Fondbolagens förening
SWEDISH INVESTMENT FUND ASSOCIATION

Saving in turbulent times

- The fund market and fund saving, 1998-2012

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Foreword

The Swedish Investment Fund Association provides details of fund saving every month. But I am particularly pleased, given that funds as a savings format are particularly well suited to long-term saving, to have this opportunity to present a new multiyear study. The perspective this time is a 15-year period (1998-2012) made up of three very different 5-year periods. The first of these periods was characterised by the consequences of an IT bubble that inflated and then burst. During the middle period, from 2003 to 2007, we saw a strong recovery by the stock market, while the most recent period, from 2008 to 2012, has been characterised by a deep financial crisis with substantial fluctuations in the stock market.

Bond funds have performed well if we look at the 15-year period as a whole, particularly during the last five years, when interest rates fell to ultra-low levels.

The primary focus of the study is, however, the stock market. Equity funds have, on average, yielded more or less the same return over the 15-year period as bond funds, but it is very interesting to note that the returns from Sweden funds have been almost twice as high. The performance by Sweden funds during the most recent 5-year period was outstanding and they were one of the very few types of equity fund to yield a positive return. The Swedish stock market has, viewed from a range of different time perspectives, performed very well in comparison with other stock markets and the report contains a chapter dedicated to “home bias”, i.e. savers’ tendency to opt for investments in their home market – a tendency that has served Swedish savers well. The study ends with an extra section on long-term equity-based saving and which analyses data from 1919-2012 with regard to return and risk.

The study also shows the value of monthly saving with the risk diversication over time also helping to ensure a healthy performance. The study shows, once again, that investment funds are particularly well suited for regular, long-term saving.

Pia Nilsson

CEO, the Swedish Investment Fund Association

Summary

The Swedish fund market has undergone substantial changes over the last 15 years. Regulatory changes, product innovations and improved trading opportunities are just a few examples of the development seen in the fund sector over a very turbulent period in the financial markets. The equity market has experienced three very different 5-year periods with the rise and fall of the IT bubble between 1998 and 2002, a period of vigorous recovery between 2003 and 2007, and a following period characterised by financial crises between 2008 and 2012. The fixed interest market has also changed during this period in response to inflationary fluctuations and historically low interest rate levels.

The study of the development of the fund market and fund saving shows that:

- 15 years ago, 62 per cent of Sweden's adult population saved in funds. The figure today is 76 per cent (100% if premium pension saving is included).
- The total net fund assets in Sweden have almost quadrupled between 1998 and 2012, from slightly over SEK 500 billion to just over SEK 2,000 billion.
- A net total of SEK 938 billion in new savings has been invested in funds over the last 15 years, corresponding to an average of SEK 63 billion per year.
- Savings in equity funds at the beginning of the 15-year period (1998) were spread equally, with one third invested in Sweden funds, one third in public savings programmes, and one third in funds that invest in other countries. Sweden funds still account for one third of all fund savings, but other savings have diversified, primarily as a result of the creation of numerous new emerging market funds.
- Swedish equity funds investments, which dominate Swedes' saving in equity funds, have posted a highly competitive value trend in both the short and the long term. The return on Sweden funds has been on a par with those posted by many emerging market funds and significantly higher than the average for equity funds.
- Households' financial savings ratio has, when occupational and premium pension savings are excluded, been negative for the majority of the 15-year period. Household consumption has, in other words, exceeded disposable income.
- Households' financial saving has been dominated by low risk savings formats. Approximately 80 per cent of all new savings have, for example, been invested in savings accounts, traditional life assurance, and fixed income funds, while equities, equity funds and mixed funds have accounted for around 20 per cent of savings.
- Funds' share of households' net financial assets has increased over the 15-year period, from 16 to 29 per cent. Two thirds of the increase from SEK 347 to SEK 1,600 billion comprised new savings and one third comprised an increase in value.

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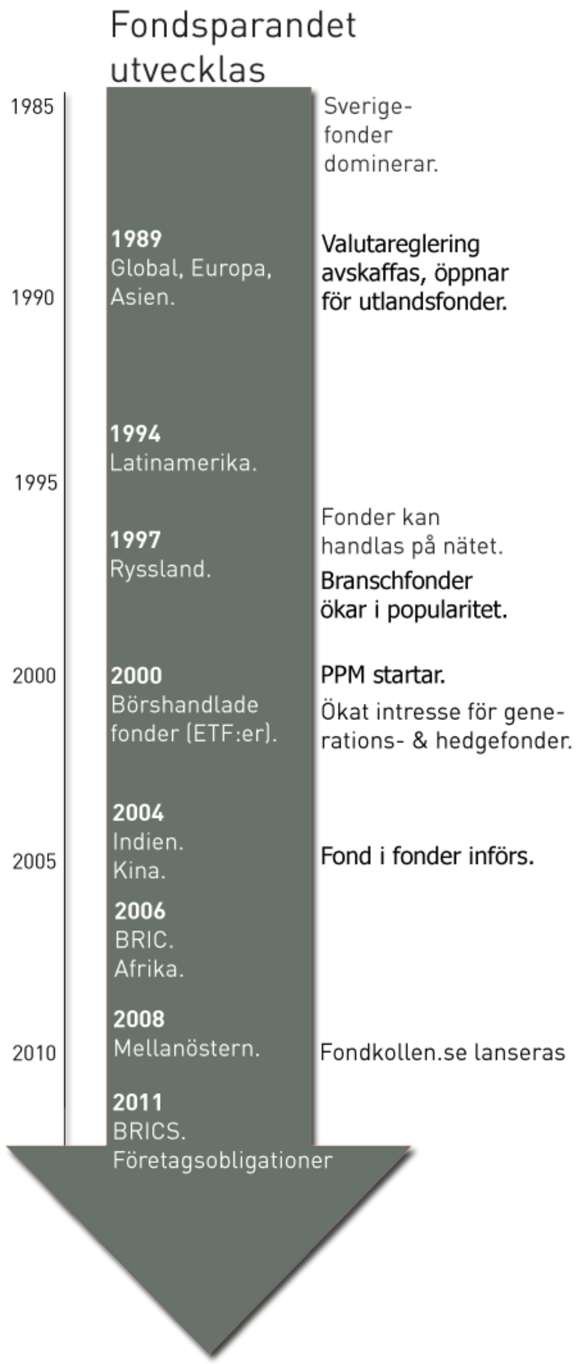
1. Increased competition, increased diversity

1.1 Increased competition, new trading opportunities

The number of funds in Sweden and of fund management companies operating in the Swedish market has multiplied many times over during the past 15 years and the way in which funds are traded has changed dramatically.

15 years ago, the four biggest banks accounted for over 80 per cent of the fund market. The corresponding figure today has fallen to just over 50 per cent. The first online marketplace for fund trading, Fondex, was launched in 1998 and was soon followed by many others. It also became increasingly common, in the new millennium, for banks and insurance companies to offer funds other than their own. Fondstar (now Morningstar) launched its site that offers analyses of and information on funds in 1999, making it easier to compare funds from different companies. 2011 saw the launch of the Swedish Investment Fund Association's Fondkollen.se website, since when it has been expanded to offer simple tools that allow savers to enter the name of their fund and see an accurate comparison of this fund with others, for example.



1.2 Fund savers have ventured out into the world

The abolition of exchange controls in 1989 facilitated investments in other countries and fund savers began investing, in particular, in global funds and Europe funds.

Equity funds specialising in emerging markets were launched throughout the 1990s. 1994 saw the launch of the first Latin America fund on the Swedish market, followed a few years later, in 1997 and 1998, by the first Russia funds. Sector funds, particularly those with an IT or pharmaceuticals orientation, were popular in the late 1990s.

The first Swedish hedge fund was launched in 1997 but it was not until after the stock market crash in 2000 that interest in hedge funds really picked up. The Nordic region's first ETF was launched on the Stockholm Stock Exchange in 2000.

Numerous generation funds, which reweight the percentage of equities/interest rates as the saver ages, were founded in conjunction with the introduction of the premium pension system in 2000, and in 2004, saving in fund-of-funds picked up speed.

The first decade of the new millennium saw the continued launch of funds specialising in emerging markets. The first China fund was launched in 2004, while BRIC funds (Brazil, Russia, India and China) reached Sweden in 2006, as did Africa funds. Middle East funds were launched in 2008, while in 2001, an "S" (South Africa) was added to BRIC funds, which hence became BRICS funds.

When it comes to fixed income funds, the majority of Swedes' capital has been invested in funds that invest in Swedish interest-bearing securities. This preference is probably due to the fact that the relatively low risk that the saver is keen to enjoy by investing in a fixed income fund increases dramatically if exchange rate fluctuations are allowed to affect the return.

The 15-year period has been characterised by sharply falling interest rates, which has benefitted the returns for bond funds, but viewed over the period as a whole, levels of saver interest in this field have been relatively low. Interest in fixed income funds that invest in corporate bonds has, however, increased markedly in recent years. The low interest rates for government securities have increasingly led savers to opt for bond investments that carry a higher risk but have a better return potential. Companies have also, due to new regulations that have hindered traditional borrowing, displayed an increased interest in issuing bonds.

Equity funds have dominated Swedes' fund saving and continue to do so. Equity funds' share of total savings has fallen over the last 15 years, but they still account for just over 50 per cent of total net fund assets in Sweden. Fixed income funds' share has increased from 19 to 24 per cent over the 15-year period, while mixed funds' share has remained relatively stable at just under 20 per cent. Approximately 5 per cent of net fund assets are currently invested in hedge funds.

