

Swedbank Pension Fund K3 (Growth Strategy)

September 30, 2013

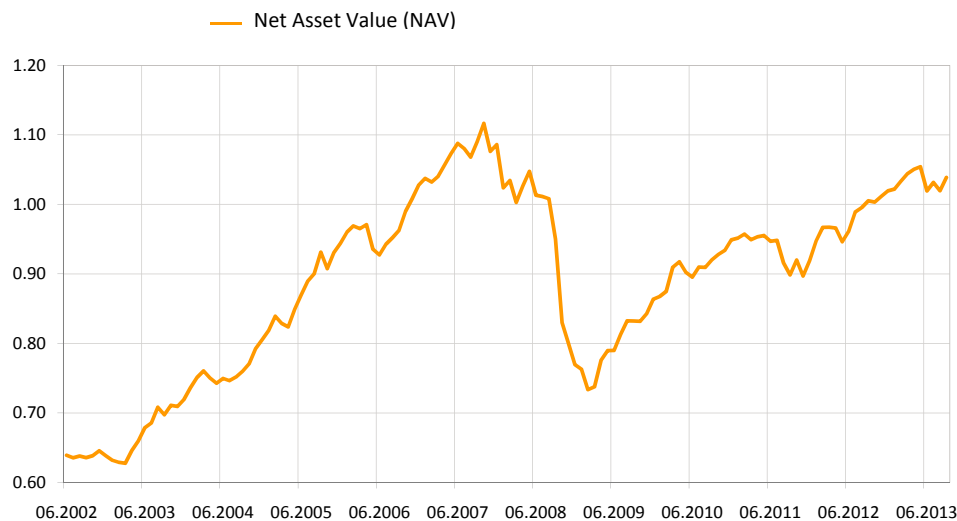
Investment Principles

Swedbank Pension Fund K3 (Growth 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 50% 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)	1.03885 EUR
Net Assets	426 095 954 EUR
Average management fee per annum**	1.35%
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	1.9%	1.9%	1.9%	3.3%	15.6%	12.9%	9.3%	62.5%
				3.3%	7.5%	4.1%	1.8%	4.4%
Performance*	2005	2006	2007	2008	2009	2010	2011	2012
	17.2%	8.9%	5.7%	-29.1%	12.2%	9.9%	-3.2%	10.9%

Largest investments TOP 10

Equity portfolio	Weight
db x-trackers MSCI AC Asia ex Japan Index UCITS ETF	4.6%
Swedbank Robur Indexfond Asien	3.7%
Morgan Stanley Europe Equity Alpha Fund	3.2%
DB x-Trackers MSCI EM Latin Index ETF	2.7%
SSGA Europe Index Equity Fund	2.7%
Fixed Income portfolio	Weight
Bluebay Inv Grade Bond Fund	7.6%
PIMCO Global Inv Grade Credit Fund	6.8%
iShares Markit iBoxx € Corporate Bond Fund	4.3%
iShares Barclays Euro Corporate Bond Interest Rate Hedged	2.2%
Blackrock Global High Yield Bond Fund	1.8%

Risk level

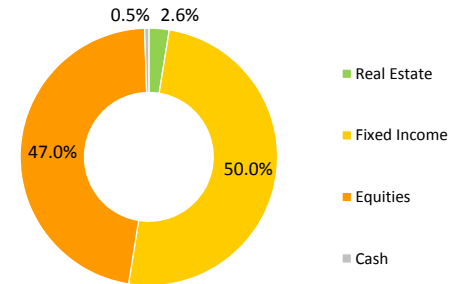
Lower risk Higher risk
Typically lower rewards Typically higher rewards



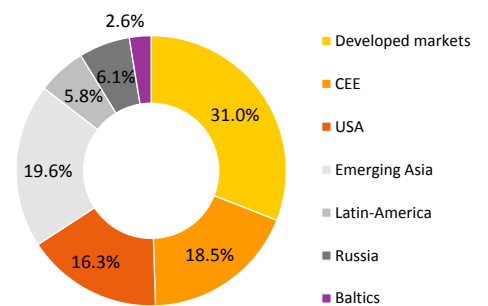
The categories specified in the risk scale are based on the fluctuation of the value of the Fund's assets during the last five years.

