

Balance EUR

BLEND FUNDS

Markets rebounded well

July better than feared

Markets The beginning of June was characterized by nervousness in the wake of the Brexit vote in the UK. The turmoil following the surprising “leave” decision quickly caused fixed-income markets to expect that central banks would cut interest rates. Only the Bank of England, however, has lowered interest rates, and both the ECB, FED and Bank of Japan have kept rates unchanged, causing an upward pressure on short-term interest rates.

Stock markets were also marked by some volatility in the beginning of July, but regained momentum relatively quickly, and the MSCI World delivered a total monthly return of approximately 3.5 %.

US macroeconomic data has picked up considerably during July, as data has been beating analyst expectations with a handsome margin. Fixed-income markets are increasingly starting to price in not only one, but two, rate hikes already in 2016. Also in Europe, data has beat expectations, albeit not to the same degree as in the US. Germany still tends to be the driver behind European growth, while the predicaments of Southern Europe appear to remain unsolved.

Equities outperformed

Performance During the month of July, MSCI World (in EUR terms) delivered a total return of 3.6%. The equity component of the blend funds (in Luxembourg) thereby delivered an excess return of 0.5% in July, which was primarily caused by the exposure to European shares.

The exposure to High Yield bonds trailed benchmark returns due to a larger reallocation away from energy, which actually did well in July. The Investment Grade exposure did better than benchmark due to an overweight to US bonds and due to the fact that interest rates stopped declining in July. Stable interest rates also caused our exposure to short and long government and mortgage bonds to do slightly better than benchmark in July. Our overweight to mortgage bonds paid off as the spreads vs. government bonds narrowed. Furthermore, we avoided most of the losses caused by callable mortgage bonds being called (which otherwise troubled the sector).

Strategy

The fund offers investors with medium term investment horizons and/or medium risk willingness a well-diversified portfolio with exposure to both equities, government bonds, mortgage bonds, corporate bonds and EM government bonds. The investment strategies are, where possible, implemented to ensure that investors benefit from academically and empirically well-proven factors, which lead to superior long-term risk-adjusted returns than a pure market exposure. For the equity allocation, this means that investors are exposed to both Momentum, Value and Size. The overall exposure to the different asset classes is strategic and no attempts to time the market are done. The equity exposure target is 50%, but deviations of up to 5%-points from the target allocation are allowed before re-balancing the portfolio.

