Fund market development, 1979-2019
– How Sweden became a world leader in fund saving

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Summary

The Swedish Investment Fund Association celebrates its 40th birthday in 2019, which seemed to us to be the perfect time to look back on the ways in which fund saving and the investment fund market have developed over the 40 years from 1979 to 2019.

Forty years is a long time and a great deal has happened. Statistics are a good way of showing the development in net savings, net fund assets, and returns, but we have also attempted to identify and highlight what lies beyond the numerical trends. What is striking is how important the effect of forward-looking political decisions has been on households' fund savings. And it is this, coupled with the innovativeness of fund management companies, that has helped bring about the fantastic development we have seen over the years.

The report starts by describing the state of the (fund) market in 1979. This is followed by accounts of development during each of the subsequent decades with regard both to fund saving and the fund market, and to the equity and fixed income market. There are also four sections presenting some of the long-term trends that have characterised the period. And finally, we widen our view slightly in the form of a chapter describing the way in which households' savings have developed over the past 40 years. And we have also, from time to time, attempted to sneak in a bit of information on the development of the Swedish Investment Fund Association.

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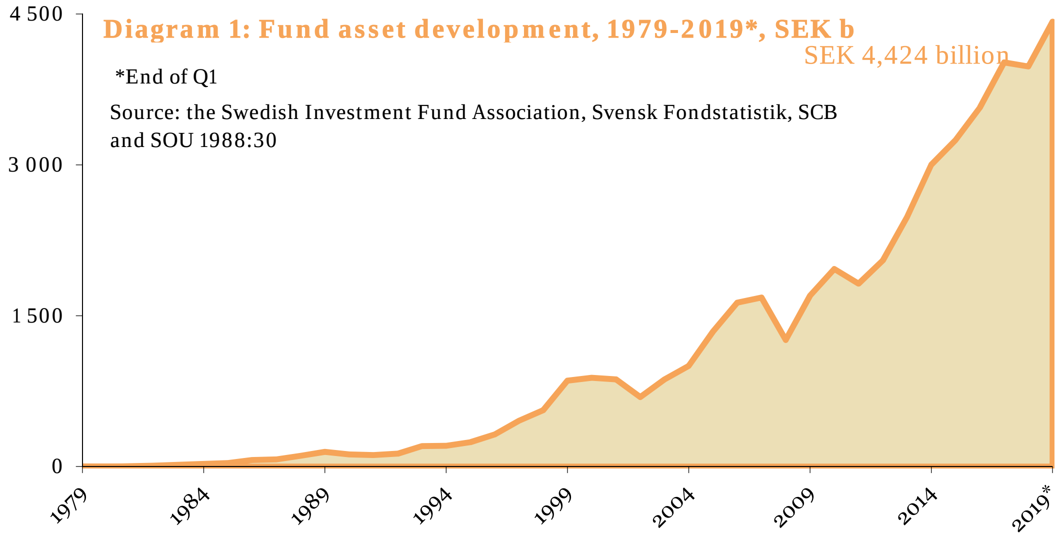
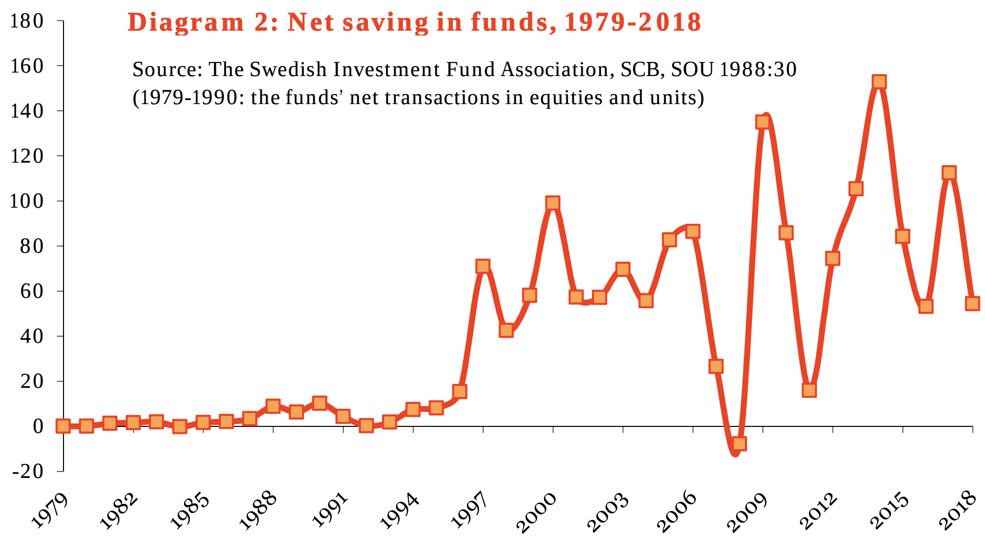
Introduction

In March 2019, Swedish net fund assets totalled SEK 4,424 billion. When the Swedish Investment Fund Association was founded, 40 years ago, it totalled SEK 1 billion. Many factors have contributed to this fantastic performance, such as forward-looking political decisions (of which Tax Save ("Skattespar"), Public Savings ("Allemansspar"), and the premium pension system are the most important), financially sophisticated households in comparison with other countries (with very high levels of equity market participation), and a fantastic growth in value (the Stockholm Stock Market has risen by an average of 15.8% per annum during the period) are probably the key factors behind the development.



The performance of new savings in funds has been variable, albeit increasing, over the past 40 years. A net average of SEK 41 billion has been saved per annum, and the corresponding figure for the period from 1994-2018 (when the Swedish Investment Fund Association has collected statistics) totals SEK 64 billion per annum. A net total of SEK 1,650 billion has been saved (1979-2018), corresponding to approximately 40% of the increase in net fund assets.



The widespread nature of its fund saving makes Sweden unique – there is no other country in the world where people save in funds to the same extent as they do in Sweden, with 8 out of every 10 adult Swedes saving in funds, over and above their premium pension savings. If premium pension savings are included, we are, in principle, all fund savers.

The Swedish Investment Fund Association

The Swedish Society of Unit Trusts[1] was formed in 1979 and changed its name, 10 years later, to the Swedish Investment Fund Association. The aim, in conjunction with the founding, was to:

- promote equity fund operations in Sweden;
- assert the common interests of unit holders in dealings with authorities and legislative bodies;
- work to promote an efficient system of trading in securities; and
- to act as the contact body for fund management companies in Sweden.

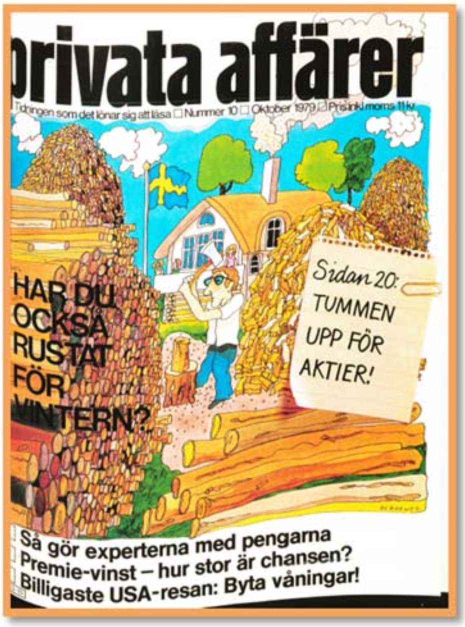
The fund market in 1979

The fund market in 1979, when the Swedish Investment Fund Association was founded, was a very different beast from the one we know today. Five years earlier, in 1974, Sweden's first fund law (the Swedish Investment Funds Act) had been introduced, and in 1978, the non-socialist coalition government introduced the Tax Save savings reform ("Skattespar") that included both savings in banks and what were known as Equity Savings Funds ("Aktiesparfonder"), which were a tax-save form of fund saving offering tax-free status for returns and a 20% deduction against income tax. The report that preceded the legislation (Ds E 1978:1) stated that Sweden needed a savings format that "would be directly capable of stimulating capital formation in the corporate sector". According to SCB, there were 24 funds available on the Swedish market in 1979. 7 of them were Equity Savings Funds, and the fund management companies involved included Banco, Handelsbanken, Nordbanken, S-E-Banken and Sparbanken. The remaining 17 funds were designated as equity funds and, unlike Equity Savings Funds, were permitted to invest in foreign shares. In 1979, the combined net fund assets in Sweden totalled approximately SEK 1 billion.

The monthly magazine, Privata affärer, was also launched at this time (no. 1 was published on 28 Dec. 1978). During its first few years, the magazine wrote extensively on how to keep track both of one's expenses and of investments, with permanent sections on stamps, antiques, and equities, amongst other things. The

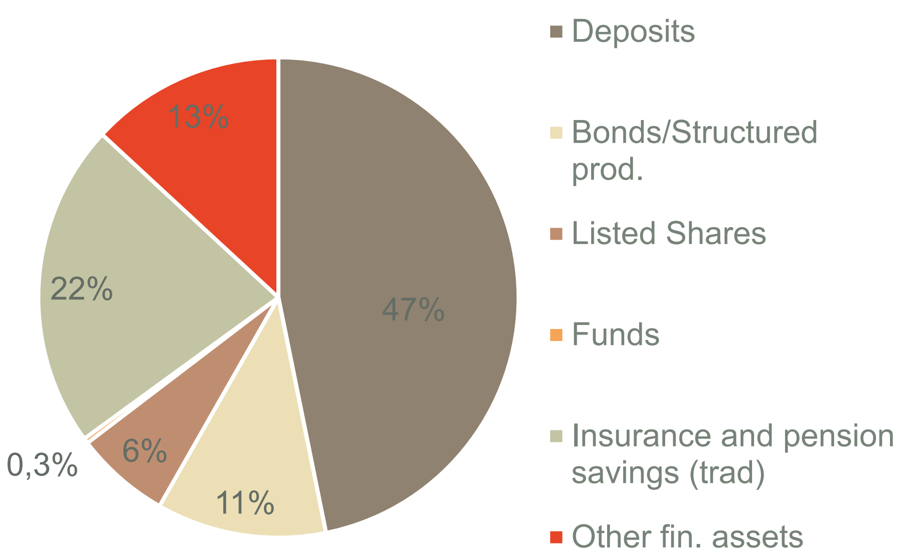
[1] Influenced by British legislation, the organisation adopted, as its English-language name, "The Swedish Society of Unit Trusts". Nowadays, it is known as The Swedish Investment Fund Association.

fact that these were different times is apparent from, amongst other things, recurring articles on investments in precious stones, but is perhaps even clearer from the letters to the editor. A private individual from Borås attached a picture of two elephant tusks that he wanted to be valued. The response was that the value could be thought to be relatively high, due to the fact that new rules preventing the trade in ivory was expected to lead to a shortage in supply. Relatively little attention does, however, appear to have been paid to funds in 1979, although there were two advertisements promoting funds. One was from Skandinaviska Enskilda Banken, which was launching a bond fund – "The first of its kind in Sweden". The fact that funds were something new is also apparent from the fact that much of the advertisement is dedicated to explaining how a fund works, in purely practical terms.



It is, perhaps, not overly surprising that the magazine didn't pay much attention to funds in 1979. Only 0.3% of households' financial portfolio at this time comprised funds, whereas almost 50% were to be found in bank deposit accounts.

Diagram 3: Households' financial assets, 1980



Source: SCB, excluding unlisted shares

40 years on, it is clear that the majority of funds still have the same underlying structure and functionality as then but that a great deal has happened with regard both to the regulations governing consumer protection for funds and to the services relating to the funds.

Funds today form part of occupational pension schemes, the premium pension system, and savings formats such as ISK (Investment Savings Accounts) and endowment insurance. Funds are sold with or without advisory services, and when advice is provided, it can take the form of a face to face meeting or – increasingly commonly – it is provided via a robot advisor. Funds can now be bought via the stock exchange as ETFs (Exchange Traded Funds) or via fund platforms, but are increasingly seldom bought directly from fund management companies. Funds' orientation has also evolved from equity funds which, in principle, invested exclusively in Swedish equities, to the current situation with funds that invest in developing countries and a range of specific sectors, and a variety of management styles, such as dedicated index funds. The Swedish fund market's development is also, in many respects, a consequence of a number of forward-looking political initiatives.

Fund saving takes off

In the 1980s, the man on the Swedish street was introduced to funds, equities, and the financial markets, largely thanks to the introduction and growth of the public savings funds known as "Allemans" funds.

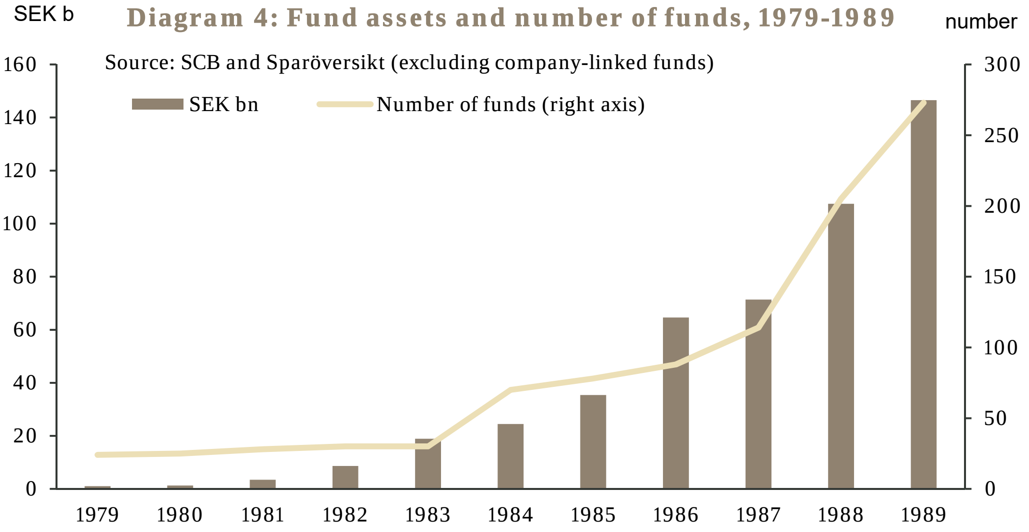
When the Swedish Investment Fund Association was founded in 1979, its membership mainly comprised bank-owned fund management companies. Only banks provided the tax-advantageous Equity Savings Funds, but this was a time when political interest in savings issues was considerable, and a number of measures were discussed as it was widely held that there was a need to promote savings. The non-socialist coalition government of the day had introduced Tax-Save in 1978, with the specific aim of stimulating capital formation in society, and 1981 saw the introduction of the option of launching so-called company-linked Equity Savings Funds. This allowed limited companies listed on the Stockholm Stock Exchange to offer their employees the chance to invest in funds which invested in their own company's/corporate Group's equities. A relatively large number of companies did precisely that, and as a result, there were more company-linked Equity Savings Funds (61 in total) than other funds (30) by 1983. The majority of these funds were not, however, open to the public and there were only 60,000 accounts holding a total of SEK 0.8 billion in assets. This move was, however, important to the composition of the Swedish Investment Fund Association in that the new fund management companies resulted in a diversification of the Association's member companies.