1.3 Diversification of fund charges

The increased diversity of the funds available on the Swedish market has affected the trend in charge levels for fund saving in Sweden in a variety of ways.

The launch of funds and fund types in exotic new markets has, on the one hand, resulted in comparatively high charges for these specific funds. Increased competition and an increasingly diversified pricing of the more traditional range of funds, on the other hand, has resulted in new fund alternatives with very low or even no charges. The Swedish market currently offers savers funds from a number of fund management companies with a range of investment orientations for which no management charge at all is payable.

Innovations such as ETFs have also now created the opportunity for savers to achieve worldwide exposure via funds with very competitive charges. Much of the new saving in funds over the last 2-3 years has been invested in index funds/ETFs.

Swedish savers can also enjoy the benefits of fund saving with substantially discounted charges, via the premium pension and occupational pensions. The discount negotiated within the premium pension system corresponds to an average of more than half the gross charge.

1.4 The development of fund regulations

Fund regulation in Sweden and the EU is based on the UCITS (Undertakings for Collective Investments in Transferable Securities) Directive, which was issued in 1985 and introduced in Sweden in 1991.

The UCITS-based regulation is characterised by consumer protection in the form of risk spread and information requirements. UCITS III was introduced in Sweden in 2004 via the Swedish Investment Funds Act addressing two types of funds, namely UCITS ("värdepappersfonder") and special funds. UCITS may be sold freely in Europe while special funds are subject to national regulations. Standardised information documents, prospectuses, were introduced to make it easier to compare one fund with another, and investment provisions were expanded. UCITS IV was introduced in Sweden in 2004, making it easier to merge funds across national boundaries, and the ability to amend fund provisions was expanded. The possibility of different fund classes was also introduced for funds in Sweden. The Key Investor Information Documents were standardised and restricted to a maximum of two pages.

The EU's Alternative Investment Fund Managers Directive will be introduced in Sweden in the summer of 2013 and will, amongst other things, facilitate cross-border trade in non-UCITS funds.

Special funds will, in future, be regulated by the Swedish Alternative Investment Fund Managers Act, while UCITS will continue to be regulated by the revised Swedish Investment Funds Act.

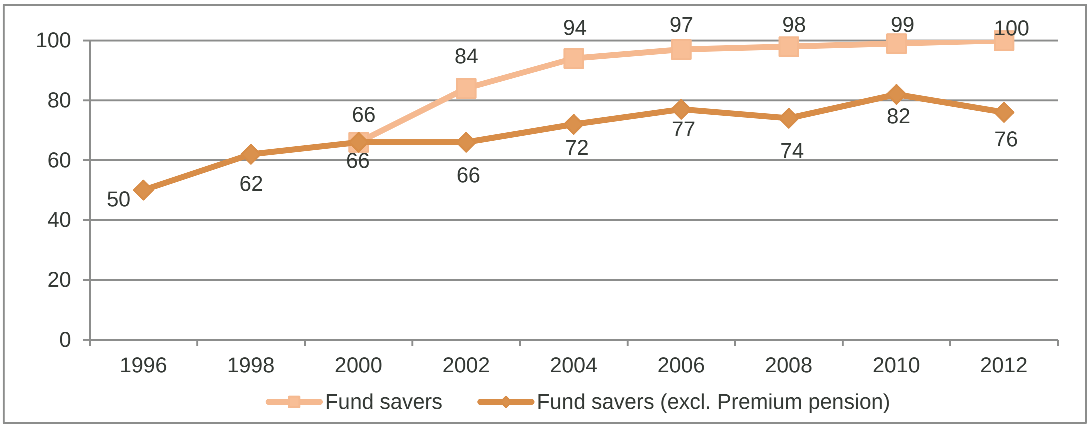
2. The development of fund saving, 1998-2012

2.1 Percentage of fund savers

The introduction of the premium pension system means that nowadays, virtually all adult Swedes are fund savers.

But fund saving is still very widespread amongst both men and women in Sweden, even if the premium pension saving is excluded. In 2012, 75 per cent of women and 77 per cent of men (aged 18 to 74) had fund savings over and above their premium pension savings. This equates to a pronounced increase since the mid-1990s, when 50 per cent of Swedes saved in funds. 61 per cent of all children nowadays also have fund savings.

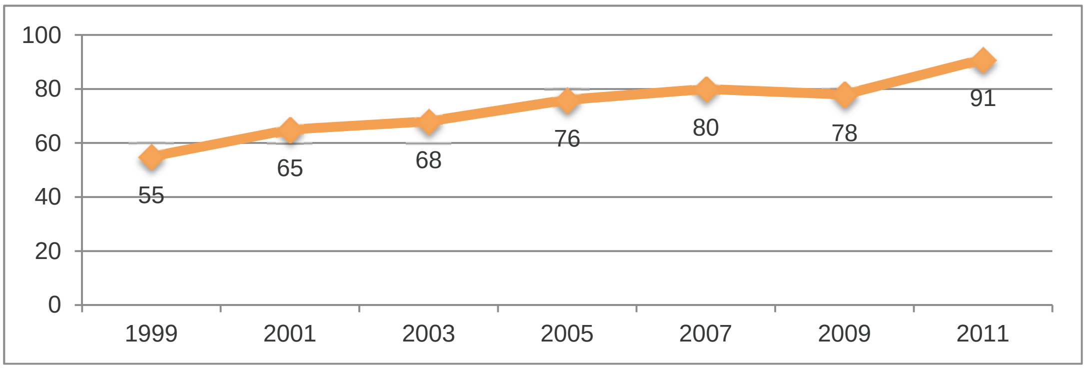
Diagram 1: Percentage of Swedish population (aged 18-74) who save in funds, %



Source: TNS SIFO Prospera

Swedish companies and institutions have also shown an increased interest in fund saving. The percentage of major companies who invest in funds has increased during the period from 1999-2011[1] from 55 per cent to 91 per cent. The percentage of these companies' capital that is invested in funds has also more than tripled during the same period, from 7 per cent to 23 per cent.

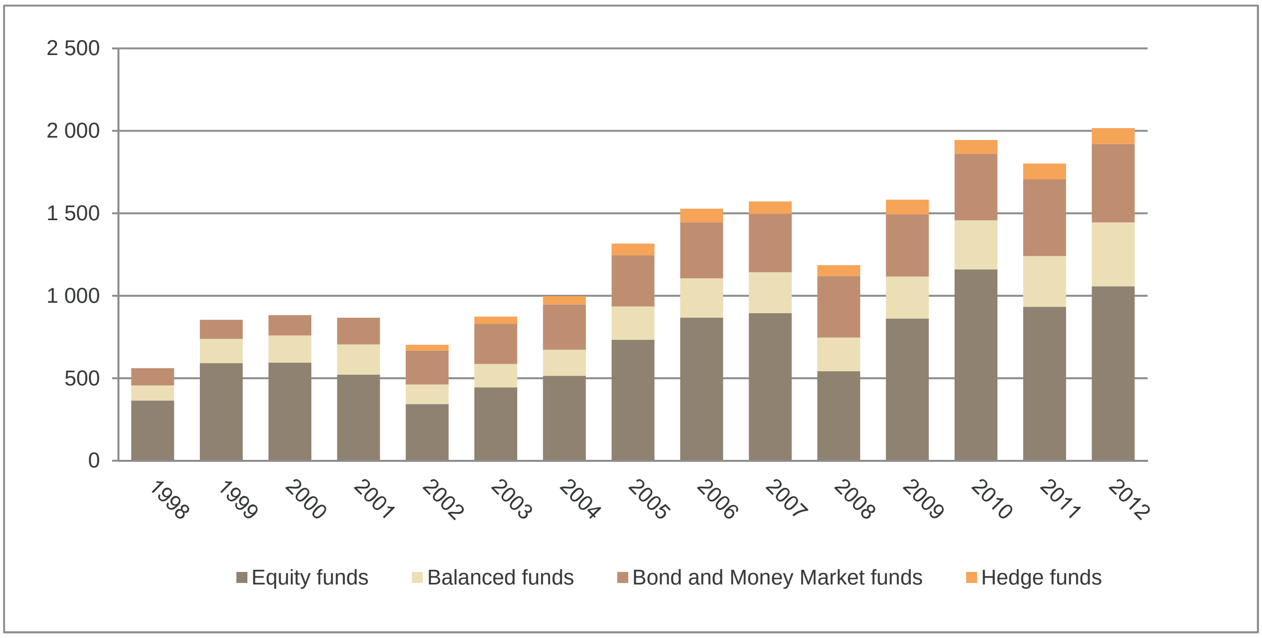
Diagram 2: Percentage of Swedish companies and institutions that own funds, %



[1] The survey is conducted every other year and includes companies with >SEK 300 million in investment capital.

2.2 Net fund assets

Diagram 3: Net fund assets in Sweden, SEK billion



Source: MoneyMate

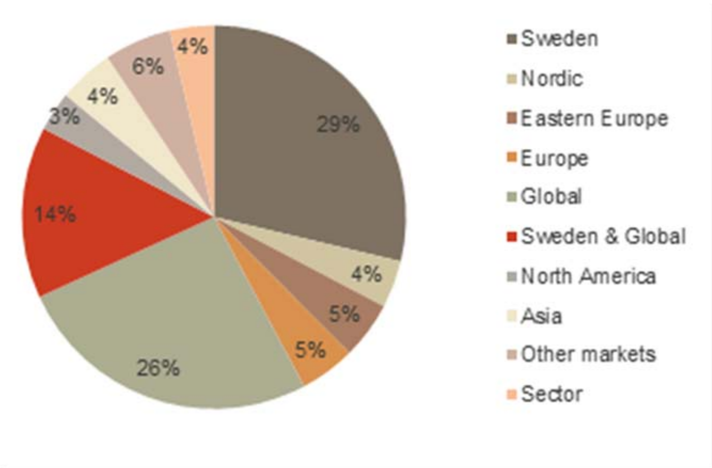
The total net fund assets in Sweden have almost quadrupled during the period from 1998-2012.

