

ONGOING ECONOMIC MOMENTUM

Markets. The CLI indicator for the G20 economies has been in the expansion phase since the end of August 2023, indicating that the economies have gained economic momentum. However, the trend is uneven and fragile due to an increase in interest rates, with a 100-basis point increase from the Fed and a 200-basis point increase from the ECB in 2023. The market expects an imminent monetary easing cycle, which has affected the broadly based "financial conditions" in a downward direction, potentially opening the possibility for positive effects on confidence indicators and thus a new tactical growth leg.

Based on the economic momentum, the financial market realized a return pattern in the first quarter of 2024 characterized by higher returns for risky assets compared to risk-free assets.

The growth of economic momentum in the G20 economies is expected to flatten out during the first half of 2024. The strategic backdrop is expected to shift from positive to negative. After nearly 14 years of growth, the labor market is "overheated," which the U.S. central bank and other central banks aim to curb. They will do this through interest rate hikes and quantitative tightening to stop the wage-price spiral before it runs rampant. Overall, this sets the stage for a return hierarchy in the first half of 2024, where it is expected that the return on Danish government and mortgage bonds will exceed the return on stocks and corporate bonds. In the second half of 2024, there is an opportunity for a turning point with a more positive growth trajectory and a return hierarchy that shifts in favor of risky assets.

Strategy

Minimum is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 25%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.

The Portfolio. After accounting for expenses, the fund generated a return of 2.2% during the first quarter of 2024, well above the funds benchmark of 1.4%.

Global equities had a strong first quarter delivering a solid return of 10.7% given by the MSCI World All Countries index. The equity component of the fund delivered a return slightly under the equity benchmark of the fund. An overweight to Danish equities and underperformance across the active strategies compared to the fund's equity benchmark dragged performance although Danish equities outperformed its regional benchmark by 1.6%-points.

All fixed income categories experienced solid relative returns contributing significantly to the relative performance of the fund. The best performing fixed income pool was the emerging market pool that delivered a return of 3%. The absolute and relative performance was primarily driven by a tightening spread in the lower quality segment. The performance of the Long and Short European bond pool was driven by spread tightening in mortgage bonds and overweight to inflation linked bonds.

Convertible bonds yielded a return of 1.8%, outperforming their comparison benchmark by 1,1%-points mainly due to paper selection both within regions and sectors. Private equity demonstrated a return of 6.2% while infrastructure gained a steady 0.8%.

