Investment ABC

Contents

Investment services

Investment services include the following services provided by the bank

1. investment advice (including virtual advisory service;
2. receiving and transmitting an order related to a security;
3. execution of an order related to a security in the name or on behalf of clients;
4. trading in securities for own account;
5. securities portfolio management.

The provision of investment services is a heavily regulated activity in the European Union, as well as in the United States and elsewhere in the world, so please pay special attention to our disclaimer at: https://www.seb.ee/en/legal-information. The provision of investment services in Estonia is regulated by the Securities Market Act, which is based on, among other things, the Markets in Financial Instruments Directive (MiFID) of the European Union and other legislation issued on the basis of MiFID. The main purpose of these regulations is to increase investor protection and the transparency of securities markets.

The precondition for the provision of investment services is the classification of clients on the basis prescribed by law. Clients are divided into retail clients, professional clients, and eligible counterparties. By default, each client is classified as a retail client, as the retail client is offered the most information about securities and the most comprehensive investor protection.

The bank will always provide you with information about the services and securities offered before providing investment services. General information on securities, investment services, and associated risks is available on the website of SEB https://www.seb.ee/en/private/savings-and-investments/investments/investor-protection.

When recommending an investment product or service (making a personal recommendation) as a result of investment advice or managing a securities portfolio, the bank must rely on your investment objectives, risk tolerance, loss-bearing capacity, financial capacity, and investment knowledge and experience.

SEB also offers a virtual advisory service to private clients, which is performed as an automatic solution in the Robo-Advisor mobile application in the Internet Bank. The virtual advisory service does not enable direct communication with the employees of the bank and the necessary documents and information are available to the client via the mobile application. The client will later have access to the investment advice and signed agreements in SEB Internet Bank. The virtual advisory service uses investment products offered by a limited number of companies belonging to the same group as the bank, and the bank bases its advice only on the information provided by the client.

If you invest on your own initiative, the bank is obliged to assess only your investment knowledge and experience before accepting a transaction order. The assessment is performed prior to the following transactions:

- purchase of securities at the market price or at the desired price;
- subscription to securities;
- purchase and exchange of fund units;
- concluding a fund saving agreement.

Securities market

Securities (shares, bonds, exchange-traded funds or ETFs, etc.) can be bought or sold in the securities market. Securities are usually traded either on a **regulated market (including a stock exchange)** or a multilateral trading facility. Most trading venues today use an **electronic trading system**.

The most important participants in the securities market are

- **investors** – persons who invest for the purpose of earning financial income (e.g., persons wishing to buy or sell shares);
- **Intermediaries** – financial institutions which bring together persons wishing to buy and sell securities on a securities market;
- **issuers** – persons who issue securities for the purpose of financing their activities (e.g., a company whose issued shares or bonds are traded on the securities market);
- **infrastructure service providers:**
  - **exchanges** and **multilateral trading facilities** (e.g., NASDAQ OMX Tallinn in Estonia), which provide the infrastructure necessary for trading in securities and bring together investors wishing to buy and sell securities;
  - **central depositories** (CSDs) that offer custody of securities, settlement with them, and other related services (e.g., the Estonian branch of Nasdaq CSD SE in Estonia);
  - **central banks**, which carry out financial settlements related to securities transactions;
  - **financial supervisory authorities** (FSA) that perform financial supervision (e.g., the Financial Supervision Authority in Estonia).

It is important to know that in addition to the regulated securities market and the multilateral trading facility, securities can also be bought and sold in the over the counter (OTC) market in agreement with the counterparty as a free of payment (FOP) or as a delivery versus payment (DVP) transaction.

How to start investing?

Step 1

Think about your goals and opportunities.

- How much are you willing to invest?
- How long do you want to invest?
- How much income do you want to earn?
- How much are you willing to risk in terms of the fluctuating value of your investment?
- What tax system do you want to use? Do you plan to invest in different types of investment products in the long term or in one specific type of investment product once?

We recommend that you familiarise yourself with the basics of investing and get acquainted with the characteristics and conditions of the security that you are interested in.

If you want to use the income from the investment immediately, do not use an investment account. However, if you intend to reinvest the income in financial assets, consider using an investment account (see also **'What is an investment account?'**).

Step 2

To receive investment advice, register for a consultation either by video or at a SEB branch office.