Two thirds of the increase from slightly over SEK 500 billion to just over SEK 2,000 billion is due to inflows via net saving, while one third is due to an increase in value.

Equity funds have consistently accounted for a very large percentage of total net fund assets and the trend in net fund assets has largely, therefore, reflected the stock market trend. Stock market falls in 2002, 2008 and 2011, for example, together with the sustained upturn between 2003 and 2007, are clearly shown in the diagram above. Viewed over the entire period, however, equity funds' share of total net fund assets has fallen from around 65 per cent to the current level of just over 50 per cent.

Diagram 4: Net assets in equity funds by investment orientation, 31 December 2012

The breakdown of fund saving in equity funds at the beginning of the 15-year period (1998) was as follows: one third each in Sweden funds, public savings programmes, and broad foreign funds. Swedes' investments in equity funds have diversified since then and now also include niched investments all over the world. Swedes' savings do, however, still



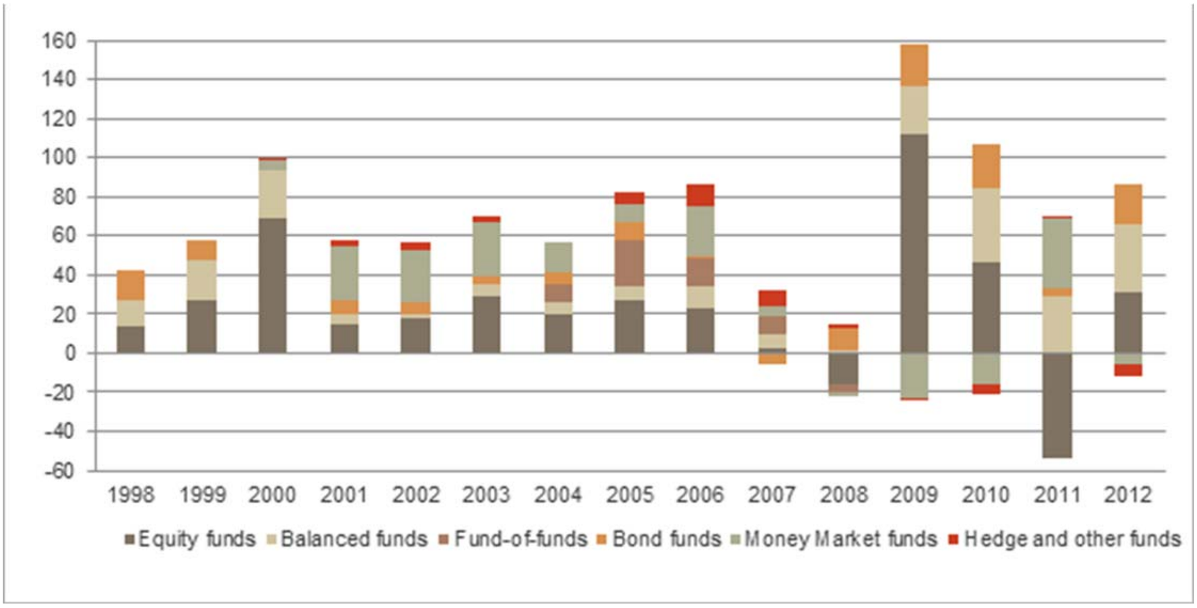
largely comprise savings in Sweden funds and global funds.

2.3 Net saving in funds

The total net amount saved in funds over the last 15 years is SEK 938 billion. This corresponds to an average inflow per annum of almost SEK 63 billion.

It is worth noting that new saving levels were relatively stable from one year to another during the first part of the 15-year period, while the latter period has seen substantial variations. Levels of new saving fell markedly in 2007, and in 2008 net savings actually reported negative levels. These falls were, however, followed by record levels of net deposits in funds in 2009 and 2010.

Diagram 5: Net savings in funds in Sweden, SEK billion



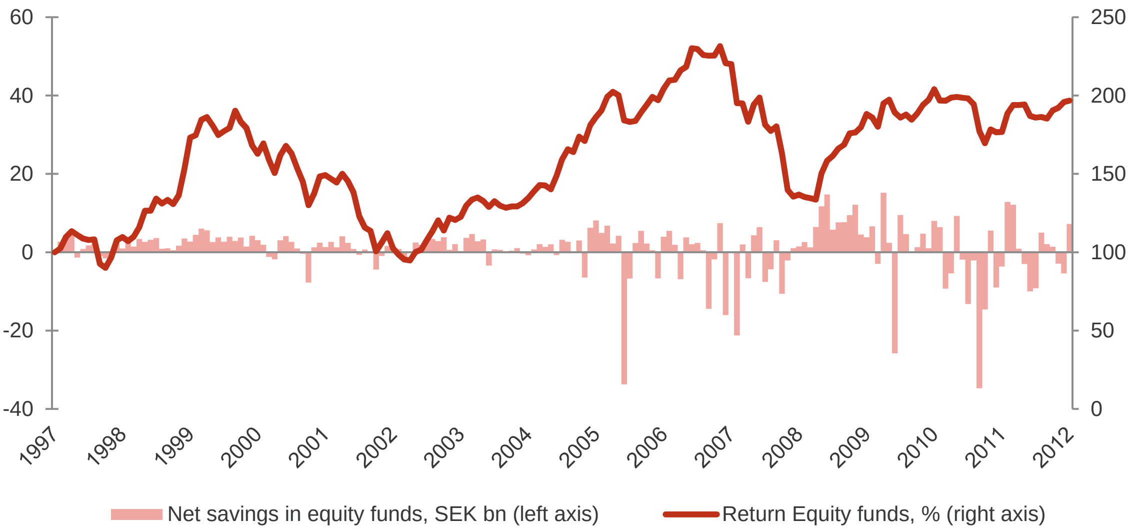
Source: Swedish Investment Fund Association

The year-on-year variations notwithstanding, it is clear that the average inflow over the last 5-year period has been on a par with those during the previous two 5-year periods.

The variations in total net savings are largely due to the substantial variations in the net savings in equity funds.

There is a relatively clear link, when it comes to equity funds, between monthly net savings and the stock market trend. This link has principally been evident during the last two 5-year periods.

Diagram 6: Net savings in equity funds[2] (bars, left axis, SEK billion) in comparison with the return on equity funds (line, right axis, %)



Source: Swedish Investment Fund Association and Morningstar fund index

It is apparent, for example, that the majority of the net outflows from equity funds have coincided with sharp downturns in the stock market. Equally, net inflows in equity funds have been at their greatest, and have occurred most commonly, during periods of positive stock market performance. It is also apparent that the net saving in funds in recent years has been characterised by increasingly large fluctuations, reflecting the volatility of the stock market.

It would seem, judging from the above diagram, that active fund savers have been fairly successful when it comes to timing market trends, particularly in recent years, in that the major withdrawals from equity funds in 2007 and 2008 were made before the worst decline in stock market prices and major deposits were made at a very early stage of the upturn in prices in 2009 and 2010.

2.4 Fund market returns

The last 15 years have, in many ways, been a special period. A burst IT bubble and a global financial crisis, followed by a deep euro crisis, have resulted in one of the most turbulent stock market periods ever seen.

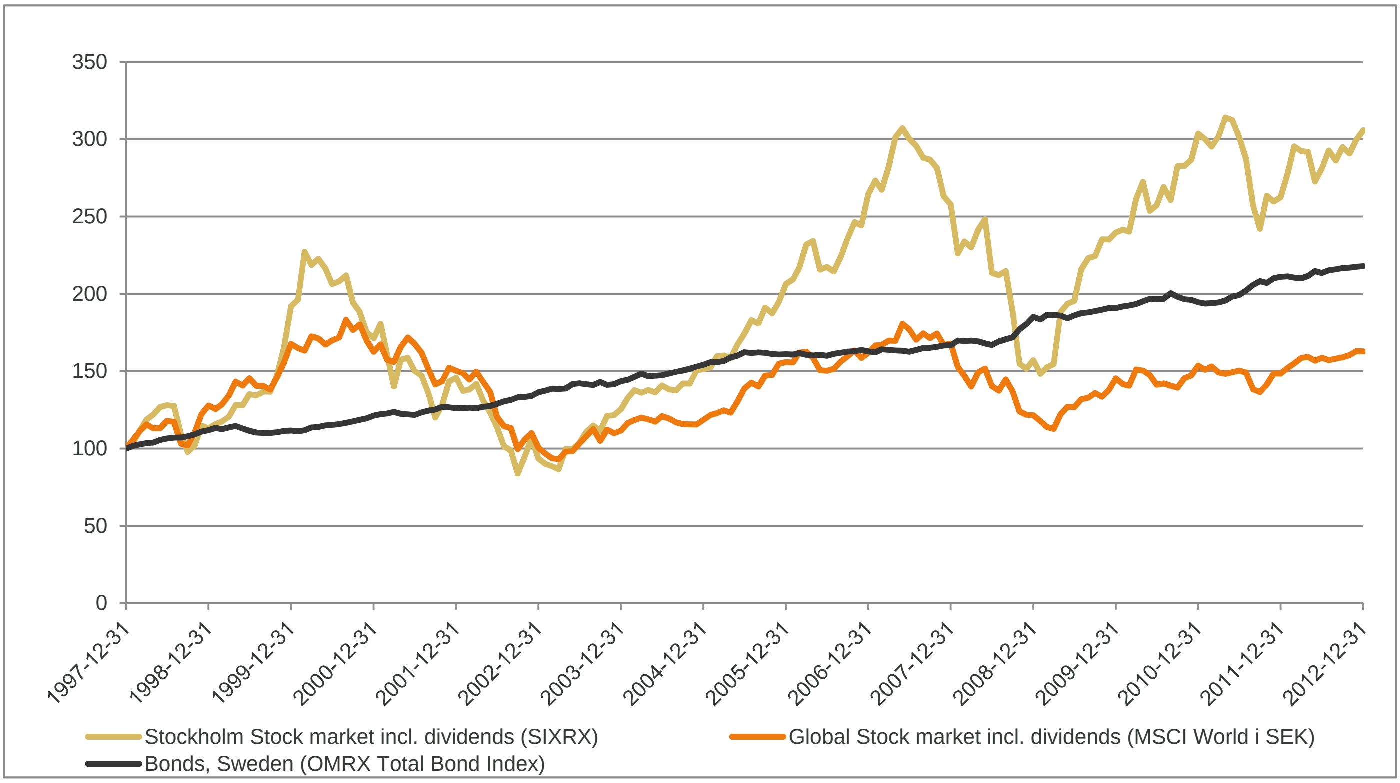
An exceptional situation with regard to interest rates, with sharply falling levels, has, at the same time, primarily benefited long-term fixed income investments.

