



Asset Allocation in Times of QE and Digital Innovation

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**CIO
Danica Pension**

Danica Pension in brief

- 2nd largest Danish commercial pension fund
- 100% owned by Danske Bank – Denmark's largest bank
- Provides pensions, life insurance and health insurance
- Serves 600,000+ personal and business customers
 - Serves 6,000 corporate customers
- AuM: EUR 50bn
 - Guaranteed pensions EUR 24bn
- Yearly premium payments EUR 3.8bn

Agenda

Economic conditions

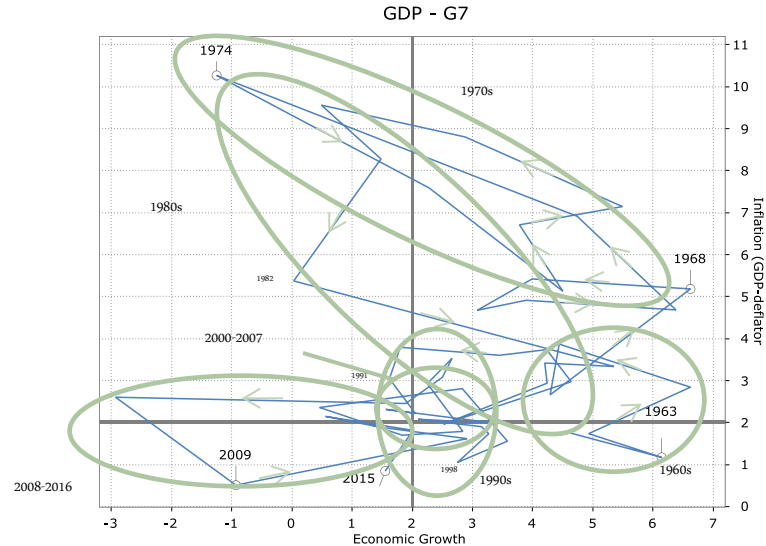
Challenges from the digital innovation

Danicas Transformation

Outlook: Subdued growth and inflation

Development in growth and inflation 1960 – 2015

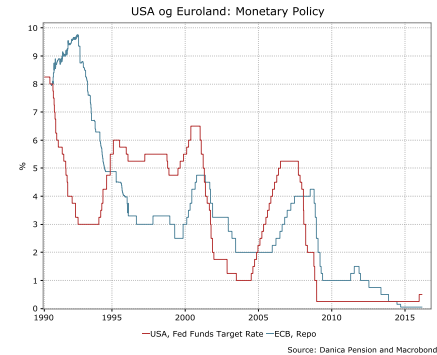
- 1960s: High growth – low inflation
- 1970s: Low growth – high inflation
- 1980s: Increasing growth – falling inflation
- 1990s: Decent growth – falling inflation
- 2000-2007: Decent growth – low inflation
- 2008-2016: Low growth – low inflation
- 2016-: ???



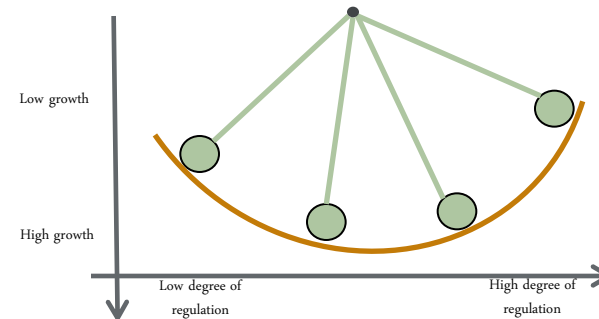
Source: Danica Pension

Central banks try to create growth and inflation – but regulation and economic conditions counteract

- Central banks have introduced zero rate policy and alternative monetary policy (QE)

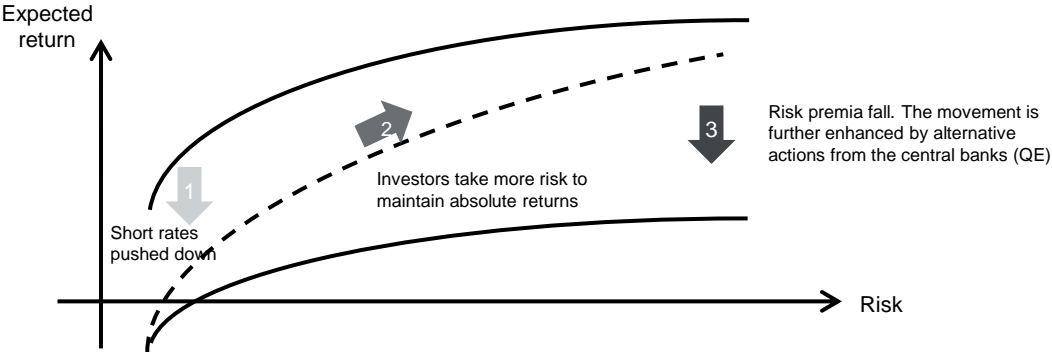


- ...but regulation, economic conditions and lack of structural reforms counteract the accommodative monetary policy

