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.

With the slightly improved growth outlook, rising oil prices and rising wage pressure, the inflation outlook in the eurozone has also reversed slightly in recent times. Headline inflation, although still not exceeding 1.0%, is expected to increase further in the coming months as a result of the oil price increase in 2019. More importantly, 'core inflation' (excluding volatile food and energy prices) in the eurozone has risen to 1.3% year-on-year, still lower than the ECB would like but well above the level seen earlier in 2019. Meanwhile, the pattern of inflation in the US has not changed significantly recently, with headline inflation at 2.1% and core inflation at 2.3% year-on-year.

Following the Fed's three interest rate cuts in 2019 and the announcement in September 2019 of a resumption of the 'quantitative easing' programme by ECB President Draghi, who has since stepped down, further possibilities for monetary easing in the near future appear to be exhausted in both the US and the eurozone. In view of the recent stabilisation (to slight improvement) of growth prospects and rising inflation (especially in the eurozone), there is also no immediate reason for further interest rate cuts and/or other forms of monetary easing.

As it stands now, the focus in 2020 as far as central banks are concerned will not so much be on monetary policy itself, but rather on possible 'strategic' adjustments to the targets. The new ECB president Lagarde has announced that the ECB will review these targets, and in the US, too, the central bank is considering whether the current targets need to be adjusted. Based on recent statements by Fed chairman Powell, for the US central bank this could mean that a temporary 'overshoot' of the inflation target of 2% would be less likely to trigger interest rate hikes than has been customary up until now. For the ECB, the most obvious outcome would seem to be to replace the current inflation target of 'below, but close to 2%' with a more unambiguous inflation target of 2%, with or without a range of, for example, within 0.5% of 2%. In that case, the ECB would also be less likely to experience monetary tightening for longer than would be the case with the current inflation target.

Fund strategy and results

Thanks to the victory of the Conservatives in the British general election and the 'Phase One' agreement between the United States and China, the biggest risk factors of this calendar year have faded somewhat into the background. As a result, we saw a positive sentiment on the stock markets in the fourth quarter of 2019, with a strong recovery in emerging countries, accompanied by a slight rise in capital market interest rates. For the time being, the central banks do not consider it necessary to increase monetary support because of the tolerable economic figures, although inflation targets are not being met. The higher capital market interest rates are mainly reflected in the fall in the price of government bonds, with corporate bonds also recording slightly lower prices. For real estate investors, despite the higher interest rates, the quarter was still very positive, especially for listed shares. The year thus closed in style, allowing investors to quickly forget the losses of the fourth quarter of 2018 and look back with satisfaction on the results achieved in 2019.

Both in the fourth quarter of 2019 and for the full calendar year, investors achieved excellent returns on the financial markets, with the best results for the higher risk profiles. This is reflected in the positive returns for the Employee Pension Mixed Funds. Measured in euros, equity markets in Europe and the US were 5% to 6% higher in the past quarter, the Asia region lagged slightly behind, and emerging countries did slightly better. On balance, the rise in capital market interest rates led to slightly negative results for fixed-income securities, with the exception of European High Yield thanks to the coupon rate and lower credit spreads. The net fund return in the defensive profile was 4.13% in this quarter, the neutral profile was 4.76% higher and the offensive profile closed this quarter with an increase of 5.38%. Tactical positioning saw a positive effect, thanks to the underweighting of government bonds in favour of cash and equities. In addition, we saw a favourable positive contribution to the result of the Mixed Funds due to their positioning in the investment portfolios of the various underlying funds. As a result, after fund costs, the Employee Pension Mixed Funds performed approximately 0.4% better than the corresponding benchmarks in the fourth quarter of 2019. And over the full calendar year, net fund returns varied from 22.26% for the defensive profile, 24.58% in the neutral profile to 26.80% for the offensive profile, thanks in part to the realised outperformance (after fund costs) of 0.6% or more in these Mixed Funds.

Outlook

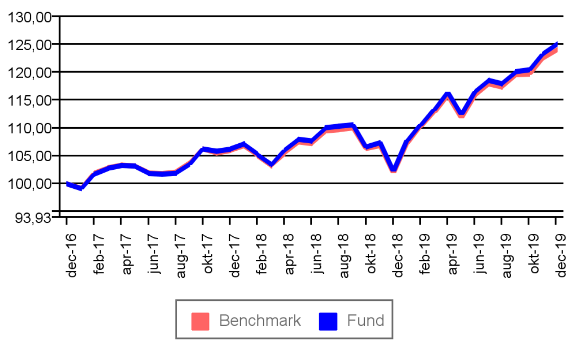
After a continuous deterioration during most of 2019, economic growth prospects have stabilised in recent months to improve slightly. Moreover, inflationary pressures in the eurozone have increased slightly. This combination of factors calls for a sustained 'search for yield', with higher long-term interest rates (detrimental to government bonds) and higher prices for more risky asset classes such as equities or corporate bonds. While listed property can also continue to benefit from the 'search for yield' theme, it appears to be the most vulnerable asset class (after government bonds) when interest rates rise further. Although we expect little news from central banks in the near future, interest rate hikes by the Fed or the ECB appear to be out of the question in 2020 at any rate. As a result, holding on to cash at the current low (or even negative) interest rates is not an attractive alternative.

