30 Years of Investment Funds

The Swedish Investment Fund Association 30 years

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Foreword

The Swedish Investment Fund Association was founded ***30 years ago***, in 1979. But Sweden's first fund was launched ***50 years ago***, back in1958. This study describes how fund saving began in Sweden, what has happened since, and the huge significance of the introduction of tax-favourable funds in the early 1980s.

The "allemans" funds, which were launched ***25 years ago,*** turned the entire population of Sweden into fund savers and showed them the importance of regular saving and what it can yield. Fund saving is not an end in itself; it is a tool used to build up savings capital that provides freedom and security, along with the chance to realise a dream or two. Fund saving is also increasingly about boosting retirement pensions.

The three decades since the Association was founded – the 1980s, 90s and the new century – have all been very different. The 1980s turned out to be a "golden" decade, with steep stock market rises and the deregulation of the financial market. The 1990s began with a banking and real estate crisis and ended with a new all-time high on the stock market – which then turned out to be an IT bubble that burst shortly after the new millennium began. The 1990s also saw a significant regime shift, leaving behind high rates of inflation and high interest levels. The new century has seen globalisation – a trend reflected in new funds in emerging markets, amongst others.
2008 turned out to be an historic year and will be remembered as the year of the great crisis – a crisis that began as a credit and liquidity crisis in the USA and developed into a financial crisis that affected the entire world.

The biggest historical change during this 30-year period saw the end of the Cold War and the fall of communism, starting on 9th November 1989 with the demolition of the Berlin Wall, and leading to changes worldwide. We have also seen a decline in poverty in many countries.

The decades ahead will also be different. The world will recover and globalisation will continue. We will hopefully also see a reduction in poverty in Africa. Everyone can share in and contribute to development in emerging markets by saving in funds. New technology that takes more account of the climate and the environment will be in demand, and this, too, will affect the range of funds on offer.

One thing is certain, however: having savings capital is a good thing and there are funds to suit all tastes when it comes to orientation, risk, investment horizon and price.

Stockholm, 25th May

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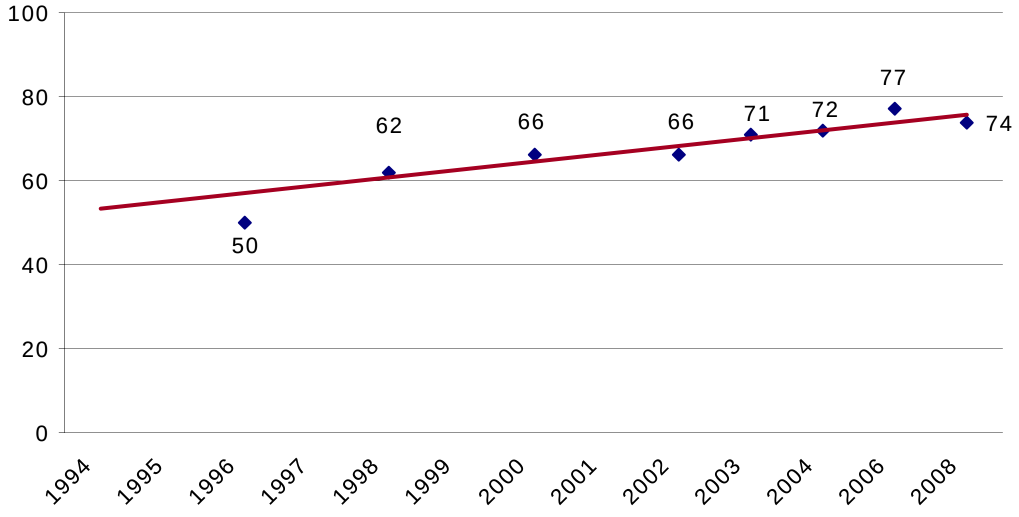
Introduction

98 per cent of Swedes (aged 18-74) currently save in funds. If premium pension savings are excluded, 74 per cent of Swedes own shares in a fund (76 per cent of women and 71 per cent of men). 67 per cent of all children also have fund savings.

The percentage that save in funds has increased dramatically over time – in the mid-1990s, the figure was around 50 per cent.

Graph 1: Percentage of Sweden's population (aged 18-74) who save in funds, excluding premium pensions, %



Source: Swedish Investment Fund Association, TNS Prospera

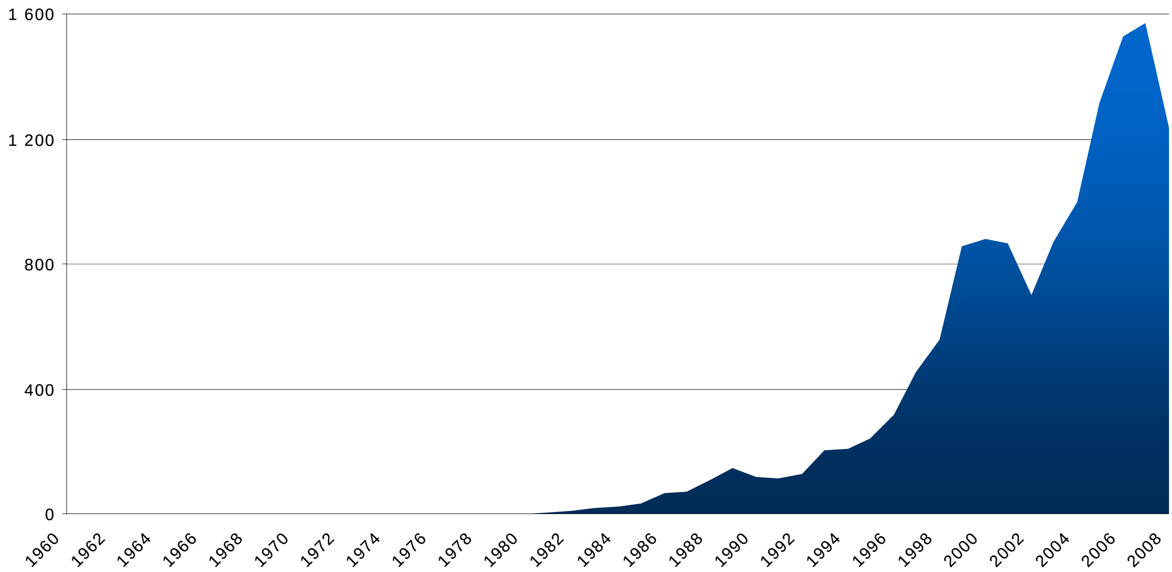
The Swedish investment fund market currently comprises over 4,000 funds and has net fund assets totalling ca. SEK 1,200 billion. Thirty years ago, when the Swedish Investment Fund Association was founded, there were 17 funds with a combined value of SEK 1 billion.

The past thirty years have seen a great many changes with regard to fund-related legislation, the range of funds on offer and their distribution. We have gone from funds that invested exclusively in Swedish shares to funds that invest all over the world, from a position where one could only save directly in funds to one where one can save in funds in a wide variety of different ways, particularly for pensions, and from funds accounting for an extremely small percentage of household savings to accounting for an ever increasing percentage thereof.

Chapters one to six of this report describe how the first funds were launched and what happened when Swedes, as a nation, turned into fund savers. Chapter seven describes equity- and bond market trends over the last 30 years and the ways in which these trends have affected fund saving.

