Alternative Investment Funds (AIF)
Information sheet

Financial instruments are all types of instruments that are intended to be traded on the securities market. They can be divided into complex and non-complex instruments. Before you trade in a financial instrument, we are required to ascertain whether you have sufficient knowledge and experience to understand the properties and risks involved in trading in financial instruments. Below is some information about the most important qualities and risks associated with a type of instrument in which you have shown an interest. If you do not have sufficient knowledge and experience, we recommend that you do not trade in this instrument.

Introduction
Managed funds that are not investment funds (UCITS funds) are classified as Alternative Investment Funds (AIF), also known as non-UCITS funds. The rules for AIF funds are somewhat different than the rules for UCITS funds. For example AIF funds have less constrained investment rules as well as less stringent requirements regarding risk spreading than Investment funds do. Examples of AIF funds are funds known in Sweden as “specialfonder”, some hedge funds, venture capital funds and real estate funds that invest directly in real estate.

Special funds are the type of fund commonly marketed to private individuals in Sweden. A Swedish specialfond may invest a larger proportion of unlisted financial instruments. Additionally, the requirements for spreading risk are lower than for an investment fund. However, a Swedish specialfond must invest in a minimum of 8 to 10 holdings - depending on the proportion of unlisted holdings. However, AIF funds are not required to do this. Swedish specialfonder also may not be closed for trading: they must be open for trading at least once a year. Because Swedish specialfond are different than other AIF funds regarding these matters, they can be classed as non-complex financial instruments. This is despite the fact that, from a legal perspective, they are AIF funds.

AIF funds can invest in a variety of financial instruments, including equities, fixed income securities and other funds. They can also invest in alternative asset classes such as unlisted companies, commodities, real estate, hedge funds and private equity. The fund is owned jointly by everyone who invests in the fund; these are known as the fund’s shareholders. In a unit-linked insurance the insurance company is the owner of the fund units linked to each individual insurance. The fund is operated by an AIF manager, who is responsible for investing and administering the fund’s portfolio.

Each fund has its own rules regarding how and where investment may be made. These rules are outlined in the fund prospectus, known as fondbestämmelser in Swedish. A summary of the fund’s investment focus, risks and costs are also available in the fund’s fact sheet for the AIF funds that are marketed to private individuals.

How funds work
The fund’s goal is described in its fact sheet and in the fund’s prospectus or the equivalent document. The goal is generally to create as high a return as possible for shareholders, taking into account the risk level of the fund. A fund manager decides in which financial instruments the fund will invest.

The return on a fund consists of the market value of financial instruments in which the fund has invested, plus any equity and interest rate dividends (coupons). The return is also affected by changes in interest rates and the costs incurred for the fund. When the return on a fund is reported in price lists and product sheets, for example, costs and fees have already been deducted. Past performance does not guarantee future performance. The value of alternative investment funds and other financial investments may rise as well as fall and there is no guarantee you will recover your original investment.

A fund may have several share classes, each with different properties such as different currency, fee or minimum investment. Some share classes are aimed at financial institutions and others at private individuals.

Some funds pay dividends or have share classes that pay dividends. Since new legislation was introduced in Sweden in 2013, it is no longer beneficial in tax terms for private individuals to receive fund dividends, because they are taxed in two stages. Funds or share classes that produce dividends are primarily aimed at trusts and organisations that include dividends as part of their operations.

Who should invest in Alternative Investment Funds?
If you intend to invest in an AIF fund, you should be aware that AIF fund rules from the rules for ordinary investment funds (UCITS). The investment rules for AIF funds are less constrained, may invest in less liquid assets, and have less stringent requirements regarding risk spreading. For example, an AIF fund is not required to have holdings in at least 16 different companies, as investment fund is required. You should also be aware that some AIF funds are open for trading fewer times a year and can be closed for trading during specific periods. Additionally, some AIF funds require investors to bind their investment for a longer period of time. Consequently, you should not invest in this type of AIF fund if you need access to your money at short notice.

All this means that AIF funds are not always suitable for savers who want investments with lower risks and can be traded daily. Some AIF funds are intended solely for professional investors such as financial institutions and are not available to the general public.

Before investing in a fund, you should decide which level of risk you are willing to take with your savings and for how long you want to invest. You should also consider your other investments. If you are interested in sustainability criteria for your savings, you should also check the fund's sustainability profile.

Trading in AIF funds
A common way of saving directly in funds is via a deposit or fund account. Some AIF funds, such as Swedish specialfonder, also allow you to invest in an investeringssparkonto, often abbreviated as ISK account. You can also invest in terms of pension and endowment insurance in some funds and AIF funds.

The value of a fund’s shares is determined by dividing the current market value of all the assets and liabilities in the fund by the total number of shares. This is the net asset value (NAV). If the fund's assets increase in value, the net asset value also increases. Any interest income and dividends are also included in the net asset value.

The net asset value for many funds is calculated on a daily basis. However, AIF funds generally trade more infrequently. You can read about how often the fund is traded in the fund’s prospectus. It is important to be aware of when a fund is open for trading and of the rules that apply to placing orders. When trading in AIF Funds, you may need to place your order well in advance, sometimes up to several months before the order is executed. It is not unusual for Alternative Investment Funds to be traded only once a month or even less frequently. Some funds are only traded during a set offering period when the fund starts.