The range of collection and investment products offered by SEB includes the Digital Coin Jar, a fixed-term deposit, a savings deposit, investment funds, as well as pension products and unit-linked life insurance products. In addition, we offer a fully automatic virtual advisory service under the conditions described above in the SEB mobile application.

If you have enough investment knowledge and experience and are willing to take risks, you can also invest in stocks and ETFs on your own. Remember that transactions with and the holding of shares and ETFs usually involve higher costs than investing in funds.

- Price list
- Taxation
- Register for a consultation
- List of branch offices
- Investment funds
- Stocks
- ETF-s

Step 3

It is most convenient for you to make investments in all the investment products offered (both one-time investments and, in the case of investing in a regular investment fund, a standing payment order for fund saving) in the Internet Bank. You can also conclude agreements and make transactions at a SEB branch office. In addition, a one-time purchase order or a standing payment order for fund saving can be issued in the mobile application to invest in the fund unit recommended by the bank with the virtual advisory service.

Taxation of income earned from investments

Income earned from investments may be taxed. Taxation depends on the residence and legal form of the investor, as well as the type of income and several other circumstances. In addition, the legislation provides some investors with a number of significant tax incentives or imposes different tax conditions on certain types of securities. For more detailed instructions, consult the tax authorities of the country in which you are resident or consult a tax adviser.

Information on the taxation of investments can also be found here:

- Overview of the taxation of income earned from investment funds

What is an investment account?

An investment account allows you to defer taxation of income earned from investments. Taxation cannot be deferred on all investments; it can only be deferred on so-called financial assets, i.e., marketable shares, ETFs, fund unit bonds, and bank deposits. When using an investment account, a separate account used as an investment account must be used for settlements on the acquisition of financial assets, and the income received from financial assets must be transferred either directly or as soon as possible to the investment account. Investment account details and certain transactions must be declared in the income tax return.

Read more

Read also the instructions for using an investment account prepared by the Ministry of Finance

What is a pension investment account?

You can invest money in your mandatory pension insurance system through a pension investment account. Only money from the second pillar can be transferred to a pension investment account. The rules of the second pillar apply to transactions, including cash withdrawals. Similar to the investment account, the pension investment account can be used to make transactions with the financial assets listed in the Income Tax Act. In order to transfer new contributions to the pension investment account, a choice application and an application for transferring the money saved in the fund to the pension investment account must be submitted.

Read more

What is a securities account?

Securities account

A prerequisite for acquiring and conducting transactions in investment fund units, as well as shares and ETF units, is the existence of a securities account. You can open both a Baltic and an internal securities account in SEB. You can open an account both in the Internet Bank and in a SEB branch office. You can also open a securities account in the SEB mobile application under the virtual advisory service.

The **Baltic securities account** holds securities whose register is maintained by Nasdaq CSD SE. You need this type of securities account, for example, to trade and hold shares in Estonian, Latvian, and Lithuanian companies.

The **internal securities account** holds securities whose register is maintained by other registrars. The bank has opened a nominee account in these registers to hold the securities of all its clients and maintains internal records of the position of each client. This type of securities account is required for transactions, such as the acquisition and holding of foreign shares (excluding Latvian and Lithuanian shares), ETFs, and units or shares of funds managed by AS SEB Varahaldus and SEB Investment Management AB (excluding pension funds).

In order to perform securities transactions through a pension investment account, a pension investment account agreement must be entered into with the bank and, depending on the securities to be acquired, either **a pension internal securities account** or **a pension securities account of a Baltic depository** must be opened.

Taxation of deposit interests

As of 1 January 2018, any interest paid to a resident natural person is subject to income tax and the payer of interest (bank) is required to withhold 20% income tax on the payment. If the deposit of a resident individual (demand deposit / fixed-term deposit / savings deposit) is linked to a current account, the bank deducts income tax from the payment of interest earned on the deposit. This is also done if the deposit was opened from an investment account, but upon payment of interest, the deposit is linked to a current account to which the amount deposited and/or accrued interest is transferred at the end of the deposit.

In order to defer tax liability, an investment account must be designated as the account linked to the deposit. In this case, upon termination of the deposit, the deposit amount and interest are transferred to the investment account.

Pursuant to the Income Tax Act, in order to defer tax liability, the client must inform the bank that the interest in question has been received from the financial assets acquired for the money in the investment account. At SEB, you can provide such notification when opening an investment account for all the financial assets from which you will transfer the income to the investment account in the future.

