

Swedbank Pension Fund K3 (Growth Strategy)

December 31, 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.

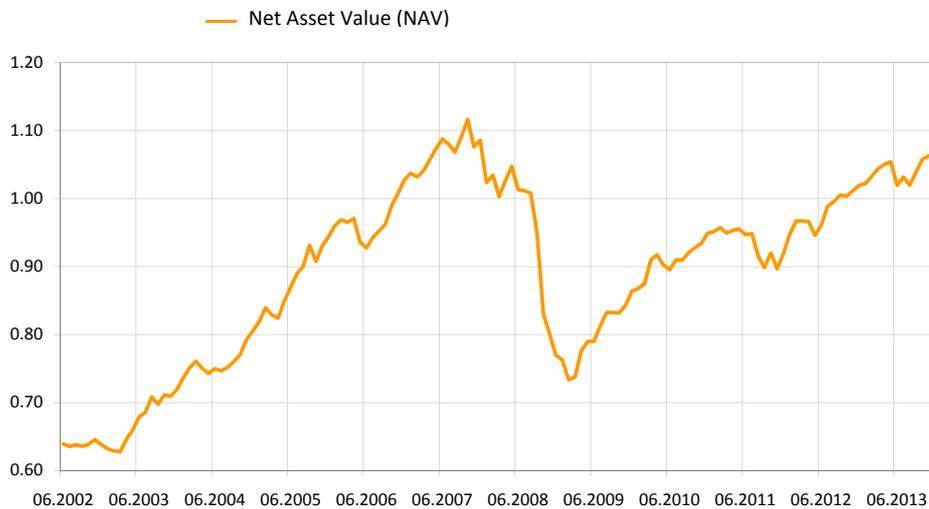
General information

Fund Management Company: Swedbank Investeerimisfondid AS
 Fund Manager: Katrin Rahe
 Inception: 2002

Net Asset Value (NAV): 1.05861 EUR
 Net Assets: 450 297 287 EUR

Average management fee per annum**: 1.33%
 Subscription Fee: 0.0%
 Redemption Fee: 1.0%

Fund performance*



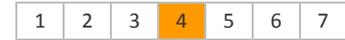
	YTD	1 month	3 months	1 year	2 years	3 years	5 years	Inception
Performance* Annualized	3.9%	-0.4%	1.9%	3.9%	15.2%	11.6%	37.6%	65.6%
	2006	2007	2008	2009	2010	2011	2012	2013
Performance*	8.9%	5.7%	-29.1%	12.2%	9.9%	-3.2%	10.9%	3.9%

Largest investments TOP 10

	Weight
Equity portfolio	
db x-trackers MSCI AC Asia ex Japan Index UCITS ETF	5.1%
Morgan Stanley Europe Equity Alpha Fund	3.6%
Swedbank Robur Indexfond Asien	3.6%
DB x-Trackers MSCI EM Latin Index ETF	2.5%
Swedbank Robur Indexfond Europa	2.4%
Fixed Income portfolio	
Bluebay Inv Grade Bond Fund	7.3%
PIMCO Global Inv Grade Credit Fund	6.5%
iShares Markit iBoxx € Corporate Bond Fund	4.1%
iShares Barclays Euro Corporate Bond Interest Rate Hedged	2.1%
Blackrock Global High Yield Bond Fund	2.0%

Risk level

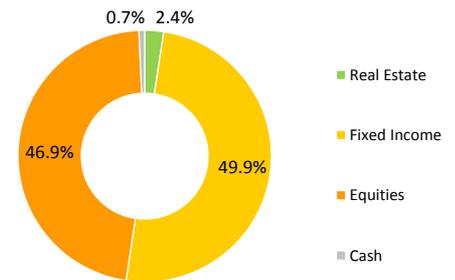
Lower risk Higher risk
 Typically lower rewards Typically higher rewards



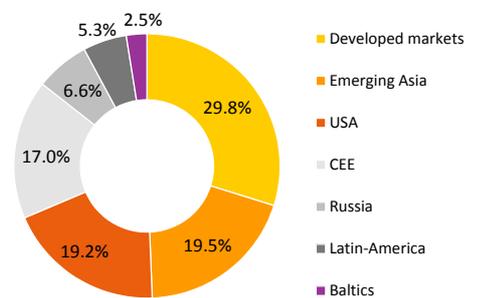
The categories specified in the risk scale are based on the fluctuation of the value of the Fund's assets during the last five years.

