

Balance EUR

BLEND FUNDS

Hawkish rhetoric from Draghi

Stronger EUR and higher rates

Markets During the month of June, the Eurozone continued delivering solid, macroeconomic figures. Retail sales growth came out at 2.5% and the year growth in total employment is now running at 1.5%, which is the highest since 2008. The downward tendency in inflation expectations since the beginning of the year were superseded by an abrupt increase at the end of June.

European consumer confidence continues to increase and is now at the highest level since 2007. The same is the case for a host of industry surveys, which are also generally signaling a region in rapid expansion. OECD's leading indicators are still showing an upward trend.

In the US, the overall picture contains more nuances. The leading indicators from OECD are apparently getting closer to topping out (bar any revisions), but the leading indicators from the Conference Board show no such tendency yet. Several analysts are concerned about a rather forceful deceleration of overall loan growth in the US, but that might be a natural and healthy normalization of the very high growth in the auto loans segment.

President of the European Central Bank, Mario Draghi, took the market by surprise at the end of June by delivering a rather hawkish speech scheduling a more hasty normalization

of monetary policy than previously anticipated. Especially long, European bonds sold off as a reaction and the Euro rallied vis-à-vis the US Dollar.

Advantage from EU-overweight

The Portfolio In the month of June, the fund delivered a solid excess return, which primarily stemmed from a combination of a strengthening EUR and an overweight to European equities. The fund returns were also supported by higher long-term interest rates (Draghi's rhetoric), which led to a strong performance of the Value investment strategy, which is the primary factor exposure of the fund's equity allocation.

In June, the fund allocation was changed slightly to include Short-Dated High-Yield bonds, primarily at the expense of the normal High-Yield allocation. The Short-Dated High-Yield allocation suffered through the month from the implementation costs, but despite these, the allocation did quite well.

The allocation towards Investment Grade corporate bonds and Emerging Market sovereign bonds did as their benchmarks, but the allocations to Short and Long European bonds did much better than their respective benchmarks due to the allocation to Danish mortgages.

See performance and fund data

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Strategy

Balance 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 50%, but a deviation of +/- 5% is allowed before the portfolio is re-balanced.