1. Sweden gets a fund market

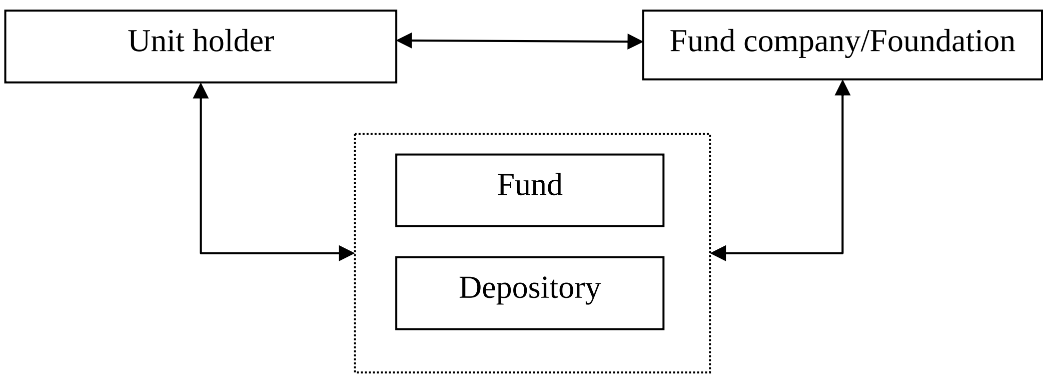
Graph 2: Fund asset development in Sweden, 1959-2008, SEK billion



Source: SOU 1969:16, Statistics Sweden, MoneyMate

The roots of Swedish investment fund saving lie back in the 1950s, when two brothers, Ragnar and Gösta Åhlén, heirs to the mail order firm of Åhlén & Holm and the Tempo department store chain, formed the foundation Aktietjänst in 1958, with the aim of promoting equity-based savings in Sweden. In May 1958, the foundation launched three funds under the collective name of Koncentra. One of these was a so-called open-end fund, which meant the savers could deposit and withdraw monies on a rolling basis – the equivalent of today's investment funds.

The inspiration came from the USA, where investment fund savings grew sharply in the 1940s. Swedish legislation did not, however, permit the legal model used in the USA to be copied, so the brothers used a tripartite construction instead, similar to the fund legislation introduced in West Germany in 1956. The foundation (later the fund management company) decided which assets should be bought/sold. The unit holders owned the assets. The depository stored the assets and ensured compliance with the statutes (later, the fund rules).



Aktietjänst managed the assets and issued equity fund certificates (fund units) to those who invested (unit holders). The Åhlén & Holm company acted as a general agent and sold the equity fund certificates to the public. The funds' assets were deposited with Handelsbanken. Two new equity funds, Högkoncentra and Lågkoncentra, were launched in February 1960.

Åhlén & Holm sold units in the funds directly and through banks and brokers. In 1964, the Åhlén brothers, using their mail order sales experience, launched a service whereby one or more units were sent out to individuals on a monthly basis, COD. 1967 saw the introduction of a so-called monthly account, into which round sums of between SEK 50 and SEK 500 could be deposited monthly for the purpose of purchasing fund units. The now widespread practice of monthly saving was, in other words, introduced when the very first funds were launched in Sweden.

The second foundation for the management of equity funds, known as Stiftelsen Nykterhetsfolkets aktiefonder, was launched in 1965. It was founded by the Swedish Temperance Alliance and its structure was almost identical to that of the Koncentra funds. The target group comprised members of the Alliance and others who shared their views on the temperance issue. The equity fund was called the A-fund and Aktie-Ansvar AB was appointed as general agents.

In 1967, Sparbankerna founded Sparinvest, the majority of whose operations were run by the newly launched equity fund management company, Robur. The same year also saw the launch by another bank, namely Skandinaviska banken, of Skandifond, which differed from other equity funds in that it invested in foreign equities, which was unusual in those days due to the currency regulation in force at the time.

By 1968, net fund assets in Sweden totalled SEK 136 million.

2. The first Investment Funds Act

The legal construction used when the first funds were launched meant that fund management businesses were not under governmental supervision. In 1960, the Swedish Financial Supervisory Authority wrote to the King in Council (the Swedish Government), stating that that the way in which equities had begun to be traded had changed in recent years, due to the launch of equity funds.

The Inspectorate stated that, *"there would seem to be no reason to prevent such a development… On the contrary, the efforts to diversify share ownership deserve to be encouraged as being intended to facilitate the financing of entrepreneurial activities."* The Inspectorate also pointed out that they had no control over these operations, which were aimed at customers who were unused to trading in equities and stated their belief that an investigative commission should, therefore, be set up.

The Equity Funds Commission was appointed in 1963 and submitted its report to Parliament in 1969. The attitude towards existing equity funds was, in general, positive. The Commission essentially proposed a legalisation of the existing structure and a formalisation of the tripartite structure (see page 7). It was, however, proposed that the foundations be replaced by limited companies which, after having applied for a licence to conduct investment fund operations, should be subject to the supervision of the Inspectorate and referred to as fund management companies. The first Investment Funds Act was adopted in 1974.

A European regulatory framework for funds – UCITS

In 1985, the EU issued a Directive regarding *"Undertakings for Collective Investments in Transferable Securities"*, known as UCITS for short.

The EU's aim, by harmonising the regulatory framework for funds in Europe, was to promote cross-border trading in funds. The member states implemented the Directive in 1989 and Sweden, which was then an EEA country, implemented the UCITS regulations via a new Investment Funds Act in 1991. The deliberations prior to the drafting of the Swedish Act also took into account the fact that Swedish savers were now more used to and knew more about fund investments. The new act freed up the market and encouraged product development. This was balanced by more extensive requirements with regard to risk spread and the information provided for unit holders.

In 2001, the EU adopted a new Directive (UCITS III), implemented by Sweden through the 2004 Investment Funds Act. Funds were now collectively referred to as investment funds, but could comprise either mutual funds that could be sold freely throughout Europe or special funds, subject to national regulation.

In January 2009, the EU adopted EU UCITS IV, which was designed to further promote the harmonisation of the European funds market. This Directive must be implemented by the member states no later than July 2011.

3. Fund saving – a popular movement

Tax-free funds

By 1976, most banks' product range included investment funds, but fund saving was still very limited and Swedish net fund assets totalled SEK 800 million.

It was not until the fiscally advantageous "tax-save" funds were introduced that interest in funds began to grow. In 1977, the then Minister of Finance, Gösta Bohman, appointed a Committee, known as the Save-As-You-Earn Committee, to investigate the potential for increasing household savings. The Committee's directive stated that the Swedish national economy was substantially unbalanced, and that the total savings in the economy were insufficient to supply companies with venture capital. Furthermore, the savings formats available at that time seldom offered any real return, due to the high rate of inflation. The Commission's investigation should also be viewed against the background of the contemporary social debate on the subject of corporate ownership. Bringing into being a type of private savings that could increase households' ownership of companies was regarded as an alternative to wage-earners' funds.

1978 saw the launch of tax-save funds that allowed savers to invest either in savings accounts or in equity funds. The tax-save funds were only allowed to invest in Swedish equities. Every one krona saved was 20 per cent deductible against income tax. The return was, furthermore, tax-free during the year in which the saving was made and for the following five years. Saving in tax-save funds was based on monthly deposits and the deposits were initially maximised at SEK 400 per month. The limit was subsequently raised to SEK 600.

Before the launch of the tax-save funds, there were 17 funds available on the Swedish market. Seven fund management companies launched tax-save funds, including Banco, Handelsbanken, Nordbanken, S-E-Banken and Sparbanken. Not many savers were initially attracted by the tax-save funds, and as a result, the tax reduction was increased to 30 per cent in 1980. This resulted in a marked increase in the number of tax-save accounts over the next few years.

The political debate also boosted interest. The non-socialist parties, who regarded a successful tax-save system as a form of insurance against wage-earners' funds, worked hard to persuade as many savers as possible to sign up before the parliamentary elections in 1982, and between 1979 and 1982, the number of savers increased from 75,500 to 425,000. Most people initially chose to save in tax-save accounts, but as stock market prices rose in the early 1980s, more and more chose to put their money in investment funds.

The Social Democrats won the election and appointed a Committee to review methods of stimulating household savings and the future of the tax-save funds.

The result was the "allemans" savings programmes.

