Market analysis

For most of 2019, growth prospects for the global economy were under pressure, mainly due to uncertainty about the trade war and, to a lesser extent, Brexit. Towards the end of 2019, there was good news on both fronts, at least at first sight. The British general election produced a clear victory for Prime Minister Johnson's Conservatives, and nothing seems to stand in the way of the UK leaving the European Union at the end of January 2020. In the short term, this removes a major factor of uncertainty for the UK economy (and that of the eurozone), although the question of future relations between the UK and the European Union remains unanswered for the time being. Prime Minister Johnson has stated that he wants to conclude a trade agreement with the EU before the end of 2020, but that seems rather optimistic. It is more likely that he will have to reconsider this intention during the course of 2020, which may then usher in a new phase of uncertainty. In addition, the election result and the agreements reached with the European Union on the post-Brexit transitional phase are not conducive to the stability of the United Kingdom. Prime Minister Johnson's 'Brexit deal' actually brings Northern Ireland closer to the European Union than to the UK, while Scotland's election results have not ruled out a new referendum on Scottish independence. On balance, all this does not bode well for the British economy. More important for the world economy was the announcement by US President Trump, in the same week as the British elections, of a 'Phase One' trade agreement between the US and China. On closer examination, this agreement appears to be less comprehensive than President Trump, in particular, wanted to make it appear, but it seems, in any case, to put a halt to the downward spiral of deteriorating trade relations. In the short term, the fact that an increase in trade tariffs as of 15 December 2019 was not implemented is a big plus for both the Chinese and US economies. A downside may be that, with the agreements that have now been made, the pressure to reach a more far-reaching 'Phase Two' agreement has diminished. In the run-up to the U.S. presidential elections in November 2020, it may be politically more advantageous for President Trump to take a tougher stance against China again, at least as long as this does not harm the U.S. economy. For President Trump, preventing a recession in 2020 is the best guarantee for re-election. After all, on every occasion in the past 40 years that the party of the incumbent president lost the elections, this was accompanied by a recession. The only exception to that rule was 2016, when the Democrats lost the elections despite the fact that the US economy was in good shape at the time. The way things stand at the moment, the US economy could be an important weapon for President Trump in his fight for re-election. Unemployment in the US is still at a 50-year low of 3.5%, and both the housing market and stock market are in good shape. As far as the US economy is concerned, the main concern is that, after a steady decline during most of 2019, producer confidence has fallen below the 'neutral' 50-point mark. In agriculture and industry in particular, business confidence has fallen sharply, which seems to be largely due to the negative impact of the trade war. These sectors are particularly well represented in the Midwest of the United States that gave President Trump his surprising election win in 2016. For his possible re-election in 2020, he will need the support of these states once again. On balance, it therefore seems more advantageous for Trump not to let the trade war escalate again in 2020. European corporate bond yields were, on balance, reasonably flat in the fourth quarter. Corporate bond investors benefited from the sustained search for yield among investors through lower credit spreads, although higher interest rates had a dampening effect on total corporate bond yields. Broadly speaking, this picture not only applied to European, but also to US, Japanese and Australian 'credits'. In addition, it not only applied to investment grade corporate bonds, but also to high yield bonds.

Yields on European government bonds rose markedly in the fourth quarter from the lows at the end of August. Yields on 10-year government bonds from most countries in the eurozone rose by 30-40 basis points. This again narrowed the list of European countries with negative interest rates. In Switzerland, Germany and the Netherlands, 10-year interest rates remained (slightly) negative, while in France, Belgium and Ireland, for example, interest rates were again above 0% at year-end 2019. The 10-year euro swap rate rose from -0.1% at the end of September to +0.2% at year-end 2019.

Outside Europe, too, interest rates rose on most bond markets. For the most important countries (e.g. US, UK, Canada, Australia), the interest rate increases were similar to those in Europe.