Investment strategy

ASR Pensioen Mixfonds Defensief aims to offer Participants the opportunity to invest in an actively managed portfolio that, mainly as a result of participations in other investment institutions, consists of a combination of shares, government bonds, corporate bonds, property and money market instruments. The aim is to invest the fund's net assets in full. Loans are permitted up to 5% of the fund capital.

Historical indexed return

Indexation based on returns of not more than 3 years



Return *)	Fund	Benchmark
1 month	1,48 %	1,28 %
3 months	4,13 %	3,73 %
6 months	7,43 %	7,14 %
1 year	22,26 %	21,63 %
3 year	7,75 %	7,46 %
Since start (*)	8,39 %	8,16 %
YTD	22,26 %	21,63 %
Sinds start	8,39 %	8,16 %

(*) 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	29-01-2016
Fund administrator	ASR Vermogensbeheer N.V.
Fund manager	Jos Gijsbers
Entry charge (maximum)	0,00 %
Exit charge (maximum)	0,00 %
Ongoing Charges Ratio (OCR)(*)	0,29 %
Country of domicile	NL
Currency(**)	EUR
Benchmark	Composite
ISIN	NL0012375158

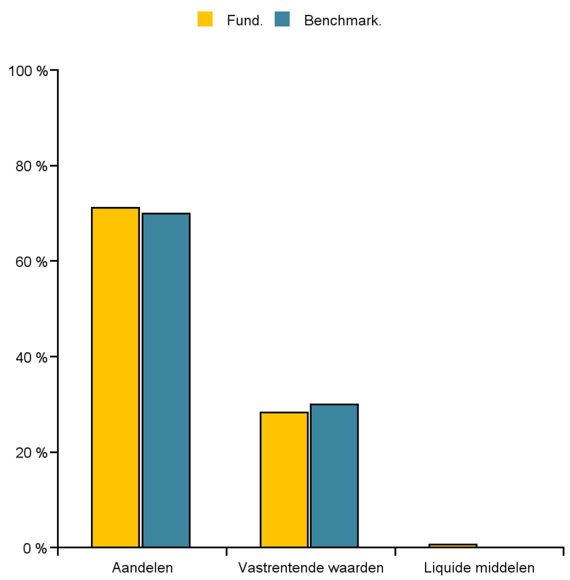
(*) The Ongoing Charges Ratio (OCR) consists of the management fee (0,20%) and the service fee (0,09%) (excluding costs which can be allocated directly to transactions) and the costs of the underlying investments.
(**) This fund also invests in foreign currency. Due to price fluctuations there is a currency risk.

Fund facts and prices

Total assets (x 1,000)	€ 335.093,14
Number of outstanding units (x1,000)	4.478,22
Net asset value per unit	74,83
Highest price in period under review	75,40
Lowest price in period under review	72,76
Dividend	None

10 largest holdings	ISIN	Country	%
AEIIEAF Participatieklasse C		Netherlands	28,51 %
ASR Amerika Aandelen Basisfonds		Netherlands	28,24 %
AEIIEBF Participatieklasse C		Netherlands	15,94 %
Northern Trust - Emerging Mark	NL0011515424	Global	7,37 %
BNP Paribas Easy - MSCI Pacifi	LU1291105895	Asian Pacific Region	7,01 %
IShares JP Morgan ESG USD EM B	IE00BF553838	Global	4,96 %
IShares USD High Yield Corp Bo	IE00BJK55B31	United States	2,95 %
AEIIESF Participatieklasse C		Netherlands	2,40 %
IShares EUR High Yield Corp Bo	IE00BJK55C48	Eurozone	1,98 %

Position per asset class



Asset class Fund	%	%	Benchmark
Aandelen	**71,14%**	**70,00%**	
Euro aandelen	28,51 %	28,00 %	MSCI EUROPE NR $ IND
United States	28,24 %	28,00 %	MSCI USA NR Index
Opkomende Landen (Aandelen)	7,37 %	7,00 %	MSCI Emerging Markets Index
Asia Pacific ex Japan	7,01 %	7,00 %	MSCI PACIFIC EX JAPAN ex CW Index
Vastrentende waarden	**28,24%**	**30,00%**	
Bedrijfsobligaties	15,94 %	15,00 %	Iboxx € Corporates Index
Opkomende Landen (Bond)	4,96 %	5,00 %	J.P. Morgan ESG EMBI Global Diversified TR
USA High Yield	2,95 %	3,00 %	Bloomberg Barclays MSCI US Corp HY Sust BB+ SRI
Staatsobligaties	2,40 %	5,00 %	The BofA Merrill Lynch Custom Index Q960
EUR High Yield	1,98 %	2,00 %	Bloomberg Barclays MSCI EURO Corp HY Sust BB+ SRI
Cash	**0,62 %**		
Total	**100,00%**	**100,00%**	

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.