storebrand

Quarterly report – pension portfolios

Defined contribution

4th quarter
2023

Inflation Towards Targets

As we enter the new year, consensus suggest that global economic growth will continue in 2024, albeit at a slower pace than in 2023. For G7 countries, the growth rate is anticipated to decline from over 1.5 percent in 2023 to below 1 percent in 2024. Emerging economies are also expected to experience positive albeit slightly lower growth. In China, for example, economic growth of 4.7 percent is projected for 2024, down from 5.2 percent in 2023. However, consensus indicate a more significant decline, and a movement closer to the target, concerning inflation in G7 countries.

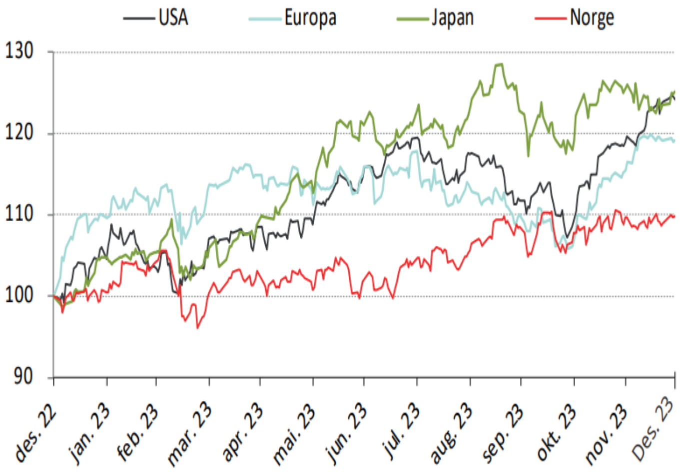
After inflation averaged nearly 7 percent in 2022 and 4.5 percent in 2023, the expectation now is for inflation in G7 countries to decrease towards 2.5 percent in 2024. Core inflation is also expected to decrease, albeit at a slower pace and from a higher level. Nevertheless, there is a clear normalization of inflation dynamics from the extreme levels experienced in recent years. The extreme levels observed may also contribute to markets being somewhat "inflation-blind", as there is a substantial difference between core inflation being above 3 percent and at the target of 2 percent. Especially when the labor market remains as tight as we currently see.

Policy Rate Cuts in US

However, the decline in inflation is likely sufficient for the U.S. Federal Reserve to lead with interest rate cuts in 2024, even without a recession and a clear increase in unemployment. This is because central banks consider real terms and real interest rates (nominal interest rate minus inflation) when assessing the tightness of monetary policy. When expectations also point towards lower future growth, it may not be surprising that interest rate cuts from the FED are now priced in. The number of cuts and when they occur is more debatable, as the market has already priced in a total of six interest rate cuts this year, with the first as early as March.

The Fed did not significantly try to correct market expectations at the last meeting and indicated three rate cuts in its interest rate projections. By delivering some insurance cuts (cuts without a recession), the Fed can still maintain a tightening monetary policy, especially when considering real interest rates. This approach could be a perfect recipe for attempting a so-called soft landing or extending the business cycle. The success of achieving a soft landing is debatable, but prolonging the cycle is more likely by easing financial conditions for businesses and households.

Stock markets



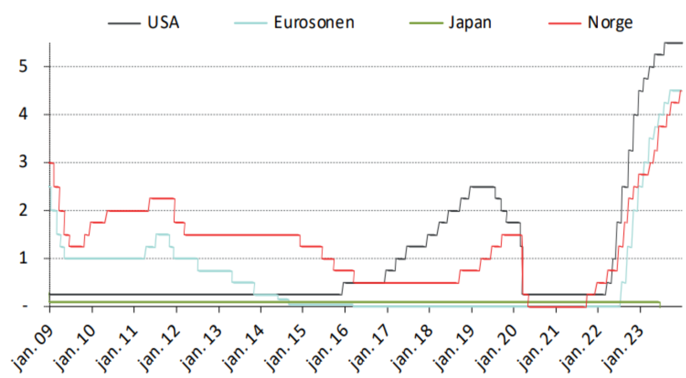
Skewed Outcome Scenarios

Similar expectations for interest rate cuts have also built up for other central banks. In the Eurozone, a total of six interest rate cuts are now priced in for 2024, with the first expected in April. In the United Kingdom, five interest rate cuts are priced in, with the first anticipated in May. Although the expectations for the number of interest rate cuts are quite similar, the growth outlook varies considerably. However, a common factor for all is that unemployment remains low everywhere, even though the balance between labor supply and demand is now more neutral with a normalization of job vacancies.

