

FIRST SIGNS OF SYSTEMIC STRESS

Declining growth and confidence indicators

Markets. September was characterized by broad-based losses on financial assets. The losses were related to both risk-free as well as risky assets. Likewise, the previous month was also characterized by the first signs of stress in the financial market of a more systemic nature. At the end of September, the BoE (Bank of England) had to intervene in the financial market because of the strong market reactions as a result of the publication of the so-called mini-budget, which is a precursor to the Finance Act. In a few days, the yield on 30-year UK government bonds rose by 1.5% points and the GBP fell by just over 10% against the USD. Until October 14, the BoE will buy up government bonds to an "unlimited" extent with a view to stabilizing the price formation of financial assets in the UK.

Growth-related indicators continue to develop negatively in Europe. The exceptionally weak development in Germany must be emphasized. The index for IFO Expectations fell further in September from 80.3 to 75.2. The index is now lower than the lowest level during the financial crisis, where the index reached a low of 79.2 in December 2008. The same applies to European consumer confidence, which fell from -26.4 to -29.9 in September. During the financial crisis, consumer confidence in Europe was pegged at an index of -20.7 in March 2009. In China, there are still signs of a certain loss of momentum from the demand side. Indicators related to domestic and foreign orders do not show clear signs of acceleration. The indices are widely below index 50, which indicates a decline in the underlying industrial production. In the U.S., the numbers are more mixed. The trend continues to be downward in business confidence indicators, while there are minor increases in confidence indicators on the consumer side, among other things in the wake of falling U.S. petrol prices.

Volatile 3rd quarter

The Portfolio delivered a return (after expenses) of -2.2% in the 3rd quarter, which was somewhat below the fund's benchmark index MSCI World ACWI, which returned -0.6%.

The 3rd quarter offered major price fluctuations. In July, stocks rose on the back of rising hopes that the U.S. central bank could balance the fine line between raising interest rates enough to knock down inflation while avoiding the economy coming to a standstill. The price decline since the end of August were driven by continued high inflation and the fear that central bank tightening could lead to a serious recession.

The fund's underperformance was mainly due to the exposure to value and Danish equities, which gave a return of -2.6% and -8.5% respectively. The rising interest rates have for a period been very favorable for value equities, as these do not have the same interest rate sensitivity, but in the 3rd quarter, the economic slowdown hit value shares and especially the more cyclical shares, which overshadowed the interest rate effect. It was thus the exposure to the value investment style and a more cyclical exposure that dragged down the relative return for value equities.

The Danish stock market continued to be characterized by massive price falls in the third quarter of the year, although the period started positively with falling interest rates and rising price levels. However, the increasingly sharp rhetoric from the American central bank, combined with continued rising inflation, sent the shares down in September, which became one of the worst for Danish equities in many years. Sustainable equity delivered a return of 0.3% and thereby contributed positively to the relative return. The outperformance was created by exposure to the industrial sector, where several companies are well positioned for an energy efficiency and/or automation agenda.

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Strategy

Equitas invests in a global portfolio comprised exclusively of shares from the mature markets compared with the current prospectus. The goal is to optimise the relationship between risk and return by exploiting documented market factors such as value, momentum and size.

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