The tax subsidy notwithstanding, the Equity Savings Funds were not particularly popular with households during their first few years. The tax deduction was consequently raised to 30% in 1980 and the next three years saw deposits take off. One of the reasons for the increase in popularity was that the Social Democratic government that came to power in 1982 criticised the Equity Savings Funds programme for being too generous – which naturally resulted in many private individuals becoming interested. By 1983, there were 520,000 Equity Savings Fund accounts with combined assets of around SEK 8 billion. The Government appointed a Committee which decided, in 1984, to replace the Equity Savings Funds with the "Allemans" public saving funds. The primary reason given was that it was (still) important to increase households' savings across a broad base and to satisfy trade and industry's need for venture capital[2]. Another of the "Allemans" fund objectives was to increase competition and reduce the concentration of power. Equity Savings Funds had been available solely from the banks and the aim of the "Allemans" funds was to facilitate the process for other companies, too[3].

[2] SOU 1994:50 Allemanssparandet – en översyn. [Public Savings – an overview] p. 89.

[3] Govt. Bill. 1983/84:30 on Public Savings, p. 35.

Diagram 4: Fund assets and number of funds, 1979-1989



The “Allemans” programme allowed savers to choose between saving in an account or an equity fund (“Allemans” fund). The return was completely tax-free until 1990, and the upper limit on deposits in the “Allemans” funds was initially set at SEK 800 per person per month, rising to SEK 1,200 in 1991, and then to SEK 2,000 in 1992. Extra deposits were, furthermore, permitted on certain occasions.

The introduction of the “Allemans” funds was when fund saving in Sweden really took off. The fund management companies saw a massive influx of customers, resulting in various administrative complications, including the fact that an “Allemans” fund could not have more than 75,000 savers, and that a fund management company was allowed a maximum of one “Allemans” fund. The reason for this was the desire to ensure substantial unit holder influence, and this was thought likely to fall if the number of unit holders became too great. This resulted in the banks, which had the largest customer numbers, creating copies of the funds, e.g. Allemansfond 1, Allemansfond 2, etc., each of which had an associated fund management company with its own Board of Directors.

Net fund assets grew rapidly, and funds’ share of the Stockholm Stock Exchange rose from 2% in 1980 to 10% in 1989, all largely due to the increase in savings in “Allemans” funds.

Tax on the “Allemans” fund 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.

The late 1980s also saw foreign fund management companies setting up shop in the Swedish funds market, with Fleming Flagship (now JP Morgan) and Fidelity amongst the first. One of the challenges these companies faced was distribution.

Banks and insurance companies had their own fund management companies and did not sell external funds. Independent insurance brokers became a means of attempting to break into the market.

During the first 10 years of its existence, the Swedish Investment Fund Association's ongoing work was conducted without the benefit of a secretariat function. The work initially primarily involved responding to reports circulated for comment, and representing the savings format in dealings with the authorities. In 1989, the Swedish Investment Fund Association set up a secretariat in the Industrihuset building at Storgatan 19 in Stockholm and a Head of the Secretariat was employed. 1989 also saw the Association change its name and the formation of a service company which was tasked with administering the Association's financial operations. The Association had 40 members at this time.

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The Equity Savings Funds and "Allemans" funds made Swedes into a nation of fund savers. By 1990, there were 1.7 million "Allemans" fund accounts. Savers gained experience of investing in the equity market and learned about the benefits of monthly saving – and they continued to do so, even after the tax subsidy was removed.

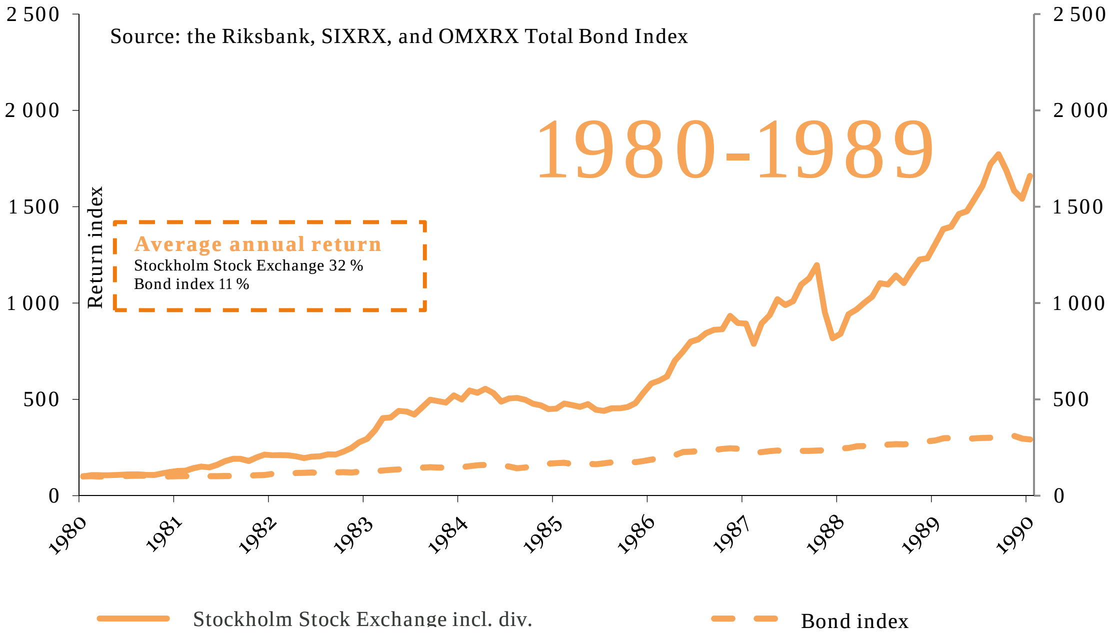
The equity and fixed income market: the 1980s – from stagnation to stock market euphoria

There was no substantial interest in the Swedish equity market in the early 1980s. The Stockholm Stock Exchange had been characterised by stagnation since the 1930s, and turnover was minimal. The stock market value was low and many companies' market capitalisations were far below their net worth. The 1980s, however, saw what has come to be described as the rebirth of stock market trading. One of the reasons for the new-found interest was the introduction of the Tax Save and "Allemans" funds, which made equity- and fund saving of interest to the general public. The increased interest resulted in a dramatic increase in trading volumes and the old turnover record set on the Stockholm Stock Exchange in 1918 was finally broken.

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. 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

Diagram 5: Equity and fixed income market trends in the 1980s

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 very 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.

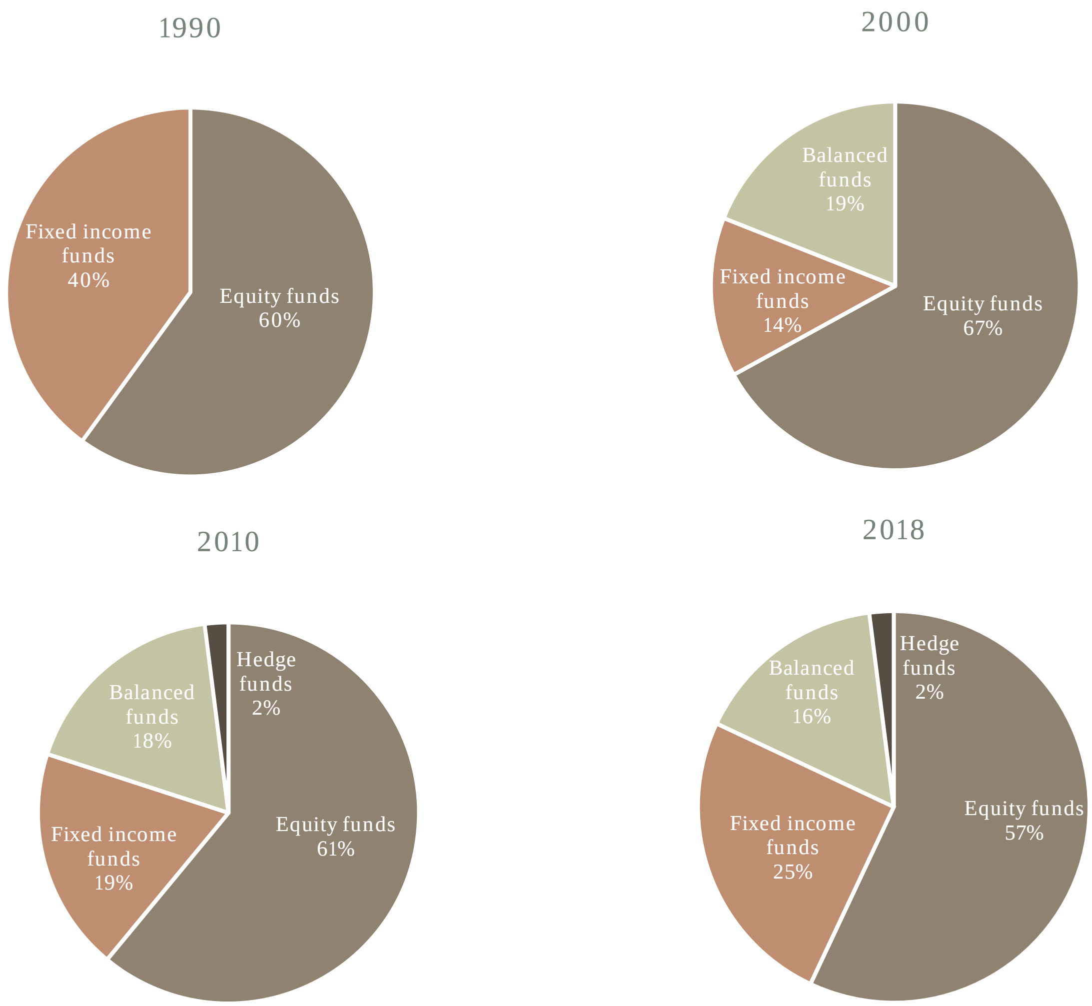
Balanced funds gain ground

The 1990s saw Swedes' fund saving develop and their options for diversification increase.

In 1990, the Swedish fund market comprised only two types of funds: equity funds and fixed income funds. Equity funds accounted for 60 per cent of net fund assets, and fixed income funds for the remaining 40 per cent. In the 1990s, savers were introduced to a new type of fund, namely balanced funds, which were a combination of equity and fixed income funds. Seven balanced funds were reported at the end of 1991 by Svensk Fondstatistik, which compiled fund market statistics. The level of new 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. By 2000, balanced funds accounted for 19% of the combined fund volumes in Sweden.

Diagram 6: Fund assets by fund type, %

Source: MoneyMate and the Swedish Investment Fund Association



In 1999, the Swedish Investment Fund Association and the Swedish Consumer Agency reached an agreement on the rules that would govern the marketing of funds. The regulations included a requirement regarding the way in which historical returns and risks should be reported, and restrictions on the use of value judgements. The agreement is now regarded as good practice across the entire fund market.

The equity and fixed income market: the 1990s – internationalisation and IT boom

The 1990s began with a serious crisis in Sweden's banking and real estate sectors, but the very serious hits suffered by shares in banks and real estate companies 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.

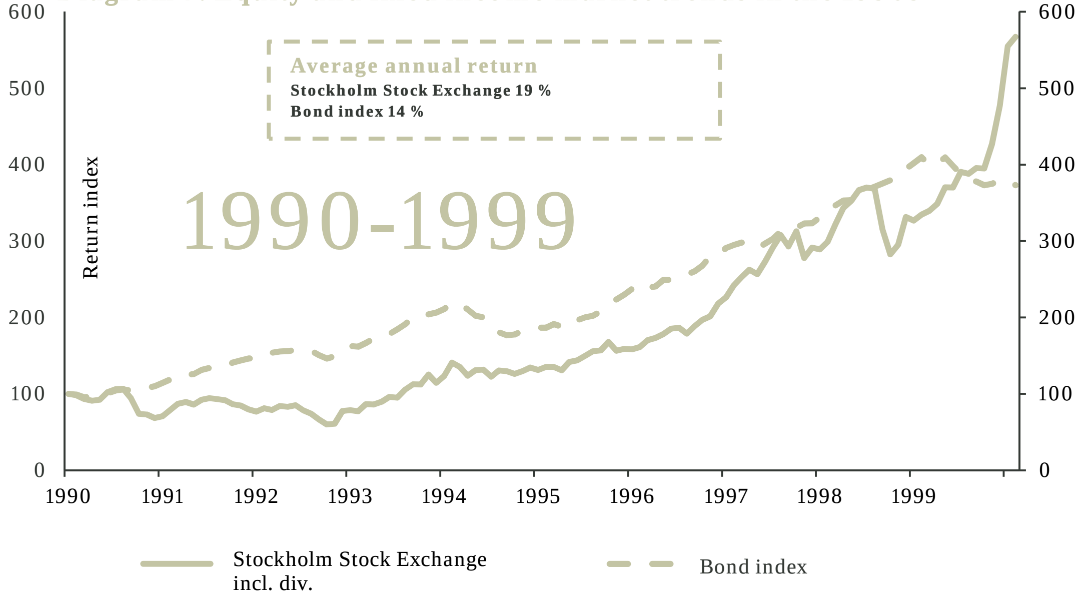
Fund savers' investment universe expanded in the 1990s as "Allemans" funds began investing in other countries and fund savers invested new savings in equity funds orientated towards foreign shares. The advance of the IT sector, which boosted the entire stock market dramatically at the end of the decade, was also a significant factor in the 1990s. The market euphoria that resulted from a preposterous 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 11 per cent by 2000. It is also worth noting that total fund assets in Sweden rose during the corresponding period from SEK 120 billion to SEK 855 billion.