Low unemployment still means that the outcome scenarios are skewed concerning the future development of global unemployment. With interest rate cuts, it can be kept low for a more extended period, and the business cycle can be extended without the challenges posed by high inflation.

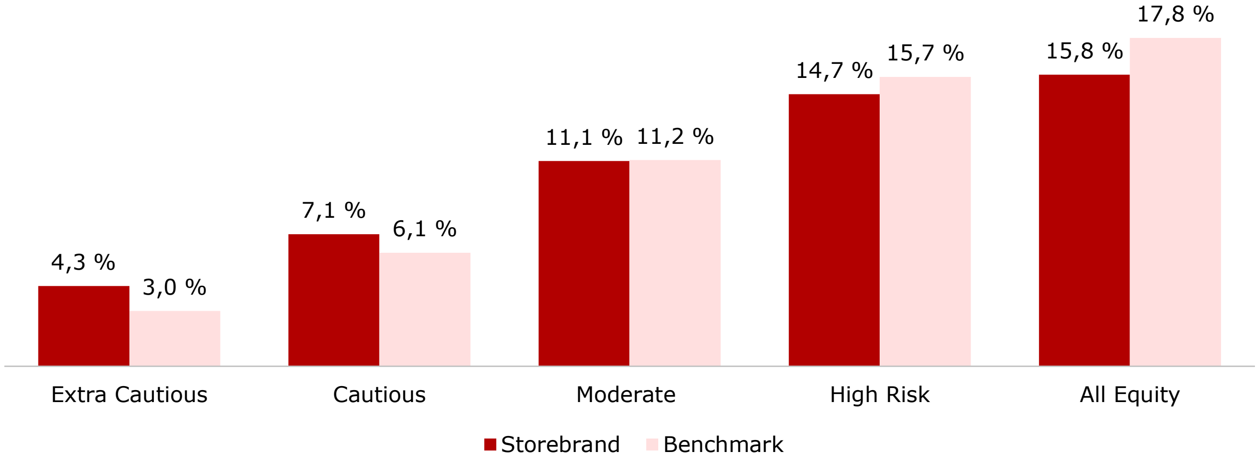
Key policy rates

US Euro zone Japan Norway



Return year-to-date

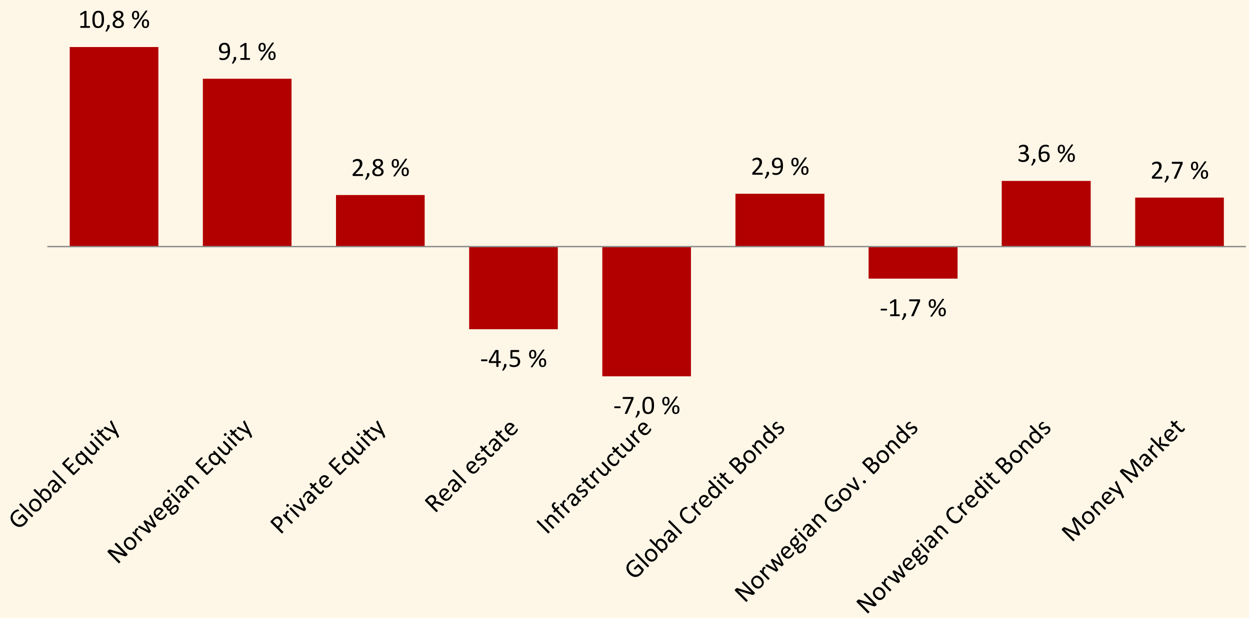
Return for the profiles and per asset class