What is an investment fund?

An investment fund is a portfolio of collective investments formed from the money collected from investors, the purpose of which is to earn investors income from investments of the assets of the fund in various securities, deposits, or other financial instruments.

The form of investment funds may vary from country to country, with the European Union recognising mainly contractual investment funds and funds established as public limited companies, as well as investment trusts (the latter mainly in the United Kingdom and Ireland).

The size of the participation in the fund is indicated to the client by the fund units or shares issued.

A set of assets is formed at the expense of the money collected when issuing fund units to the investors (unit-holders), which is invested by diversifying investments between different financial instruments. A diversified investment portfolio better hedges the risks associated with individual instruments. Depending on the investment policy of the fund, the acquisition of fund units can be used to access various global financial markets in a single purchase and to invest in many different securities at once, which would be costly and often difficult when making direct investments.

The fund can earn income in several ways: both from the increase in the value of investments and as income from payments made out of the investments of the fund (dividends and interest). Income earned from investing the assets of the fund is generally reinvested.

The increase or decrease in the value of the assets of the fund achieved through investment activities is reflected in the increase or decrease in the net asset value of the unit. The gain or loss on the investment is realised by selling the units. If the redemption price of a unit exceeds its acquisition cost (including service fees), you have earned income from the fund. Otherwise, you have suffered a loss. In some cases, the income earned by the fund is also distributed to the unit-holders as fund disbursements. The disbursements are generally made in cash but in some cases, disbursements may also be made by issuing additional shares.

One of the peculiarities of investment funds is the fact that fund transactions are not made at the prices of the fund unit of the previous banking day published on the transaction date, but at the prices of the transaction day. However, as the price on the transaction day is calculated on the basis of the closing prices of securities included in the assets of the fund on the next banking day, this system is called blind bidding – at the time of forwarding the transaction order, the transaction price of the fund unit is not yet known.

Secondly, when making transactions with fund units, take into account the fact that the day on which the transaction order is accepted is generally considered the banking day on which the transaction order is submitted to the fund manager or the fund unit distributor. If the transaction order was submitted to the fund manager or the unit distributor after the so-called cut-off time or on a day which is not its banking day, the banking day following the day of submission of the order is considered the day of acceptance of the transaction order.

Read more

Who should use an investment fund?

Investment funds may be suitable for both beginners and experienced investors.

Managing individual securities generally requires in-depth investment knowledge, long-term experience, and a high level of commitment, but many investment enthusiasts lack time, knowledge, and experience. We therefore recommend entrusting your money to professional investment professionals who can help achieve more effective risk diversification to reduce the impact of a single investment failure. The assets of investment funds are invested by experienced experts: fund managers and a team of analysts supporting them.

It is important to know that the return on fund investments is not guaranteed, even if previous periods have been successful. The preservation of the value of the investment is not guaranteed either. There is always a risk of losing money when investing. As a rule, the higher the return (income) you want to earn, the more risks you must take.

The risk to the investor is expressed in unit price fluctuations. In order to obtain a more detailed picture of the circumstances giving rise to fluctuations, the prospectus, the key information document or the simplified prospectus, the terms and conditions, the annual and half-yearly reports, and other information and documents published about the fund should be carefully consulted at Internet Bank / Funds (seb.ee).

Why invest in funds?

You can invest both small and large amounts

It is not necessary to have large sums to buy fund units and investments can be made both once and regularly. A standing payment order for fund savings intended for regular investment can be concluded if the amount of each investment is at least 10 euros. There is generally no minimum amount for a one-off investment.

The risks are better diversified

When investing, it is important to diversify risks, i.e., to place assets in several investment objects. This helps to reduce the impact of a single investment failure. By investing through the fund, you can benefit from the widely diversified portfolio of the investment fund.

Investment fund money is invested by professionals

The assets of the investment fund are managed by specialists who have long-term experience in the selection and complex analysis of securities suitable for investment and who earn a living from the management of the assets of the fund and the search for the most suitable investment opportunities.

It is easy to keep track of the value of your investment

An overview of the instruments included in the assets of the U-class fund is available on the website of SEB at the end of the month or quarter. In addition, it is possible to see daily information about the performance of your fund portfolio in the Internet Bank. We also publish price information and returns on the website of SEB. For clients who have C-class units of the funds, the information of the funds is displayed in the Internet Bank.