Source: the Riksbank, SIXRX and OMXRX Total Bond Index

Diagram 7: Equity and fixed income market trends in the 1990s



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

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% during the decade.

Fund saving expands

The Swedish fund market continued to develop in the **2000s**, with fund savers being offered additional opportunities for increased diversification. The combination of the weak stock market trend with the healthy performance by the bond market generated an increase in new savings in fixed income funds. The percentage of fixed income funds, viewed as a share of total fund assets, increased from 14% in 2000 to 19% by 2010, while equity funds' share decreased, over the same period, from 67% to 61%. Sweden's first hedge funds were launched at the end of the 1990s, and interest increased in the first decade of the new millennium. Unlike many other countries, the greater regulatory flexibility in Sweden meant that hedge funds could target retail investors who could also invest smaller amounts in this type of fund.

The first selection of funds in the new premium pension system was made in 2000, when pension deposits for four years were invested. Investments have subsequently been made on an annual basis.

In 2004, the Swedish Investment Fund Association adopted the "Swedish Code of Conduct for fund management companies", which includes regulations that go beyond those mandated by law or other directives. The aim of the Code is to promote sound investment fund operations and to promote and protect confidence in the investment funds sector.

The equity and fixed income market: the 2000s – stock market volatility in the new millennium

The IT 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 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 Exchange in the summer of 2007 was followed immediately by the next stock market crash. A credit crisis in the American mortgage market developed into a worldwide financial crisis that resulted in a dramatic drop of about 40% in the stock market in 2008.

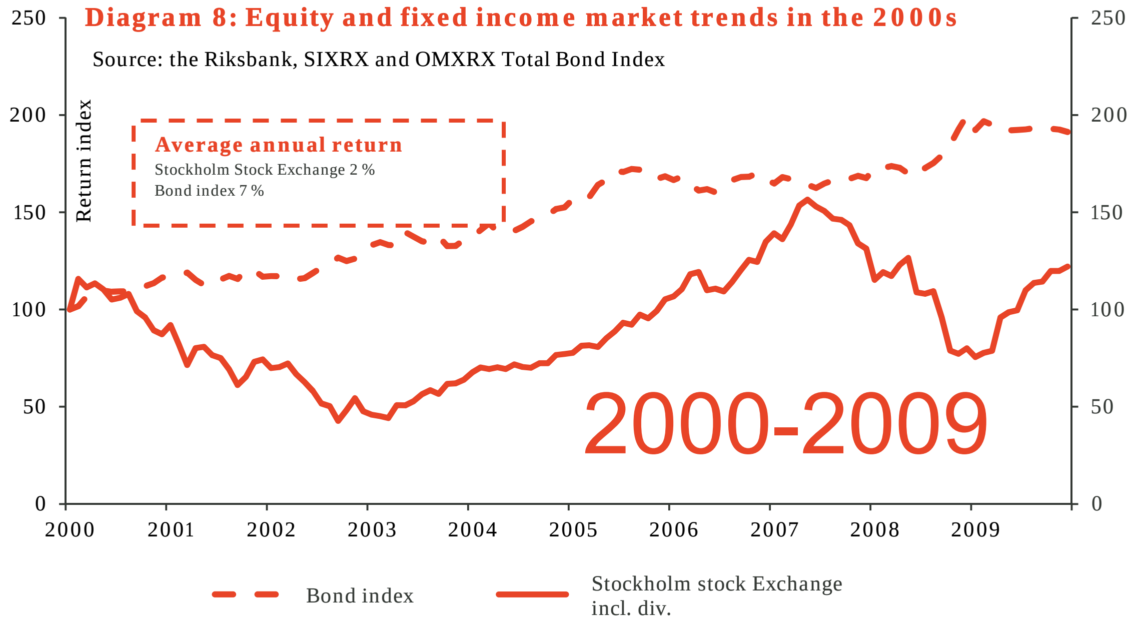


Diagram 8: Equity and fixed income market trends in the 2000s

Source: the Riksbank, SIXRX and OMXRX Total Bond Index

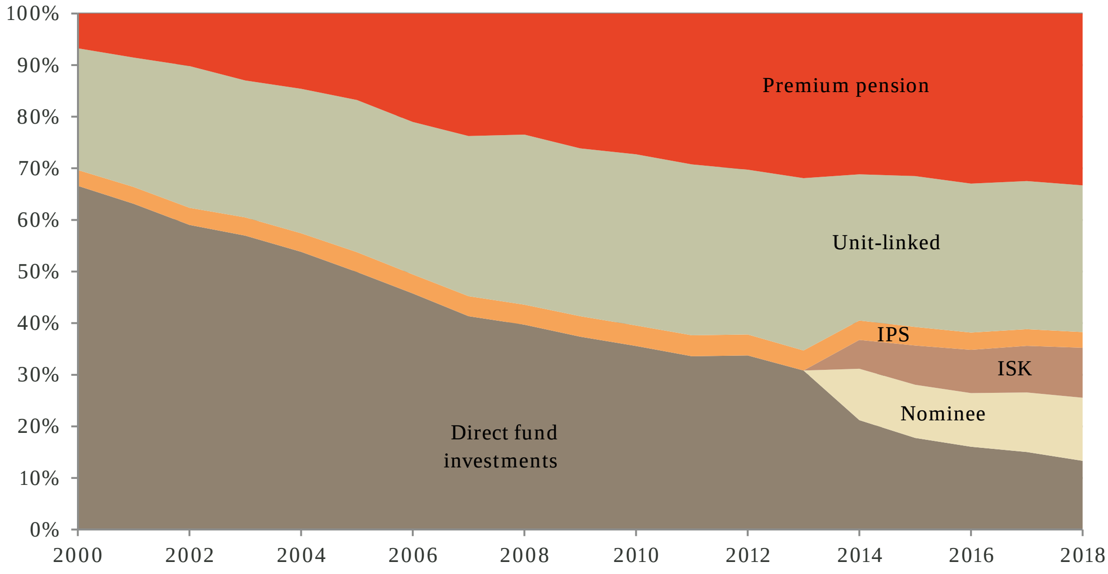
It should be noted that despite fixed income funds generating a better average return than equity funds, there were some types of equity funds that reported very good results during the period. Emerging market funds, for example, generally reported good returns and the performance by Russia funds was exceptional.

Fund saving evolves

One marked change in the structure of the fund market that has been apparent since the turn of the century, and particularly so since 2010, has been the shift from direct saving to fund saving in some form of wrapper, or via intermediaries. In 2000, two out of every three Swedish fund kronor were invested via direct saving, where the saver had direct customer contact with the fund management company. The other major component of fund saving at this time involved unit-linked funds, which held 24% of households' fund assets. The percentage saved directly has fallen successively to 13% since 2000, with premium pensions and investment savings accounts (ISK) now accounting for 33% and 10%, respectively.

Diagram 9: Households' savings and net fund assets by category

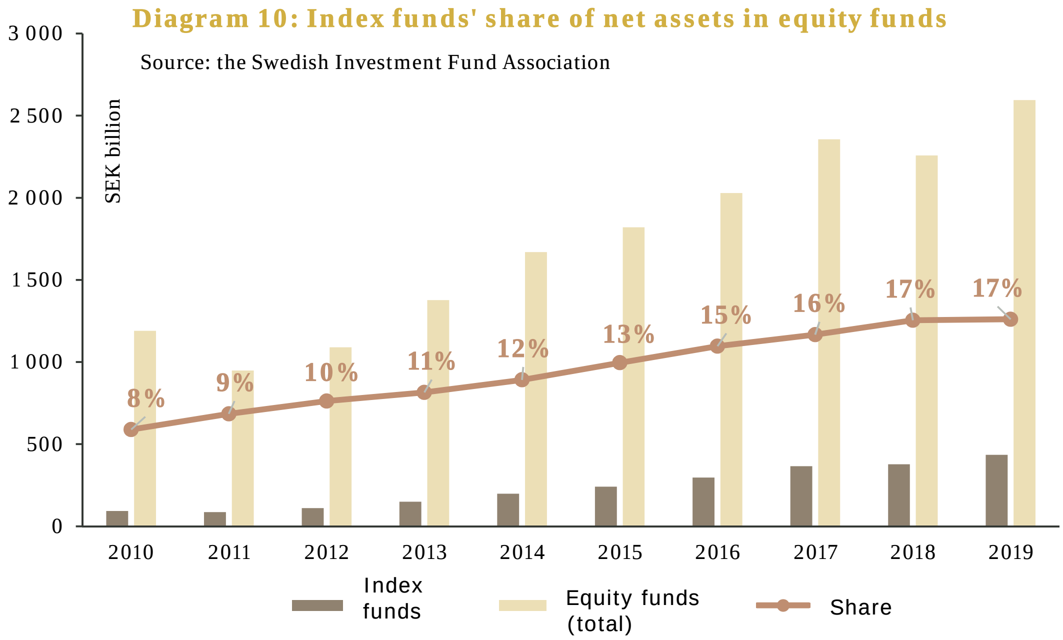
Source: SCB and Fondbolagens förening



Another characteristic feature of fund savings in the decade since 2010 has been the sharply growing interest in index funds. In 1974, John Bogle, who is often described as the father of index funds, founded the Vanguard company which, a couple of years later – more specifically in August 1976 – launched the first index fund available to the general public, The First Index Investment Trust. At the time, it was seen as a massive failure, with assets totalling a paltry USD 11 million. Now, 43 years later, the "Vanguard 500" fund has fund assets of approximately USD 400 billion, and Vanguard is the world's second largest asset manager. Sweden's first index fund was launched back in 1976, only a couple of months after the launch in the USA, but was not until the current decade that its growth really picked up.

> "Don't look for the needle in the haystack. Just buy the haystack"
>
> John Bogle, founder of the Vanguard Group

Index funds' share of the total assets held in equity funds has risen from 8% in 2010 to 17% today. It should also be remembered, however, that equity fund net assets grew during this period by 118%, from SEK 1,190 billion in 2010 to SEK 2,595 billion at the end of the first quarter of 2019.

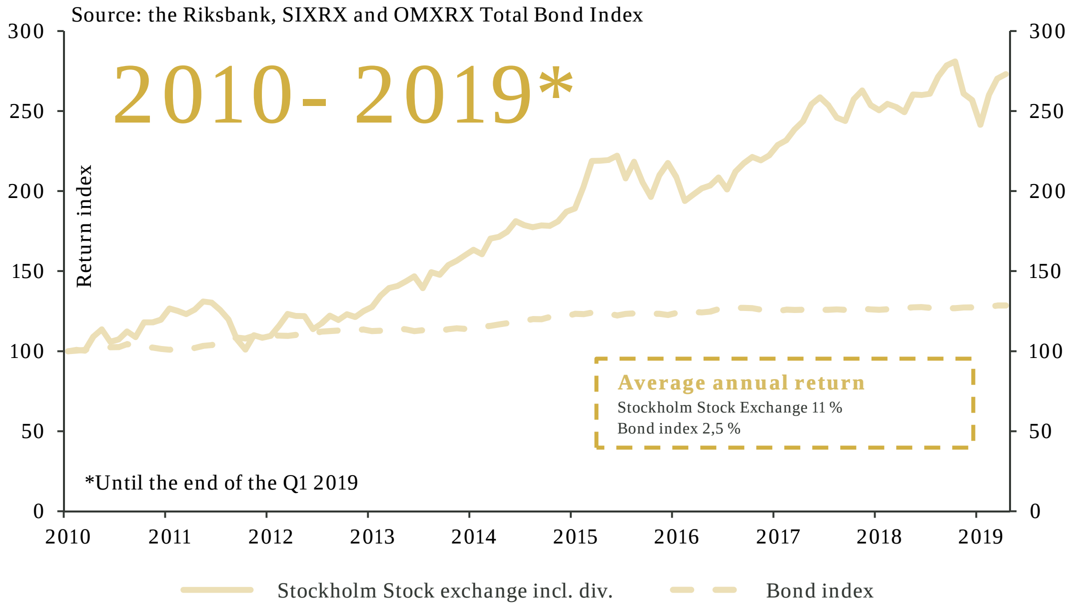


The equity and fixed income market: 2010s – the long recovery

The current decade has largely seen the stock market chug along upwards, largely thanks to healthy economic outlooks and the gradual acceleration by the world's central banks towards negative repo rates. As the opportunities for returns on the fixed income market fell in tandem with interest rates falling to – or even below – zero, capital and investors have increasingly sought returns on the equity market. The decade has not, however, been free from volatility. 2011, 2015, and 2018 all saw substantial price fluctuations and macroeconomic storm clouds in response to geopolitical conditions. A euro crisis, largely in relation to the finances of the EU member states and associated government budgets, affected the stock markets in both 2011 and 2015.

The volatility in 2018 primarily related to concerns about lower growth rates. The risk of a drawn out trade war between the USA and China, and the uncertainty regarding Brexit, dominated the news and affected the volatility of stock markets worldwide.

