storebrand

Quarterly report – index portfolios

Defined contribution

4th quarter
2023

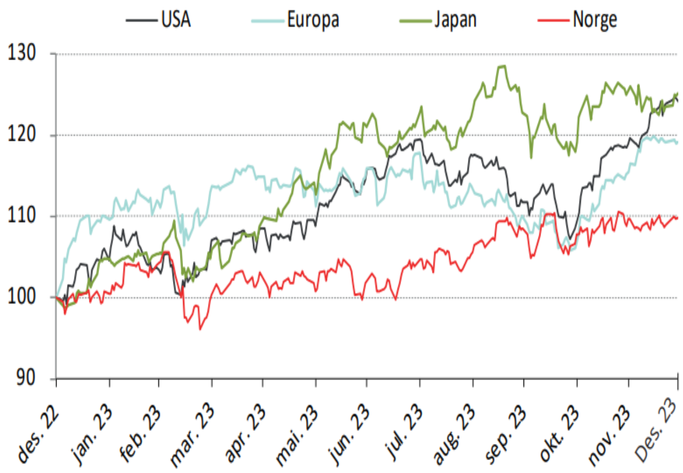
Inflation Towards Targets

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.

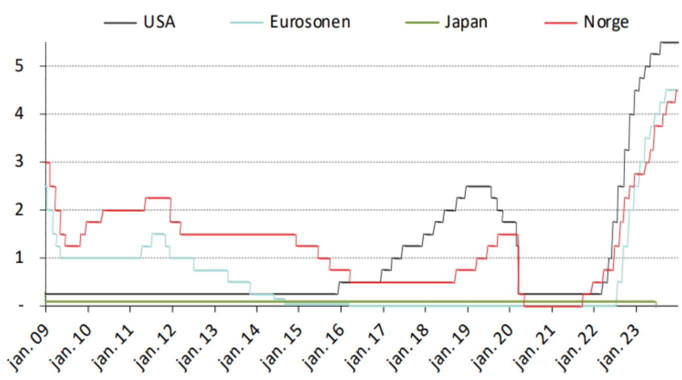
Stock market



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



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Our Various Portfolios

Portfolios that are designed for long-term savings

Storebrand is the largest private asset manager in Norway, and we use the same solutions in the management of our pension portfolios as we do for our largest and most professional institutional clients across all asset classes. The various portfolios have varying risk from 0% in stocks to 100%. If for some reason you feel that Storebrand's lifecycle product is not for you, it is also possible to invest directly in a portfolio that you feel is best for you. We will also reduce the risk of your chosen portfolio as you approach retirement, or you can turn this feature off. All our portfolios are well diversified with high focus on sustainable investments.

Extra cautious Index
Extra cautious index is suited for those who want low risk and want to be certain that their savings do not fall in value. Extra cautious invests in high quality bonds and money market instruments.

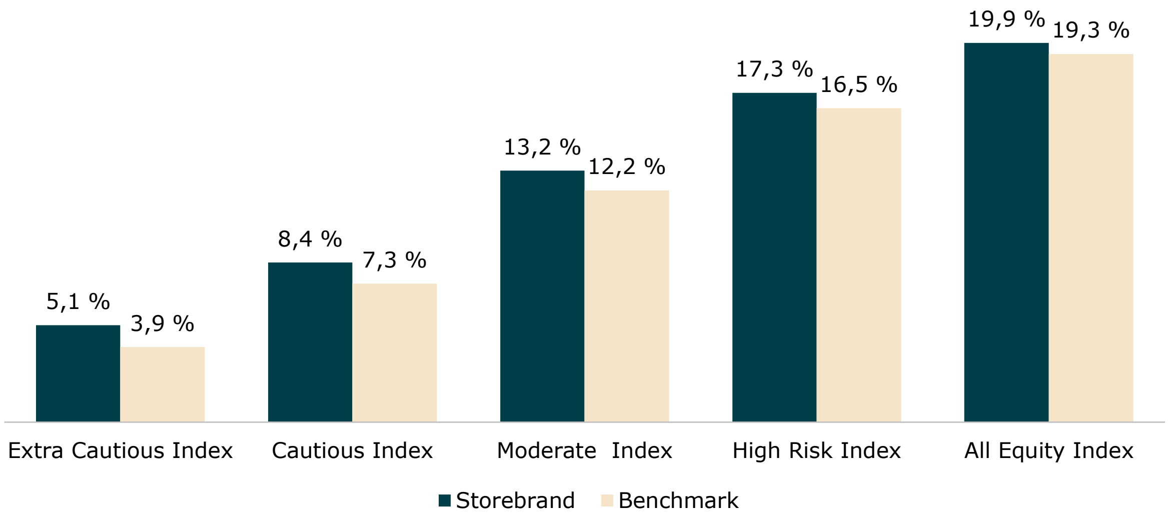
Cautious Index
Cautious index invests primarily in high quality bonds and money market instruments but also has a smaller proportion invested in stocks to improve returns. This portfolio is best suited for employees with a short time to retirement, for retirees or for employees who want low risk but with better returns than one would get in the bank.

Moderate Index
Approximately half of the investments are in investments with predictable returns while the other half is invested in stocks that vary in value but that can generate better returns over time. One should have a 5–10 year investment horizon before investing in this portfolio.

High Risk Index
Aggressive has a high proportion of the portfolio in stocks and is expected to give good returns over time. This portfolio is suited for persons with a long investment horizon and who can tolerate that the value can vary significantly over the investment period.