Units of an investment fund can be resold at any time

Should you need the money invested in the fund, you can retrieve it quickly. Generally, the money is received in the current account on the third banking day after the entry of the sales order.

However, before making an investment decision, carefully read the terms and conditions of the specific fund and the prospectus. In the case of SEB Investment Management AB funds, read the document Special conditions for offering units in Estonia about the specifics of the issue and the redemption of the units of this fund and possible grounds for postponing or suspending the redemption of units.

Fees associated with the investments of the investment fund

When investing in investment funds, it must be taken into account that a service fee may be added to the transaction, which consists of the transaction fee of the bank and, in the case of some funds, the entry and exit fees of the fund. SEB does not charge transaction fees for a standing payment order for fund savings intended for regular investment.

Transaction fees or fund entry and exit fees are not added to SEB Investment Management AB U-Class funds. A management fee is applied to U-class funds. Fees are charged for holding some fund units in the same way as for shares and bonds.

Holders of C-class and D-class units who are clients of SEB Pank can get acquainted with the management fees and redemption fees of C-class and D-class units via the Internet Bank. Other unit-holders must contact SEB Pank for relevant information. There are no issue and redemption fees for U-class units and management and administration fees are listed on website of SEB Pank.

SEB fund selection

SEB clients have the opportunity to invest in several dozen funds managed by SEB, including second and third pillar pension funds. Through the offered funds, it is possible to invest in all the most important securities markets of the world. In addition to traditional bond and equity funds, we have a selection of funds that invest in currencies, commodities, private equity, and other asset classes.

Most of the funds managed by SEB Investment Management AB can be exchanged for each other free of entry and exit fees, whereas in the case of a fund exchange transaction, the taxation of potential income is deferred until the units received as a result of the exchange are sold in the future.

For a quick overview of any offered fund, see the summary information about the respective fund on the website of SEB. It is very important to understand what assets are invested in, how this is done, and how much the unit price can fluctuate. In addition to the summary of each fund on the website, it is worth reviewing the key investor information document, the fact sheet, and the monthly overviews prepared by the fund managers for an overview. However, before making a final investment decision, please also carefully read the terms and conditions of the fund, the public offering prospectus, the key information document or the simplified prospectus, financial statements, and other important information, all of which are available on the website of SEB Investment funds | SEB.

Check out the fund selection

What is fund saving?

Regular saving or fund saving means investing a certain amount in a specific fund with a certain frequency. It is a standing payment order for the purchase of fund units.

The minimum amount that can be invested regularly is 10 euros, and you can choose the weekly, monthly, quarterly, and annual investment frequency.

Regular investment helps to hedge the risk of investing only at the so-called wrong moment, i.e., just before the start of the decline. By investing money regularly, you invest in smaller amounts during both the rise and fall of stock markets. Even if you start regular investing just before the stock markets fall, you are more likely to make a profit faster than with a one-time investment when the stock markets start rising again.

It is very important to understand that during the validity of a standing payment order, the client must regularly monitor the progress of the respective investment fund and its suitability for their investment objectives and risk tolerance, including published information about the fund and consider changing or terminating the standing payment order.

Other securities and investment assets

In addition to ordinary investment funds, equities, and ETFs, there are a number of asset classes suitable for investment. The most common are bonds, derivatives, commodities, currencies, private equity funds, and hedge funds.

A **bond** is essentially a loan in the form of a security. Today, a wide variety of bonds are offered. The most common are fixed rate bonds, floating rate note (FRN), and zero-coupon bonds (no regular interest payments are made to the acquirers of the latter).

In terms of risk level, the bonds are divided into investment grade and so-called high-yield bonds, i.e., bonds without an investment grade rating (e.g., the Standard & Poor's rating is below BBB–). Recently, structured bonds have also become more widespread, the interest rate of which is related to price movements of other financial assets.

A **derivative** is a security or contract whose value arises from the movement of the price of another security, asset, stock index, interest rate, or commodity used as the underlying asset.

Examples of **commodities** are metals and oil, but also cereals, sugar, cocoa, etc. Physical commodities can be traded, as well as derivatives related to commodities as underlying assets (e.g., forwards, futures, and options).