Diagram 11: Equity and fixed income market trends since 2010

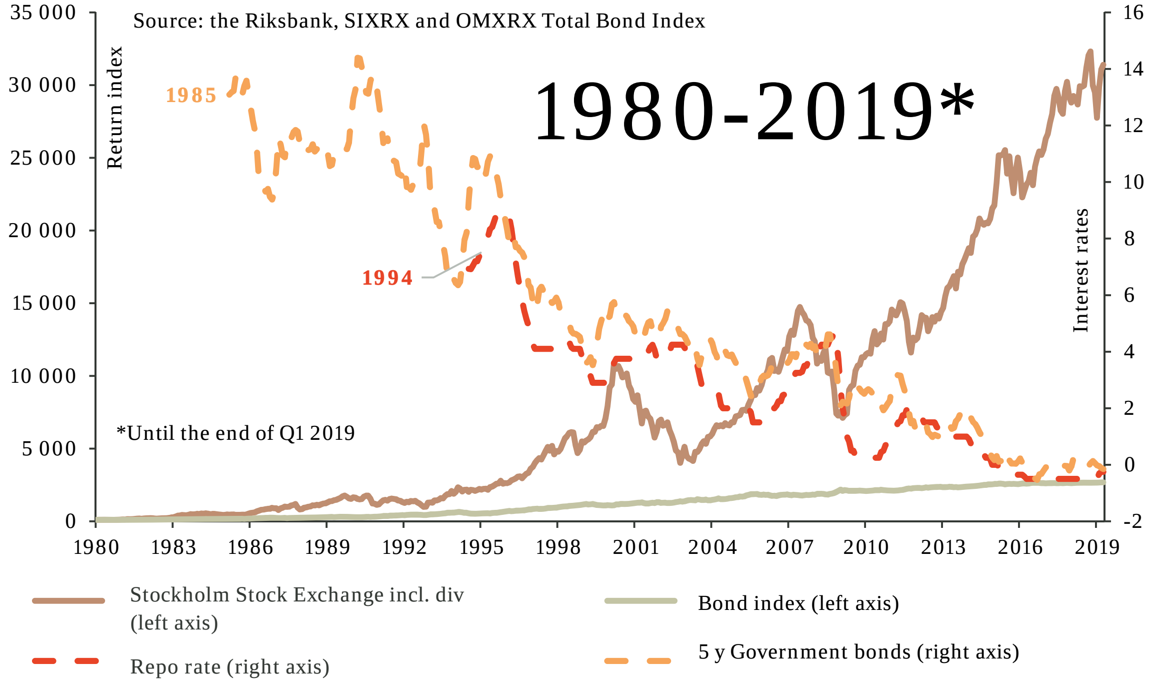


Summary: equity and fixed income market trends, 1980-2019

Viewed over the entire 40-year period, from 1980 to 2019, the Stockholm Stock Exchange has risen by a staggering 29,700%, corresponding to an average annual return of 15.8%[4]. An investment of SEK 1,000 in early 1980 would, therefore, have grown to just over SEK 300,000 by the end of the first quarter of 2019. But this unparalleled increase in value notwithstanding, the 40-year period has also included a number of steep price falls. Two major price corrections have occurred since the turn of the century, namely the IT crash (2000-2002) and the financial crisis (2007-2008). Most trends over the most recent 10-year period have been upwards, although the stock market has been dubious about the direction of travel on a couple of occasions. The period has also seen sharply fluctuating (downwards) interest rate and inflationary levels, and posed the challenge of trying to understand what a negative repo rate is and what it means.

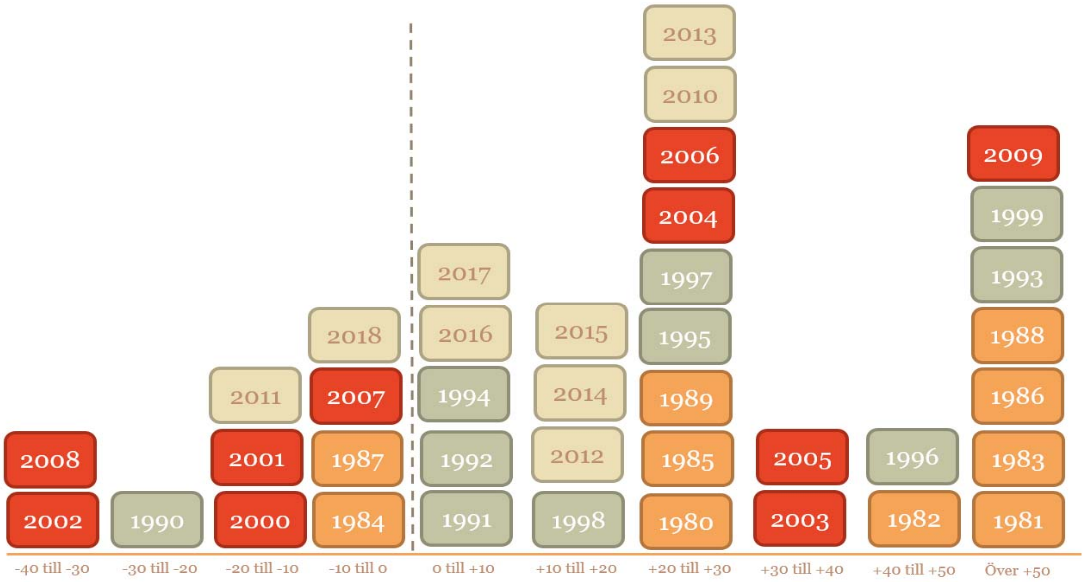
[4] Refers to nominal return, i.e. without taking into account inflation, which has averaged out at just over 3% per annum (albeit highly variable).

Diagram 12: Equity and fixed income market trends, 1980-2019



A number of interesting conclusions can be drawn from examining returns in individual years:

- The exceptional return in the **1980s** is, perhaps, illustrated most clearly by the fact that 4 out of the decade's 10 years show a return in excess of 50%.
- **In the 1990s,** there was a positive return in 9 of the decade's 10 years. The decade also included the highest return in the stock market's history in 1999 (+70%).
- The decade with two faces, the **2000s**, included two substantial price crashes, namely the IT crash between 2000 and 2002, and the financial crisis between 2007 and 2008. These years aside, the returns were positive and the Stockholm Stock Exchange yielded an annual return of 2% during the decade as a whole.



Return on the Stockholm Stock Exchange (incl. dividends)

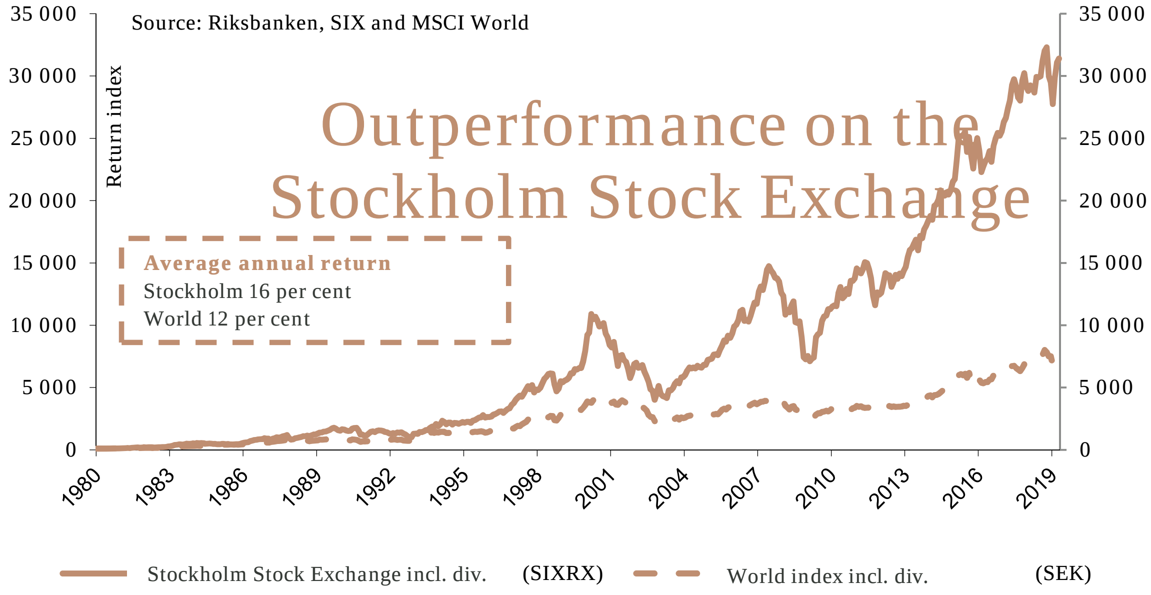
- The **2010s** show the stock market chugging along towards new heights. Returns have, overall, been very good, but returns in individual years have been relatively modest in comparison with several other individual years in other decades in the 40-year period.

Global index during the period from 1980 to 2019

The Swedish stock market has, on average risen more but also been more volatile than the global index during the period from 1980 to the end of the first quarter of 2019. While the Stockholm Stock Exchange has risen by almost 16% per annum, Morgan Stanley's global index, MSCI World, has yielded a return of 12% per annum in SEK.

The return for Swedish savers on investments in foreign shares is affected by exchange rates trends. The graph below shows MSCI World, converted from USD to SEK, 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 USD, the return for MSCI World during the period was just under 10% per annum, but the USD has strengthened by 117% against the SEK during the same period, benefitting Swedish savers.

Diagram 13: MSCI World performance in comparison with the Stockholm Stock Exchange



Funds' return during the period[5] have varied sharply over the years, but collectively, for the 22 years for which data is available (1997-2018), equity funds have, on average, yielded 6.6% per annum, in comparison with 4.6% for balanced funds, 4.0% for bond funds, and 2.0% for money market funds. It is striking, when it comes to equity funds' returns, how well Sweden has performed in competition

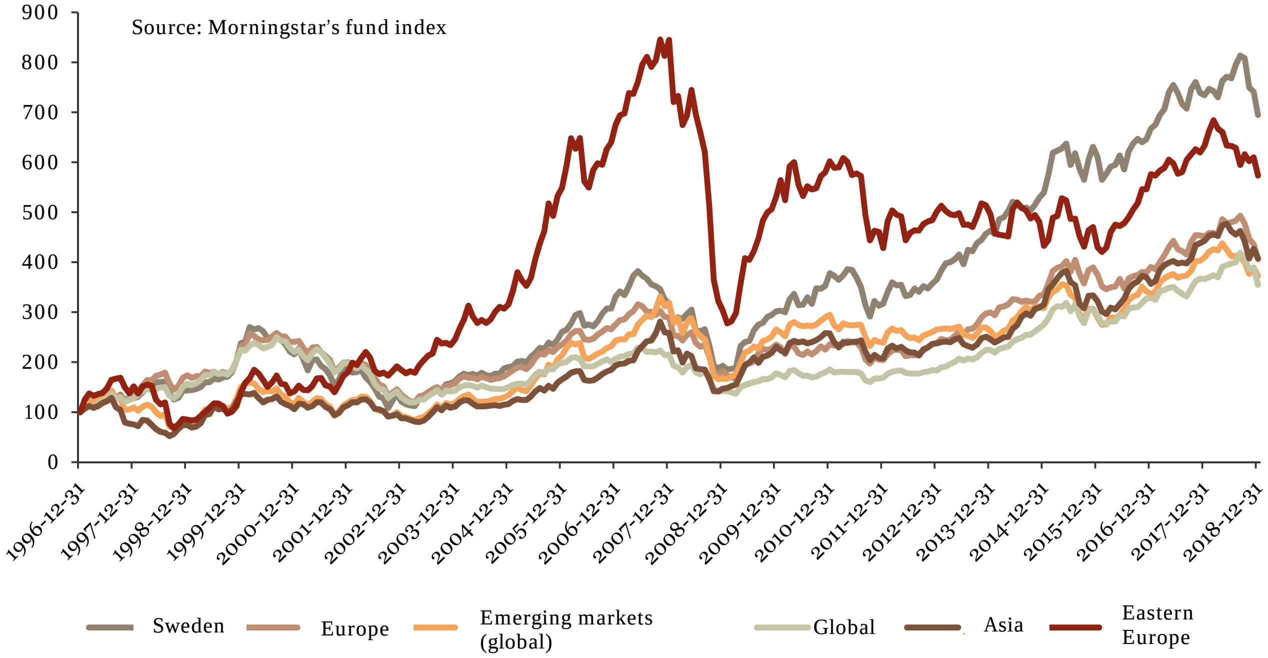
[5] Returns are available from 1997 for Morningstar's fund index.

with other geographical orientations, with Sweden funds returning an average of 9.2% per annum – far better than other popular fund types such as global funds (5.9%) and Europe funds (6.6%).

Returns 1997-2018	Total returns	Average per annum
Equity funds	**309%**	**6.6%**
Sweden	595%	9.2%
Nordic	580%	9.1%
Europe	306%	6.6%
Global	254%	5.9%
USA	361%	7.2%
Emerging markets (global)	272%	6.2%
Asia	307%	6.6%
Eastern Europe	473%	8.3%
Latin America	412%	7.7%
Balanced funds	**170%**	**4.6%**
Bond funds	**138%**	**4.0%**
Money market funds	**56%**	**2.0%**

Source: Morningstar's fund index (equally weighted, including dead funds, SEK)

Diagram 14: Return for selected equity fund categories, 1997-2018, index



Long-term trends in the fund market

Increased cost-awareness amongst fund savers

When fund saving made its breakthrough in the 1980s, there was much less focus on charges, and the price was more or less the same for the majority of funds. The increased diversity in the Swedish fund offering has affected the trends in charge levels for fund saving in Sweden in a variety of ways.

Fund deposit and withdrawal fees were common at the beginning of the period. The “Allemans” funds, for example, had a statutory withdrawal fee of 1% (minimum SEK 20) when they were introduced, in order to promote a long-term approach to saving. Deposit and withdrawal fees were abolished for the majority of Swedish funds in the early 1990s (with the management charge increased in some cases), one of the arguments being that this was a way of preventing lock-in effects[6].

The launch of funds and fund types in exotic new markets resulted, on the one hand, in relatively higher charges for these specific funds. Increased competition and increasingly diversified pricing for the more traditional fund offerings has, on the other hand, resulted in new fund alternatives with very low fees – or even no fees at all. There are also funds that adjust the charge in line with performance.

An increased range of index funds and innovations such as ETFs have resulted in increased opportunities for savers to achieve worldwide exposure via funds with very competitive charges, and over the past decade, by far the majority of new saving in equity funds has gone to index funds/ETFs.

Much of the fund fee goes to covering distribution costs, i.e. marketing, sales, and customer management costs. Web-based solutions are becoming increasingly common, including those providing advisory and customer services, and this has reduced distribution costs, as is reflected in successively lower management fees.

Equity fund saving diversifies and competition increases

In the **1980s**, virtually the only option available to would-be fund savers was equity funds that invested in the Swedish equity market. Currency regulation, which existed to counter speculation in a devaluation of the Swedish krona, was one of the main reasons why ownership of foreign shares was hindered. Currency regulation was gradually abolished towards the end of the decade, increasing the opportunities for funds to invest outside Sweden’s borders. The total dominance of domestic investments in the 1980s is reflected by the distribution of net fund assets in equity funds in 1990, when 86% were invested in Sweden funds and only 4 and 6%, respectively, in global and Europe funds.