"Allemans" funds

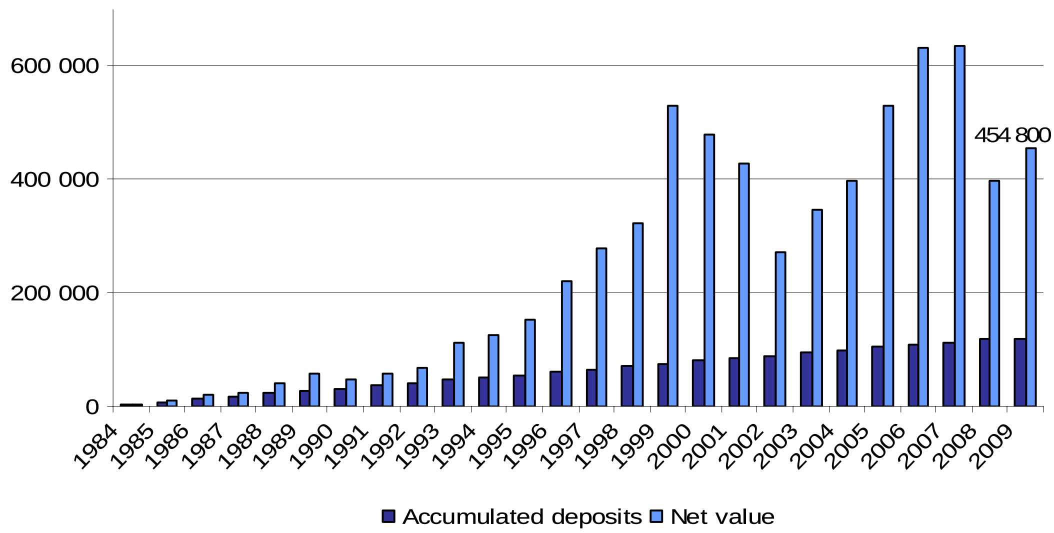
The "allemans" (every mans´ funds) savings programme was launched in April 1984, and included a fund savings alternative, namely "allemans" funds. The introduction of the "allemans" savings programmes resulted in a real breakthrough for funds amongst Swedish savers, and new groups of people began to save in funds. The 25 “allemans” funds launched were very similar to the tax-save funds. The differences included the composition of the Board of Directors of fund management companies, and the desire to increase the influence exerted by unit holders. The funds were also taxed differently from the tax-save funds, in that no deduction could be made against income. The return was, however, completely tax-free, irrespective of the length of the savings period.

The return on the “allemans” funds was completely tax-free until 1990 and savers could choose between fixed income saving in an account or equity-based saving in a fund. Everyone was allowed a maximum of two funds, one per fund account. Deposits in the “allemans” funds were initially maximised to SEK 800 per person per month, but the level was raised to SEK 1,200 in 1991, and then to SEK 2,000 in 1992. Extra deposits were permitted on a few occasions.

Tax on the returns was introduced in 1991, but the rate of taxation was set to 20 per cent, which was lower than the 30 per cent rate applicable to other capital gains. The “allemans” savings programmes lost their tax subsidy in 1997 and the “Allemans” Savings Programme Act was repealed in full on 1st July 1998, since when “allemans” funds have been subject to the same regulation as other equity funds.

A saver who has invested SEK 400 per month in an “allemans” fund with an average return since 1984 would, 25 years later (April 2009), have deposited SEK 120,000 and have a balance of SEK 454,800.

Graph 3: Monthly savings of SEK 400 in “allemans” funds, April 1984-April 2009, SEK



Source: MoneyMate

The tax-save and “allemans” funds made Swedes into fund savers, and by 1990, there were a total of 1.7 million “allemans” fund accounts. People gained experience of investing in the equity market, and they continued to do so, even when the tax subsidies had been removed.

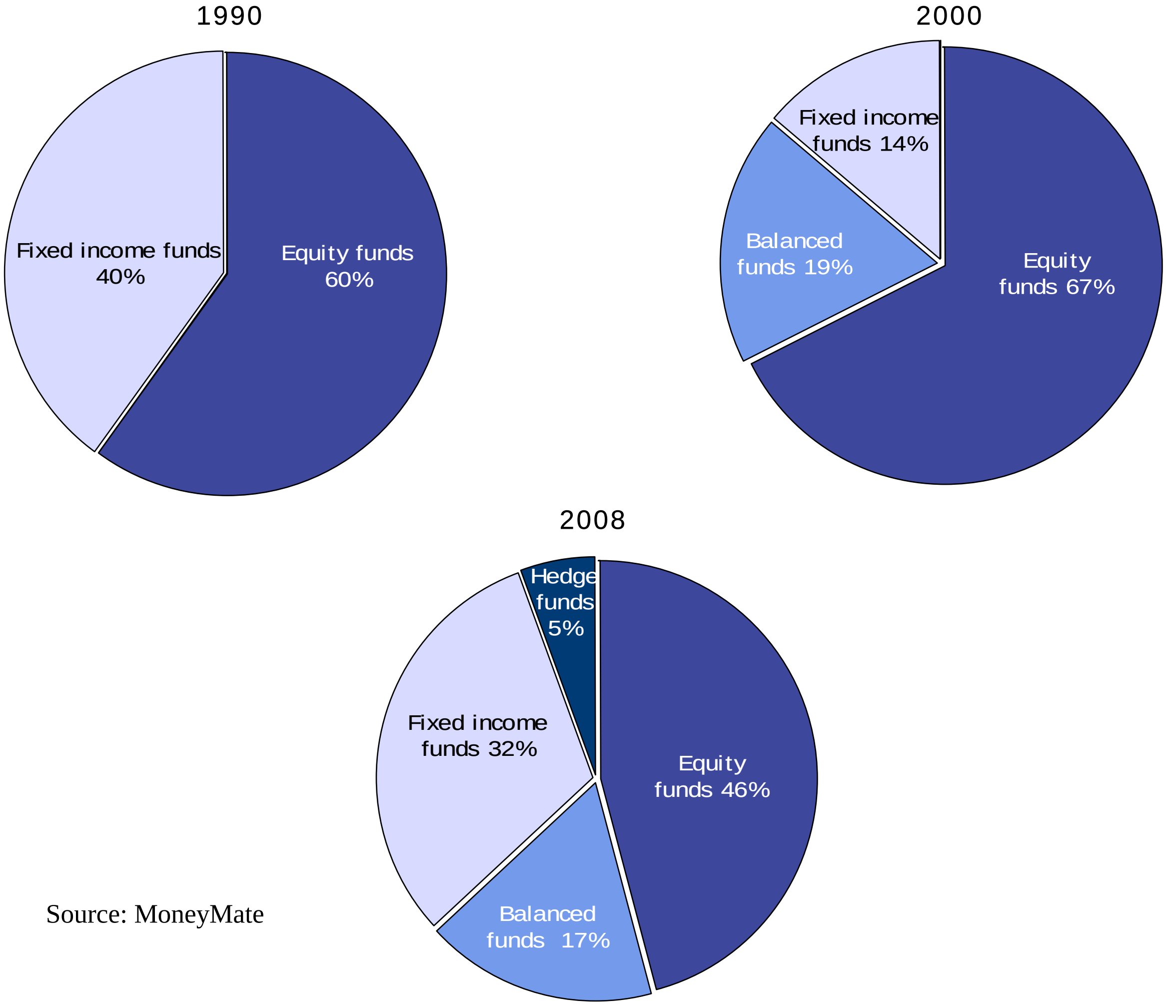
4. Fund saving diversifies

In 1990, the Swedish fund market comprised equity funds and fixed income funds only. Equity funds accounted for 60 per cent of net fund assets, and fixed income funds for 40 per cent. A combination of equity and fixed income funds, known as balanced funds, began to be sold in the 1990s, and by 2000, 19 per cent of net fund assets were invested in this type of fund. The level of saving in equity funds was high in the 1990s, and this, coupled with rising share prices, resulted in an increase in the market shares held by equity funds and a decrease in those held by fixed income funds.

The structure of the Swedish fund market has changed once again since the new millennium began. The weak performance by the stock market, in tandem with a strong performance by the bond market and an increase in new savings in fixed income funds, resulted in the market share of fixed income funds increasing from 14 per cent in 2000 to 32 per cent in 2008. The market share of equity funds fell during the same period from 67 per cent to 46 per cent.

Sweden’s first hedge funds were launched in the late 1990s and interest in them increased in the new millennium. Unlike in many other countries, Swedish savers can also invest small amounts in hedge funds, and by 2008, this type of fund accounted for 5 per cent of net fund assets.

