Market analysis

In many countries, but particularly in Europe and Latin America, the COVID-19 pandemic has now reached the ‘third wave’ stage. Consequently, lockdowns and other social distancing measures are being tightened rather than phased out in many countries. But remarkably, economists are at the same time increasingly optimistic about the outlook for the global economy. For instance, both the IMF (in January) and the OECD (in March) revised the global economic growth forecast upwards to approximately 5.5% for 2021 and 4% for 2022. The OECD forecasts excellent growth rates for India, with projected growth of 12.5% for 2021, China (8%) and the United States (6.5%). By contrast, Europe is lagging behind the global average, with projected growth of 4% for the eurozone and 5% for the UK. Countries such as Brazil, South Africa and Russia are also lagging behind, with projected growth rates of 2.5-3.5% for 2021.

The optimism among economists about the growth outlook is largely explained by two factors: the rising COVID-19 vaccination rate and the extreme levels of fiscal and monetary stimulus from governments and central banks. These two factors also appear to be the main explanation for the differences in growth outlook between countries and regions. When it comes to vaccination rates, the US and the UK are clearly ahead of the European Union. By the end of March, the UK had a vaccination rate of almost 50 vaccine doses administered per 100 people. This rate was close to 40 in the US, but in the EU, it was less than 15. However, in countries such as Brazil and Russia, the vaccination rate was considerably lower, at 7.5 per 100. China and India are lagging behind even further in this respect, but they have suffered far less from the coronavirus pandemic than Europe, the US and Latin America, and their infection rates remain low even in the third wave.

After months (and in fact years) of virtually continuous declines in yields on European government bonds, they staged a remarkable turnaround in the first quarter. For the first time in almost a year, the 10-year euro swap rate rose above 0%. The increase recorded by the 30-year euro swap rate was even slightly higher, from 0% to 0.5% at the end of March. In the eurozone, most 10-year yields rose by 20-40 basis points, and 30-year yields rose by 30-50 basis points. Italian government bonds performed relatively well, recording a rise of only a few basis points. Outside the Eurozone, capital market rates rose even faster, with yields on 10-year government bonds, including those of the UK, US and Australia, increasing by 60-90 basis points. Since hitting rock bottom in the summer of 2020, US 10-year government bond yields have risen by approximately 120 basis points to the ‘pre-coronavirus’ level of 1.7%.

Fund strategy and results

In many countries, the COVID-19 pandemic has now reached the ‘third wave’ stage. Consequently, lockdowns and other social distancing measures are being tightened rather than phased out in many countries. Remarkably enough, however, economists are ever more optimistic about the outlook for the global economy. The optimism among economists about the growth outlook is largely explained by two factors: the rising COVID-19 vaccination rate and the extreme levels of fiscal and monetary stimulus from governments and central banks. Given the rising vaccination rate, we are rapidly approaching the point where lockdowns and other social distancing measures can be gradually phased out and sectors of the economy that have (virtually) come to a halt due to the coronavirus pandemic can reopen. In most EU countries, however, a gradual reopening from the end of the second quarter is the more likely scenario. In any case, a strong rebound in the global economy in the second half of 2021 seems very likely. The second reason for optimism about the economic growth outlook is the size of fiscal stimulus packages by governments in the EU and particularly in the US. In the US, following the second $900 billion stimulus package at the end of 2020, President Biden signed a third stimulus package worth $1,900 billion after it was passed by Congress. Even so, the willingness of the US administration to spend has not been exhausted yet. President Biden is already preparing a further package worth over $3,000 billion, including for infrastructure investments. He can count on strong resistance from the Republicans, though, so it remains to be seen how much of this proposed package will be passed. The EU stimulus package of €750 billion in combination with the various emergency packages from individual European countries will boost economic growth.

The resulting optimism translated into higher and steeper yield curves. The forecast inflation curve also increased, with shorter maturities rising faster than longer maturities. Shorter maturities are much more dependent on oil prices and rebounded strongly. Credit spreads showed a slight increase but they were kept within a tight range by the ECB.
From mid-quarter onwards, the fund had a slightly underweight interest rate sensitivity compared to the benchmark. This led to a slightly positive relative added value. The yield curve positioning with an underweight position in medium maturities and overweight position in short and long maturities led to a slightly negative added value. At the beginning of the quarter, the overweight in ultra-long maturities versus 30-year loans was set up for Belgium, France, the German state of NRW and the World Bank. This position performed well and reduced the negative relative result. The fund’s credit risk was higher than the credit risk in the benchmark and this exposure was mainly in semi-government bonds and off-benchmark government bonds, such as those from Chile and Lithuania. These outperformed benchmark loans. Advantage was taken of newly issued EU loans that were in high demand and therefore rose in price very quickly. Profits were taken on these at very expensive levels. The fund has a limited long-term position in inflation-linked loans, and these performed better than nominal benchmark loans, yielding a slightly positive relative return. At the end of the month, this position was terminated. Participations included issues of new loans from the EU (2036), Luxembourg (2031), Finland (2052), France (2072), Belgium (2071) and the World Bank (2061).