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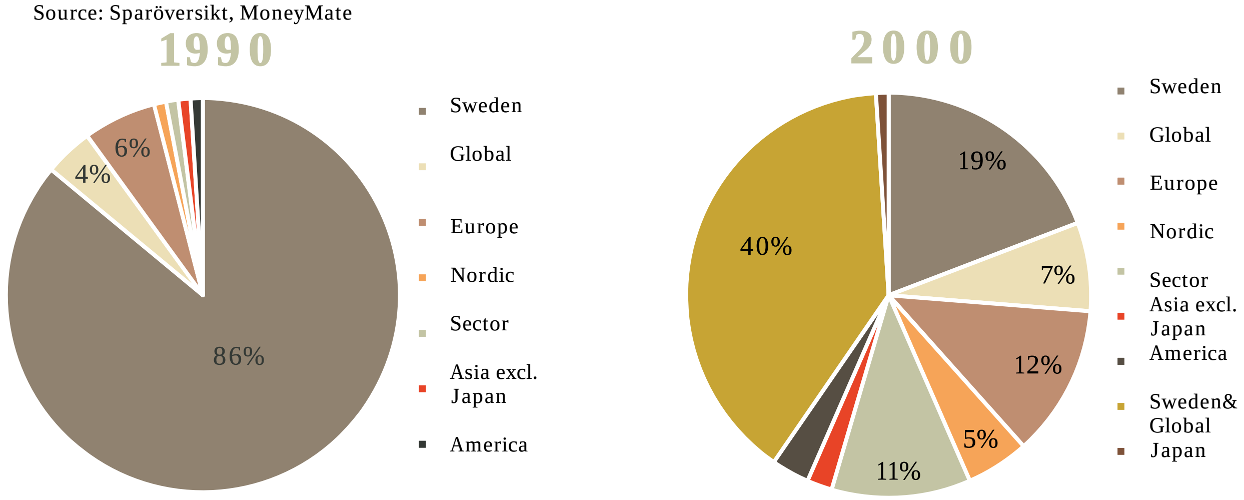
[6] SOU 1994:50 “Allemans” saving – an overview, p. 41.

The **1990s** saw a continued geographical diversification of saving in equity funds, and one event that played an important part in this development was the opening up, in 1997, of the former "Allemans" funds to investments in foreign shares. Since then, we have seen the growth of a veritable plethora of new funds with different geographical or sector orientations.

Diagram 15: Aktiefondförmögenhet efter placeringsinriktning, procent

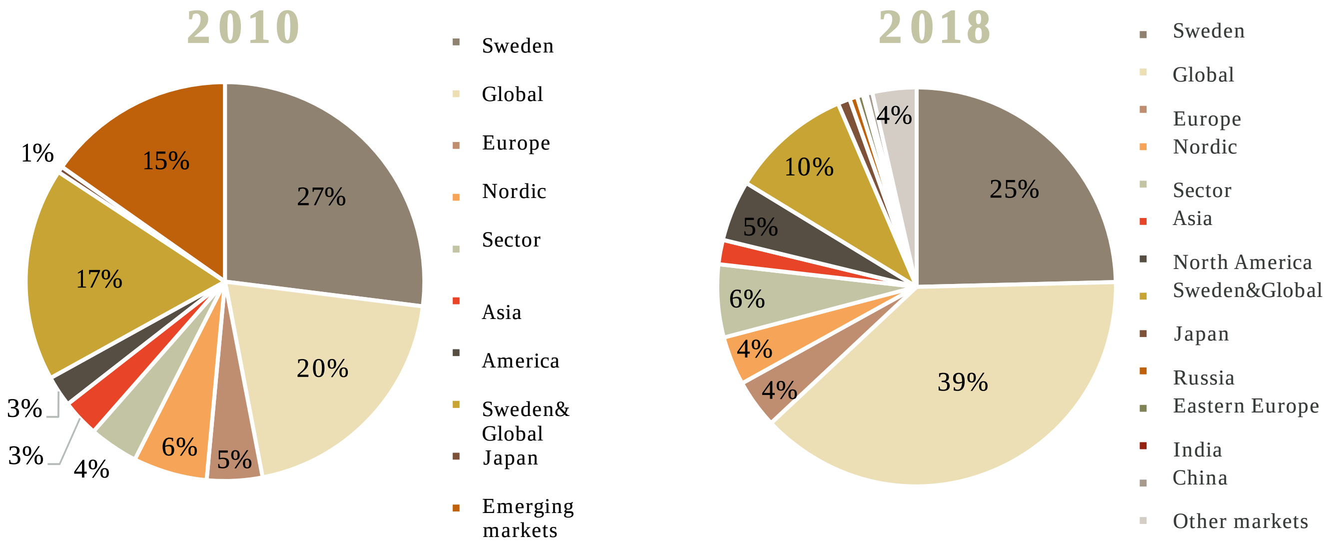
Source: Sparöversikt, MoneyMate



By far the most attractive choice when it came to sector-specific funds was IT funds, although pharmaceutical funds were also popular. IT funds were particularly popular towards the end of the decade and by the beginning of the new millennium, sector funds accounted for 11% of equity funds' combined net assets. The **2000s** saw saving in emerging market funds pick up speed with funds orientated towards Eastern Europe, Russia, and Latin America amongst the very first off the blocks. Asia funds and BRIC funds (which invest in Brazil, Russia, India, and China) also began to be marketed more widely in the 2000s. Funds focusing on Africa began to emerge towards the end of the decade, as did funds that invest in the Middle East.

Diagram 16: Equity funds net assets by investment orientation, %

Source: the Swedish Investment Fund Association



The range of equity funds available has diversified still further in the **2010s**, with new geographical orientations and an expanded range of sector funds made available to Swedish savers. Global funds were by far the biggest type of equity fund at the end of 2018, accounting for 39% of net fund assets. This figure can be contrasted with this fund type's shares in 2010, 2000, and 1990, of 20%, 7%, and 4%, respectively. This trend is linked to the increased share of automated/standardised advisory services that have developed, and to both the increased interest in index funds, which often have a global investment orientation, and the fact that the premium pension's default alternative has a global orientation. Dedicated Sweden funds accounted for 25% of equity fund net assets, in contrast to 1990, when they accounted for 86%.

Competition in the Swedish fund market has increased since the start of the new millennium. The number of funds available to Swedish savers has more than doubled and now totals around 4,000. Many foreign fund management companies have established a presence in Sweden and the banks' dominance of the fund market has decreased. In 1999, the four biggest banks' fund management companies accounted for 85% of net fund assets in Sweden. By the end of 2018, the corresponding figure was 55%. Two factors have been particularly important to this trend:

1. The increasing importance of fund saving for pensions has resulted in fund management companies with pension and insurance links taking a larger share of new savings.
2. Technological development, including the emergence of fund marketplaces, has made it easier for new fund management companies without their own distribution networks to reach customers. Fund marketplaces, where a wide range of both in-house and external funds are offered, have been started by both independent players, and banks and fund management companies.

From direct saving to pension and unit-linked saving

When fund saving was introduced, savers could only invest directly in funds, but as described above, the 1990s saw major changes in the Swedish fund market with the introduction of completely new opportunities to save in funds. 1990 saw the introduction of unit-linked funds – a type of saving linked to insurance and offering 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.

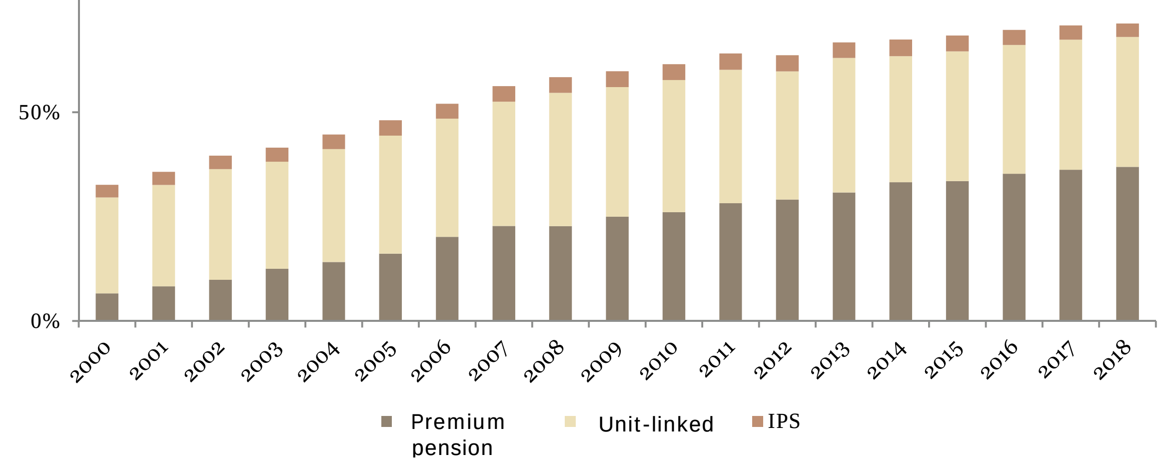
Individual pension saving, IPS, was introduced in January 1994 and gave private individuals the chance to invest their private pension savings in funds without any insurance link. Savers can save in IPS by buying units in funds, by buying individual securities, or by making deposits in a bank account. The same tax rules apply to IPS as to pension insurance. The biggest share of IPS savings by far is invested in funds.

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 unit-linked 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 pensionable 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 selection of premium pension funds was made in 2000. Premium pension funds have yielded an average return per annum of 7.2% since their launch, in contrast to the other component of the State pension – the income pension – which has yielded an average of 3% per annum.

Diagram 17: Pension saving as a percentage of total household net fund assets, %

Source: the Swedish Investment Fund Association and SCB



Households' pension savings in funds are largely spread between IPS, unit-linked funds, and the premium pension, and its share of households' total fund assets has increased sharply since 2000, rising from 33% of net fund assets at the beginning of the new millennium to 71% at the end of 2018. The primary increase has been in the premium pension's share, which has risen from 7% in 2000 to 33% in 2018.

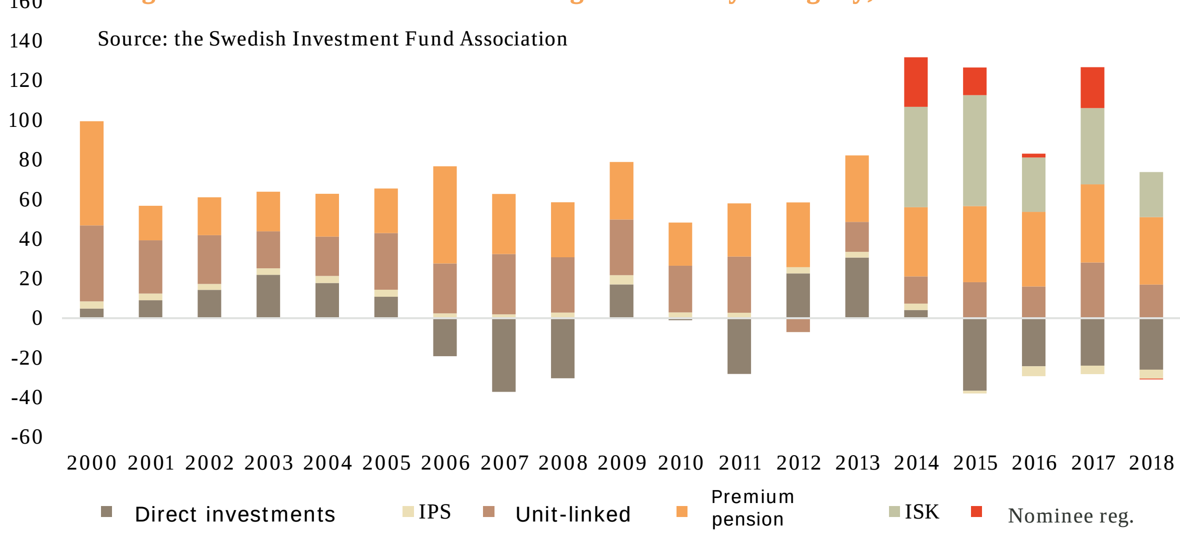
> The premium pension's share of households' total net fund assets has risen from 7% to 33% since 2000

At the end of 2018, unit-linked funds accounted for 28% of households' net fund assets, rising from 24% in 2000, while IPS accounted for 3% of net fund assets in 2018, which is on a par with levels at the start of the millennium.

Net savings in pension- and unit-linked fund saving has remained very high since 2000, accounting for as much as 85% of households' total new saving in funds. The deductibility of private pension savings was abolished in 2016 and IPS have, for obvious reasons, since reported net withdrawals. The high and relatively constant level of new savings in the premium pension system and unit-linked funds[7] is, of course, due to the fact that allocations are made automatically, based on income.

Diagram 18: Households' net saving in funds by category, SEK billion

Source: the Swedish Investment Fund Association



The investment savings account (ISK[8]) savings format was introduced in 2012. A substantial share of net saving in funds in recent years has been via ISK, largely due to the fact that low interest rates have made the yield tax on ISK favourable. Fund management companies have also been able to offer ISK since 2018, after having previously been obliged to collaborate with other companies to offer their funds via ISK.

[7] Occupational pensions account for approximately three quarters of unit-linked funds.

[8] Reported separately in the Swedish Investment Fund Association statistics since 2014.

Sustainability – from a niche product to a fund management fundamental

Special ethical funds that exclude companies with links to the armaments, alcohol, and tobacco industries, for example, have been around for a long time. Funds that collaborate with charitable organisations, such as the Cancerfonden charity, were also introduced over time, with the fund donating a fixed share to the charitable organisation's fund-raising every year. The trend since then has been towards also taking positive criteria into account when making investment decisions, and fund management companies are now exerting greater influence through AGMs and contacts with the companies in which they invest. Many fund management companies now view sustainability aspects as a natural component of the investment process.

PRI (the UN's Principles for Responsible Investments initiative) was launched in 2005 and sets forth management principles. PRI signatories undertake, in conjunction with investment decisions, to take into account the way in which environmental issues, social issues, and good governance are handled in the companies in whose securities they invest. Over 95% of the fund assets of the Association's members are linked to these principles. The Swedish Investment Fund Association supports the work as a so-called "Network Supporter", and fund managers operating in the premium pension's fund marketplace have been required to sign up to PRI since 2019.

