leaves more room for positive surprises. Owing to strong liquidity as well as positive growth dynamics, we regionally prefer Japanese equities. US and European equities have a lower-than-neutral share in the portfolios.

In the bond portfolio we will somewhat reduce the share of investment-grade bonds of euro area companies, because the interest level of the asset class has become relatively unattractive (the average yield-to-maturity is around 2%). We will increase the share of euro bonds of emerging markets, because we consider it likely that in conditions of strong global liquidity the rotation towards asset classes involving a higher risk (and yield potential) will continue. We remain tactically defensively positioned against the risk of rising interest rates. However, strategically we have not fully underweighted the duration of the bond portfolio, because it is not yet supported by the development of the base rate cycle or the unwinding of the euro area crisis. The recurrent problems of the euro area have so far continued to cause the return of capital to safe havens, i.e. the bonds of the core states of the euro area.

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