



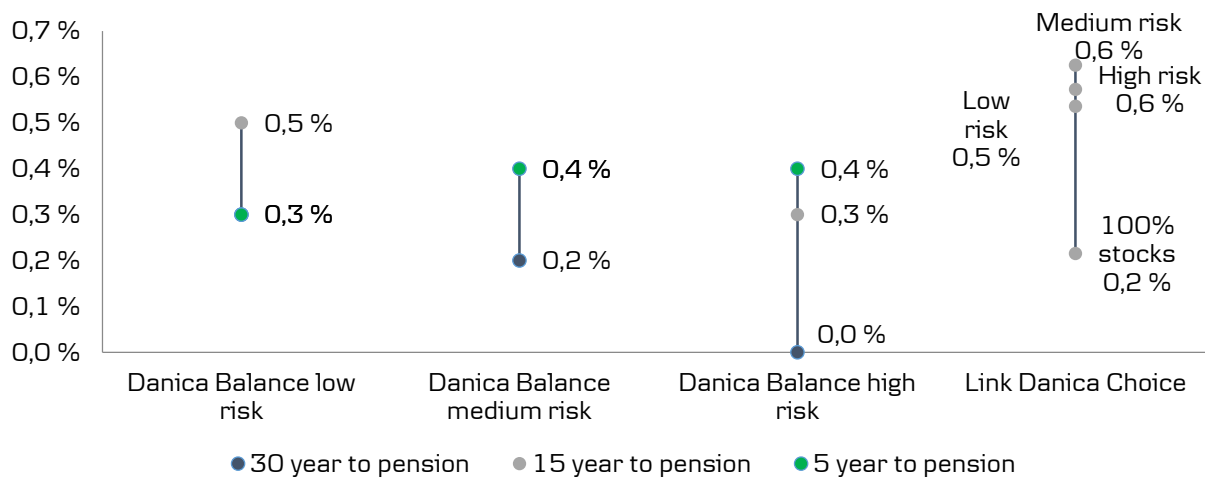
## POSITIVE RETURNS IN APRIL

By Anders Svennesen, CIO

April produced positive returns for all pension schemes, and year-to-date returns are positive for schemes with 15 years or less to retirement. Schemes with longer to retirement were affected more severely by the weak equity market performance at the beginning of the year, and their returns remain negative.

Alternative investments continue to generate solid returns. Danica Balance's overall returns are among the highest in the market in 2016.

Figure 1: Danica Balance Returns in April



### THE FINANCIAL MARKETS HAVE SETTLED DOWN, BUT FOR HOW LONG?

The financial markets have settled down after the severe volatility seen in the early months of the year. However, there is an imminent risk of further major fluctuations. Overall, we still expect positive returns for 2016, albeit lower than the 2015 returns.

Focus in the coming months will be on the UK referendum on continued EU membership and the US and euro zone monetary policies, as these could potentially stir up new equity price volatility. A British “No” to continued EU membership - which we do not expect to happen - would have a negative impact on UK and European equities.

The market has become more sensitive to changes in US monetary policy. Any increase in short-term interest rates are expected to cause severe equity and bond market fluctuations. One of the consequences of this is that we do not foresee any significant rate hikes from the Federal Reserve.

While we still favour credit bonds, we have cooled slightly to this asset class after several months of strong performance.

## **ATTRACTIVE ALTERNATIVE INVESTMENTS**

In 2014, Danica Pension began cultivating new investment areas to secure attractive future returns at a time of depressed expected returns, particularly bond market returns. In this context, alternative investments are particularly interesting. The alternative investments category covers investments in infrastructure, debt instruments, forestry and unlisted enterprises. We give high priority to alternative investments. Overall, we believe that they will produce more attractive returns relative to the underlying risk than liquid equity and bond investments.

A characteristic feature of alternative investments is that they are typically complex investments requiring a significant amount of capital and adequate resources to perform the very comprehensive analyses required to assess the underlying risk.

The question of risk is frequently raised in relation to alternative investments. Clearly, alternative investments are generally less marketable than corresponding listed assets, and their pricing is therefore subject to greater uncertainty. This is why alternative investments are an obvious choice for Danica Pension. We have the size, and thus the necessary capacity, to undertake the significant analysis work. Also, being part of a large group, we can draw on its resources to identify the most attractive investments. The size of Danica Pension's portfolio also enables us to create a diversified portfolio of alternative investments, thus preventing concentration of risk in any one company.

Our alternative investments have performed very well this year, and we expect to further increase the proportion of these investments.