Graph 4: Fund assets by fund type, %

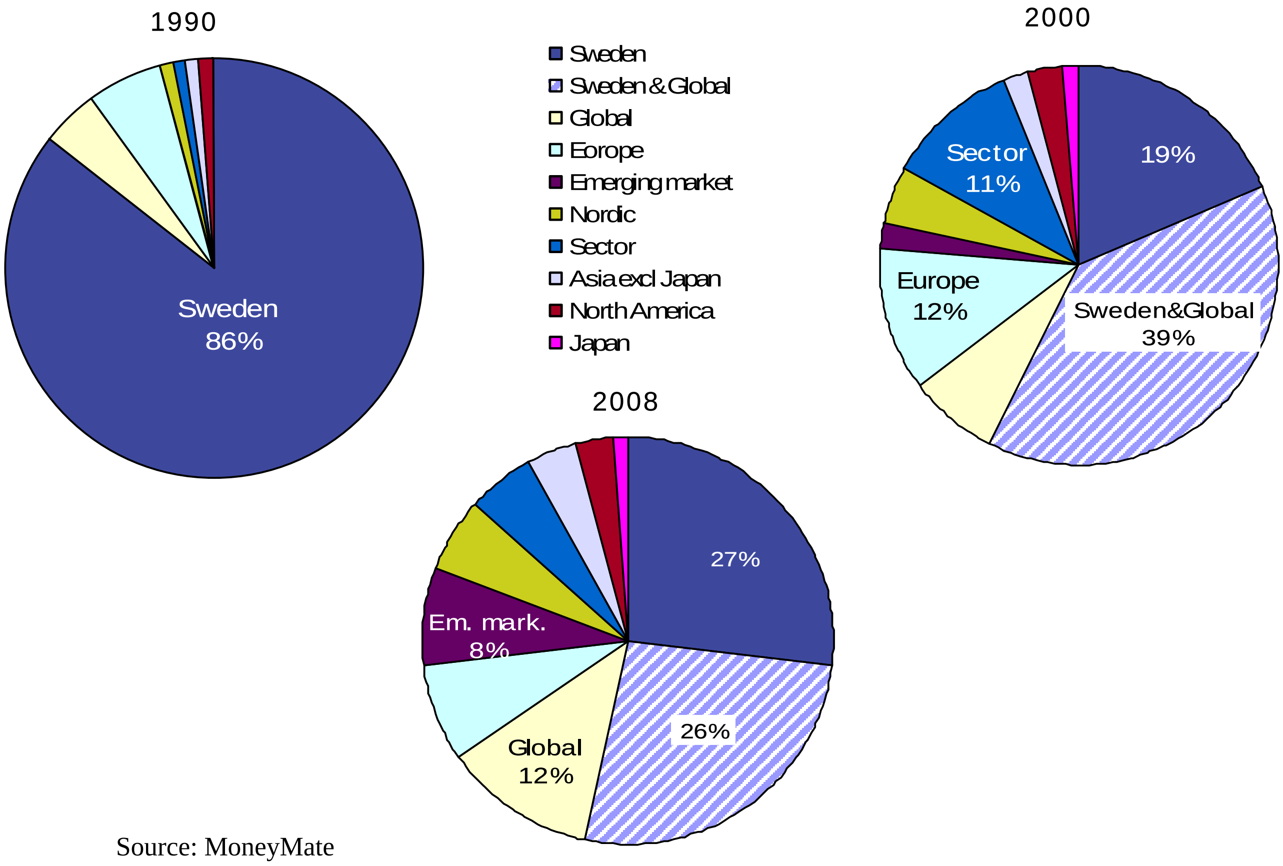


Source: MoneyMate

Equity funds in the 1980s focused exclusively, in principle, on the Swedish market because currency regulation made ownership of foreign shares difficult. Currency regulation gradually came to an end over the course of the decade and investment funds enabled savers to invest in other countries.

By 1990, investments in foreign equities (primarily global and European funds) accounted for 14 per cent of the equity funds' total fund assets. In 1997, the "allemans" funds were permitted to buy foreign shares and many funds changed their orientation at that point to also include investments in global equities. A number of new funds with different geographical or sector-based orientations have since emerged.

Graph 5: Equity funds, net fund assets by investment orientation, %



Source: MoneyMate

Pharmaceutical funds, and above all, IT funds, attracted many savers in the late 1990s, and by 2000, sector funds accounted for 11 per cent of equity funds' net fund assets. Emerging market funds also began to be launched more extensively in the late 1990s, with funds focusing on Eastern Europe, Russia and Latin America amongst the biggest. Asian funds and so-called BRIC funds, which invest in Brazil, Russia, India and China, began to be marketed more widely in the new millennium. In recent years, Africa funds and funds that invest in the Middle East have also been introduced.
This fund market trend is clearly illustrated in the charts above, which show that the dedicated Sweden funds' share of the total net fund assets in equity funds, which comprised 86 per cent in 1990, had fallen to 27 per cent by 2008. If the component of Sweden and global funds that is invested in Sweden is included, the percentage of funds that invest in Sweden rises to ca. 40 per cent.

Increased competition and new distribution formats in the fund market

Competition has increased in the Swedish investment fund market since the turn of the millennium, with the number of funds increasing from ca. 1,500 to over 4,000. Many foreign fund management companies have established a presence in Sweden and the banks’ dominance of the fund market has declined.

In 1999, the four biggest banks’ fund management companies accounted for 85 per cent of net fund assets. By 2008, the corresponding figure was 67 per cent, and, when looking at new savings, the fall was even bigger.

There are two key factors behind this trend: the increasing importance of fund saving for pensions has resulted in fund management companies with insurance links attracting a larger percentage of new savings, and technological developments, including the emergence of so-called fund marketplaces, have made it easier for new players with smaller in-house distribution networks to reach out to customers.

The last few years have seen both independent players and banks and fund management companies launch fund marketplaces where a wide range of own funds and external funds are offered.

5. From direct saving to pension saving

When fund saving was introduced, savers could only invest directly in funds, but in the 1990s, several new options for saving in funds were introduced.

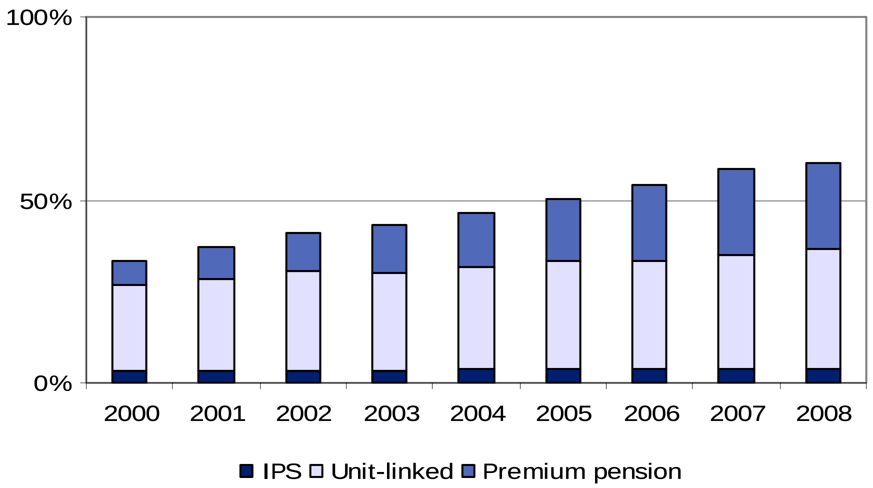
1990 saw the introduction of insurance-based, or unit-linked, funds. Unit-linked fund saving is a type of saving linked to insurance and offers the option of saving in either endowment insurance or pension insurance. There are no tax-related consequences to savers moving their money between different funds, because no tax is levied on capital gains. An annual yield tax, based on the value of the holding, is levied instead.

Individual pension saving, IPS, was introduced in January 1994 and gave private individuals the chance to invest their private pension savings in funds without any insurance link. Savers can save in IPS by buying units in funds, by buying individual securities, or by making deposits in a bank account. The same tax rules apply to IPS as to pension insurance. By the end of 2008, funds accounted for just under 90 per cent of total IPS savings.

A number of new occupational pension agreements were signed in the late 1990s and early part of this century, increasing employees' ability to influence the investment of their occupational pensions. All of the major occupational pension agreements concluded since 2003 includes the option of investing at least part of the occupational pension in funds.