Standard deviation of returns (over the last 3 years) 5.5%

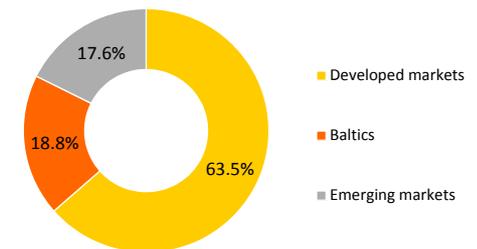
Portfolio by instruments



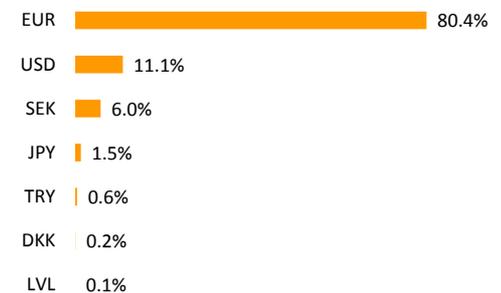
Equity portfolio by regions



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.

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

This document and the information contained herein does not constitute investment recommendation or investment advice. Please read fund's rules and prospectuses available on the web-site www.swedbank.ee/fondid. For further information please contact Swedbank Investment Support on phone at +372 613 1606, Mon-Fry 8.30am - 6pm or visit nearest Swedbank branch.

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Manager Commentary

Swedbank's Pension Fund K3 returned -0.4% in December and 3.9% since the start of the year.

Market overview

December rather expressively summed up the entire year in financial markets – equities of developed regions mainly strengthened and equities of emerging markets weakened. Interest rates with low risk bonds increased, especially with regard to longer terms. The same pattern applies to the whole year of 2013 – equity markets of developed regions became stronger by nearly twenty percent, while emerging equity regions underwent a decrease. The decision of the Federal Reserve to start tapering the quantitative easing programme had a negative effect on equities of emerging markets in December.

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.

In December the best performers in equity markets were Russia (+1.8%; all returns indicated in euros) followed by the US (+1.1%) and Europe (+1.0%). The Japanese equity market weakened in euros by 0.7%, but this was caused by the weakness of the local currency. The yen fell against the euro by almost 4% in December in anticipation of new aggressive easing measures of the central bank of Japan. However, the euro strengthened 1.1% against the US dollar. The equity index of the emerging Asia fell by 2.6% in a month. The Latin American equity markets were weak again, losing 3.9% of their value in a month. The slow economic growth of Brazil had a negative impact on the equities of the region and several Latin American countries were faced with current account deficit, which is why they were relatively dependent on external financing and also more sensitive to the tightening of the US monetary policy.

The Eastern European equity market fell even by 9.3% in December that was mainly due to the cliff effect of the Turkish equity market brought along by the political tensions again reinforced in the country and serious corruption accusations against officials close to Prime Minister Erdogan. The performance of other major markets of the region was also relatively weak. The planned changes in the pension system had a negative effect on the sentiment about the Polish equities in the second half of the year, which is why the purchase of local equities by pension funds would probably considerably decrease in the future.

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%, while the index of the government eurobonds of emerging countries rose by 0.4%. The unit price of the fund investing in bonds with a speculative rating contained in the fund portfolio also strengthened by 0.4%.

Short-term outlook

At the beginning of January we reduced the share of equities in the pension fund portfolio to a little lower than the neutral level, as several technical indicators had significantly weakened in recent weeks. For instance, the growth in corporate profits has become considerably more negative in the last few weeks in terms of global equity markets and the same is observed in the expectations of analysts to growth in profits within next two years. A positive factor of equity markets continues to be a favourable relative price level in comparison with low-risk government bonds.

Equity analysts have become significantly more pessimistic with respect to the growth in profits of European companies, while the profit expectations of Japanese companies have increased again. This is one of the reasons why we keep preferring Japanese equities to European equities. In addition, the Japanese market is supported by stronger liquidity flows originating from the financial sector mainly caused by the central bank of Japan as a result of its monetary policy being more aggressive than that of other major central banks. We also still prefer Russian equities to Latin American equities mostly because of the relatively more favourable price level of the former.

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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