Stock market turbulence notwithstanding, the value of equity funds has, on average, increased by 97 per cent (4.6% per annum) over the most recent 15-

[2] Excluding annual premium pension deposits.

year period. The return differs substantially, however, between different equity fund categories. Sweden funds have yielded a return of 186 per cent (7.3% per annum), and the return on funds that have invested in Asia, Latin America and Eastern Europe has exceeded 200 per cent. The performance of Europe funds, global funds, and USA funds has, by contrast, been markedly weaker.

Diagram 7: Equities performance, 1998-2012, globally and within Sweden, and by the Swedish fixed income market

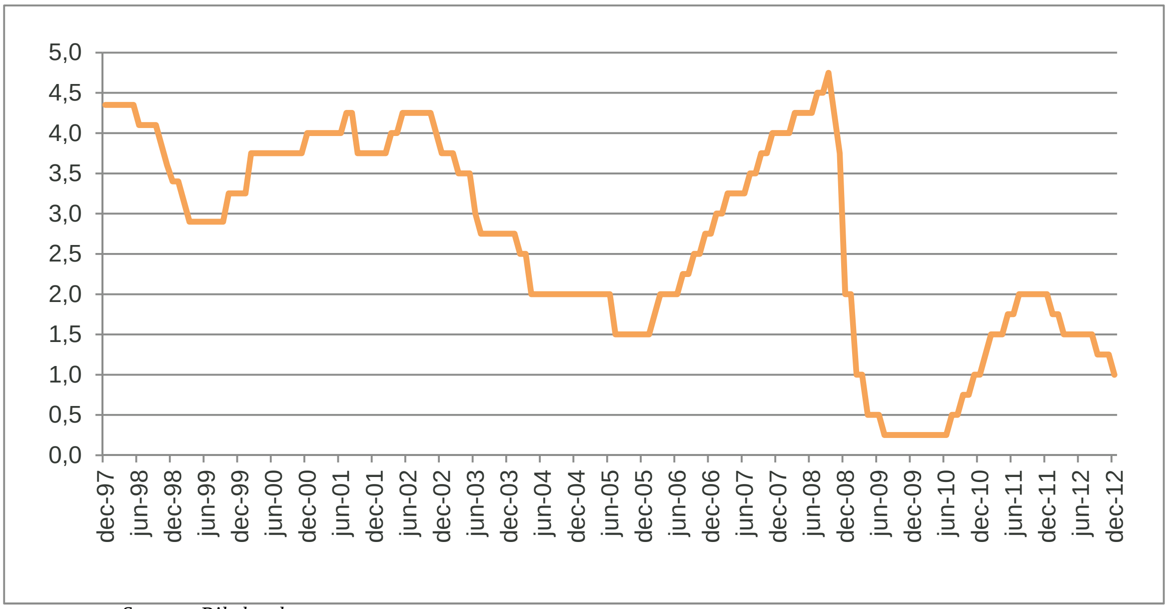


Source: Swedish Investment Fund Association, MSCI, Riksbank, and NASDAQ OMX

Swedish bond funds have yielded an average return over the recent 15-year period of just over 100 per cent (4.8% per annum). Money market funds have yielded an average return of 50 per cent during the same period (2.7% per annum), while mixed funds have risen in value by an average of just over 60 per cent (3.2% per annum).

Just how favourable interest rate trends have been for bonds in particular becomes clear if we look at repo rate trends during the period. Falling rates have enabled the return on bonds to compete with those from the stock market.

Diagram 8: The Swedish repo rate, 1998-2012, %



Source: Riksbank

The way in which the world's stock markets have been characterised by massive turbulence and by abrupt fluctuations over the last 15 years is particularly apparent if the period is divided up into three separate 5-year periods.

Table 1: Return for different fund types, %

	15 years (1998-2012)		The "IT bubble" 1998-2002		"The recovery" 2003-2007		"The financial crisis" 2008-2012	
	Total	Average/ yr.	Total	Average/ yr.	Total	Average/ yr.	Total	Average/ yr.
Equity funds	**97**	**4.6**	**3**	**0.5**	**115**	**16.5**	**-11**	**-2.2**
Sweden	186	7.3	-5	-1.1	163	21.3	15	2.8
Nordic region	172	6.9	3	0.5	194	24.0	-10	-2.1
Europe	76	3.8	-0.4	-0.1	115	16.5	-18	-3.8
Global	43	2.4	0.5	0.1	66	10.7	-15	-3.2
USA	34	2.0	4	0.9	32	5.7	-3	-0.5
Emerging market, global	143	6.1	-16	-3.4	245	28.1	-17	-3.6
Asia	214	7.9	16	3.0	195	24.1	-8	-1.7
Eastern Europe	231	8.3	21	4.0	359	35.6	-41	-9.9
Latin America	245	8.6	-34	-8.1	435	39.8	-2	-0.4
Mixed funds	**61**	**3.2**	**8**	**1.5**	**51**	**8.7**	**-1**	**-0.3**
Bond funds	**102**	**4.8**	**32**	**5.6**	**18**	**3.3**	**31**	**5.5**
Money market funds	**50**	**2.7**	**20**	**3.7**	**12**	**2.3**	**11**	**2.2**

Source: Morningstar fund index

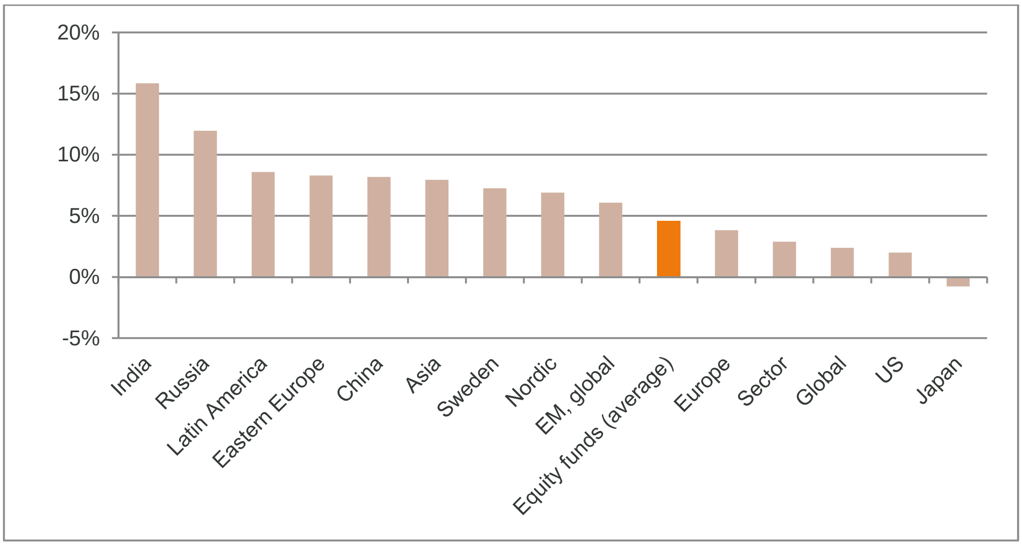
The first period, from 1998 to 2002, which included both pronounced upturns in conjunction with the growth of the IT bubble and equally or more pronounced downturns when the bubble collapsed, offered a very weak performance overall by the stock market and equity funds rose, on average, by a mere 3 per cent (0.5% per annum).

The subsequent 5-year period, from 2003 to 2007, was, by contrast, characterised by a vigorous and sustained stock market upturn. Equity funds rose by an average of 115 per cent (16.5% per annum). Sweden funds yielded a massive average return of 21.3 per cent per annum during the period but were still comprehensively outperformed by Eastern Europe and Latin America funds, which rose by an average of up to 40 per cent per annum.

And then we come to the most recent 5-year period, from 2008 to 2012, which saw a whole string of financial crises in succession and once again resulted in a very weak stock market performance. Equity funds posted an average drop in value of 11 per cent (-2.2% per annum) during the period. Sweden funds were, however, one of the few equity fund categories that posted a positive value trend, growing by 15 per cent (2.8% per annum).