Fund categories
AIF funds can be grouped into categories based on the types of financial instruments in which the funds invest.

Equity funds invest in equities. This category includes many different investment themes including funds that focus on individual countries such as Swedish funds or sectors such as technology funds. Broad-based equity funds, such as global funds, invest in many different countries and sectors.

Fixed income funds invest in fixed income instruments, such as bonds and treasury bills. Money-market funds (short-term fixed income funds) invest in fixed income instruments with shorter terms, while bond funds (long-term fixed income funds) invest in fixed income instruments with longer terms. The bonds can be issued by countries, banks, housing finance institutions or companies with various credit ratings.

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Balanced funds invest in several different asset classes, such as equities, fixed income instruments and other funds. Investment distribution among asset classes may in different balanced fund to the next. Investment distribution can vary over time in the same balanced fund. The distribution profile is indicated in the fund prospectus and fact sheet.

Funds of funds, known as "fondandelsfonder" in Swedish, invest only in other funds. Funds of funds can be regarded as an alternative to making your own investments in several different funds. The management fee can apply to both the fund of funds and the funds included in the actual portfolio. A fund of funds that invests in funds run by the same fund company is not permitted to charge double management fees.

Sustainable and ethical funds prioritise human rights, labour conditions, ethics and/or the environment. Equity, fixed income and balanced funds can all be sustainable and/or ethical. For example, the fund manager may exclude companies that do business in controversial weapons, or include companies that actively work to improve the environment. The fund company that manages the fund may also influence the companies it invests in, for example in regard to working towards better equality or a better environment. In these situations, the fund company represents the fund's shareholders.

Hedge funds are often AIF funds because investment is less regulated than it is for investment funds (UCITS). The objective is to produce a return regardless of whether the equity or the fixed income markets go up or down. Hedge funds employ derivatives more often than traditional funds with the aim of increasing or decreasing the fund's risk. Hedge funds vary widely in terms of how risky they are.

Private equity funds or venture capital funds invest in companies that are not listed on a stock exchange. Private equity funds may invest in other private equity funds or directly in unlisted companies. When funds invest directly in a company, the fund managers often play an active role in running the company, for example by sitting on the board of directors.

Real estate funds are funds that invest directly in real estate. By managing and maintaining the properties in which the fund invests, the manager helps to increase the return on the fund. Real estate funds may focus on various property types. Some invest solely in housing while others focus on commercial property.

Risks

Investing in funds always carries a risk. In other words, over time the investment may both rise and fall in value. As fluctuations increase, so does the risk of losing money – but the chance of obtaining a higher return also increases.

Different fund categories have varying levels of risk, but the risk may differ within the same category. AIF funds have looser investment rules than other funds, and the risk spreading requirements are less stringent. For example, there is no requirement to have holdings in at least 16 different companies, as an investment funds (UCITS) must do. AIF funds also have an elevated level of risk because they can invest in borrowed money. An alternative investment fund that invests in unlisted companies is higher risk because it can be harder for them to turn a profit. This also applies to direct investments in real estate.

Equity funds are generally higher risk than, for example, fixed income funds, if we disregard specific corporate bonds that consciously take higher risks to increase the chances of a better return. In general, broader-based funds that spread risk across different regions and industries are lower risk than more niche funds. Funds that invest in more established markets, such as North America and Europe, are regarded as lower risk than funds investing in emerging markets. Many AIF funds are narrow in focus and are therefore have a higher level of risk than other funds.

Most funds that are marketed to private individuals are classified in terms of risk using a seven-point scale, where 1 represents the lowest risk and 7 the highest. However, risk level 1 does not mean the fund is risk-free. For most funds, their position on the risk scale is determined by how the value has varied over the past five years. When historical documentation is lacking, information about the fund's benchmark index may be used as a basis for risk classification. For certain types of funds the risk class may be determined based on the maximum risk permitted by the fund provisions. The fact sheet for the fund explains how the fund's risk class has been determined. A fund's risk class may change over time. Since the risk scale in this fact sheet applies to the whole of the European Union, it is easy to compare funds across countries in Europe.

SEB has divided the risk scale and fund assortment as follows:

- Funds in levels 1–3 are classified as low risk funds
- Funds in levels 4–5 are classified as medium risk funds
- Funds in levels 6–7 are classified as high risk funds. In these funds the value can fluctuate substantially based on the composition of the fund and the management methods employed by the fund company.

Funds may also be subject to specific risks that are not reflected in the risk class, but which still affect the value of the fund. Examples of these include exchange rate risk, which arises if a fund invests in currencies other than the base currency or liquidity risk, which may arise if the fund's assets are difficult to sell at a particular time or at a reasonable price. Investing in funds may also involve operational risks: the risk of losses due to factors such as system crashes, human error or external events. The fact sheet for the fund outlines specific risks that are associated with a particular fund.