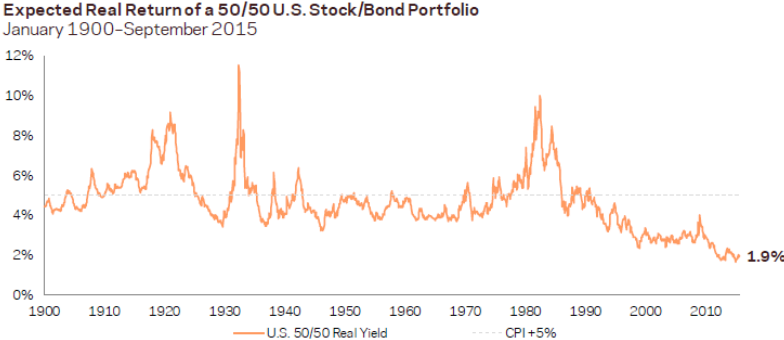


Consequence of low yield environment – low expected future returns

Central banks have pushed risk premia i all asset classes



The result is low expected future returns on all asset classes



Economic conditions

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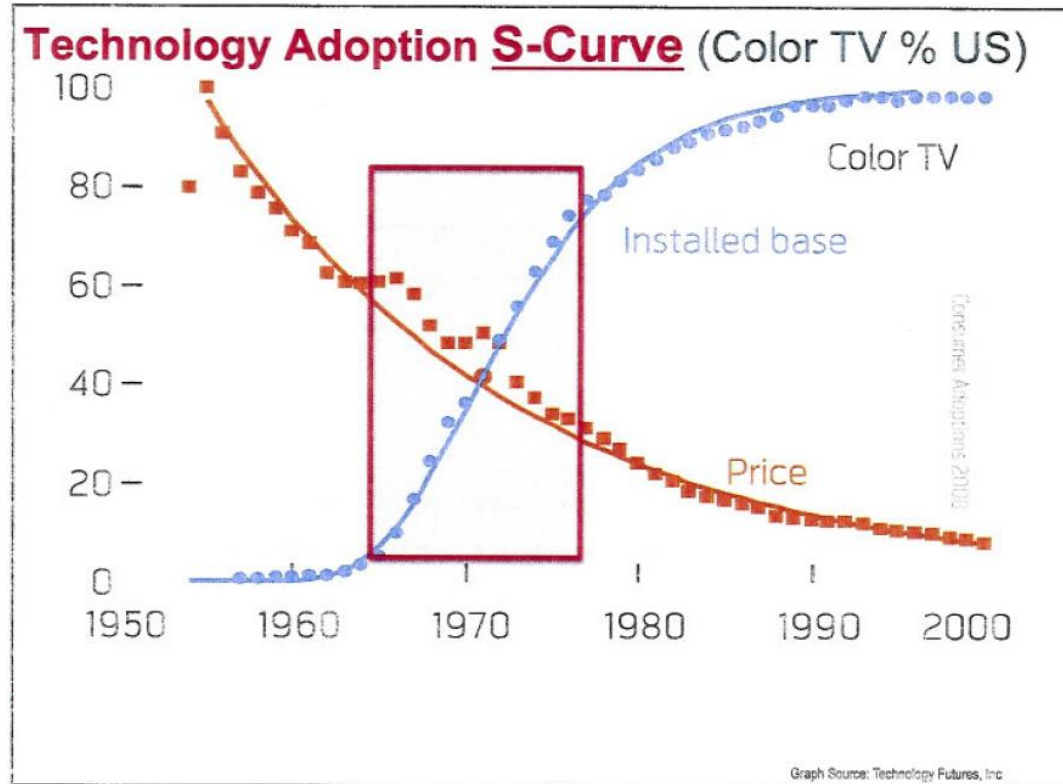
1900 (Easter Sunday) in New York: Where is the Car?