A new Swedish national pension system was also approved in 1994. One of its new features was that a percentage – 2.5 per cent of the salary – would go to the premium pension system, which offered savers the chance to choose for themselves the funds in which they wished to invest their money. The first choice of premium pension funds was made in 2000.

Graph 6: Pension saving as a percentage of total household net fund assets, %

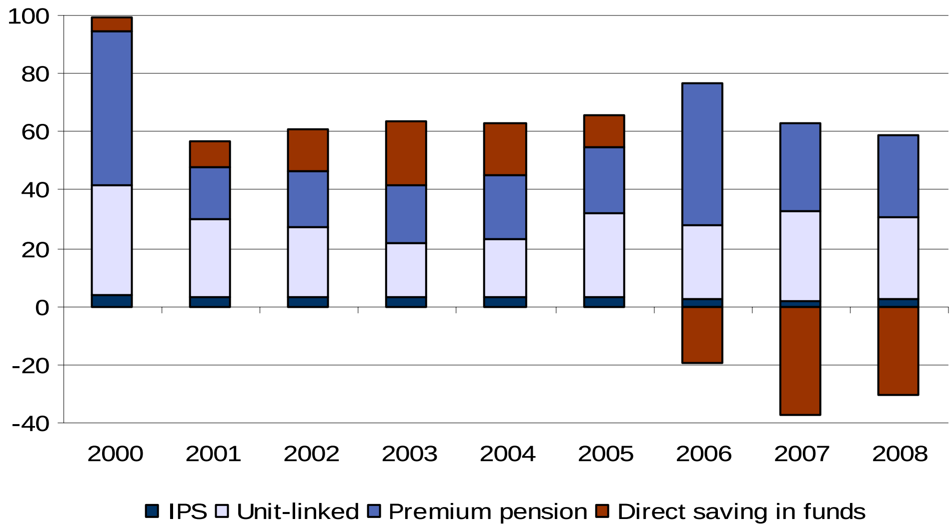


Source: The Swedish Investment Fund Association

Households' pension savings in funds are currently spread between IPS, unit-linked funds, and premium pensions, and its share of households´ total fund assets has increased over the past seven years from ca. 33 per cent of net fund assets in 2000 to their current level of ca. 60 per cent. The main increase has occurred in premium pensions' share of the fund market, from 7 per cent in 2000 to 23 per cent in 2008. Unit-linked funds and IPS currently account for 33 per cent and 4 per cent, respectively.

Net savings in pension-linked fund saving has remained at a high level since 2000, at around 70-80 per cent of households' total new savings.
Only the pension-linked fund savings sector reported net deposits between 2006 and 2008, while households' direct saving in funds reported net withdrawals.

Graph 7: Households' net saving in funds by category, 2000-2008, SEK m



Source: the Swedish Investment Fund Association

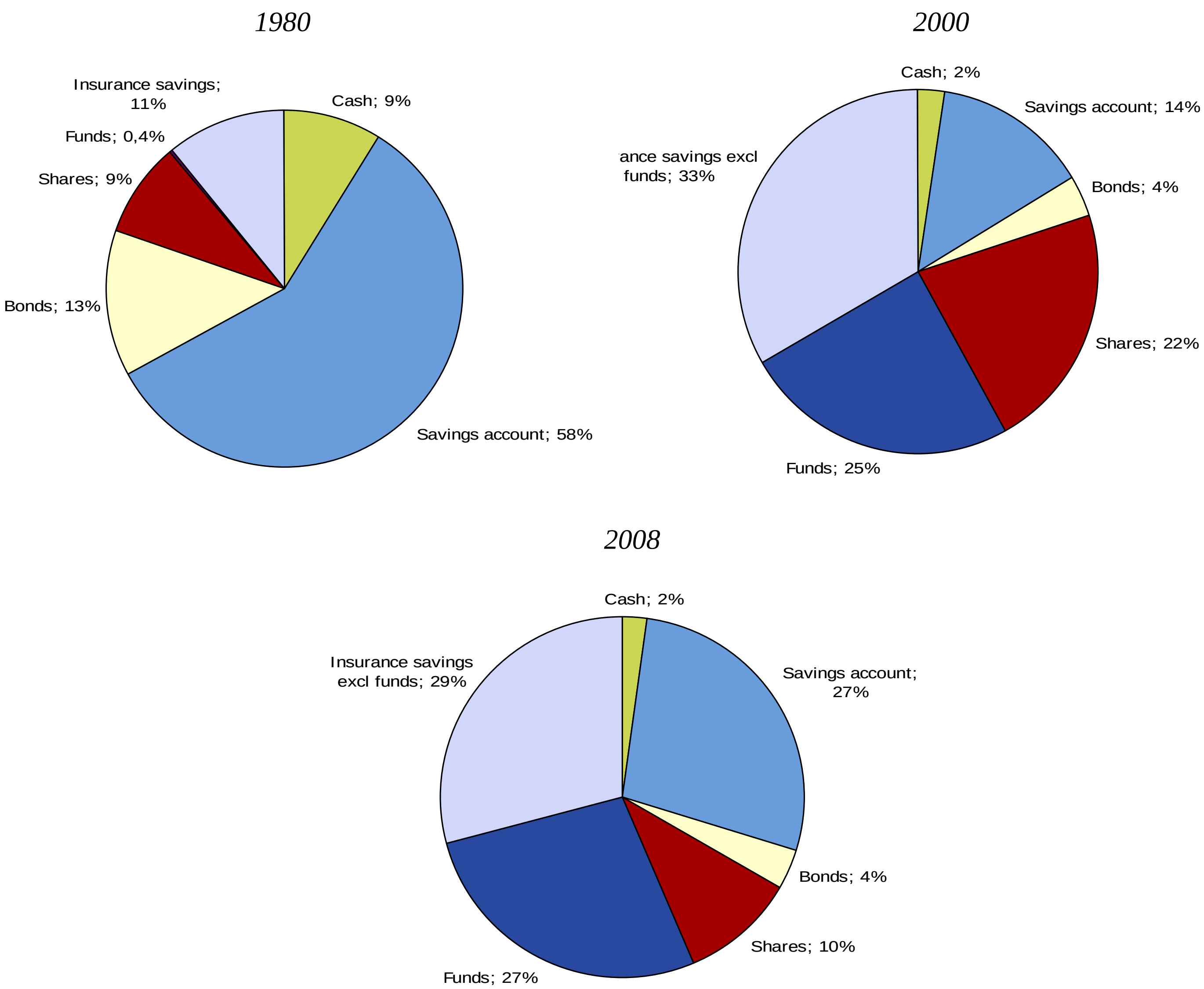
While households' direct saving in funds has varied over time, saving in unit-linked funds and for premium pensions have remained at a high level. This is naturally due to the fact that pension monies have largely been allocated automatically in conjunction with the payment of wages, but is also due to a substantial interest in private unit-linked funds.

As a result, pension saving constitutes the largest share of fund saving today.

6. Household savings

Fund savings' share of households' financial assets, including collective saving, totalled 0.4 per cent in 1980. The share has risen sharply since then and accounted for ca. 27 per cent in 2008. Savings accounts' share of households' portfolio has fallen sharply, from 58 per cent in 1980 to 27 per cent in 2008. Savings accounts constituted an even smaller percentage in 2000 (14%), but net savings in savings accounts have once again increased markedly during the latter half of the current decade in parallel with the stock market's negative value trend.