Returns for 2023 have primarily been driven by global equities. During the last part of the year, Norwegian equities have also contributed significantly to the portfolio returns. With the decline we have seen int the longer interest rates during the last quarter, both Norwegian and global credit bonds have contributed nicely to the mixed profiles. For real estate and infrastructure, we have seen some negative returns, influenced by the strong and rapidly increases in policy rates during the year. We have also seen some write-downs of property values in 2023, but at the same time, rental income has increased due to higher inflation and CPI adjustments, which, in turn, has contributed to higher running yields for the real estate portfolio. Norwegian government bonds have contributed with positive returns during Q4 due to a decline in mid-range interest rates.

Return asset class (Q3)

updated quarterly after Storebrand's official financial reports are published



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Our pension profiles

Saving profiles customized to long-term pension plan

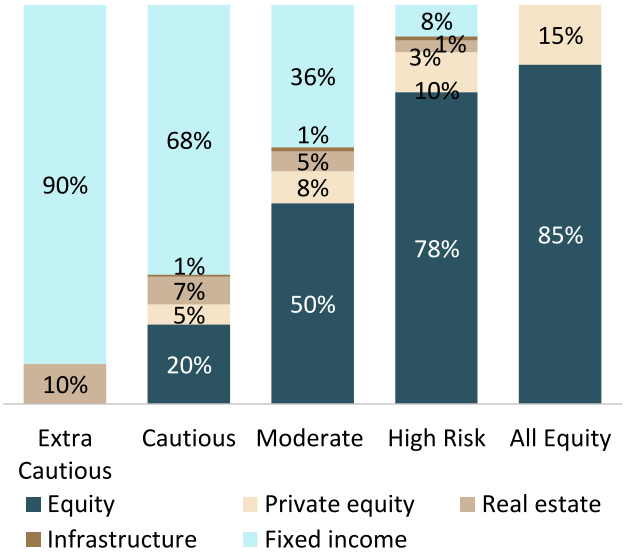
Extra cautious - suited for those who want low risk and want to be certain that their savings do not fall in value.

Cautious - best suited for employees with a short time to retirement, for retirees or for employees who want low risk but with better returns than one would get in the bank.

Moderate - suited for those that have a 5-10 years horizon before retiring.

High Risk - suited for persons with a long horizon and who can tolerate that the value can vary significantly over the investment period.

All Equity - suited for persons who have a long investment horizon and who want to take a higher investment risk.



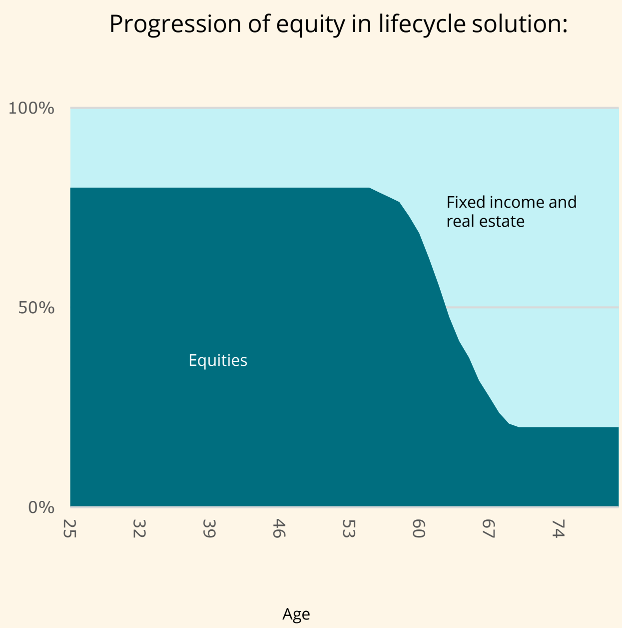
Storebrand Lifecycle Solution

A savings solution that adjust with you

People in different stages of life have different investment needs. With Storebrand's lifecycle solution we adjust your investments as you get older to balance your need for good returns with predictable returns.

Right investments at the right time

With our lifecycle solution, Storebrand will ensure that the pension from your employer is invested in the right instruments at the right time. Young employees have a long investment horizon and a relatively small amount in pension assets. In order to get the best return, your pension will be invested primarily in a diversified and sustainable global portfolio of stocks. As one nears retirement, the investments in stocks will be reduced in favor of more predictable investments in bonds and money market instruments. Storebrand's lifecycle solution ensures that your investments are optimally invested throughout your working life and during retirement.



