

Swedbank Pension Fund K3 (Growth Strategy)

January 31, 2014

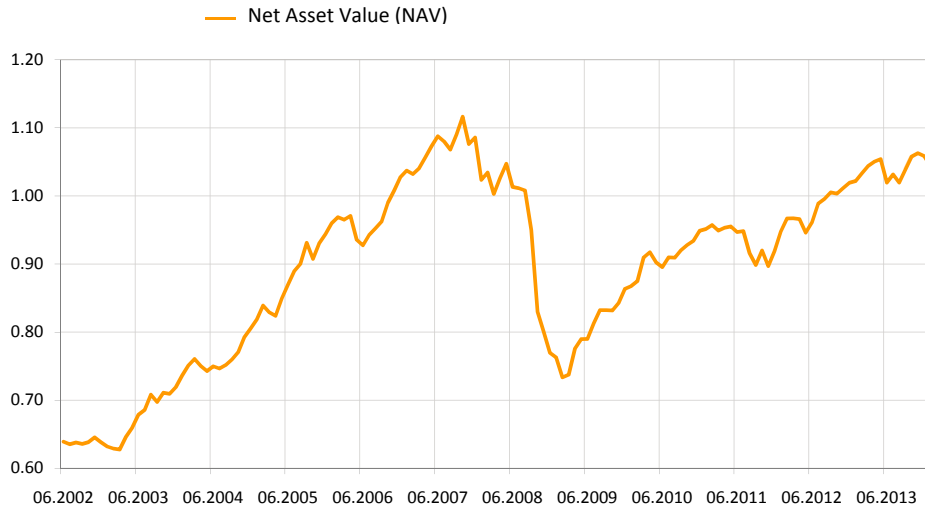
Investment Principles

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)	1.04389 EUR
Net Assets	443 365 809 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	-1.4%	-1.4%	-1.3%	2.1%	10.2%	9.7%	36.9%	63.3%
				2.1%	5.0%	3.1%	6.5%	4.3%
	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

Equity portfolio	Weight
db x-trackers MSCI AC Asia excl. Japan Index UCITS ETF	4.3%
Morgan Stanley Europe Equity Alpha Fund	3.5%
Swedbank Robur Indexfond Asien	3.5%
Swedbank Robur Indexfond Europa	2.4%
DB x-Trackers MSCI EM Latin Index ETF	2.1%
Fixed Income portfolio	Weight
Bluebay Inv Grade Bond Fund	7.5%
iShares Markit iBoxx € Corporate Bond Fund	4.5%
PIMCO Global Inv Grade Credit Fund	2.2%
iShares Barclays Euro Corporate Bond Interest Rate Hedged	2.1%
Blackrock Global High Yield Bond Fund	2.1%

Risk level

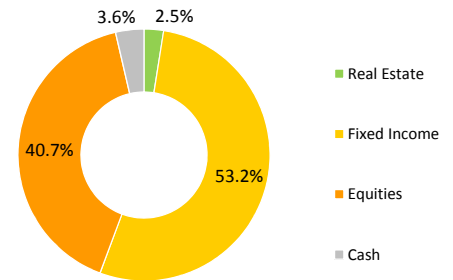
Lower risk Higher risk
Typically lower rewards Typically higher rewards



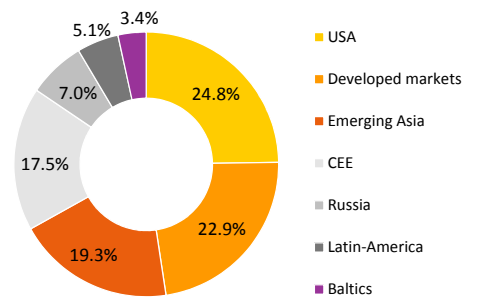
The categories specified in the risk scale are based on the fluctuation of the value of the Fund's assets during the last five years.

Standard deviation of returns (over the last 3 years) 5.6%

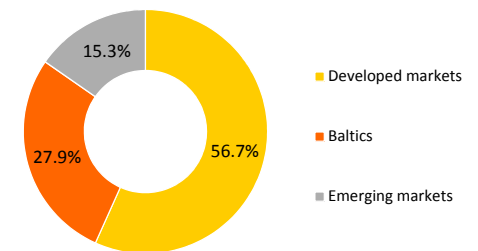
Portfolio by instruments



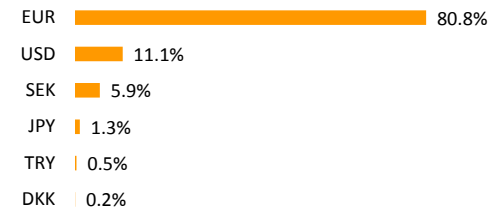
Equity portfolio by regions



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 -1.4% in January and -1.4% since the start of the year.