All Equity Index
Extra aggressive invests in large listed global stocks. This portfolio is suited for persons who have a long investment horizon and who want to take a higher investment risk.

Return Year to Date



All returns are showed before the deduction of costs. 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.

Currency

The pension profiles' investments are largely hedged against currency and the return is to a small extent affected by fluctuations in exchange rates.

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 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 world's most sustainable companies in both the Global 100 index and the Dow Jones Sustainability Index, and Storebrand receives the highest score on sustainability among Norwegian players according to the Ethical Pension Guide.

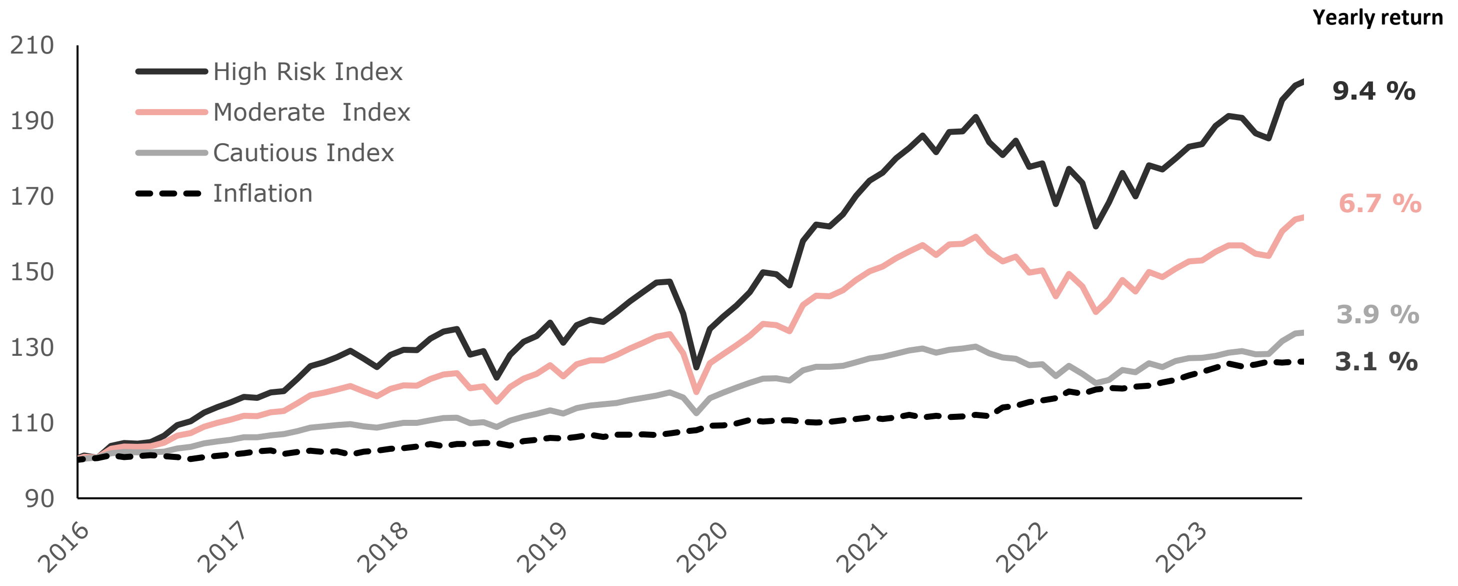
In 2020, we launched our new climate strategy where, among other things, we exclude all coal and oil sands companies and companies that conduct lobbying activities against the Paris Agreement, as we want to help increase the pace of the green shift.

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

At the same time in March, 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 Index Profiles 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 2016, and what the NOK 100 note is worth today. On the right, the annual average return since inception is shown.



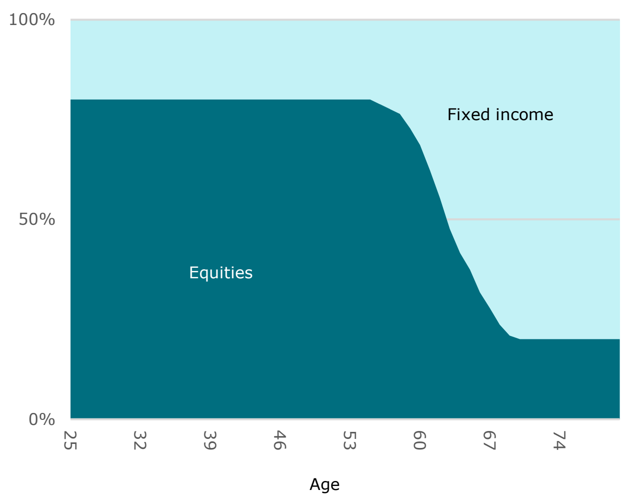
All returns are showed before the deduction of costs, yield for 12 months or more are calculated as yearly geometric average return. Historical return is no guarantee for future returns. Future return is dependent on the market and the portfolios risk. Returns may be negative as a consequence of a market in decline.

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.

Progression of equity in lifecycle solution:



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.

We do the job for you

Our common goal is to maintain or increase the purchasing power of your pension savings by getting good returns while at the same time ensuring a predictable pension payout. We do that by investing in our aggressive portfolio when you are young and then gradually transitioning to a more moderate portfolio and finally to a cautious portfolio as you approach retirement. We do this job automatically on your birthday so that you don't have to do it yourself.