Graph 8: Households' financial assets, share



Source: Statistics Sweden, the Swedish Investment Fund Association

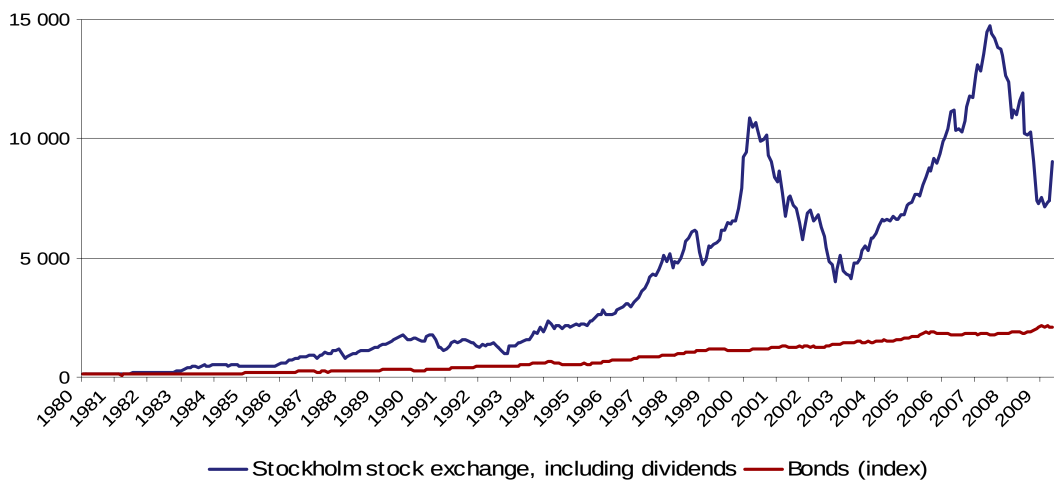
7. Equity- and bond market trends, 1980-2009

Fund saving has been possible since way back in the 1950s, but it was not until the last 30 years that fund saving really picked up speed. The dramatic development of the equity and interest rate markets has played a major part in boosting this development.

The Stockholm stock exchange rose by a staggering 8,900 per cent during the period from 1980 to 2009, corresponding to an average annual return of over 16 per cent. An investment of SEK 1,000 in early 1980 would, therefore, have grown to SEK 90,000 by the end of April 2009.

The unparalleled rise in value notwithstanding, the period has also included a number of steep price falls of varying durations. Two have occurred since the turn of the century and we are experiencing the most recent right now. The 30-year period has also seen sharp fluctuations in interest and inflation rates.

Graph 9: Equity- and bond market trends, 1980–30th April 2009, %



Source: The Riksbank, SIX and OMX

7.1. 1980s – From stagnation to stock market euphoria

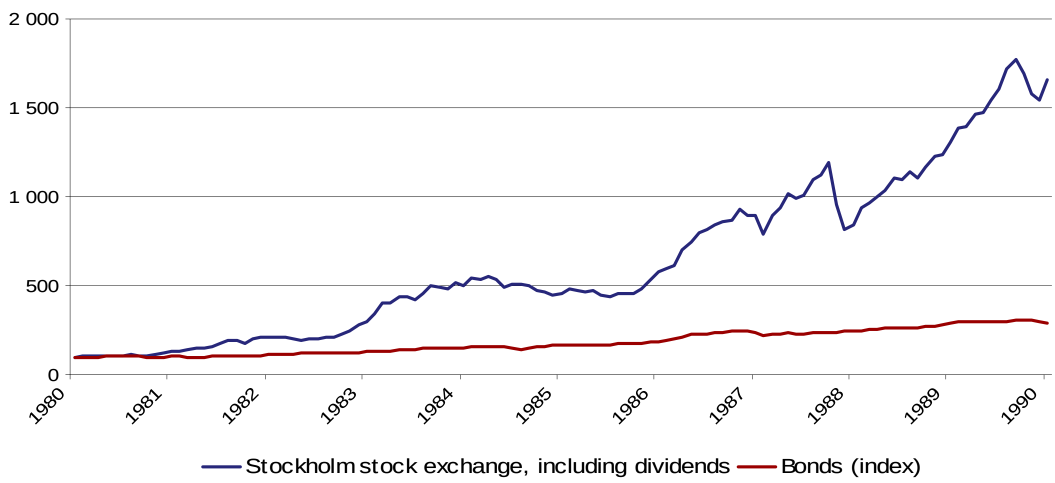
There was no substantial interest in the Swedish equity market in the early 1980s. The Stockholm stock exchange had been characterised by a greater or lesser degree of stagnation since the 1930s and turnover was, by today's standards, extremely low. The stock market was valued at a low level and many companies' market capitalisations were far below their net worth.

Perceptions of saving in equities changed during the 1980s, however, and the decade has been described as the rebirth of stock market trading. The introduction of tax-save and "allemans" funds, which made equity- and fund saving of interest to the general public, contributed to this transformation.

The increased interest in the equity market resulted in a dramatic increase in trading volumes, and the turnover record set on the Stockholm stock exchange in 1918 (measured in fixed prices) was finally broken in the 1980s.

In terms of returns, the 1980s was a fantastic decade for the Swedish equity market. The stock market index rose by a total of over 1,500 per cent, including dividends (32% per annum) during the decade, and many of the larger companies' experienced a ten-fold rise in their market capitalisation.

Graph 10: Equity- and bond market trends in the 1980s, %



Source: The Riksbank

It is clear that those who began saving in funds in conjunction with the introduction of the tax-save and "allemans" funds in the 1980s could scarcely have chosen a better time to start saving.

Due to the extreme equity market trend in the 1980s, it is not particularly clear from the graph above that long-term interest rates (bonds) also performed extremely well during the decade. The return on bonds during the 1980s totalled, on average, approximately 190 per cent, resulting in an average annual return of just over 11 per cent.

The credit market was also successively modernised during the 1980s. New instruments were introduced and the opportunity to trade in derivatives improved risk management.

7.2. 1990s – Financial crisis, internationalisation and IT boom

The 1990s began with a serious crisis in the banking and real estate sector, but the very serious hits suffered by bank and real estate company shares notwithstanding, the equity market as a whole performed relatively well.

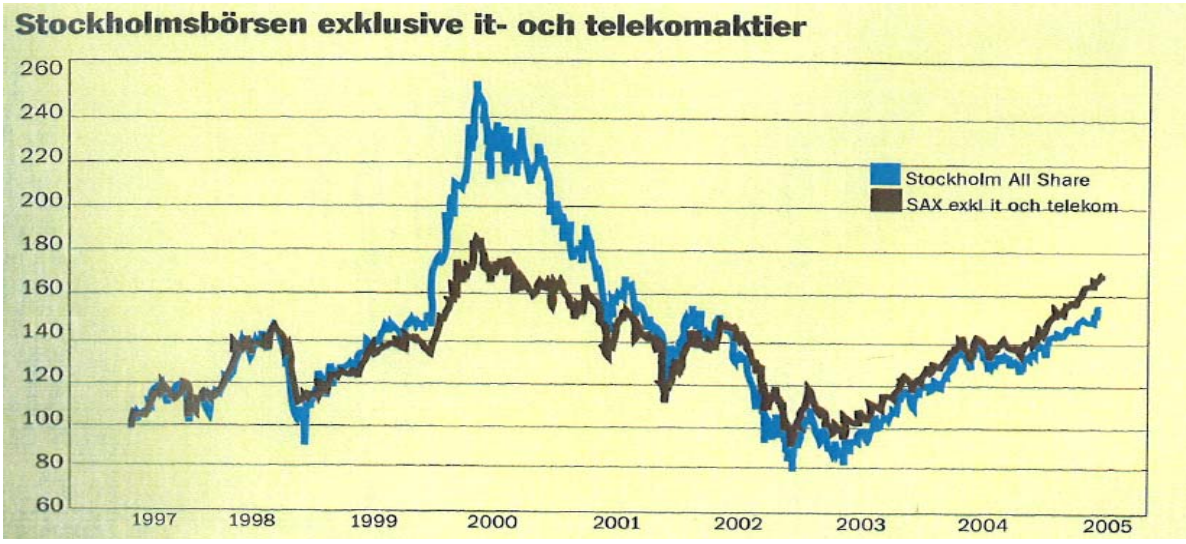
The early 1990s posed a real challenge, however, for the interest rate and foreign exchange market. A currency crisis resulted in the Riksbank being forced to raise the marginal rate on banks' loans with the Riksbank to shock levels, and at its peak, the rate was briefly set at 500 per cent. The goal of a fixed exchange rate proved to be unsustainable and the krona was allowed to float in November 1992. The fixed exchange rate target was abandoned and Sweden's monetary policy ever since has focused on an inflation target instead.