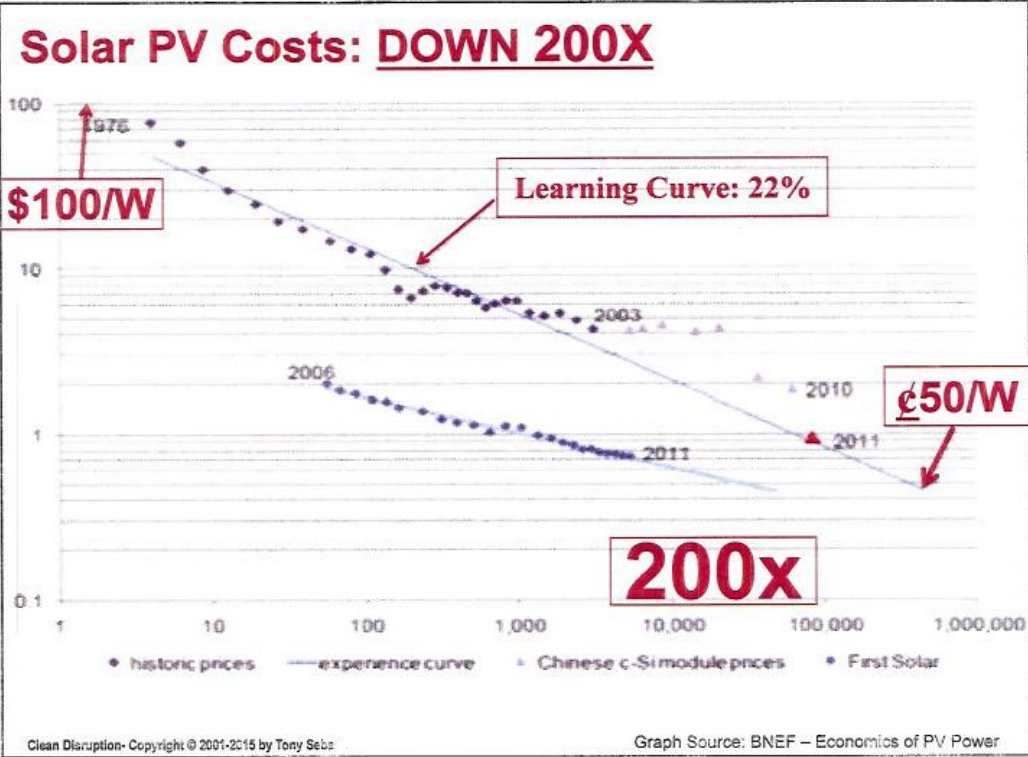
1913 (Easter Sunday) in New York: Where is the Horse?



Technology Adoption Follows an S-Curve



Solar is a Good Example...



Source: Tony Seba: Clean Disruptions 2001-15

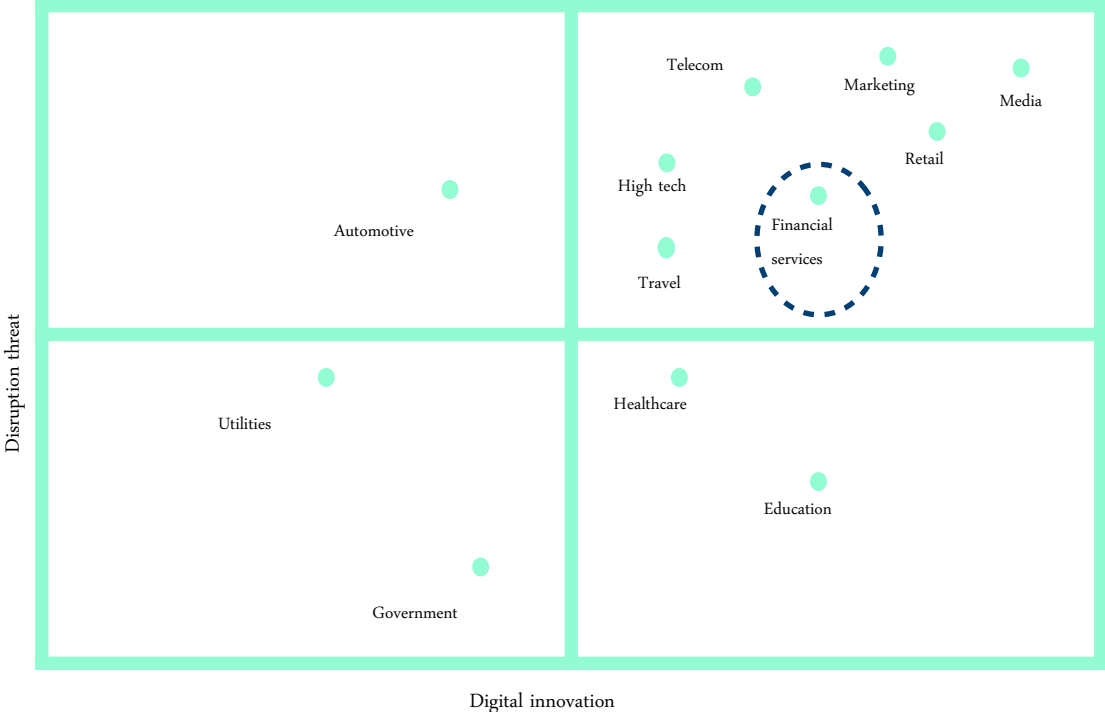
Examples of Present Day Exponential Technologies