Fees and charges

Different funds have different costs. A fund's fee depends, among other things, on its investment focus and how actively it is managed. In general, we can say that equity funds are more expensive than fixed income funds, and actively managed funds are more expensive than index funds. Alternative investment funds incur various fees and fee structures depending on the type of fund involved.

The management fee is generally charged to the fund every day, except for funds that are valued and traded less frequently. For these funds the management fee is charged at an equivalent frequency. The management fee is also expressed as an annual percentage in the fund prospectus and the product sheet. The management fee covers the fund company's costs of management and administration, supervision by the Swedish Financial Supervisory Authority, holding of financial instruments in deposits with the bank (the Depositary) and auditing costs.

The annual fee is a standardised measure for funds that are marketed to private individuals, and is produced to permit comparison of costs for funds across Europe. The annual fee includes the management fee, as well as other costs for factors such as marketing and distribution. In the case of SEB's funds, the cost of any external analysis is also included in the annual fee. The annual fee does not include costs associated with buying and selling financial instruments in the fund or any performance-based fee. The annual fee is stated in the fact sheet and, unless specified otherwise, it refers to the costs for the preceding calendar year. With Swedish funds there is usually not much difference between the management fee and the annual fee, but these differences may be greater in foreign funds.

A performance-based fee is commonly found in AFI funds. This is a special fee which is charged if the return on the fund exceeds certain predefined criteria, such as an index. This type of fee is often used in hedge funds or other actively managed funds, since the fund result is assumed to depend more on the manager's efforts than it does with other funds.

Deposit and withdrawal fees may be charged by some funds, fund companies and fund managers.

The total cost is the overall cost of your fund savings. This also includes commission that the fund pays when buying and selling financial instruments in the fund. The total cost is calculated for funds that are registered in Sweden, and is listed on the annual statement if you invest in funds via a fund account. The total cost is not shown if you invest via an investeringssparkonto or deposit account.

More information

Past performance does not guarantee future performance. The value of investment funds and other financial instruments may rise as well as fall and there is no guarantee you will recover your original investment.

For AIF funds that are marketed to private individuals, specific information in the form of key investor information documents, fact sheets, sustainability profiles and annual reports is available in the market report on seb.se/fonder. The prospectus for our Luxembourg funds and information brochures containing fund prospectus for our Swedish funds are also found here.

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Things to remember:

- The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.
- In order to trade in these instruments, you must familiarise yourself with the terms and conditions that apply to trading in financial instruments. The contracts that apply depend on the instrument you are trading in.
- Certain instruments require you to be liable to make payments in future. It is important that you are prepared to comply with your undertaking.
- Check the information on the statement and other reporting relating to your holdings, and inform us immediately of any errors.
- Regularly monitor changes in the value of your holdings and positions.
- You are responsible for taking any action necessary to reduce the risk of losses.
- Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

Check your experience

How long have you invested in this type of instrument?	What is the average amount of money you have invested in this type of instrument?	How many times per year have you traded in this type of instrument?
☐ No experience	☐ Up to 50 000	☐ Up to 2
☐ Less than one year	☐ Up to 100 000	☐ Up to 5
☐ 1 to 5 years	☐ Up to 250 000	☐ Up to 10
☐ More than 5 years	☐ Up to 500 000	☐ More than 10
	☐ More than 500 000	

Check your knowledge

1. What determines the fund's investment focus, i.e. the types of financial instruments and the markets in which the fund can invest?

A) ☐ The fund manager's understanding and expertise
B) ☐ The fund rules (the "fondbestämmelser" document)
C) ☐ The board of the fund company gives instructions to the manager

2. What are the main factors that affect a fund's development?

A) ☐ What happens in the markets in which the fund is invested
B) ☐ Tax on fund savings
C) ☐ The value of the holdings, exchange rates, dividends, taxes, and fees that are deducted from the fund

3. What characterises an Alternative investment fund (AIF)?

A) ☐ An AIF must have at least 16 different holdings, just like an investment fund (UCITS)
B) ☐ An AIF may take greater risks by investing in fewer companies than an investment fund
C) ☐ An AIF may only invest in alternative investments

4. In addition to a management fee, alternative investment funds often charge a performance fee ("prestationsbaserad avgift" in Swedish). What is this?

A) ☐ A fee based on the fund's development annually
B) ☐ A fee based on the fund's development compared to competing funds
C) ☐ A fee based on the fund's development in comparison to, for example, an index

5. What are "alternative investments?"

A) ☐ Commodities, real estate, hedge funds and private equity
B) ☐ Listed companies in emerging markets
C) ☐ Assets regarded as green revolution, such as green energy

6. How often can you buy and sell shares in an alternative investment fund?

A) ☐ At least once a week
B) ☐ Some funds are traded daily, other funds are traded more infrequently
C) ☐ You may buy shares when the AIF starts and sell when it finishes

7. Is the performance-based fee included in ongoing charges or is it listed separately on a fund's key investor information document?

A) ☐ No, the performance-based fee does not need to be specified because it is deducted so rarely
B) ☐ Yes, all fees and costs deducted from the fund are included in ongoing charges
C) ☐ No, it is listed separately on the key investor information document under "Performance fee"

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