No liquidations occurred in the first quarter of 2021. The fund achieved a quarterly return of -4.21% compared to -4.17% for the benchmark, representing a negative relative performance of 4 basis points after costs. The curve positioning resulted in a slightly higher negative result than the positive contribution from interest rates, credit positions and inflation risk.

Outlook

After many years of trend declines in yield rates, government bonds staged a turnaround in the past quarter, and capital market interest rates rose at an expectedly rapid pace. This is mainly due to rising inflation forecasts, as real yields have remained low, and are in many cases negative. It does indeed seem inevitable that the inflation pressure will increase in the near future, but it remains to be seen to what extent this is driven by a temporary ‘base effect’ or by more structural factors. The recent extreme fiscal expansion (especially in the US) may also drive up inflation in the longer term, but for the time being it is still offset by the equally extreme monetary expansion created by central banks (mainly through quantitative easing programmes).

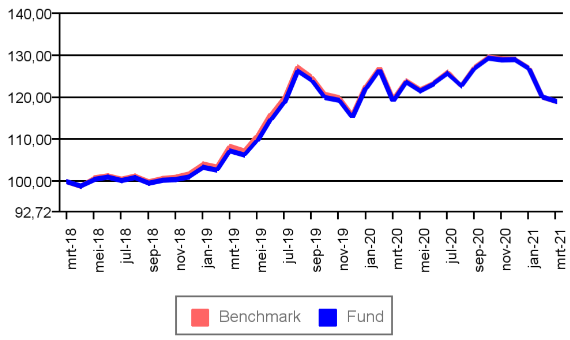
Even if there were no structural change in the ‘inflation regime’, there are reasons to assume that the recent upward pressure on interest rates will continue for the time being. Interest rates are still (too) low from a historical perspective, especially as a phase of economic growth is forecast for the short term. With a forecast economic growth rate of around 4% for the eurozone in both 2021 and 2022, combined with an inflation rate of 1-2%, interest rates of just above 0% are too low, at least according to economic theory. Interest rates also rose faster in the US than in the eurozone in recent months, with 10-year yields rising by over 100 basis points in the US, while in the eurozone they rose by less than 50 basis points. As such, the interest rate differential between the US and the eurozone is not yet extremely pronounced from a historical perspective, but an eventual convergence of interest rates (i.e. interest rates rising faster in the eurozone than in the US) is more likely than further divergence.

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	-0,92 %	-0,91 %
3 months	-7,73 %	-7,79 %
6 months	-6,13 %	-6,36 %
1 year	-0,12 %	-0,54 %
3 year	6,01 %	6,00 %
Since start (*)	5,99 %	5,93 %
YTD	-7,73 %	-7,79 %
Sinds start	5,99 %	5,93 %

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

Essential fund information

NAV calculation	Daily
Date of incorporation	01-10-2017
Performance calculation started on	02-11-2017
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	BofA ML 15+ Year AAA-AA Euro Government (EG68)
ISIN	NL0012625032

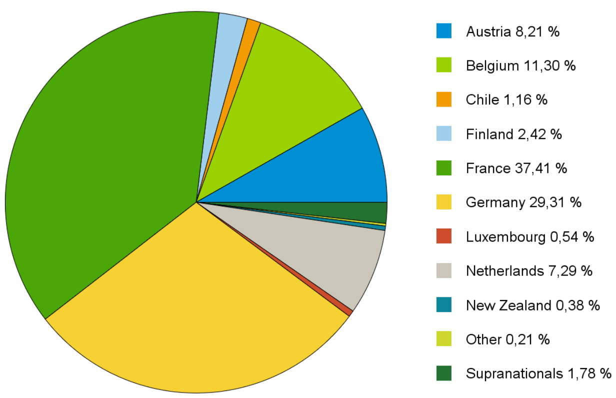
(*) The Ongoing Charges Ratio (OCR) consists of the management fee (0,10%) and the service fee (0,10%) (excluding costs which can be allocated directly to transactions) and the costs of the underlying investments.