2015 Key Exponential Technologies

1. Sensors / Internet of Things
2. 3D Printing
3. Machine Learning / Artificial Intelligence
4. Robotics
5. 3D Visualization
6. Solar PV
7. Energy Storage
8. Mobile Internet & Cloud
9. Big Data / Open Data
10. Unmanned Aerial Vehicles / Nano Satellites
11. eMoney / eFinance

Source: Tony Seba: Clean Disruptions 2001-15

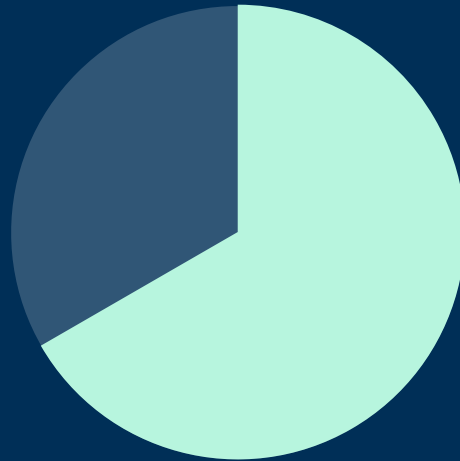
The Financial Sector has to Consider its Position...



Source: Deloitte Digital

...and be aware of its competitors

Americans trust Amazon, Apple, Google and PayPal to offer financial products more than BofA, Chase, Citi and WF.



>66 %

would consider buying insurance
products from non-insurers

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High Returns on a Short and Long Time Horizon