The biggest increase in value, overall, during the past 15-year period occurred in equity funds that invest in specific emerging markets. India funds, for example, have posted a return that exceeded 15 per cent per annum, on average, while dedicated Russia funds have posted an average annual return of 12 per cent. Sweden funds and Nordic funds have also posted extremely competitive returns that compare well with several emerging market funds and which have been significantly higher than the average for equity funds. At the other end of the spectrum, by contrast, we find Japan funds, which have experienced negative value growth, and USA and global funds that have posted weak value growth over the last 15 years.

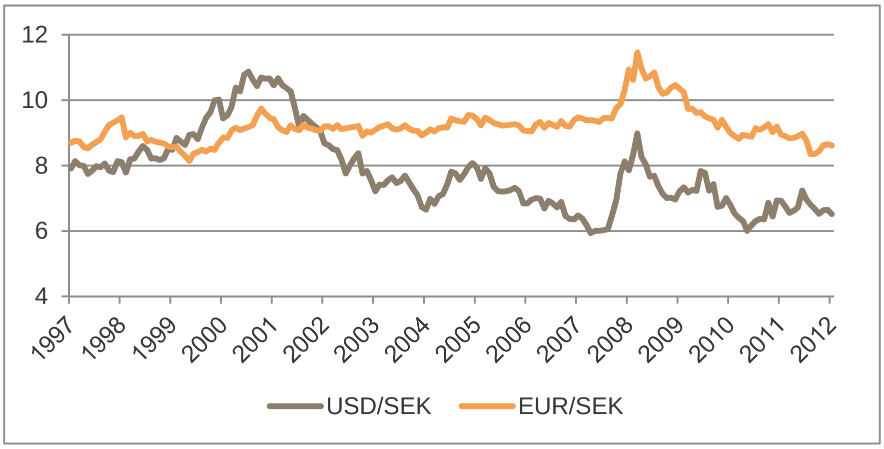
Diagram 9: Annual average return for equity funds by investment orientation, 1998-2012



Source: Morningstar fund index

The relatively poor return by global and USA funds (2.4% and 2% per annum, respectively) in comparison with Sweden funds (7.3% per annum) can, to some extent, be explained by the weakening of the US dollar against the Swedish krona. The value of the krona has risen by 18 per cent against the dollar since 1997, corresponding to an increase of ca. 1 per cent per annum.

Diagram 10: SEK value trend against USD and euro, 1998-2012, in SEK



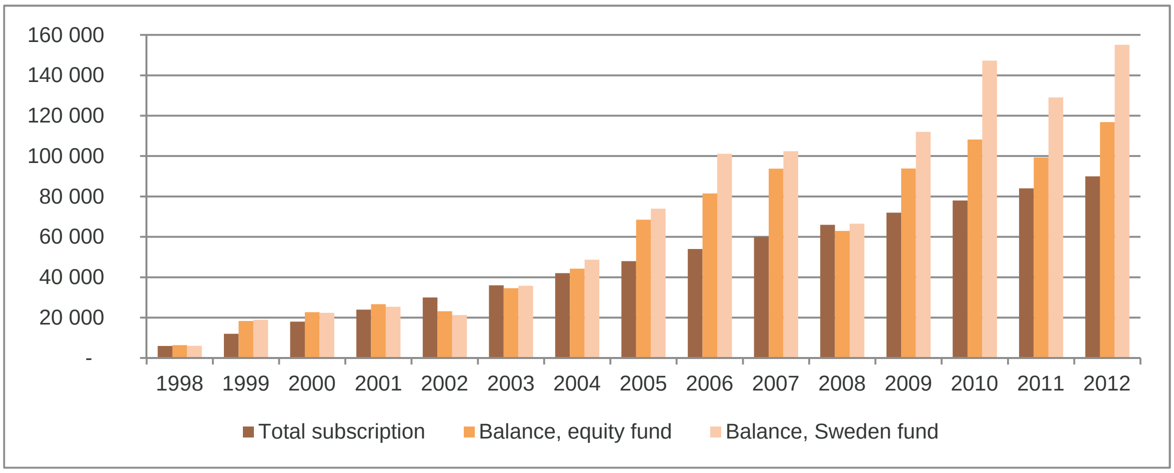
Source: Riksbank

2.5 Monthly saving

Regular monthly saving in funds offers a risk spread, not just between different types of asset, but over time as well.

Saving in equity funds on a monthly basis means that savers acquire fund units both when the price is low and when it is high. This evens out stock market fluctuations and ensures that savers do not invest all of their capital at the wrong time, i.e. immediately before a stock market downturn.

Diagram 11: Value growth of a saving of SEK 500 per month in an average equity fund or a Sweden fund, 1998-2012

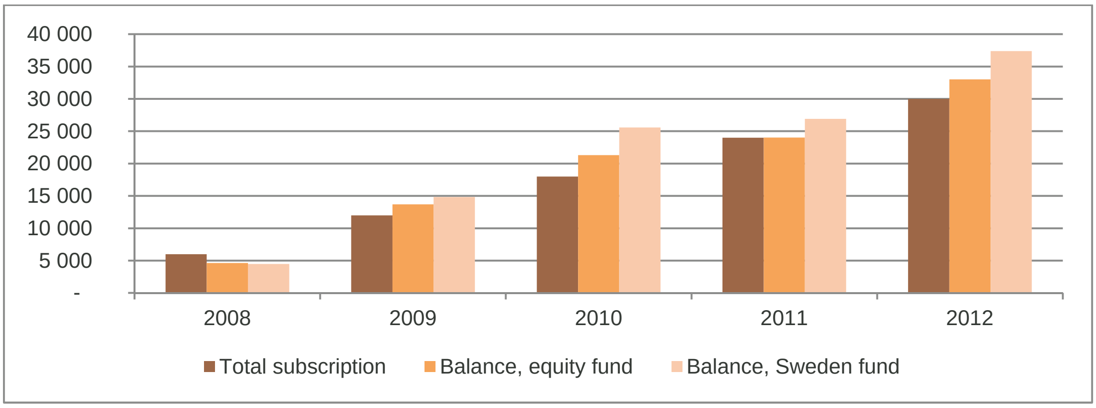


Source: Morningstar fund index

The above diagram shows how the balance in an average equity fund and Sweden fund performed relative to the capital deposited with a monthly saving of SEK 500 over the last 15 years. Stock market turbulence notwithstanding, the balance of both the average equity fund and the Sweden fund has only fallen below the amount subscribed on a few occasions. By the period end, the total capital deposited of SEK 90,000 had grown to almost SEK 117,000 in the equity fund and to just over SEK 155,000 in the Sweden fund.

If the performance of a monthly saving over the last 5 years is also calculated, the advantages of regular saving can be illustrated particularly clearly. It has already been noted that equity funds have yielded an average negative return during the period from 2008 to 2012 (-11%), but the balance in an average equity fund in conjunction with a monthly saving over the corresponding period totals just over SEK 33,000 for a total amount deposited of SEK 30,000. The return on Sweden funds was even better, resulting in a balance at the period end of just over SEK 37,000 for this investment.

Diagram 12: Value growth of a monthly saving of SEK 500 in an average equity fund or a Sweden fund, 2008-2012



3. Swedish “home bias” has been successful

Criticism is sometimes heard of the fact that Swedes have a disproportionately high percentage of their investments in equities exposed to their own stock market, i.e. via direct investments in equities or in Sweden funds.

Up to 90 per cent of households’ direct savings in equities comprise investments in Swedish listed companies[3] and 30 per cent of the total net assets of equity funds are invested in Sweden funds (and if Sweden investments in the types of fund that invest in part in Sweden are included, this figure rises to ca. 40 per cent). And this is despite the fact that the Swedish stock market accounts for only 1 percentage point or so of the global stock market.

The phenomenon of an emphasis on domestic investments is usually known as “home bias” and is in no way unique to Sweden, with the same pattern apparent in most countries. There may be several reasons for the home bias phenomenon: the particular faith in the home market may be a result of these investments being more familiar to the saver, or it may be that restrictions or extra costs hinder access to foreign investments.

Another reason why Swedes invest in their own stock market may be that these investments are not associated with the exchange rate risk entailed by foreign investments. It should also be noted that the fact that Sweden, its geographically remote location notwithstanding, is an export-based economy which means that an investment in Swedish shares also very much constitutes an exposure to the rest of the world and, not least, to emerging market regions. Exports currently account for as much as ca. 50 per cent of Sweden’s GNP – a figure that exceeds the EU average and significantly exceeds the average for the countries of the world as a whole.

In Sweden’s case, this domestic overweighting in the investments has very clearly shown itself, in terms of returns, to benefit savers. The Swedish equity market has performed very well in both the shorter and the longer term. The Stockholm Stock Exchange has posted a higher return than most other stock markets irrespective, in principle, of the time period under consideration.