Fund facts and prices

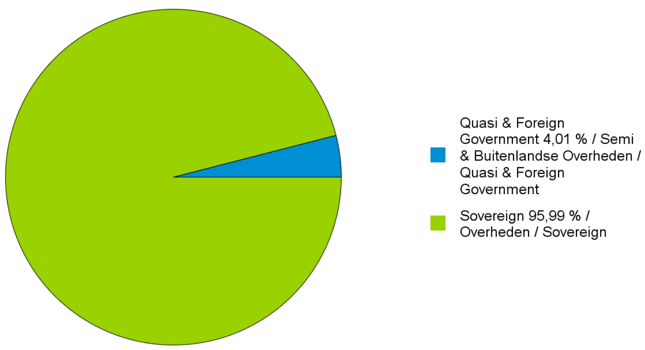
Total assets (x 1,000)	€ 231.806,67
Number of outstanding units (x1,000)	3.800,35
Net asset value per unit	61,00
Highest price in period under review	62,32
Lowest price in period under review	60,60
Dividend	None

10 largest holdings	ISIN	Country	%
FRANKRIJK 4% 25/04/2055	FR0010171975	France	8,94 %
DUITSLAND 3.25% 04/07/2042	DE0001135432	Germany	7,64 %
FRANKRIJK 1.75% 25/06/2039	FR0013234333	France	7,28 %
DUITSLAND 2.5% 04/07/2044	DE0001135481	Germany	5,86 %
DUITSLAND 0% 15/08/2050	DE0001102481	Germany	5,19 %
NEDERLAND 0.5% 15/01/2040	NL0013552060	Netherlands	5,03 %
FRANKRIJK 3.25% 25/05/2045	FR0011461037	France	4,71 %
BELGIE 3.75% 22/06/2045	BE0000331406	Belgium	3,88 %
FRANKRIJK 1.25% 25/05/2036	FR0013154044	France	3,35 %
FRANKRIJK 1.75% 25/05/2066	FR0013154028	France	3,07 %

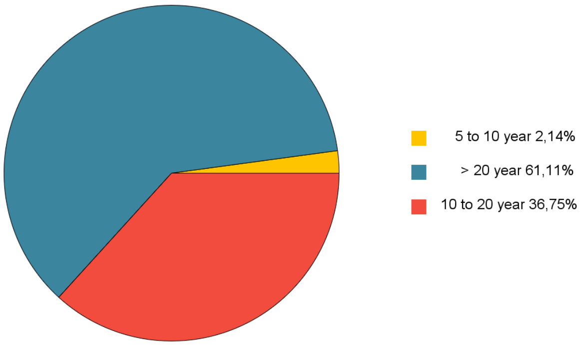
Country concentration



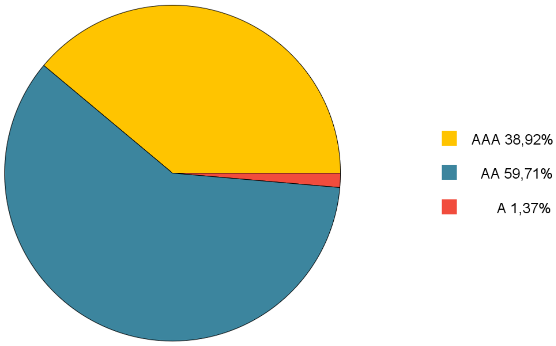
Industry concentration



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

Als institutionele belegger toont a.s.r. haar maatschappelijke verantwoordelijkheid onder meer door toepassing van ethische en duurzaamheidscriteria in haar beleggingsbeleid. Alle beleggingen die beheerd worden door ASR Vermogensbeheer N.V. worden gescreend op basis van het a.s.r. SRI-beleid (Socially Responsible Investment), zoals sociale en milieuaspecten. Landen en ondernemingen die niet hieraan voldoen worden uitgesloten. De screening van ondernemingen is gebaseerd op externe, onafhankelijke research van Vigeo Eiris (www.vigeoeiris.com/en/vigeo-eiris-rating/) conform Arista standaarden. Daarnaast is er een externe, onafhankelijke certificering door Forum Ethibel forumethibel.org/content/home.html) via een halfjaarlijkse audit van de beleggingsportefeuille van ASR Vermogensbeheer N.V.

Bij het beheer van vermogen selecteert a.s.r. op basis van best practices en products volgens de ESG-criteria (Environmental, Social en Governance). Dit betreft alle beleggingen in landen (staatsleningen) en in ondernemingen (aandelen en bedrijfsobligaties) die het best scoren en passend zijn binnen de beleggingsrichtlijnen. Daarnaast investeert a.s.r. in bedrijven die een duurzame bijdrage leveren aan de maatschappij.

Ook hanteert a.s.r. een strikt uitsluitingsbeleid ten aanzien van controversiële activiteiten van landen en ondernemingen. Dit betreft bijvoorbeeld producenten van controversiële of offensieve wapens, nucleaire energie, de gokindustrie, tabak en kolen. Tevens eist a.s.r. dat bedrijven voldoen aan internationale conventies op het gebied van milieu, mensen- en arbeidsrechten. Voor de beleggingen in staatsleningen sluit a.s.r. landen uit die slecht scoren in de Freedom in the World Annual Report en de Corruption Perception Index. ASR is ondertekenaar van UNPRI en UNGC. Tevens voldoet a.s.r. aan de Code Duurzaam Beleggen voor verzekeraars van het Verbond van Verzekeraars, die sinds 1 januari 2012 van kracht is