In 2013, SWESIF (Sweden's forum for sustainable investments) produced a premium pension Sustainability Profile, in order to help savers identify funds working with sustainability issues. Two years later, the Profile was also launched on the private fund market and all savers could now easily find out about a fund's approach to sustainability issues.

New legislation requiring the reporting of funds' sustainability work was introduced in 2018. This made sustainability information a regulatory issue and the Swedish Investment Fund Association produced a mandatory industry standard based on the Sustainability Profile. The Association has also produced a guideline on reporting fund holdings' CO_2 footprints.

Other initiatives include the sustainability certificate for funds developed by the analysis company, Morningstar, in 2016, and Nordic Ecolabel's introduction in 2017 of Nordic Swan labelling for funds.

The field of sustainable finances is developing very rapidly. In 2018, the European Commission presented an action plan for sustainable growth that included a number of both legislative proposals and other types of measures designed to promote sustainable financial markets. Negotiations are already complete for directives governing sustainability information requirements for fund managers, etc., as well as new indices for CO_2 emissions, and are ongoing with regard to other proposals.

Households are also playing a part in the development in this field. One in three Swedes (33%) stated in 2019 that they save in a fund with a sustainable orientation, in contrast with 2018, when the corresponding figure was 24%. Both genders are showing increasing interest in sustainable investments, albeit the interest level growth rate is higher amongst women.

If you consider the funds you own, have you chosen any of these funds becaause it has an SRI investment orientation? 2019 (2018)

	Total	Men	Women
Yes	33% (24%)	25% (20%)	42% (29%)
No	46% (48%)	62% (57%)	30% (38%)
Do not know	21% (28%)	13% (22%)	29% (33%)

Source: the Swedish Investment Fund Association, Prospera 2019

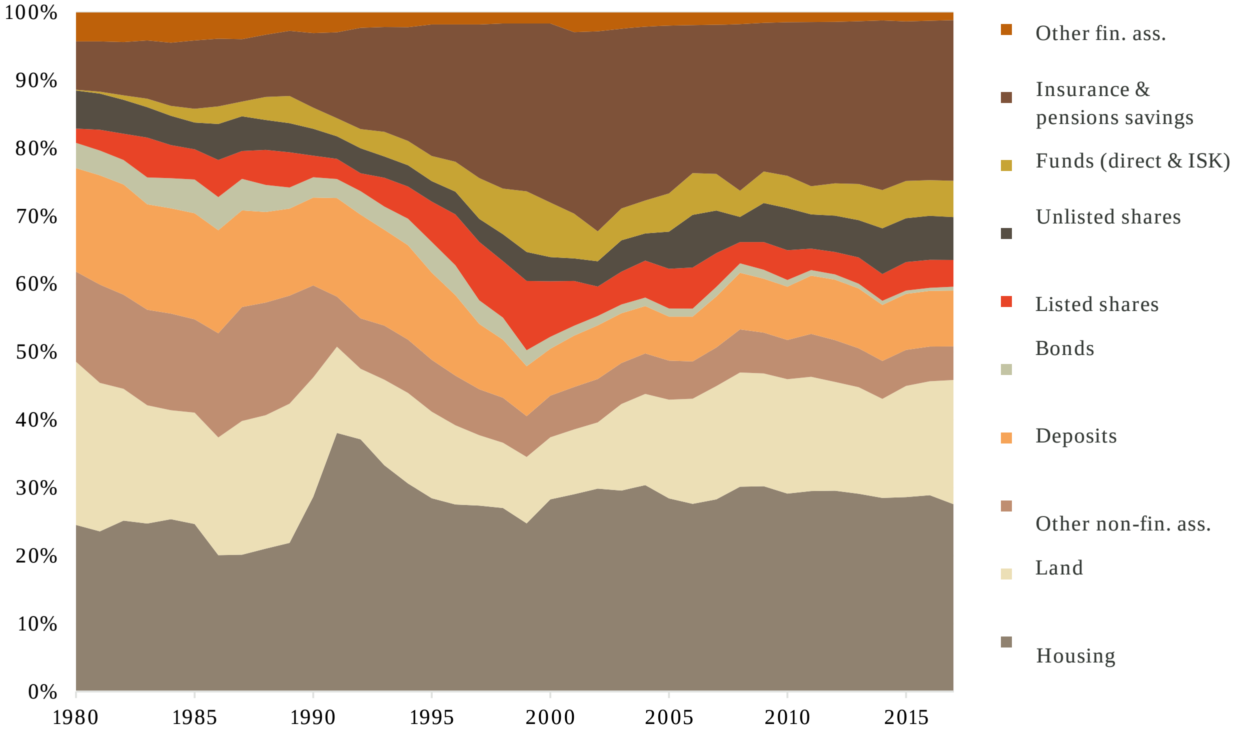
Household's savings

Households' assets

Households' assets can, in rough terms, be divided into financial assets (such as savings accounts, funds, and equities) and non-financial assets (such as land and housing[9]). In 2017, households' combined assets totalled approximately SEK 22,000 billion. In 1980, financial assets accounted for 38% of this total, but have since risen to almost 50%. The primary reason for this is the 1990 tax reform, which radically changed matters for households. Prior to this, deduction entitlements, coupled with high inflation (negative real interest rates) had made saving in tangible assets extremely profitable. One of the aims of the tax reform was to reward saving over borrowing, which was achieved by means of, amongst other things, a reduction in interest deductions and the separation of capital income, in tax terms, from occupational income.

Diagram 19: Households' assets, 1980-2017, percentage share

Source: SCB National Wealth Database and Sparbarometer



The trend in pension saving, with an increased percentage of pension savings being invested in funds, e.g. due to changes in occupational pensions and the introduction of the premium pension, is another reason for the increased

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[9] SCB classifies tenant owner right units and second homes in other countries as financial assets, but they have been reclassified in this report as non-financial assets (housing).

percentage of financial assets. This is apparent in the graph above, where the percentage of insurance and pension savings has increased from 7% to 24% during the period.

Households' balance sheets obviously include a liabilities side as well, which primarily comprises mortgage loans (ca. 77% of total liabilities). In 2017, liabilities totalled SEK 4,162 billion, corresponding to 19% of total assets. In 1980, by contrast, total liabilities comprised 25% of assets. Liabilities have increased by 1,375% since 1980, while assets increased during the same period by 1,825%.

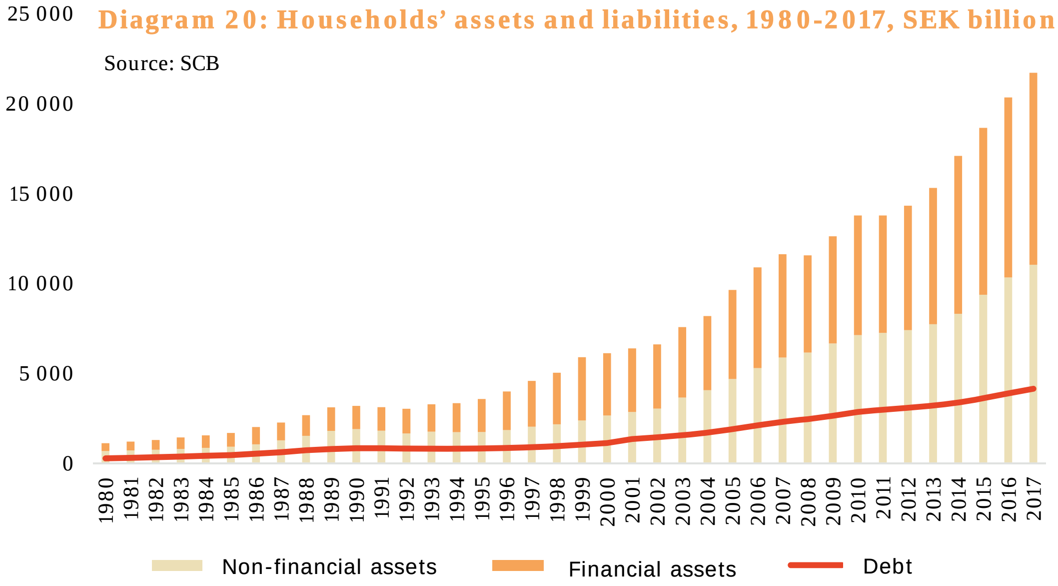


Diagram 20: Households' assets and liabilities, 1980-2017, SEK billion

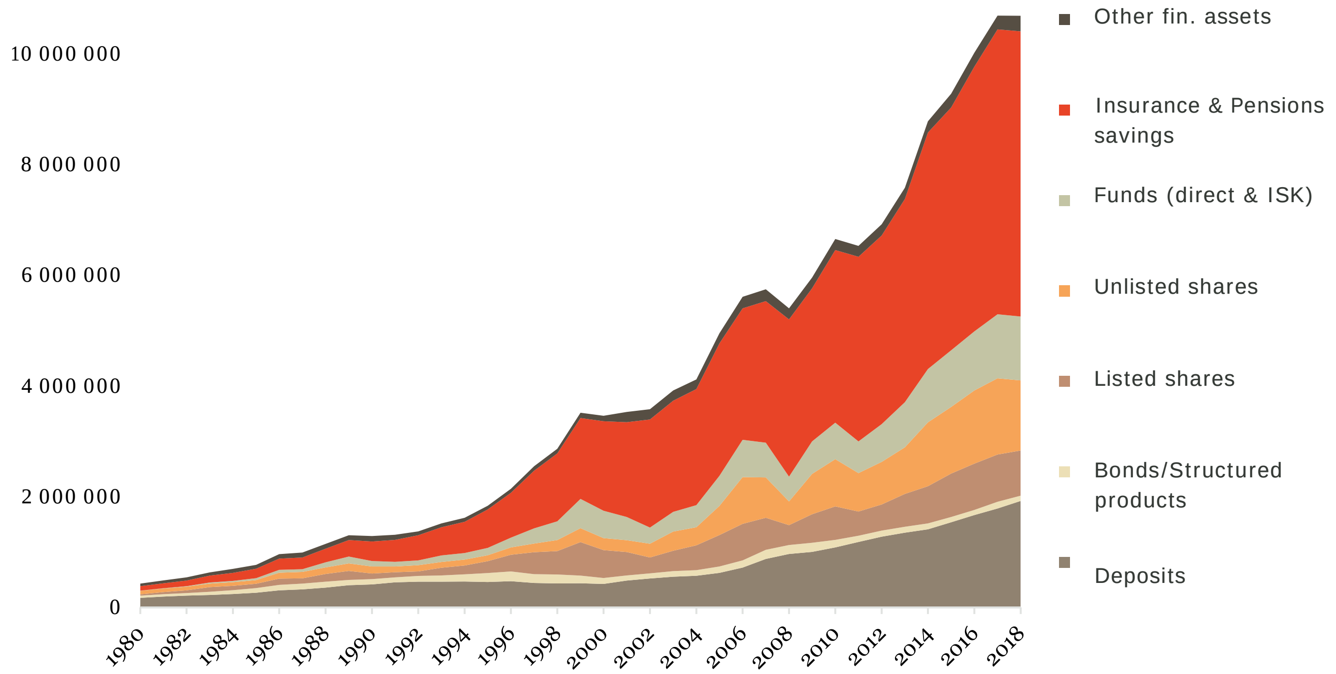
Source: SCB

Households' financial assets

Households' financial assets now (2018) total approximately SEK 10,700 billion. The massive increase since 1980 of SEK 10,250 billion corresponds to an average per annum increase of 8.8%.

Diagram 21: Households' financial assets, SEK billion

Source: SCB National Wealth Database and Sparbarometer



Approximately half of households' financial portfolios now comprise insurance and pension savings.

A reduction in the share of deposits (savings accounts) from 40% to 18% is the biggest change in households' financial portfolios since 1980, while insurance and pension savings have gone in the opposite direction, rising from 19% to 48%. Fund saving[10] which was, in principle, non-existent in 1980, has increased to 11% in 2018.

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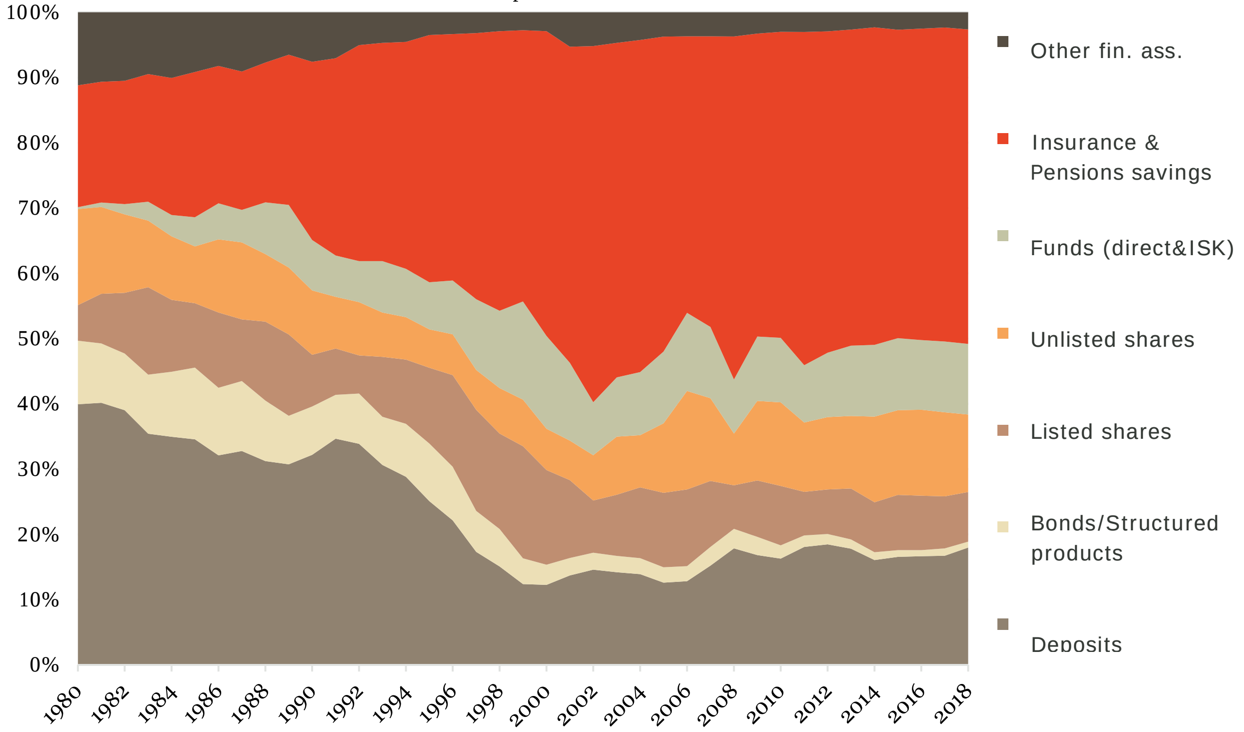
[10] This includes households' direct savings in funds, IPS, and ISK only. Fund saving via premium and occupational pensions, for example, are included under insurance and pension savings.