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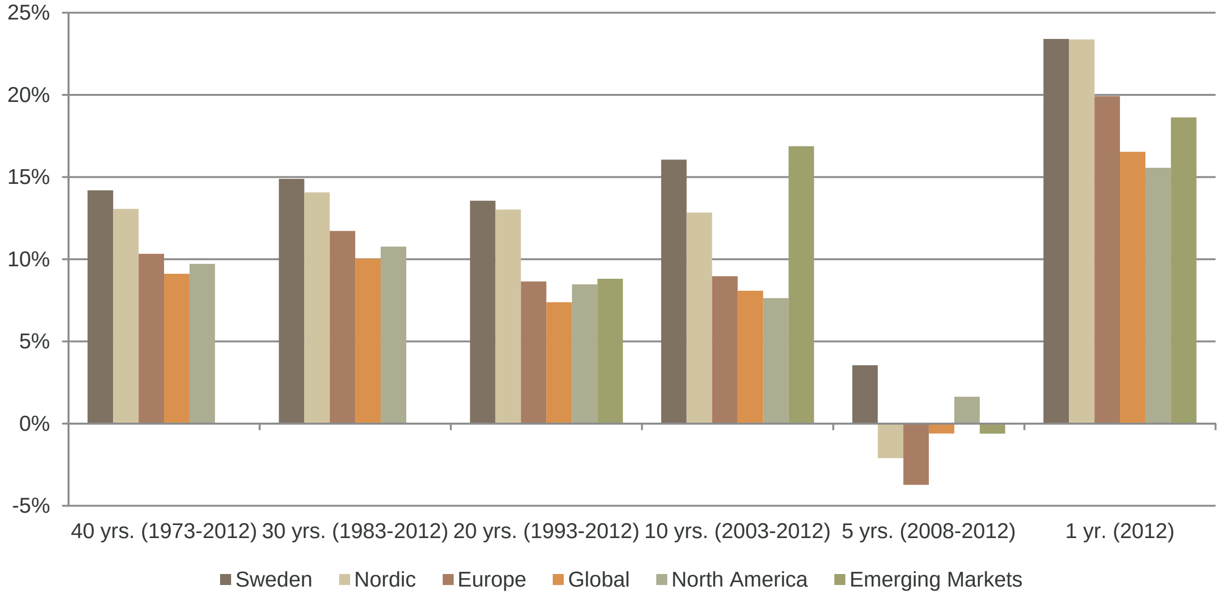
[3] Source: Statistics Sweden, Savings Barometer.

Diagram 13: Annual average return for different stock markets, % (calculated in USD)



Source: MSCI

During both the most recent 10 year and 20-year periods and the most recent 30 year and 40-year periods, the average annual return on the Stockholm Stock Exchange has been around 5 percentage points higher than the global index performance.

It is clear in retrospect that Swedish investors have benefitted from having a substantial share of their investments exposed to the Swedish stock market.

The above diagram shows clearly that the returns yielded by the various stock markets have reflected the risk with which the investments are associated. The markets that are characterised by a relatively high risk – Sweden, the Nordic region, and emerging markets – have consistently yielded higher returns than the European, North American and global stock markets. Savers have, in other words, been compensated for the extra risk they have been prepared to take.

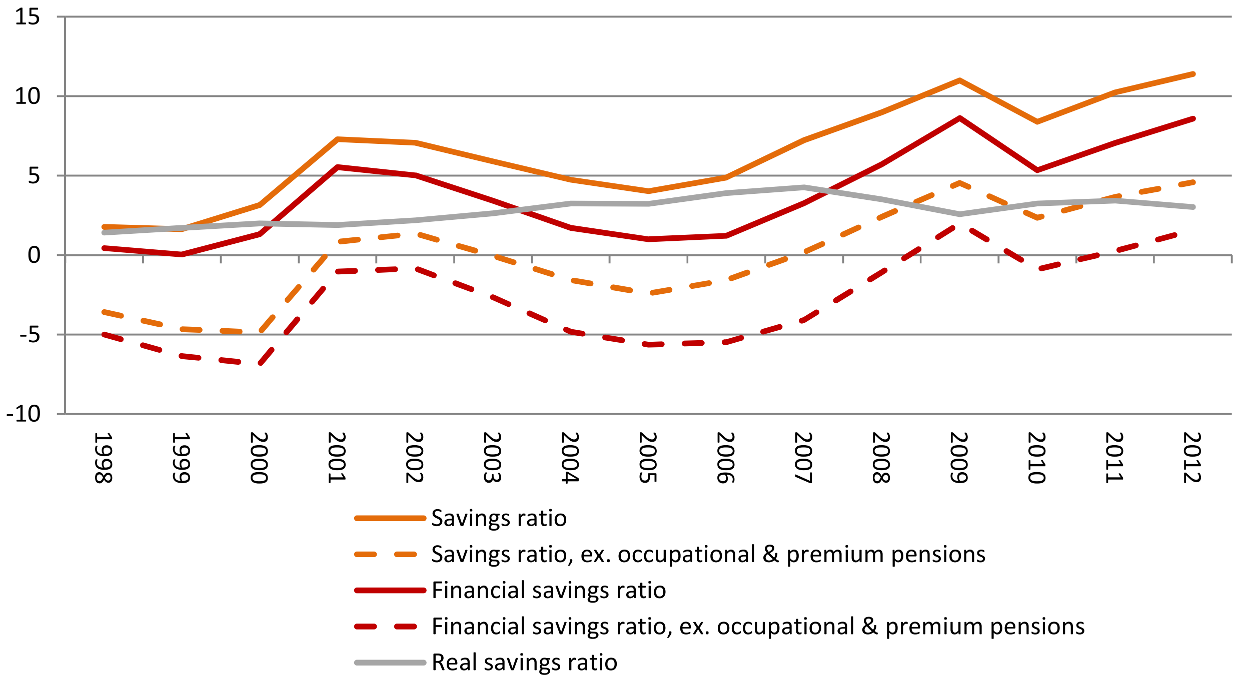
4. Households' savings, 1998-2012

4.1 Households' savings ratio

Households' savings ratio shows what percentage of household income is saved, including savings via occupational and premium pensions. Over the last 15 years, the households' savings ratio has been 6.5 per cent per annum on average. However, the variations between the different years are substantial.

In general terms, it is clear that there is a negative correlation between the savings ratio on the one hand and the economic climate and the performance of the stock market on the other, which is due to an increased need for saving when the value of assets falls and concerns for the future increase. The long-term trend also shows that savings ratios have risen during the period.

Diagram 14: Households' savings ratio, 1998-2012, % of disposable income



Source: Statistics Sweden, calculations by the Swedish Investment Fund Association

If households' investments in real assets are excluded, the average per annum financial savings ratio has been 3.9 per cent. Much of the financial saving comprises provisions made to occupational and premium pensions, but even if this mandatory saving is also excluded, the long-term increase in savings ratio continues to be apparent, as does the negative correlation with change in value. The actual savings ratio figure, however, changes significantly.

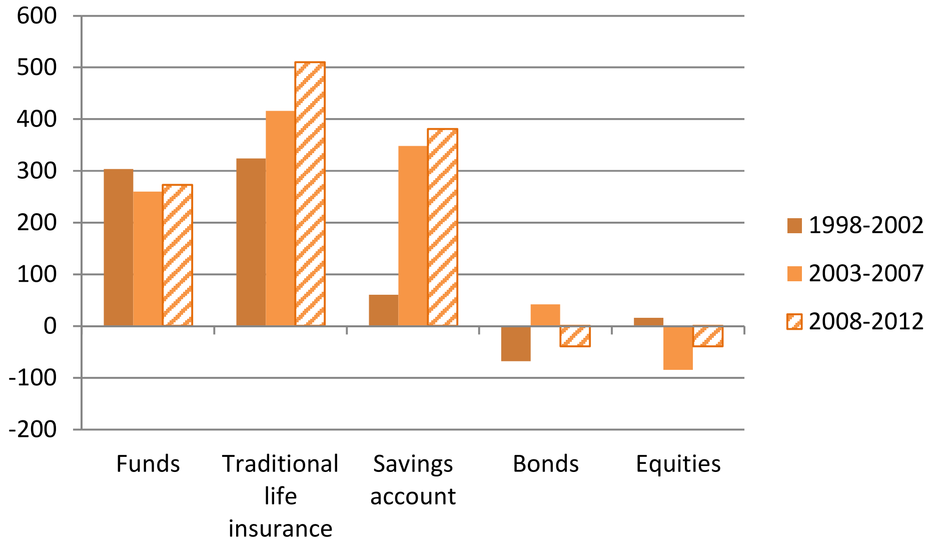
The financial savings ratio, excluding occupational and premium pensions has, on average, been negative at -2.7 per cent per annum. The ratio was only positive in three of the last fifteen years (2009, 2011 and 2012) at 2.0, 0.2 and 1.6 per cent, respectively. A negative savings ratio means that households are consuming more than their disposable income which they can do either by making withdrawals from their savings or by increasing their borrowing. The negative financial savings ratios during the last 15 years are due to households' borrowing increasing by more than their savings.

4.2 Households' financial saving

Households' financial saving has increased during the last 15-year period, but this increase is mainly due to an increase in collective saving[4].

The majority of the saving has been made in traditional life assurance, funds and savings accounts, while direct saving in bonds and equities has been negative.

Diagram 15: Households' financial net saving, 1998-2012 (broken down into 5-year periods), SEK billion



Source: Statistics Sweden and the Swedish Investment Fund Association

Fund saving (including premium and occupational pension) has comprised ca. 30 per cent of households' total net saving during the 15-year period, but the share has decreased from ca. 50 per cent between 1998 and 2002 to 25 per cent during the most recent 10-year period.

Traditional life assurance has posted the highest level of net saving during all three of the 5-year periods that make up the last 15 years, largely because saving for occupational pensions accounts for a large share of households' total saving.

Levels of interest in savings accounts have been weak during the years when the stock market rose in the latter years of the old millennium, but since

[4] Saving for occupational & premium pensions.