Currencies are traded on foreign exchange markets (foreign exchange market, Forex, FX). Currencies are also traded both directly and through derivatives (forwards, swaps, etc.).

The **private equity** asset class generally includes those companies whose shares are not publicly offered.

In general, it is too expensive and often too risky for a retail client to invest directly in these assets, but SEB offers the opportunity to invest in all of the above asset classes through investment funds, which is a cost-effective and reasonable way to build a broad-based and diversified investment.

Key terms

Fundamental analysis. A method of valuing a security based on an assessment of the macroeconomic indicators affecting the security (the overall economic situation and the situation of the economic sector of the company) and the company-specific indicators (financial situation of the company, corporate governance, etc.) to find the fair value of the security compared to the market price at the time of analysis.

Technical analysis. A method of valuing a security based on the trading statistics of the security, including historical prices and turnover. Users of the technical analysis do not try to find the fair value of a security, but use charts and other tools to identify trading patterns that may help predict the future price movement of the security.

Absolute and relative return. While absolute return shows the performance of a share, fund, or other security over a period of time, then relative return compares this absolute return with the benchmark (for funds, the absolute return is compared with the benchmark index, for other securities, usually with the securities of the country or industry concerned or securities of the direct competitors of the company).

Benchmark. Standard, i.e., the basis of comparison against which the return and risk of a share, fund, other security, or a portfolio of securities are measured.

Tracking error. Annualised deviation of fund and benchmark return differences. For funds, the tracking error is often calculated based on the monthly difference in returns over the last 24 or 36 months. The annualization of the standard deviation of these indicators gives the value of tracking error. The smaller the tracking error, the more similar the return of the fund to the return of the benchmark index during the period under review.

Overweight. A situation where the share of a security, sector, or region in a fund or securities portfolio is higher than in the benchmark: for example, if Company A has a share of 6% of the stock market index but Company A has a share of 8% in the fund.

The term **underweight** refers to the opposite of overweight.

Outperform. Indicates that a stock, fund, or other security has been able to outperform its benchmark.

Underperform. Indicates that the security has underperformed the benchmark.

Top-down. A securities selection strategy that first establishes the distribution of the portfolio between asset classes and then between regions and sectors.

Bottom-up. The immediate focus is on the analysis of securities of interest.

Profitability or income rate in a certain period of time. Shows how much the final value of the investment is relatively higher than the initial value.

Standard deviation. A statistical value that shows how much the values differ from the average value. The standard deviation is a mathematical expression of volatility. For example, if there are two funds, both of which have earned an average return of 10% per annum, and if the standard deviation of Fund A is smaller than that of Fund B, then this means that the first fund has been more stable and the value of the second fund has fluctuated more.

Sharpe ratio. Compares return on investment and risk. The higher the Sharpe ratio, the better the return on investment, considering the level of risk of the investment (per unit of risk).

Alpha. A ratio that can be used to assess the effectiveness of active portfolio management. A positive alpha indicates a higher return than the benchmark index, which has been achieved through successful investment activities.

Beta. A ratio that measures the return on an investment relative to the market. Beta also shows, most generally, the relative volatility of the price of a financial instrument. The higher this indicator, the more volatile a particular financial instrument is compared to an index or market.

The **issue fee** (the entry fee for the client) is added to the price of the investment fund units for the investor when purchasing them. For example, if the net asset value (NAV) of a unit is 10 euros and the issue fee is 1%, the investor pays 10.1 euros for the unit.

The **redemption fee** (exit fee for the client) is subtracted from the price of the investment fund units for the investor. For example, if the net asset value of a unit is 10 euros and the redemption fee is 1%, the investor will receive 9.9 euros for selling the unit.

Management fee. Calculated as a percentage of the assets of the investment fund. The management fee is paid to the fund manager from the current expenses of the fund. The fee is deducted from the assets of the fund on an ongoing basis. The return calculated on the basis of the net asset value of the fund is the net return: the management fee is no longer charged from it.

Bonus. Additional part of the income of the investment fund, which is paid to the fund manager in case of good results.

Total expense ratio or TER. Expresses the total cost of the investment fund. Both the management and operating costs of the fund are taken into account. TER mainly includes fund management costs, such as transaction costs and management fees (management fee, depositary fee). In the case of TER, issue and redemption fees are not taken into account. TER is expressed as a percentage and is obtained by dividing total costs by total assets.