Fund savers' investment universe expanded in the 1990s as "allemans" funds began investing in other countries and fund savers invested new savings in equity funds orientated towards foreign shares.

The advance of the IT sector, which boosted the entire stock market dramatically at the end of the decade, was also a significant factor in the 1990s. The market madness that resulted from a remarkable rise in the value of shares in the IT and telecom sector continued into the new millennium. Ericsson's market capitalisation reached SEK 1,700 billion, corresponding at the time to one third of the total market value of the Stockholm stock exchange. This trend was reflected in the fund market, where the percentage of sector funds – dominated by IT funds – rose from an insignificant figure in 1990 to a substantial 11 per cent in 2000.

The IT bubble is illustrated in the graph below, where the two curves show the Stockholm stock exchange performance, including and excluding IT and telecom shares.

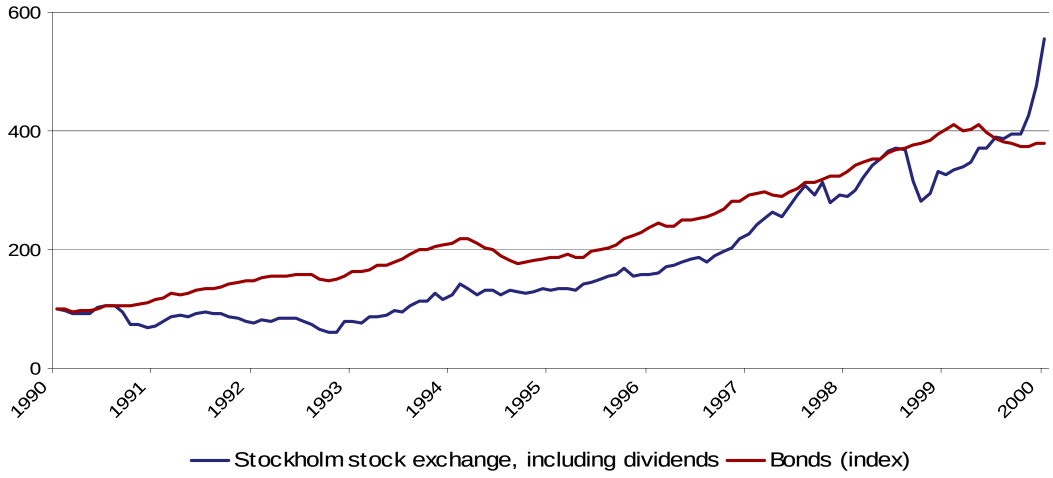
Graph 11: The Stockholm stock exchange, 1997-2005, excluding IT and telecom shares, %



Source: JCF Factset (taken from "Aktie- och Fondhandboken", Wilke Björn, 2005)

The value of the Stockholm stock exchange, including dividends, rose by just over 450 per cent during the 1990s, corresponding to an annual increase of ca. 19 per cent. In 1999 alone, the stock exchange rose by 70 per cent – the highest return ever for an individual year on the Stockholm stock market.

Graph 12: Equity- and bond market trends in the 1990s, %



Source: The Riksbank

The bond market also performed well during the 1990s due, in part, to the shift from high rates of inflation and high interest rates to low inflation and low interest rates.

Sharp cuts in interest rates benefitted investments in bonds, and bonds yielded an average per annum return in excess of 14 per cent in the 1990s.

7.3. 2000s – Stock market rollercoaster in the new millennium

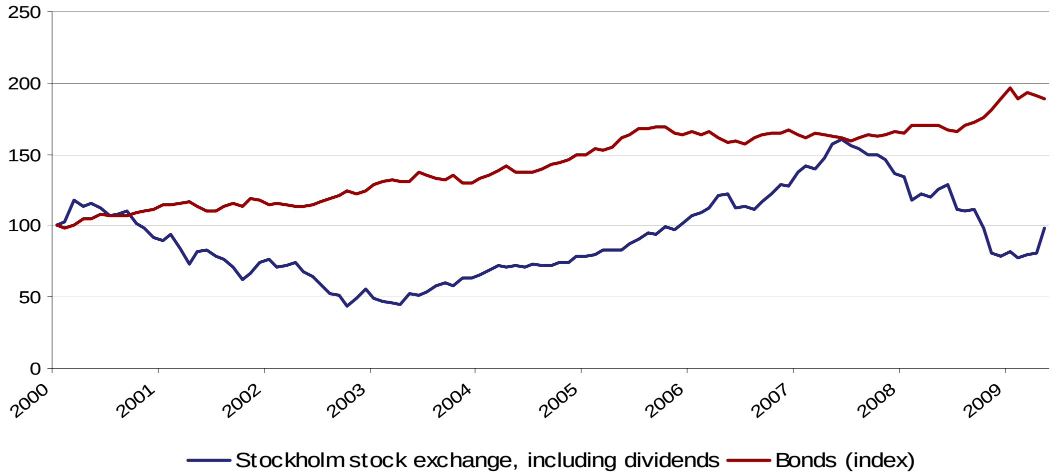
The speculation bubble that had boosted the Stockholm stock exchange so sharply in the late 1990s burst, only a couple of months into the new millennium. The market downturn that followed lasted for the first three years of the new century and the value of the Stockholm stock market was halved.

It was not until March 2003 that the market began to rise again, and a lasting stock market upturn then continued until the summer of 2007. The fact that inflation was kept at attractively low levels during this period meant that the four-year period yielded a very good return in real terms.

But the all time high reached by the value of the Stockholm stock market in the summer of 2007 was followed immediately by the next stock market crash. A credit crisis in the American housing loans market developed into a worldwide financial crisis that is still ongoing.

By April 2009, the value of the Stockholm stock exchange had fallen by 2 per cent since the start of the new millennium – a decline due, in large part, to a stock market crash of around 40 per cent in 2008.

Graph 13: Equity- and bond market trends in the new millennium (up to and including 30th April 2009), %

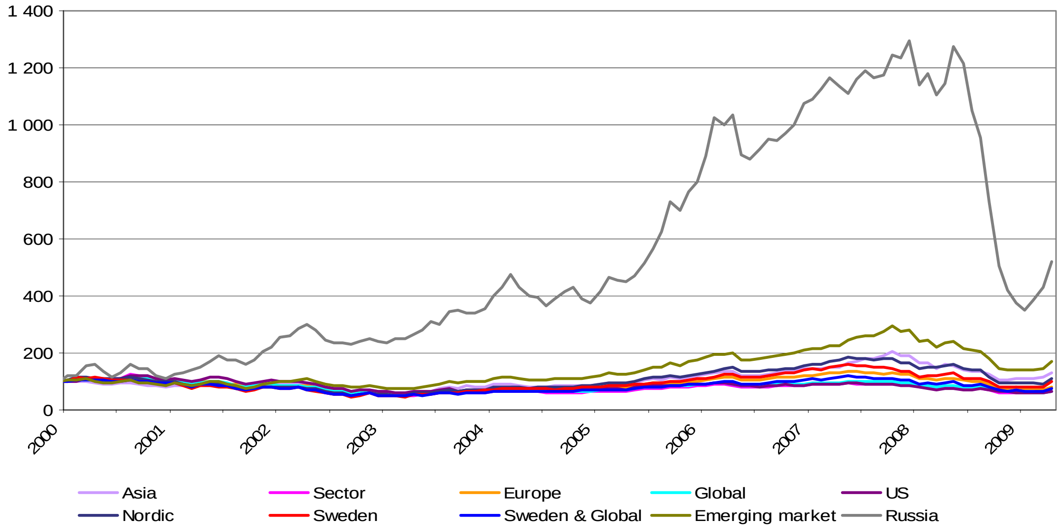


Source: The Riksbank, SIX and OMX

The stock market downturn since the turn of the century resulted in both bond funds and money market funds posting better results than both equity funds and balanced funds. This trend is in clear contrast to the trend experienced by savers in the 1980s and 1990s, when equity funds generated a substantially higher return than fixed income funds.

It should be noted that despite fixed income funds having generated a better average return than equity funds in the new century, there are some types of equity funds that have reported good results. Emerging market funds, for example, have reported good returns and the performance by Russia funds has been exceptional.