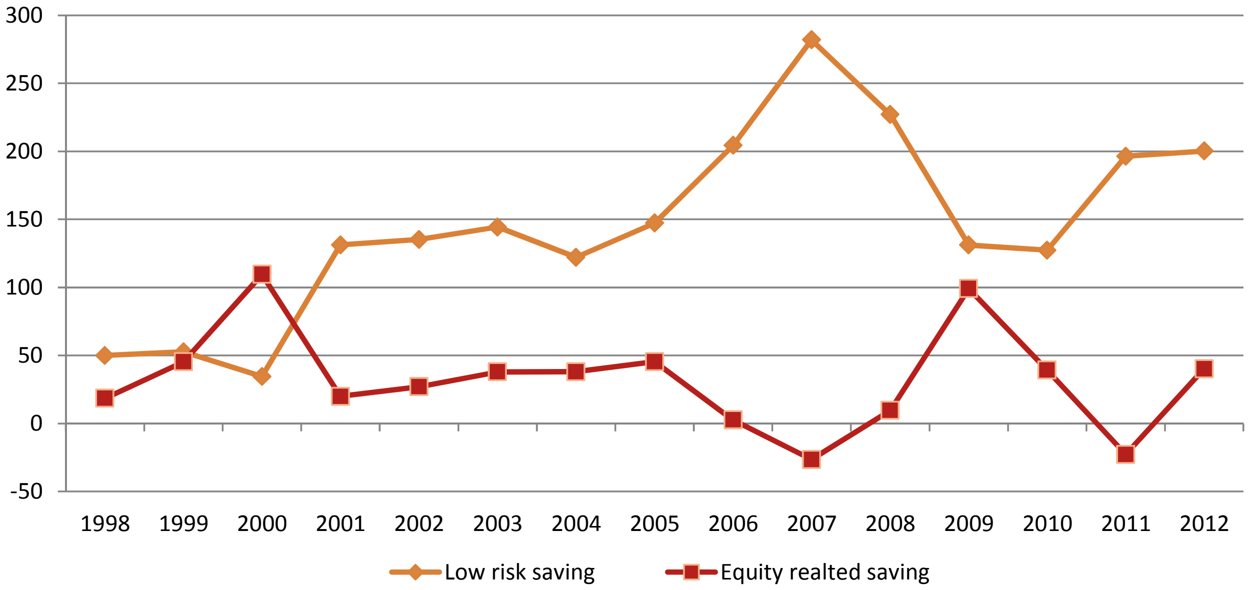
then, households have, on average, deposited ca. SEK 70 billion annually in this savings format. Savings accounts are dominated by bank deposits (ca. 95%), but it is interesting to note that deposits with financial institutions other than banks have grown by SEK 20 billion during the last five years (from 1.1% to 2.4%) at the same time as National Debt Savings have decreased (from 4.5% to 1.7%).

Levels of direct saving in bonds have been low over the last 15 years. The positive saving levels during the period from 2003 to 2007 were due to an increased interest in equity linked bonds. This interest has, however, declined, partly due to lower interest rates that have made it difficult to construct products like this that are profitable for savers.

Levels of interest in direct saving in shares have also been very low with a net total of SEK 108 billion being withdrawn during the 15-year period. Net saving in this savings format was only positive during the IT bubble period. It is also clear that households' direct saving in equity funds during the period was negative with a net total of approximately SEK 100 billion withdrawn.

Households' low levels of interest in equity-related saving are further illustrated in the graph below, where total saving is broken down by the investments' risk.

Diagram 17: Households' net saving grouped by risk[5], SEK billion



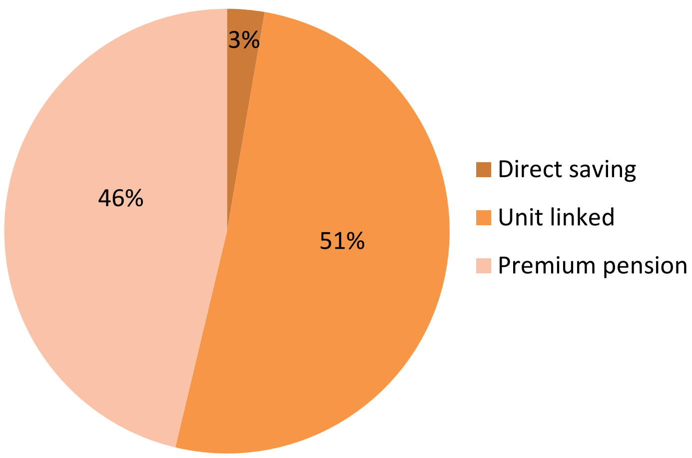
Source: Statistics Sweden and the Swedish Investment Fund Association, calculations by the Swedish Investment Fund Association

[5] Equity-related: Equities, Equity funds, Balanced funds.
Low risk: Savings accounts, Bonds, Traditional life assurance, Fixed income funds, Hedge funds.

Interest in equity-related savings formats has only managed to compare favourably with low risk savings formats between 1998 and 2000, since when households have been far more inclined to choose low risk savings alternatives. It was only in 2009, when stock markets rose sharply, that interest in equities once more rose to levels in the vicinity of those in low risk alternatives.

Fund saving has increasingly been dominated by pension saving, principally due to the introduction of occupational pensions and premium pensions, but also due to the increase in private pension saving. Direct saving in funds has only accounted for 3 per cent of households' total fund saving over the last 15 years, and had it not been for the inflow posted by the new savings format, the investment savings account (ISK) in 2012, direct saving in funds would probably have been negative[6].

Diagram 16: Net saving in funds by savings format, 1998-2012



Source: Swedish Investment Fund Association/Statistics Sweden

4.3 Households' financial assets

Households' financial assets have more than doubled during the most recent 15-year period and households' fund holdings (including occupational and premium pensions) have now more than quadrupled in comparison with levels at the beginning of the period.

Table 2: Households' financial assets, SEK billion

	Funds	Traditional life insurance	Savings account	Bonds	Equities	TOTAL
1997	347	676	440	160	516	2 140
2002	604	984	522	93	286	2 488
2007	1 341	936	873	165	579	3 895
2012	1 600	2 035	1 277	113	472	5 498

[6] ISK is reported (by and large) under direct saving in the statistics.

Source: Statistics Sweden and Swedish Investment Fund Association

Net assets in funds increased during the period from SEK 347 billion to SEK 1,600 billion, an increase of SEK 1,253 billion, two thirds of which was due to new savings and one third to increase in value. Net assets held in savings accounts have also increased markedly during the period, from SEK 440 billion to SEK 1,277 billion, but only one tenth of the increase of SEK 837 billion was due to increase in value.

Funds' share of households' net assets has increased from 16 to 29 per cent. The percentage invested in traditional life assurance has also increased, while the percentage invested in bonds and equities has decreased markedly. Savings accounts' share has, in principle, remained unchanged since 1998.

Table 3: Households' financial assets, breakdown, %

	Funds	**Traditional life insurance**	**Savings account**	**Bonds**	**Equities**	**TOTAL**
1997	16	32	21	7	24	100
2002	24	40	21	4	11	100
2007	34	24	22	4	15	100
2012	29	37	23	2	9	100
2012 excl. collective saving	23	20	39	3	15	100

Source: Statistics Sweden and Swedish Investment Fund Association

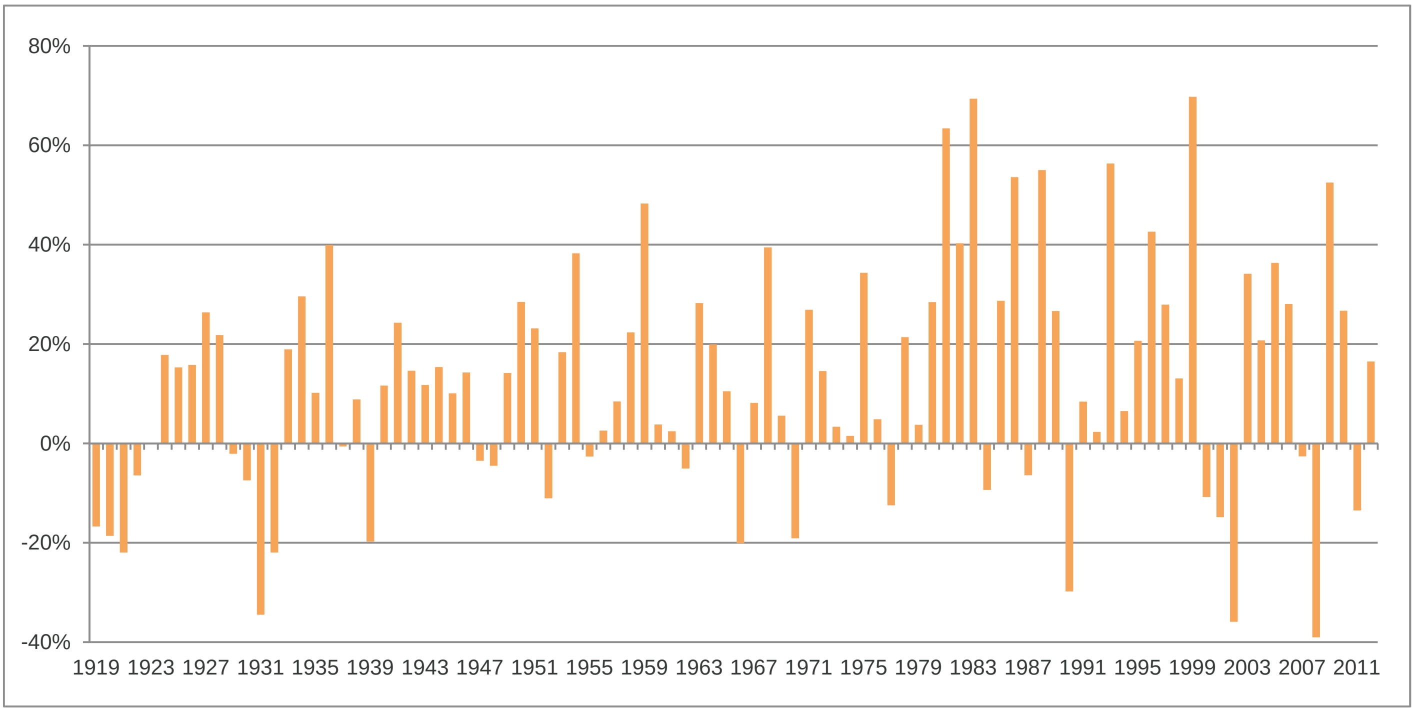
Collective saving, i.e. saving via occupational and premium pensions, currently accounts for a very large part of the total amount saved, namely ca. 40 per cent. If this collective saving is excluded, savings accounts make up the largest share of households' net assets, with 39 per cent, while the shares invested in funds and traditional life assurance fall to 23 per cent and 20 per cent, respectively.