Currency

The pension profiles' investments are largely hedged against currency.

Alternative investments

In Storebrand's pension profiles, we have a good proportion allocated to alternative investments to spread risk and reap liquidity premiums. This is because they are often somewhat less liquid than ordinary equity and bond portfolios and you thus get paid to be able to invest in these asset over a longer period of time.

Sustainability

All Storebrand's investments have the UN's sustainability goals as an integral part of the strategy. We work to give our customers a better and more sustainable pension by investing more in future-oriented solution companies. Risk is reduced by excluding companies that are involved in unacceptable corporate activities, and we are an active owner who influences the companies in a more sustainable direction.

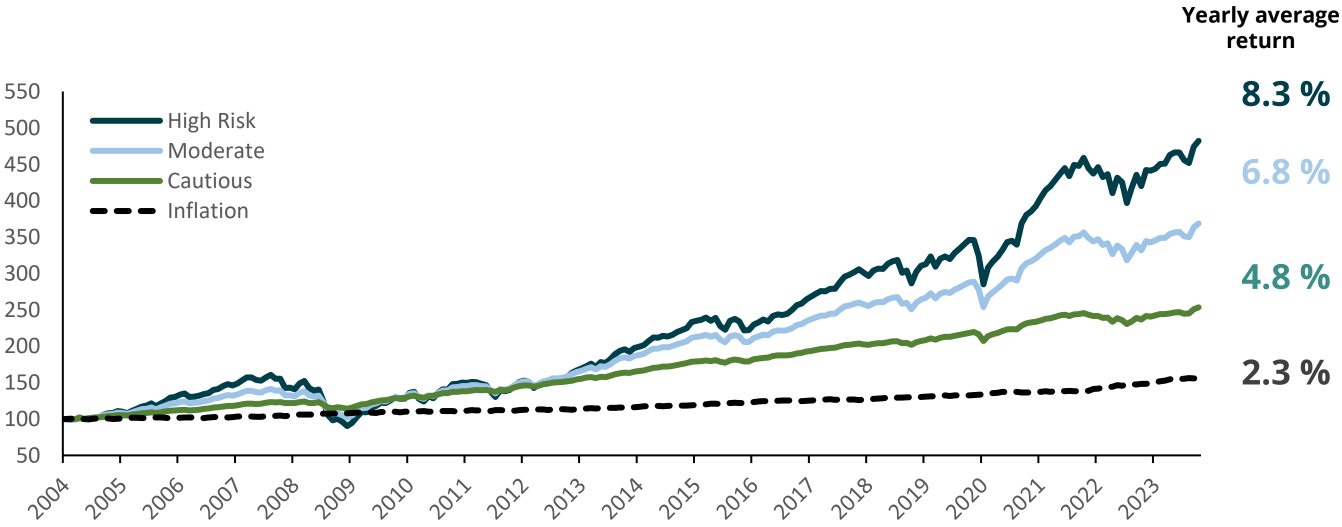
Storebrand is ranked as one of the top 10% most sustainable companies in the world by Dow Jones Sustainability Index, and Storebrand receives the highest score on sustainability among Norwegian players according to the Ethical Pension Guide.

We expanded our product range in 2021 by launching a fossil-free profile series that focuses on renewable energy, a lower carbon footprint and a higher proportion of solution shares.

In March 2021, the EU introduced the Sustainable Finance Disclosure Regulation (SFDR). SFDR should contribute to more transparency and less greenwashing in the industry, by imposing legislation on the publication of sustainability information and what sustainability considerations funds take. As an asset manager, all funds must be ranked in three different categories, which are Article 9 ('dark green'), Article 8 ('light green') or Article 6 ('other funds'). All Storebrand's profiles have been classified, even though there is no legal order in Norway yet, and have at least a category 8

Historical return

Storebrand's Pension Profiler has delivered good returns over time. Below is an indexed extract for the Cautious, Moderate and High Risk profile. It shows the effect if you invested NOK 100 in the three different profiles in 2004, and what the NOK 100 note is worth today. On the right, the annual average return since the start in 2004 is shown.



Storebrand Cautious, Moderate and Aggressive was established 31. march 2004. Storebrand Extra Cautious and Extra Aggressive was established in December 2011. All returns are showed before the deduction of costs, yield for 12 months or more are calculated as yearly geometric average return. Historical return is no guarantee for future returns. Future return is dependent on the market and the portfolios risk. Returns may be negative as a consequence of a market in decline.