Swedbank Pension Fund K2 (Balanced Strategy)

August 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.

Risk level

Lower risk — Higher risk

Typically lower rewards — Typically higher rewards

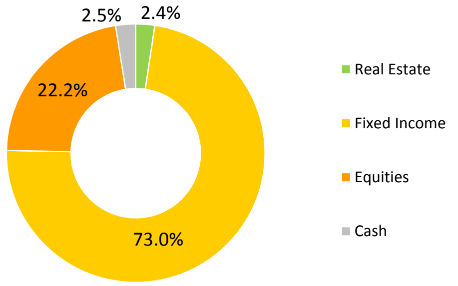
1	2	3	**4**	5	6	7

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.

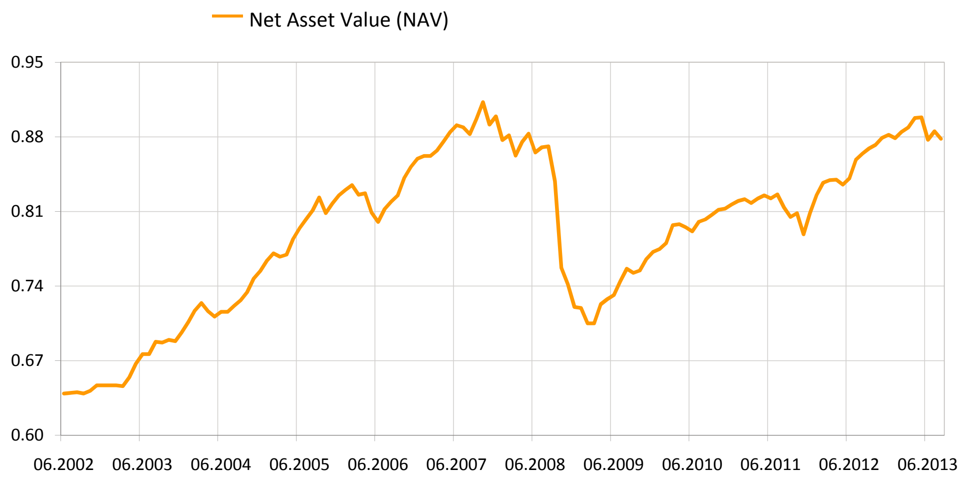
General information

Fund Management Company	Swedbank Investeerimisfondid AS
Fund Manager	Katrin Rahe
Inception	2002
Net Asset Value (NAV)	0.87818 EUR
Net Assets	166 576 330 EUR
Standard deviation (computed over 3 years)	3.6%
Average management fee per annum**	1.43%
Subscription Fee	0.0%
Redemption Fee	1.0%

Portfolio by instruments



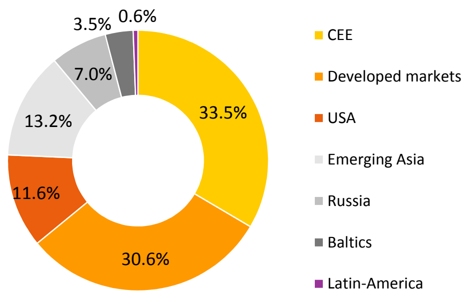
Fund performance*



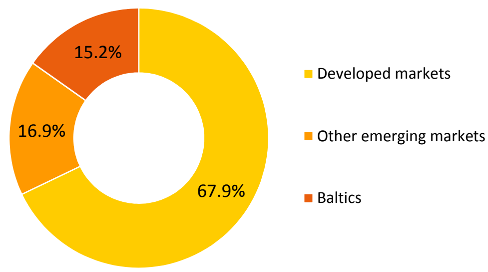
	YTD	1 month	3 months	1 year	2 years	3 years	5 years	Inception
Performance*	-0.4%	-0.8%	-2.3%	1.6%	7.9%	9.4%	0.8%	37.4%
Annualized				1.6%	3.9%	3.0%	0.2%	2.9%

	2005	2006	2007	2008	2009	2010	2011	2012
Performance*	9.4%	4.2%	4.6%	-19.9%	7.2%	5.8%	-1.0%	9.1%

Equity portfolio by regions



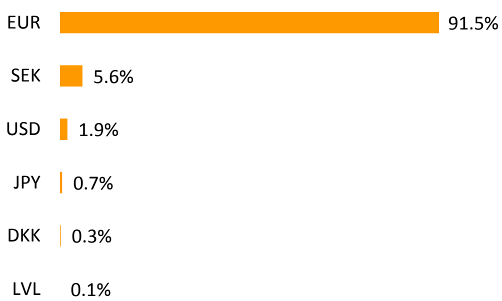
Fixed Income portfolio by regions



Largest investments TOP 10

Equity portfolio	**Weight**
Hansa CEE Fund of Funds	3.4%
Swedbank Robur Indexfond Asien	2.9%
Swedbank Robur Indexfond USA	2.6%
Morgan Stanley Europe Equity Alpha Fund	1.8%
iShares MSCI Europe ETF	1.5%
Fixed Income portfolio	**Weight**
PIMCO Global Inv Grade Credit Fund	7.8%
Bluebay Inv Grade Bond Fund	7.5%
iShares Markit iBoxx € Corporate Bond Fund	7.5%
iShares Barclays Euro Corp Bond Fund	6.1%
Lyxor ETF Euro Corp Bond Fund ex Financials	5.9%

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 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 K2 returned -0.8% in August and -0.4% since the start of the year.