Diagram 22: Households' financial assets, 1980-2018, percentage share

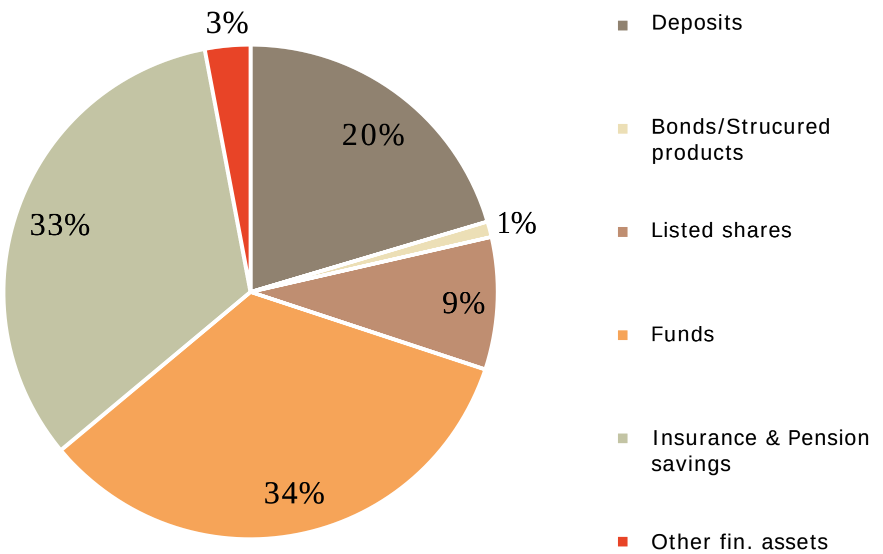
Source: SCB National Wealth Database and Sparbarometer



The total amount saved in funds actually comprises a larger share than that shown in the graphs above, in that a substantial percentage of insurance and pension savings is invested in funds. If SCB's statistics are combined with those of the Swedish Investment Fund Association (where households' unit-linked and pension saving in funds is specified), fund saving currently accounts for 34% of households' financial assets, i.e. the biggest single share.

Diagram 23: Households' financial assets, 2018, percentage share

Source: SCB and the Swedish Investment Fund Association, excl. unlisted shares



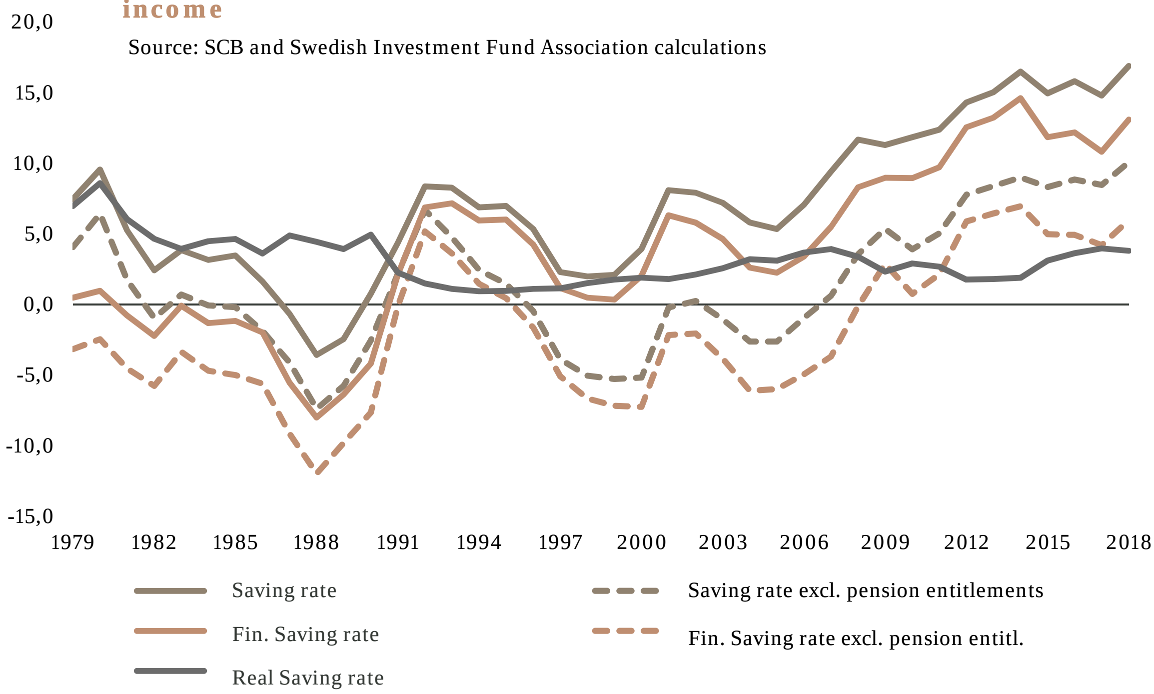
Households' savings rate

The households' savings rate shows the percentage of households' disposable income that is saved, including saving via occupational and premium pensions. Over the past 40 years, households' average saving rate per annum was 7.2%. There are, however, substantial variations from one year to another, but the long-term trend shows a rise in the saving rate during the period, particularly after 1998.

The 1990 tax reform has had the biggest effect on the saving rate's composition during the 40-year period. The period prior to the tax reform was dominated by saving in tangible assets (extensive deduction possibilities and negative real interest rates made this advantageous), while the post-reform period has been dominated by financial saving.

Diagram 24: Households' saving rate, 1979-2018, percentage of disposable income

Source: SCB and Swedish Investment Fund Association calculations



Excluding households' investments in tangible assets yields an average financial saving rate of 4.0% per annum, with much of the financial saving comprising allocations to occupational and premium pensions. The long-term increase continues to be apparent, even if obligatory saving is also excluded, but the saving rate level is substantially lower.

The average financial saving rate trend, excluding occupational and premium pensions, has been negative at -1.9% per annum. Negative saving means that households are consuming more than their disposable income, which they can do either by withdrawing from their saved assets or increasing their loans. The negative financial saving rate during the period is due to the fact that households' borrowing has increased by more than their savings. Over the past ten years, however, i.e. since the 2008 financial crisis, the financial savings rate excluding pension entitlements has been positive (an average of 4.5% per annum).

Households' financial net saving[11]

The development of households' financial net assets is due to developments in the value of assets and net savings, i.e. deposits minus withdrawals. Data is available for the period since 1996 and shows that net saving is dominated by savings accounts, traditional insurance, and funds.

A net total of SEK 4,264 billion has been saved during the 23 years reported here. During this period, net assets have increased from SEK 1,312 billion to SEK 8,533 billion, and the increase in net assets accordingly comprised 60% net savings and 40% increases in value.

Diagram 25: Households' financial net savings (selection), 1996-2018, SEK billion
Source: SCB and the Swedish Investment Fund Association

	Savings accounts	Bonds	Structured products	Equities	Traditional insurance	Funds	TOTAL
1996-2018	1,424	-73	-96	-41	1,744	1,306	**4,264**
Average per annum	62	-3	-4	-2	76	57	**185**

Households have saved a net average of SEK 185 billion per annum, with the highest level of net saving going to traditional life assurance at SEK 76 billion, followed by savings accounts at SEK 62 billion, and funds (including unit-linked funds and premium pension) at SEK 57 billion. Net saving in bonds, structured products, and listed equities has, however, been negative during the period. The high level of saving in traditional insurance primarily comprises occupational pensions, at ca. SEK 60 billion per annum[12], with the remaining SEK 10 billion coming from private savings. Occupational pensions account for ca. SEK 25 billion of savings per annum in funds[13], with premium pension savings accounting for approximately SEK 26 billion.

The following graph shows net saving in various savings formats for individual years from 1996 to 2018. And whilst variations between different years are apparent, what the graph makes clear is that households largely only use savings accounts, funds, and traditional life assurance for their financial savings.

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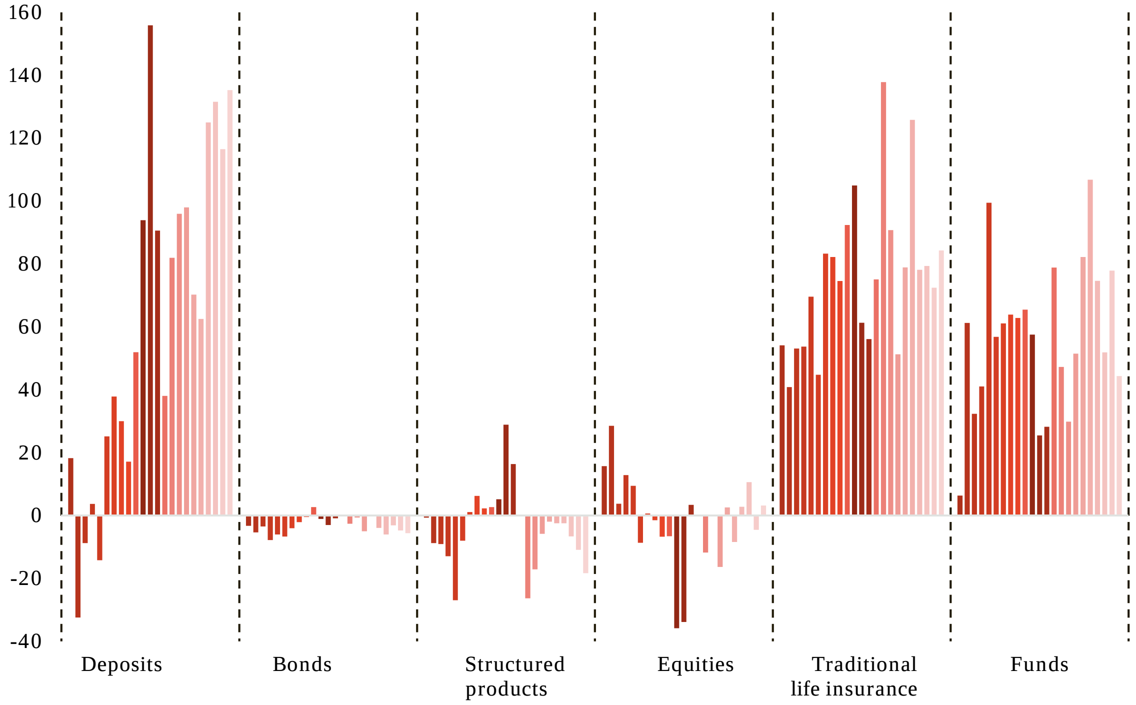
[11] Unlisted shares and other financial assets are excluded here, unlike in previous sections.

[12] A partial estimate in that the statistics lack a relevant breakdown for the period from 1996 to 2004.

[13] A partial estimate in that the statistics lack a relevant breakdown for the period from 1996 to 2004.

Diagram 26: Households' financial net savings (selection), 1996-2018, SEK billion

Source: SCB and the Swedish Investment Fund Association

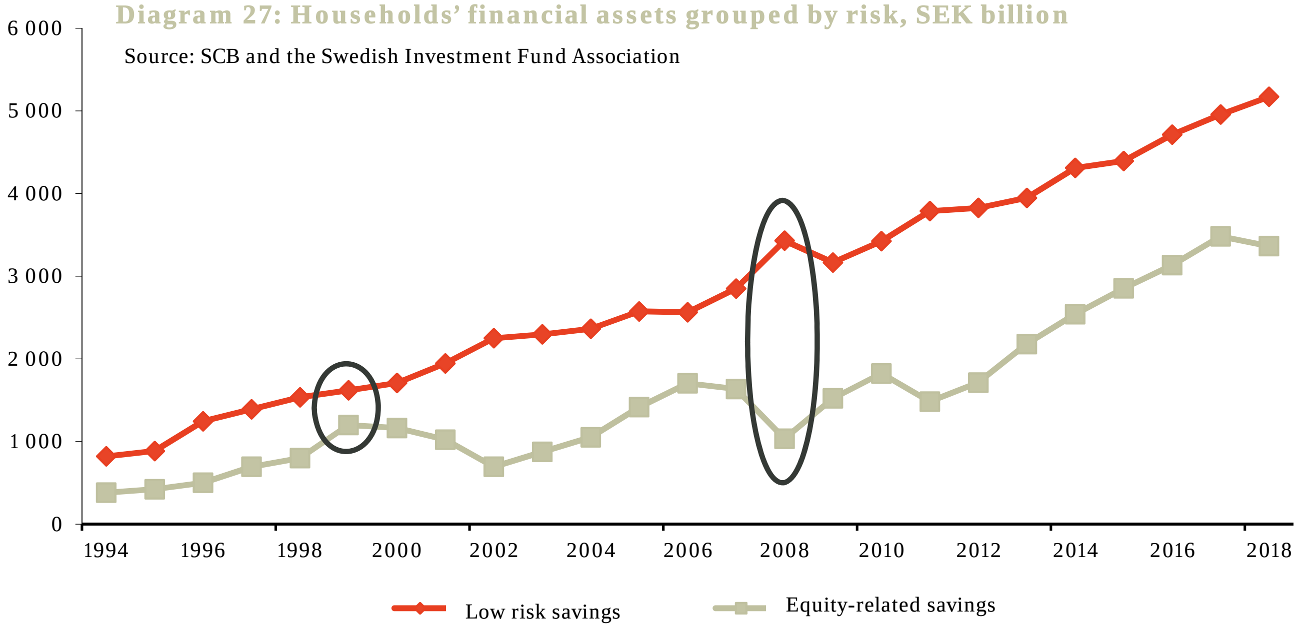


Households' financial assets and net savings grouped by risk

If households' assets are broken down into two categories on the basis of risk level[14], it is clear that the majority share comprises low risk saving. In 2018, households had 61% of their assets invested in low risk savings, rather than in equity-related savings (equities, equity funds, and balanced funds), which accounted for 39% in 2018. The breakdown has remained relatively stable over the years, with some tendency towards an increased percentage of equity-related saving. Stock market performance has had a major influence on the breakdown, and the equity percentage consequently peaked at 42% after the stock market's rise in the 1990s, and bottomed out at 23% after the stock market crash in 2008.