Extra material: Equity saving in the short and long term – returns & risk

Economic theory states that equity-related investments should, in the long-term, yield, on average, a higher return than fixed income investments in that equities carry a higher risk.

The following diagram illustrates the risk that equities carry in the short term. The risk, in other words, that the capital deposited will fall in value over the term of a one-year investment horizon on the Stockholm Stock Exchange.

Diagram 18: 1-year investment horizon, yearly return for equities, 1919-2012 (Stockholm Stock Exchange)



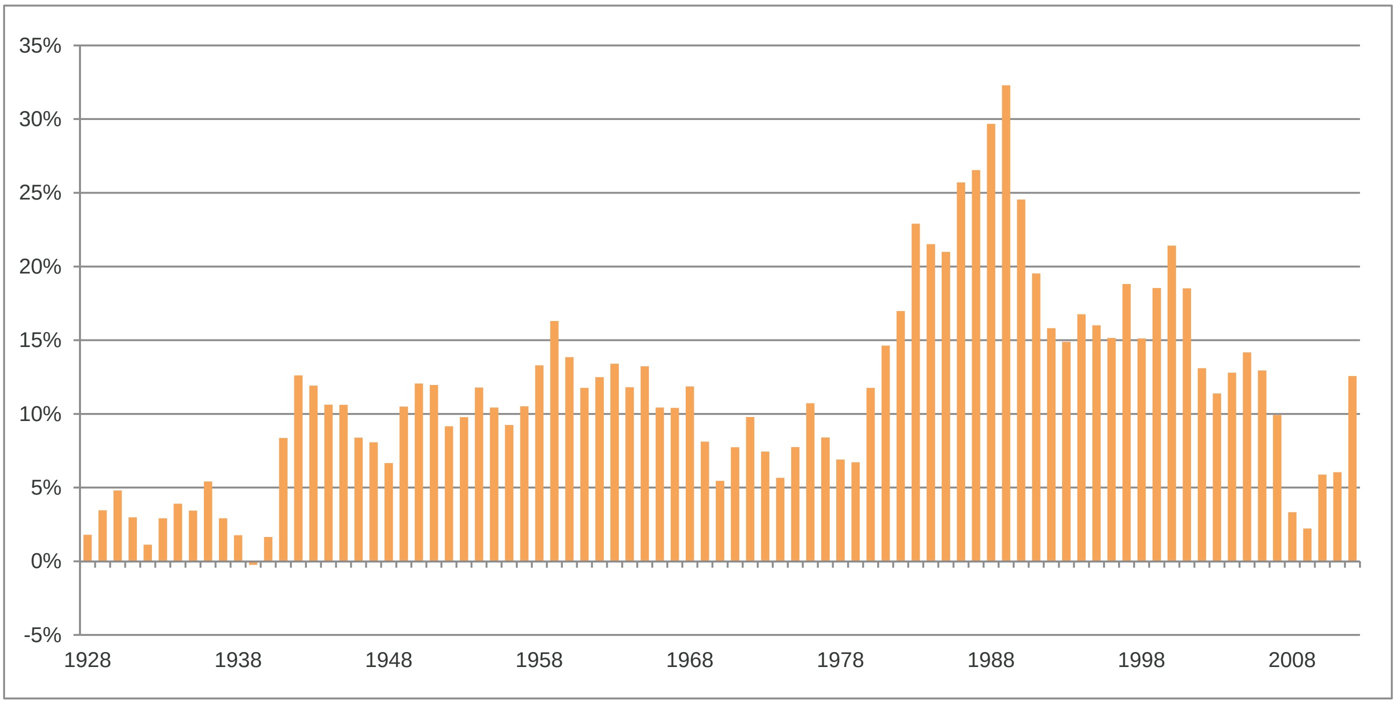
Source: SIXRX and Frennberg/Hansson

Even if there are significantly more years with a positive return than with a negative return (66 vs. 28), the downturns are sufficiently numerous and severe to concern a saver.

Most savers who invest in shares do not, fortunately, have a one-year investment horizon, and because the value of equities can, by their very nature, vary widely, many opt to invest in the longer term. So what does a similar diagram look like for 10-year investment horizons in equities?

The bars in the diagram below show the average annual return for rolling 10-year investment horizons when investing on the Stockholm Stock Exchange. The final bar, for example, shows that the period from 2003 to 2012 yielded a per annum return of 12.6%.

Diagram 19: 10-year investment horizon, average yearly return for equities, 1919-2012 (Stockholm Stock Exchange)



Source: SIXRX and Frennberg/Hansson

The 10-year returns look completely different from those for 1-year periods. The really high peaks have disappeared but above all, the periods of negative return have largely been eliminated. The period contains 85 10-year periods and only one such period, 1930-1939, posts a negative result (-0.2% per annum)[7].

The above two diagrams show, in other words, that the risk decreases substantially when the investment horizon is extended.

Historic returns should, admittedly, not be used to predict future returns, but it can nonetheless be tempting to draw the conclusion, based on the big picture, that savers should not expect the high returns of the 1980s and 1990s to return.

The following diagram shows the highest and lowest returns (on average) per annum for different investment horizons. The saver's chance of a really high annual return declines as the investment horizon increases. With a 1-year investment horizon, the saver received a maximum return of 69.8 per cent (1999), while a 20-year investment horizon for the saving gave a maximum annual return of 25.2 per cent (1980-1999). The risk of substantial losses does, however, also decline considerably. With a 1-year investment horizon the maximum loss by a saver was 39.1 per cent (2008) while with a 20-year investment horizon, there were no loss-making years and the minimum annual return was 1.6 per cent (1920-1939). The variations even out, in other

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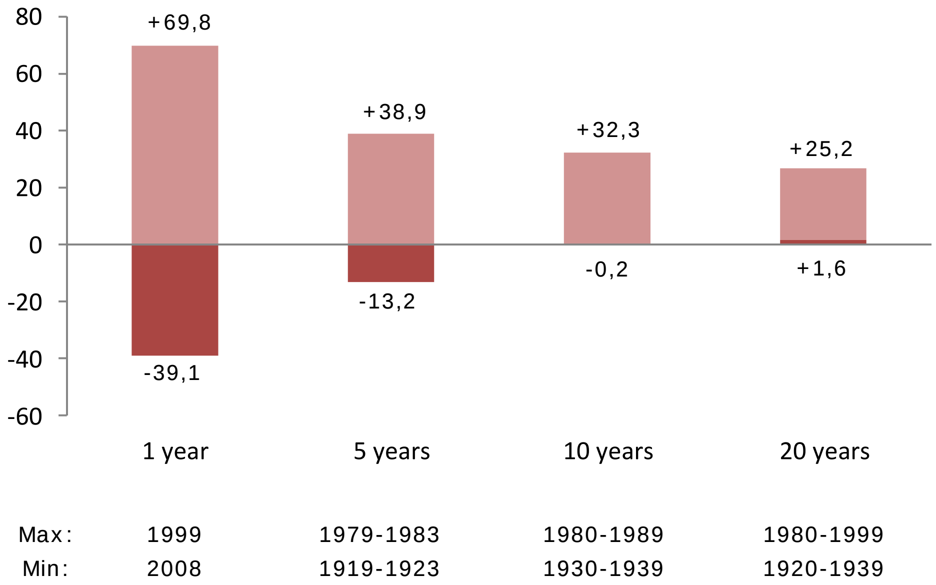
[7] The return is nominal. In real terms, the number of loss periods is slightly higher. Most savers, however, evaluate the return and risk in nominal terms.

words, as the investment horizon lengthens, and this is true both of the potential for high profits and of the potential for losses.

Diagram 20: Highest and lowest return (average per annum) for different savings horizons, (Stockholm Stock Exchange), 1919-2012, %



The really interesting results are obtained if one calculates the average return and risk over different investment horizons. The average annual return does not change to any significant extent due to the length of the investment horizon, at ca. 11-12 per cent annual return, while the risk (standard deviation)[8], by contrast, falls from 23.1 per cent to 4.9 per cent when the investment horizon increases from one year to 20 years.

Table 4: Average annual return and risk for 1, 5, 10 and 20-year rolling investment horizons, 1919-2012, Stockholm Stock Exchange

	1 year	5 years	10 years	20 years
Average annual return, %	12,5	11,3	11,5	12,1
Risk (standard deviation), %	23,1	10,2	6,6	4,9
Percentage positive periods, %	70	88	99	100

The return on the Stockholm Stock Exchange for the most recent 15-year period (1998-2012) was 206 per cent, corresponding to an average annual return of 7.7 per cent. The risk was very high during the period with the standard deviation (calculated on the basis of the annual return) a massive 30 per cent.

[8] The standard deviation shows how much the return for individual periods has varied from the average annual return.

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