Fund strategy and results

The fourth quarter saw a turnaround in market sentiment. After months of pessimism, caused mainly by an escalating trade war and the continuing risk of a hard Brexit, there was finally some relief with regard to both issues. This was accompanied by a cautious recovery of macro figures in the industrial sector as well as steadily rising inflation rates and expectations, followed by higher interest rates.

As in the previous three quarters, the fund had a lower interest rate sensitivity than the benchmark. The difference with the previous quarters was the maturity at which this underweighting was implemented, which was shifted from the shortest to medium maturities, making the curve positioning relatively neutral again for the first time in a long while. The relative gain achieved on the flattening of the interest rate curve is thus safeguarded. Because interest rates rose in this quarter and the shape of the interest rate curve did not change much, this turned out to be positive. Inflation-linked loans also benefited from the improved market sentiment.

The credit risk in the fund was higher than the credit risk in the benchmark, and was mainly taken in semi-government bonds and long-term loans, so-called 'ultras'. As credit spreads generally tightened somewhat, this contributed positively to the relative return. The largest positive contribution came from the overweight in Irish government bonds, which benefited from the reduced risk of a hard Brexit.

Participations included the issue of new loans by the Nederlandse Waterschapsbank (2026), SNCF (2047), which performed well. No bankruptcies occurred in the fourth quarter of 2019. Interest rates rose while yield curves changed little. Almost all country spreads declined during the quarter. Inflation expectations increased.

Compared to -4.43% for the benchmark, the fund achieved a quarterly return of -4.32%, representing a positive relative performance of 11 basis points after costs. This was due to a positive contribution from the interest rate position and the inflation-linked loans, but especially the overweight position in credit risk made a positive contribution.

Outlook

Government bonds are still expensive, even after a slight rise in interest rates in the last quarter of 2019. Although we narrowed our underweight position in government bonds slightly this quarter, it remains our most pronounced tactical position. Even though long-term interest rates rose slightly in the fourth quarter of 2019, they are still very low from a historical perspective.

From a macroeconomic point of view, current interest rate levels can actually only be justified in the expectation of an approaching recession and/or a period of deflation. Although a recession in 2020 cannot be ruled out, we do not see any signs of it in the macroeconomic figures at the moment. In addition, recent inflationary pressures seem to be increasing rather than decreasing, so also in this respect, long-term interest rates now seem to be too low rather than too high.

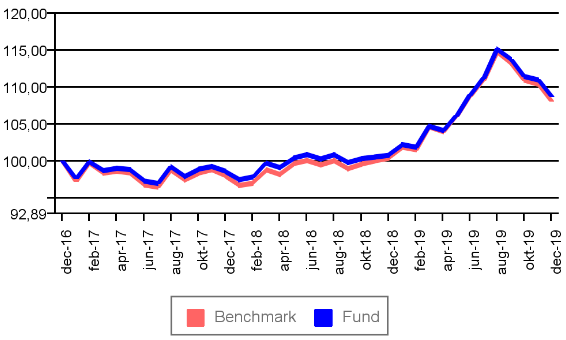
The most important explanation for the current low interest rates is the very expansionary monetary policy of central banks. This policy is expected to continue in 2020, but we do not foresee any monetary easing beyond what has already been announced. We therefore do not expect monetary policy to be an argument for even lower interest rates. On the other hand, as long as political risks (in particular the trade war and Brexit) remain above average and governments still seem too unwilling to pursue a more expansionary fiscal policy, long-term interest rates are not expected to return to historically more 'normal' levels in the short term.

Investment strategy

The objective of the ASR Pensioen Staatsobligatiefonds 10-15 Jaar is to offer an investment in a diversified portfolio of Investment Grade fixed-interest securities and long-dated instruments, primarily issued by governments and denominated in euros. The investment policy aims to generate a target return over a three-year period that at least equals the return on the established representative benchmark, after deduction of all costs applicable to this mandate. The fund is managed in compliance with the ESG policy drafted by the Manager.

