Danica Pension

POLITICAL EVENTS IN FOCUS

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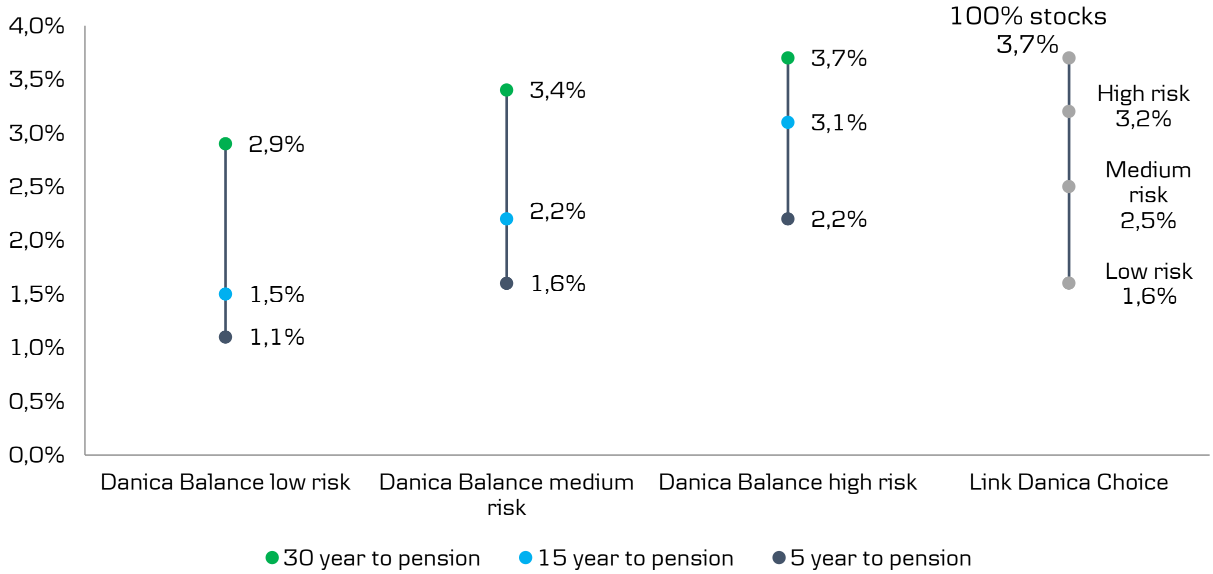
Danica pension funds yielded fair returns in July considering the market reaction to the Brexit decision. Customers with high risk portfolios and a long time to retirement received the highest returns in July. All fund categories have produced fair, positive returns in 2016 to date. Alternative investments continue to generate solid returns.

Figure: Danica Balance Returns in July



UPWARD TRENDING EQUITY PRICES DURING THE SUMMER PERIOD

This has been an eventful summer, with political events playing a key role for the financial markets and contributing to price volatility. Great Britain voted to leave the EU, and there was an attempted coup in Turkey. Despite such uncertainty factors, equity prices have risen nicely over the summer, credit bonds have yielded fair returns and sovereign bond yields have moved lower. The positive market developments have been supported by extremely lenient monetary policies and by the fact that the initial consequences of the British referendum were not as negative as had been anticipated in Europe.

We believe that Danica pension funds have come through the market instability relatively unscathed. Part of the reason is the greater flexibility of Danica Balance, which allows us to better protect our portfolios from losses and quickly align portfolios to prevailing market conditions. These are capabilities that we will need for the rest of 2016, which looks to become at least as eventful as the summer period.

Dominant events on the political front will be the US presidential election and a referendum in Italy on constitutional amendments. As for macroeconomics, time will tell how much the Brexit effects will reduce investment and consumer spending in the UK and in Europe. It will also be interesting to see if US economic growth can continue to improve in the second half of 2016. Something that will be absolutely essential for market direction is US Federal Reserve rhetoric and the Fed funds rate trajectory.

We expect only moderate returns overall for the rest of the year. Given recent years' large gains in most asset classes, investors will have limited upside potential for assuming risk going forward. At the same time, the global population is growing older, there is hardly any inflation, productivity growth is low, interest rates are low, there is little new investment activity and it would seem that a deglobalisation trend is building. We monitor the markets closely and will try to generate added returns by taking advantage of possible price volatility. At the same time, we will continue to look for alternative investment opportunities offering attractive risk-adjusted returns.