Market overview

We started the new year in the pension fund underweight in equities. The position justified itself – cash flow in January found its way from the equities of developed regions, but primarily from the equities of emerging markets. The fact that investors lost their risk appetite was evident in bond markets, where an increase in interest to buy mainly the highest quality instruments was seen.

Global economic growth remained stable – the J.P. Morgan Global Manufacturing PMI increased marginally, but remained clearly above 50 points, indicating an increase in economic activity. The economic growth of the United States has also remained strong. However, the labour market statistics published for December were disappointing – only 74,000 jobs were created in the country. At the same time, the weakness of the report could have been caused by the poor weather conditions in the US at the end of the year. This did not stop the Federal Reserve from tapering by 10 billion dollars to 65 billion per month.

In January, it was mainly emerging markets that were the focus of financial markets – especially the slowdown in growth in China, but also financial stability in several emerging countries with a weaker macroeconomic position. In the last week of January, investors withdrew 6.6 billion dollars from the equity funds of emerging markets – the biggest weekly cash outflow since August 2011. More than 12 billion dollars was withdrawn from the equity funds of emerging markets during the month. The capital fleeing from developing markets also led to falls in the currencies of several emerging countries.

The inflation statistics for the euro area proved to be weaker than expected in January – the prices in these countries only increased by 0.7%. Slowing inflation creates expectations that the monetary policy of the European Central Bank will remain moderate and stimulate economic growth (and thus a rise in prices). The euro weakened by 1.8% against the US dollar.

The turbulence on the emerging markets was somewhat compensated by the publication of fourth quarter profits by companies. Almost half of Standard and Poor's 500 index companies in the USA published their results in January, exceeding the expectations of analysts on average by 5.6%, which is somewhat better than the historical average. In Europe the season for publishing profit figures starts a little later. Initial results have again been poor, falling short of expectations by 10% on average.

In January the Baltic States were the only equities that ended the month positively (+3.1%). Equity markets in developed regions ended the month only slightly negatively, with USA 1.4% and Europe and Japan 1.8% lower (all returns indicated in euros). The wave of sell-offs was notably large on the equity markets of emerging countries – the equity index of Asia weakened by 3.0% and the indexes of Latin America and Russia by 7.6% and 9.5% respectively. Eastern European equities fell by 5.7%, primarily led by the Turkish equity market, which was oppressed by the political issues in the country and capital outflow.

As inflation was lower than expected and the risk appetite of investors reduced, the interest rates of government bonds decreased in the euro area across almost all terms. The interest rates of German 2- and 10-year government bonds decreased by 15 and 36 basis points, respectively. The risk premiums of both investment-grade and lower-quality bonds increased slightly. As of January, our fund's high-quality euro area government bond asset class includes only 1- to 3-year bonds. The yield of this asset class was +0.24% with the changes made in January. The index of investment-grade corporate bonds of the euro area strengthened by 1.4% and euro-denominated emerging market government bonds remained in the positive with 0.1%. An off-strategy position in bonds with a speculative rating yielded +0.6%.

Short-term outlook

Our expectations regarding the prospects of equity markets remain pessimistic for the near future, so we are keeping the share of equities at a lower than neutral level in the fund portfolio. The liquidity flows of the global financial sector have again weakened, equity analysts are still decreasing the profit expectations of companies and technical market segment indicators are mainly negative. However, we consider the possible declines in the equity markets to be more of a short-term adjustment of the growth trend than the beginning of long-term decline.

We reduced the proportion of the previously overweight Japanese equities to the neutral level in the portfolio – liquidity flows proceeding from the Japanese financial sector have weakened and the price level of equities has become relatively unfavourable. At the same time, we have increased the proportion of US equities in the portfolio above neutral level. As for emerging market equities, we still prefer Russian equities to those of Latin America mainly due to the more attractive price level of the former.

A larger than usual part of the bond portfolio of funds is held in cash – this enables us to flexibly react to market changes, if necessary, and use the wave of sell-offs as a purchase opportunity. We are maintaining a neutral view of credit asset classes. Credit bonds are still supported by strong demand for instruments providing higher yield, but the decrease in the risk-readiness of investors could increase risk margins.

In the bond portfolio we are keeping the average maturity of bonds shorter than neutral, i.e. we have positioned ourselves defensively against increases in the interest rates of bonds. But in the short term, further decline in interest rates is not out of the question if investors still wish to reduce the risk level of portfolios and purchase low-risk government bonds. However, we are expecting global economic growth to remain relatively strong and therefore it is more likely that we will see a rise in interest rates in annual figures.

*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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