Historical indexed return

Indexation based on returns of not more than 3 years



Return *)	Fund	Benchmark
1 month	-1,94 %	-2,01 %
3 months	-4,32 %	-4,43 %
6 months	-0,15 %	-0,61 %
1 year	7,96 %	7,73 %
3 year	2,87 %	2,67 %
5 year	3,43 %	3,18 %
Since start (*)	6,39 %	6,15 %
YTD	7,96 %	7,73 %
Sinds start	6,39 %	6,15 %

(*) period exceeding 1 year is annualised and is net based

Essential fund information

NAV calculation	Daily
Date of incorporation	30-09-2013
Performance calculation started on	02-01-2014
Fund administrator	ASR Vermogensbeheer N.V.
Fund manager	Marèn Klap
Entry charge (maximum)	0,15 %
Exit charge (maximum)	0,15 %
Ongoing Charges Ratio (OCR)(*)	0,20 %
Country of domicile	NL
Currency	EUR
Benchmark	Composite
ISIN	NL0012375182

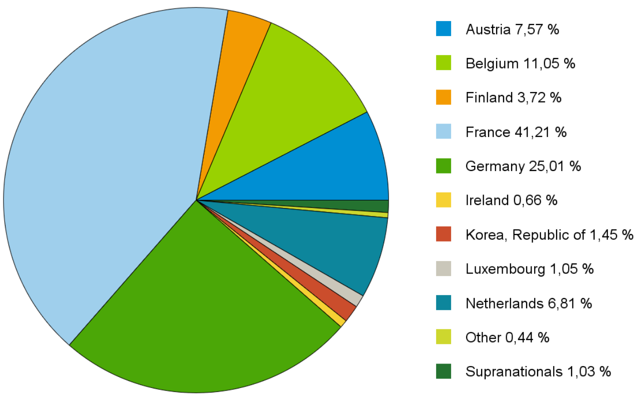
(*) The Ongoing Charges Ratio (OCR) consists of the management fee (0,10%) and the service fee (0,10%) (excluding costs which can be allocated directly to transactions) and the costs of the underlying investments.

Fund facts and prices

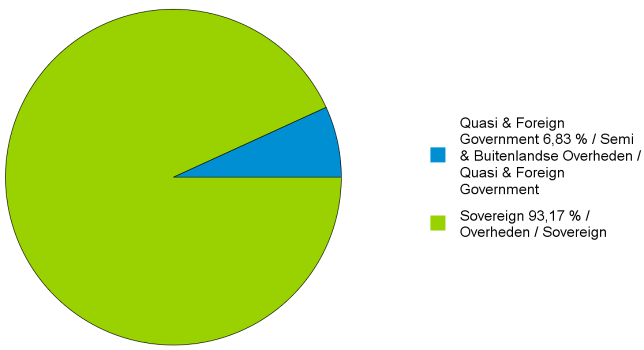
Total assets (x 1,000)	€ 282.367,14
Number of outstanding units (x1,000)	3.933,95
Net asset value per unit	71,78
Highest price in period under review	73,15
Lowest price in period under review	71,70
Dividend	None

10 largest holdings	ISIN	Country	%
FRANKRIJK 5.5% 25/04/2029	FR0000571218	France	4,79 %
FRANKRIJK 0.5% 25/05/2025	FR0012517027	France	4,76 %
FRANKRIJK 1% 25/05/2027	FR0013250560	France	3,87 %
DUITSLAND 6.5% 04/07/2027	DE0001135044	Germany	3,85 %
DUITSLAND IL 0.1% 15/04/2023	DE0001030542	Germany	3,56 %
DUITSLAND 4% 04/01/2037	DE0001135275	Germany	3,52 %
FRANKRIJK 1.5% 25/05/2031	FR0012993103	France	3,46 %
FRANKRIJK 3.25% 25/05/2045	FR0011461037	France	3,29 %
FRANKRIJK 5.75% 25/10/2032	FR0000187635	France	3,22 %
FRANKRIJK 2.5% 25/05/2030	FR0011883966	France	3,19 %