Market overview

August brought a wave of sell-offs to the financial markets due to which equity as well as bond prices suffered. Gold, however, was attractive to investors. The support of economic statistics referring to rather wide global improvement in economic status was nullified by the possibility of an act of war in Syria and the resulting increase in oil prices (ca 6% in US dollars). Riskier asset classes were weakened by the possibility of a new governmental crisis in Italy and rather modest quarterly results of companies in Europe and USA.

In addition to the events in Syria, one of the important keywords was economic statistics, which were stronger than expected, mainly in developed industrialised economies. The GDP of the euro area in the second quarter increased by 0.3% – these were the first positive growth figures since the decline period of the last six quarters. Positive trends were also noticeable in the periphery of the euro area. The US economic indicators are still moderately increasing. Unemployment decreased by 0.2% to 7.4%. The sentiment in the industrial sector of the USA also improved significantly: the ISM index calculated on the basis of the monthly inquiries of the purchase managers of industrial enterprises, which is widely followed in financial markets, remained strong (above 55 points) for the second month in a row. An index value which is higher than 50 points refers to increasing economic activity in the industrial sector.

At the session of the Federal Reserve Monetary Committee, most of the members supported a reduction in the financial assets purchase programme proposed by the president of the reserve Ben Bernanke, which will probably lead to a decrease in the purchasing of government bonds by the Federal Reserve at the end of the year. The expected decrease in global liquidity due to this has not had a very positive influence on developing market currencies – the currencies of countries that are more dependent on external financing have come under attack first and foremost. The Brazilian real as well as the Indian rupee have suffered considerably. The weakening of currencies could result in accelerated inflation on developing markets, which has been very difficult for them to fight against because, unlike developed regions, there are no signs of improvement as to economic growth. The euro weakened by 0.6% against the US dollar.

By the end of August, most of the large enterprises of Europe and the USA had revealed their economic results for the second quarter. As has been common in the last few years, the results of European companies fell short of those across the Atlantic as to turnover and profit. The decrease in the turnover and profit of European countries continued while the companies traded on the North-American stock exchange managed to achieve minor growth in both areas. Weak profit figures call into question the sustainability of the growth in equity prices we saw last year, as prices have mainly increased due to the price earnings ratio, not an increase in the profitability of companies.

In August, the US market was the weakest of the large equity markets of developed industrialised economies (-2.3%, all returns given in euros), Japanese equities decreased by 1.6% and European equities by 0.6%. Russia was the best performer among developing countries (0.7%); the emerging Asian (-1.0%), Eastern European (-4.8%) and Latin American (-2.6%) markets ended the month in the negative. Baltic equities also weakened (-0.8).

Bond markets saw a continuing increase in the interest rates of safer government bonds – the two- and ten-year government bonds of Germany rose by 6 and 19 basis points respectively. The index of A- to AAA-rated euro area government bonds decreased by 1.1% during the month. The prices of euro-denominated emerging market bonds decreased by 1.1% and euro-area investment-grade corporate bonds by 0.2%. Interest rates increased irrespective of the promise of the European Central Bank to keep the base interest rates low for an extended period. Mario Draghi's warning that the financial markets current level of interest rates is unwarranted was of no help either.

Near-term outlook

In September we will continue with the neutral stance towards equity risk. Several technical indicators have become more supportive for equity markets, incl. the positioning of investors in futures markets. The global economic cycle shows some signs of improvement and the estimate that this will probably continue in the coming quarters also supports the equity markets. A slight weakening of global liquidity flows is having a negative effect on equity market prospects. Political tensions in the United States could also increase in September – Congress is again discussing whether to raise the debt ceiling and the debate will probably be very complicated.

As to regions, we still prefer Russia to Latin America. Compared to other developing markets and to Latin American countries, Russia has a better position, as the country's current account is in surplus and it is therefore less dependent on external financing than Brazil, for example. The price level of Russian equities is also considerably better.

At the end of August we increased the proportion of Japanese equities in pension fund portfolios and reduced that of European and US equities. What lies behind this preference is the more stimulating monetary policies of the Japanese Central Bank, better market climate (equity analysts are increasing their profit expectations significantly) and cheaper price levels.

The average duration of bonds in the pension fund portfolios is still somewhat shorter than the benchmark, which means that the funds are better protected against a decline in bond prices caused by a possible increase in interest rates. We prefer the asset class of global speculative-grade bonds to euro area bonds with an investment grade credit rating. We believe that a favourable environment will persist for speculative bonds because the financial conditions of companies are attractive and accelerating economic growth will probably suppress the level of solvency problems for issuers of speculative grade bonds.