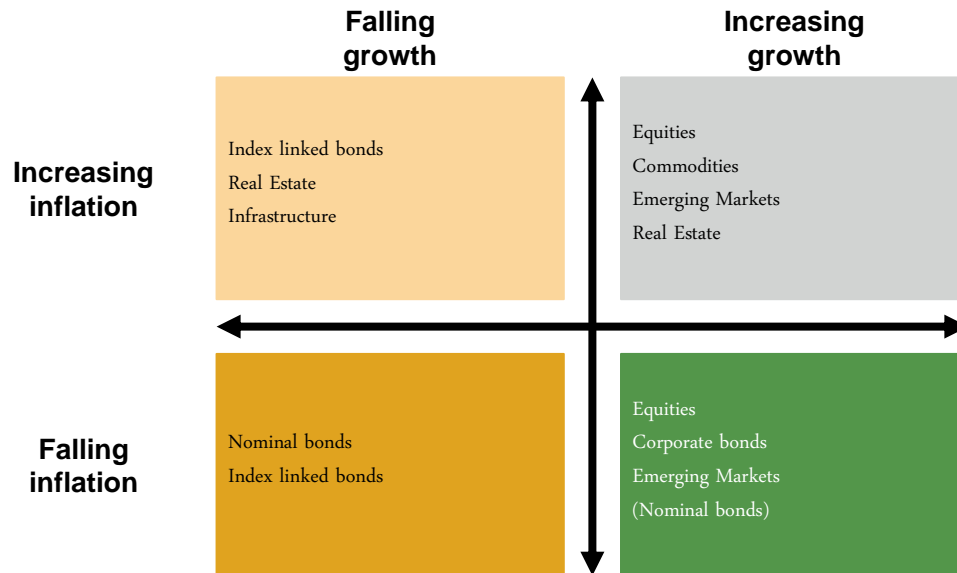
High nominal returns in
the short term



Ensure purchasing power
in the long term

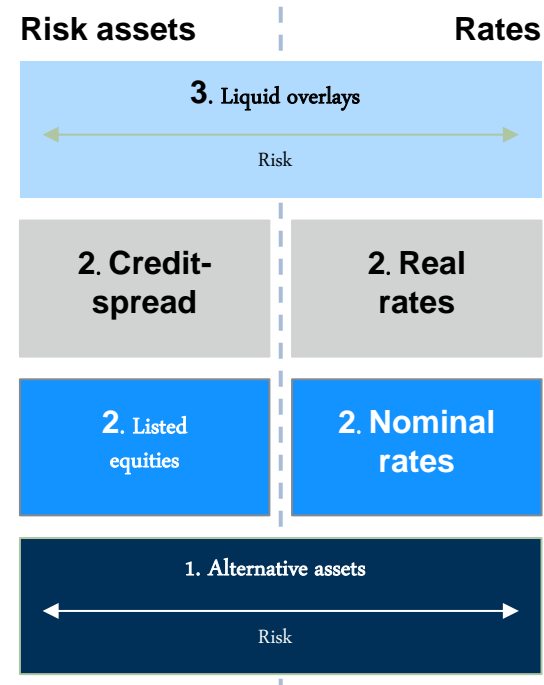
Difficult to Get Decent Returns and Portfolio Characteristics Only Using Classic Asset Classes

Important to have a reasonable balance between assets which do well in different economic outcomes



Danicas Portfolio Construction Can Be Split Into Three Categories

- Alternative investments
 - Forms the “base” of the portfolio
 - Positive high running yield with an acceptable risk
 - Contribute with desired portfolio characteristics like inflation protection
- Listed assets
 - Exposure to the overall market risk
- Overlay of liquid ‘alternative’ assets
 - Risk-premia strategies
 - Adjustment of the overall portfolio properties
 - Desired characteristics like protection against raising rates or inflation
 - Ensure adequate liquidity in market turmoil etc.



Increased Focus on Alternative Investments With the Desired Characteristics

	Low risk	High risk
Properties	Bond-like investments	Equity-like investments
Characteristics	<ul style="list-style-type: none"> • Safe stable cashflows • Limited volatility • Decent yield • Inflation protection 	<ul style="list-style-type: none"> • Price appreciation • High underlying risk • High expected returns
Examples	<ul style="list-style-type: none"> • Real estate • Infrastructure • Forest 	<ul style="list-style-type: none"> • Private equity • Direct investments in loans and equities • Green field investments / projects • Venture capital
Purpose	Suited for low and middle risk profiles and guaranteed products	Suited for high risk profiles

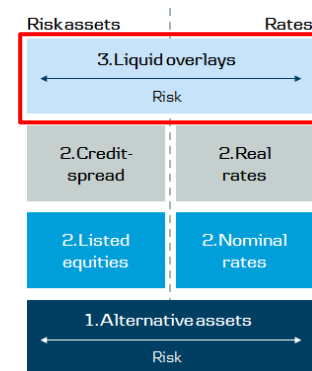
Direct Investments in Companies

- Danica has invested EUR 0.7bn in 16 direct investments

 <p>Danica investment in preference shares June 2014</p>	 <p>Danica investment in shareholder loan September 2014</p>	 <p>Danica investment in ordinary shares February 2015</p>	 <p>Danica investment in preference shares March 2015</p>
 <p>Danica investment in preference shares April 2015</p>	 <p>Danica investment in ordinary shares April 2015</p>	 <p>Danica investment in corporate bond June 2015</p>	 <p>Danica investment in corporate bond July 2015</p>
 <p>Danica investment in preference shares August 2015</p>	 <p>Danica investment in corporate bond November 2015</p>	 <p>Danica investment in preference shares December 2015</p>	 <p>Danica investment in corporate bond January 2016</p>

Overlay – A Very Important Part of The Portfolio Construction

- The overlay has different purposes in the portfolio construction
 - An efficient way to manage the portfolio (tactical asset allocation)
 - Implementation via derivatives
 - Higher liquidity enables portfolio changes within acceptable time horizons
 - Provides desired portfolio characteristics
 - Limits losses during specific market movements
 - Protects against increasing inflation and rates
 - Hedges against unwanted risks (harvest risk premia)
 - Adjusts the level of risk (“beta”) in the portfolio
 - Liquidity management of alternative investments hedging activities



Balanced Investment Funds With Full Investment Flexibility

- Operational setup to support the new portfolio construction
 - Extensive use of alternative investments and derivatives
 - Use the most efficient wrapping of investments (UCITS funds vs. own balance sheet)
- New version of Danica Balance was introduced in January 2016
 - Ensure best possible risk-adjusted returns for all customers
 - Third fund "Mix" tailor made to middle risk customers

Risk/return profile for Balance portfolios