Graph 14: Performance by equity funds with different investment orientations (up to and including 30th April 2009), %



Source: Morningstar Fund index

Performance by equity funds with different investment orientations, %			
	2000-2008	Average annual return 2000-2008	2009
Russia	276	15,8	39
Emerging market	41	3,9	19
Asia	9	0,9	19
Nordic	-6	-0,7	16
Sweden	-19	-2,3	21
Europe	-22	-2,7	2
Sweden & Global	-32	-4,2	12
Global	-37	-5,0	6
US	-40	-5,5	8
Sector	-41	-5,7	9

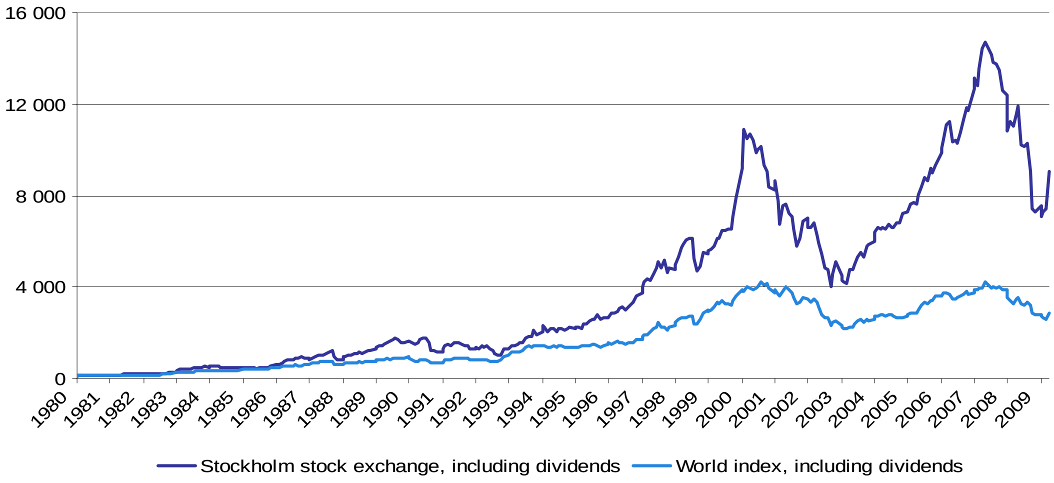
Source: Morningstar Fund index

7.4. Global index during the period from 1980 to 2009

The Swedish stock exchange has, on average, risen by more than the global index during the period from 1980 up to and including April 2009, but has also been more volatile. While the Stockholm stock exchange has risen by just over 16 per cent per annum, Morgan Stanley's global index, MSCI World, has yielded a return of ca. 12 per cent per annum in Swedish kronor. Over a period of this length, this means that the return yielded by the Stockholm stock exchange is three times as high as that yielded by the global index.

The return for Swedish savers on investments in foreign shares is affected by exchange rates trends. The graph below shows MSCI World, converted from US dollars to Swedish kronor, in order to show the returns that a Swedish fund saver would have gained if he or she had invested in a fund that tracked this index. In US dollars, the return for MSCI World during the period was just under 10 per cent per annum, but the dollar has strengthened by almost 100 per cent against the Swedish krona during the same period, which benefits Swedish savers.

Graph 15: MSCI World performance (SEK) in comparison with the Stockholm stock exchange, 1980-30th April 2009, %



Source: The Riksbank, SIX and MSCI

Afterword – questions for the decade ahead

Someone allegedly said that “the future isn’t what it used to be”. In 1979, no one knew what the 1980s would bring, and in 1989, the 1990s were unknown territory.

The USA’s former Secretary of State, Henry Kissinger, is said to have been in Berlin just before 9th November 1989 and expressed his belief that it would be many years before the Berlin Wall would come down.
In 1999, it was widely held that we were living in a new world of the internet and globalisation and that the rapid rate of growth in the IT sector was sustainable. When the bubble burst, it became apparent that many of the old truths still held

2008 was a terrible year in the financial sector. No one knows for certain what the consequences will be for the real economy in the next decade, with forecasts varying from the most gloomy to optimism that this will be the best decade ever.

We have a new administration in the USA and an expanded EU that will lead to a stronger and more peaceful Europe. Poverty is declining in many of the world’s emerging states, and growth in these countries does not pose a threat to the “old world” – it can help mean strong economic performance for everyone.

Dare we hope that there will be peace in the Middle East?
Will the world get to grips with climate change and environmental threats?
Can industry re-set its production in tune with new demand?
Will we see more long-term sustainable and responsible investments?
Is deflation or inflation around the corner, after stimulus packages and record low interest rates?
Will global imbalances shrink?
What is the best way to adapt to demographic trends?

And where do investment funds come into the picture?

Saving is vital to a healthy economic performance and is a prerequisite for liquidity and investments in society. Funds are a savings format for today. They are very well suited to defined contribution-based premium pension systems. They are one of the most transparent savings formats and offer risk spreads, over both time and space. The return is shown net after all fees and costs have been deducted and the unit price is set every day. The regulatory framework for funds can inspire other types of savings where transparency has been more problematic in recent years and which contributed to the massive crisis of 2008.

But the investment fund sector can also improve and develop. Competition can increase and the playing field can become more global, which is the goal of the EU’s new regulations for a common European fund market. Alternative distribution formats are part of the new solutions being proposed. Good financial advice and information are, together with increased know-how, absolutely key. The whole world is talking about “transparency, integrity, investor protection and education”.

Last but not least, it’s about creating the future that we would all like to see!

Hanna Helgesson *Fredrik Hård* *Pia Nilsson* *Fredrik Pettersson*

Glossary

Balanced fund
A fund that invests in both equities and interest-bearing securities. The equity/interest-bearing securities breakdown differs from one balanced fund to another and their investments are steered by the fund's chosen strategy.

Emerging market fund
An emerging market fund is an equity fund that invests at least 80 per cent of its net fund assets in emerging markets. The emerging markets category includes Eastern Europe, large parts of Asia, Africa and Latin America.

Equity fund
An equity fund is a fund that invests at least 85 per cent of its net fund assets in equities or equity-related financial instruments.

Fixed income fund
A fixed income fund is a fund that invests 100 per cent of its net fund assets in interest-bearing securities, i.e. in bonds and treasury bills.

Fund index
A fund index shows the average return for funds with a similar investment orientation.

Fund of funds
Funds that invest in other funds.

Hedge fund
Hedge funds are special funds and hence have a freer investment orientation than mutual funds. Their goal is to yield a positive return, irrespective of market performance. There are both high and low risk hedge funds.

Index fund
Funds that track an index by investing in the equities included in the index.

Investment fund
The overall name given to savings funds. Investment funds are divided into mutual funds, which comply with EU directives and may be sold freely within Europe, and special funds – see separate heading.

IPS, Individual Pension Saving
IPS is a form of pension saving with tax-deductible deposits. The savings format offers considerable freedom in the choice of investments in funds, equities or in savings accounts.

MSCI World
MSCI World shows the average performance of the world's stock exchanges (23 countries are included) including dividends.

Net savings
Capital deposited minus capital withdrawn during a given period.

Premium pension
The Premium pension is a minor component of the state pension. 2.5 per cent of salaries are allocated every year to the premium pension, with pension savers allowed to choose funds for themselves.

Return
The increase in the value of an investment. May accrue to the fund saver as a capital gain or dividend.

Sector fund
Investment fund which buys 80 per cent of its equities within a specific sector, such as pharmaceuticals, real estate, etc.

SIXRX
The Six Return Index (SIXRX) shows the average performance by the Stockholm stock exchange, including dividends.

Special fund
Funds licensed by the Swedish Financial Supervisory Authority to deviate in some respect from the UCITS regulations.

UCITS
Stands for Undertaking for Collective Investments in Transferable Securities and is the name given to funds comprised by an EU Directive (investment funds). The Directive allows UCITS funds licensed in one EU member state to be marketed freely in all EU member states.

Unit-linked funds
A long-term insurance-based saving that invests in funds. The saver can move their money from one fund to another within the insurance company's offering without tax consequences.