Standard deviation of returns (over the last 3 years) 5.4%

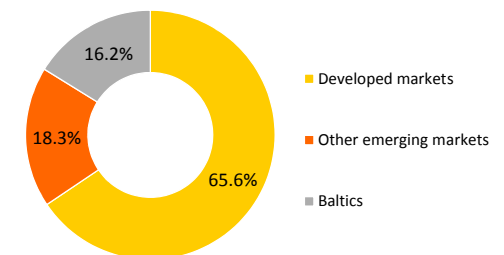
Portfolio by instruments



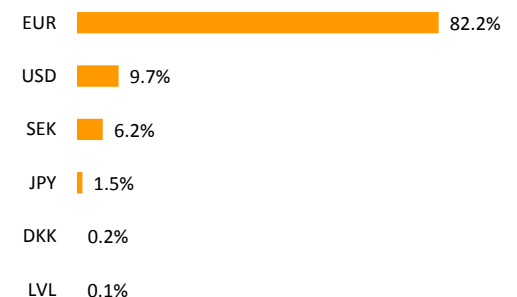
Equity portfolio by regions



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 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 K3 returned 1.9% in September and 1.9% 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.

The surprising decision of the Federal Reserve to delay the reduction in bond purchasing outweighed the intense political situation and most equity markets strengthened significantly during the month. Those in emerging regions were in the leading position this time – both Latin America and Eastern Europe (along with Turkey) ended the month at +6.0% (all returns are in euros). There were large differences within countries in Eastern Europe: the index of Turkey, which had fallen considerably in anticipation of the reduction of the Fed's incentive, increased by ca 10%, whereas Polish equities ended the month at just +4%. The latter was affected by the government's plan to partially nationalise the pension system. Emerging Asian equities rose by 2.9%. Japan was at the forefront of developed regions (+5.7%) and Europe also did well (+4.4%). However, US equities rose by only 0.8%. The equities of the Baltic States were the only exception, as they fell by 0.7%. The euro strengthened 2.3% against the US dollar.

The decision of the Federal Reserve to delay the reduction in bond purchasing was the event that influenced the bond markets. 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, the index of the bonds of investment grade companies in euro area countries strengthened by 0.6% and the index of euro-denominated emerging market bonds increased by 0.5%. The month was very positive for lower-rated bonds: the unit price of the fund investing in bonds with a speculative rating rose by 1.9%.

Near-term outlook

In October we will continue at the neutral equity risk level. In our estimation, equities are supported by the increasing speed of global economic growth; financial system liquidity also remains high. However, several technical indicators have weakened. In addition, equity analysts started lowering their estimates in recent weeks regarding the profits of companies for this year and next year.

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.

Regionally we have increased the proportion of Japanese equities in our portfolio – the market is supported by the Central Bank's stimulating monetary politics and the fact that equity analysts have improved their prognoses. At the same time, we have reduced the proportion of European equities. Europe's equity market is basically the opposite of that of Japan: liquidity is rather weak and analysts are lowering their unrealistically high profit expectations. We are still positive about Russian equities traded at a rather low price level and somewhat more negative about Latin American equity markets.

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.

We have overweighted euro-denominated emerging market bonds – the financial status of issuers is mainly satisfactory and the asset class offers better yields than the investment-grade bonds of euro area companies or government bonds of core countries in the euro area. We are also positive about the asset class of global speculative-grade bonds, as the risk margins are at a fair level and according to our estimation the accelerating economic growth in the USA and elsewhere in the world improves the financial status of issuers with a speculative rating.

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