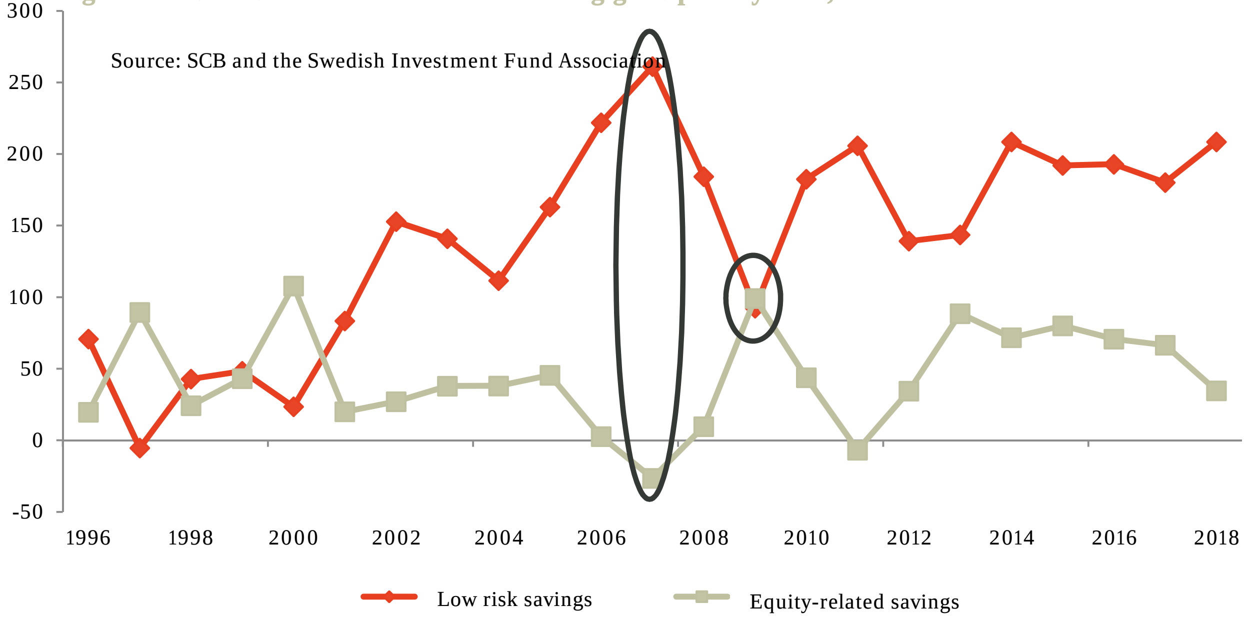
[14] Equity-related: Equities, Equity funds, Balanced funds.
Low risk: Savings accounts, Premium bonds, Structured products, Traditional life assurance, Fixed income funds, Hedge funds.

Diagram 27: Households' financial assets grouped by risk, SEK billion



It is apparent from a corresponding breakdown of households' net savings that the low risk net saving dominates. The preference for a lower risk has been clear since 2001, and the only year since the start of the millennium when equity-related saving exceeded low risk saving was 2009. 2008 saw a massive stock market crash and savers were, in response, very quick to hang on to the coattails of the subsequent stock market recovery. It is also worth noting that households' equity-related saving fell substantially, even in the years before the 2008 financial crisis.

Diagram 28: Households' financial saving grouped by risk, SEK billion



The total assets trend comprises both net savings and returns. The increase in net wealth in low risk assets during the period comprised 81% in net savings and 19% in returns.

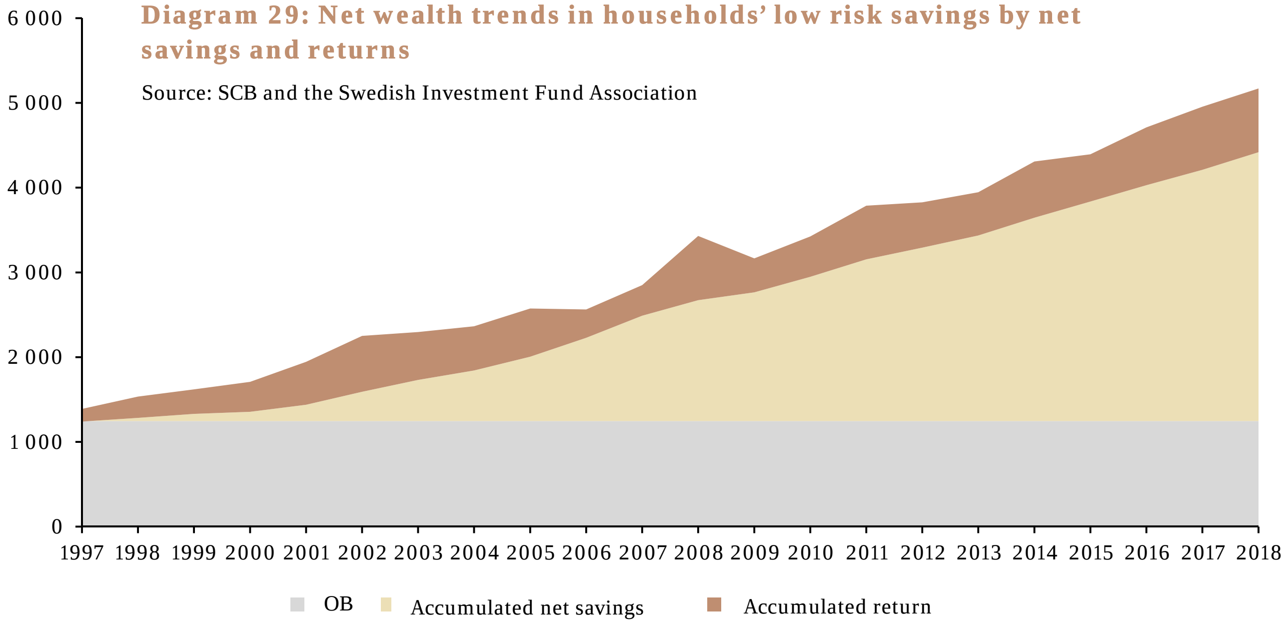


Diagram 29: Net wealth trends in households' low risk savings by net savings and returns

Source: SCB and the Swedish Investment Fund Association

The return on the equity-related saving was higher and also, because of the higher risk, more variable during the period. Saving comprised 35% of the total increase in net wealth for equity-related assets over the period as a whole, whilst returns accounted for 65%.

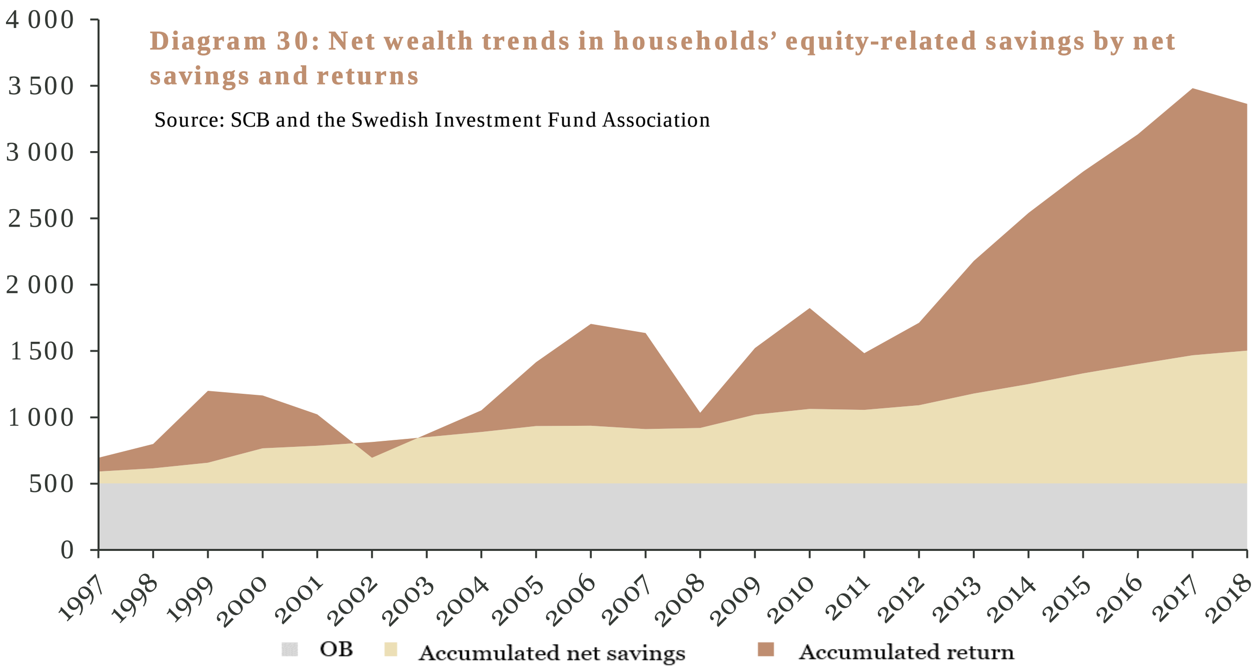


Diagram 30: Net wealth trends in households' equity-related savings by net savings and returns

Source: SCB and the Swedish Investment Fund Association

Fondbolagens förening
SWEDISH INVESTMENT FUND ASSOCIATION

The importance of fund saving

INFO BOX

Funds play an important part in both individuals' financial security and companies' ability to finance their investments. Not only do funds afford savers the opportunity to share in global growth, savings also boost socioeconomic development.

Funds have constituted a natural, and growing, component of households' private savings since the mid-1980s when the "Allemans" public savings funds were launched and gave millions of people throughout Sweden the chance to share in stock market growth. Today's funds also help secure people's finances after retirement and are a natural building block of the pension system. The investment fund sector has helped generate prosperity for Swedish households for many years now.

An extensive system of fund saving could, in that it creates opportunities for households to gain easy access to equities and other financial assets, be said to promote a form of democratisation of the financial markets. The savings capital in funds broadens the capital market and, in turn, gives both the State and companies the opportunity to make investments. Funds that invest in Swedish securities thereby contribute to growth and job opportunity creation in Sweden, and fund saving is hence a cornerstone of both corporate and State financing. Saving in funds that invest in other markets, meanwhile, allows us both to share in and to contribute to growth in other countries.

The trend towards more sustainable financial markets in recent years has been a very rapid one. Customers are making new demands and fund management companies have developed management solutions which, when combined with active ownership, contribute to sustainable and responsible societal development.

Funds' share of households' financial net wealth, including pension savings, totalled less than 1% in 1980. The share has, however, risen sharply since then, and by 2018, accounted for over 30%.

Funds' share of equities listed on the Swedish stock market has doubled over the past 25 years, from 6% to 12%, which means that one in every eight Swedish stock market kronor is owned by fund savers. And this percentage is even higher if foreign fund management companies' ownership is included, making fund savers one of the Stockholm Stock Exchange's biggest ownership groups.

Funds also help secure people's finances after retirement. Funds are now offered as an option in every element of the pension system: in the State pension via the premium pension, in occupational pensions, and in conjunction with private pension savings, and by far the overwhelming majority of new saving in funds since the start of the new millennium has gone to pension- and unit-linked saving.

The fact that an increasingly large percentage of the population comprises elderly people imposes great demands on the pension system that has to support more and more people. Funds, as a savings format, are particularly well-suited to long-term saving in premium-based pension systems. Investment orientations and risk levels can easily be adjusted in line with individual preferences and requirements, and the investments in the fund are managed continuously by professional managers who manage the funds in the interests of the unit-holders.

One of the advantages of fund saving is that it enables risks to be spread. A fund must have at least 16 different holdings, and in practice, will have many more than this. Assembling a well-diversified equity portfolio for oneself is, of course, possible, but in practice, the majority of savers have not done this, and an average Swedish shareholder held shares in 3.9 companies in 2019. And the percentage of shareholders holding shares in only one company at the end of 2018 was a massive 44.9%[15].

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[15] Euroclear: Share ownership in Sweden, 2018.

Fondbolagens förening
SWEDISH INVESTMENT FUND ASSOCIATION

The milestones that have made Sweden a world-leader in fund saving

1958 ”The Mail Order brothers”, Ragnar and Gösta Åhlén, start Sweden's first fund under the name of ”Koncentra”. The fund still exists as ”Handelsbanken Sverigefond Index”.

1978 Finance Minister, Gösta Bohman, introduces tax save and tax save funds in order to stimulate households' savings. Fund saving takes off.

1979 The Swedish Investment Fund Association is formed with a mandate to promote and protect fund savers' and fund management companies' shared interests. There are 24 funds with a combined value of SEK 1 billion.

1984 Public Savings (“Allemansspar”) are launched with the “Allemans” funds as an option. The returns are tax-free and fund saving becomes a popular movement in Sweden.

1985 The UCITS regulations, on which Swedish and EU fund regulation is based, is launched and introduced into Swedish law in 1991.

1989 Currency regulation is abolished, opening the door to foreign funds. Fund saving diversifies.

1990 Unit-linked funds enter the stage with saving in funds via endowment insurance or pension insurance.

1994 Individual pension saving, IPS, is introduced, enabling individuals to invest their private pension savings in funds with no insurance element.

2000 The premium pension is introduced. As a result, all Swedes born from 1938 onwards with a pensionable income become fund savers.

2012 The Investment Savings Account (ISK) is introduced.

2013 The EU's Alternative Investment Fund Managers Directive is introduced in Sweden, enabling these funds to be sold freely in Europe, too.

2016 ISK-based savings really take off after the deductibility of private pension savings is abolished.

2019

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