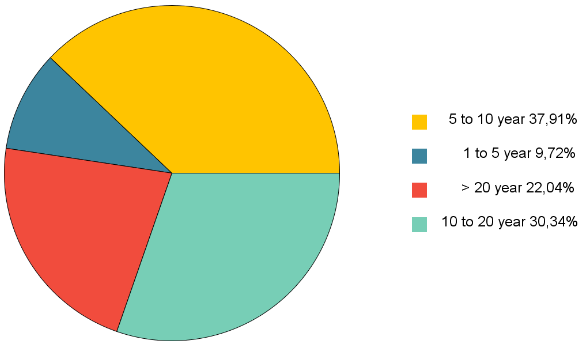
Country concentration



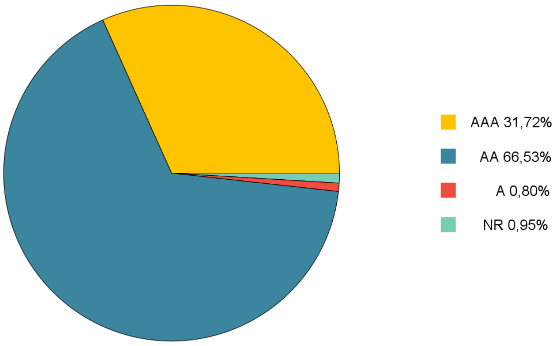
Industry concentration



Duration



Rating



Fund Governance

To ensure to participants that the Fund is managed in a controlled and integer way and to provide services with due care as defined in the Financial Supervision Act (FSA; in Dutch Wft) the Manager will act according to the code of conduct as laid out by branch organization DUFAS (Dutch Fund and Asset Management Association). The code of conduct describes good practices for fund governance en provides specific guidelines for organizational setup and conduct of business for investment fund managers to accomplish that the manager will act in the interest of his fund participants and sets up his organization in a way that prevents conflicts of interest.
The Manager has laid his principles of fund governance down in a Fund Governance Code. Furthermore the Manager has set up policies for conflict of interest cases for all his activities. The purpose of the policies is to prevent and control conflicts of interest that could disadvantage clients of the Manager and to deal with clients in a just and equal manner.

Sustainability Policy

a.s.r. is an institutional investor that show its social responsibility, for instance by applying ethical and sustainability criteria to investment selection. All assets under management by ASR Vermogensbeheer N.V. are screened using the a.s.r. SRI (Social Responsible Investment) policy, such as social and environmental aspects. Countries and corporations that do not meet these requirements are excluded. The screening of corporations is based on external independent research by Vigeo Eiris (www.vigeoeiris.com/en/vigeo-eiris-rating/) certified to the independent ARISTA standard. Furthermore, the ASR Vermogensbeheer N.V.'s asset portfolio is externally and independently certified by Forum Ethibel (forumethibel.org/content/home.html) in semi-annual audits.
a.s.r's asset management selects investments based on best practices en products according to ESG-criteria (Environmental, Social and Governance). This applies to all investments in countries (sovereign debt) and in corporations (shares and corporate bonds) that score the best in and are appropriate to the policy guidelines. Furthermore, a.s.r invest in corporations that make sustainability contributions to society.
a.s.r. also have a strict policy excluding controversial activities of countries and corporations. This applies to producers if controversial or offensive weapons, nuclear energy, the gambling industry, tobacco and coal. Furthermore, a.s.r. require that corporations comply with international agreements concerning environment, human and labor rights. For sovereign debts investments a.s.r exclude countries that score low in the Freedom in the World Annual Report and the Corruption Perception Index. a.s.r have signed the UNPRI and UNGC. Furthermore, a.s.r. comply with the Code Duurzaam Beleggen (Code for Sustainable Investing) for the insurance industry issued by the Vereniging van Verzekeraars (Union of Insurers), that came into force January 1, 2002.