

Asset Allocation Strategy

24 January 2012

Investment Committee

JYSKE GLOBAL
ASSET MANAGEMENT

Asset Allocation summary

The table summarizes investment decisions on Asset Allocation and loan currencies made by JGAM on 12 and 16 January 2012 and now implemented for Managed Asset Allocation Portfolios.

Asset Allocation	
Fixed Income	U/N
Equities	U/N
Alternatives	N/O
Cash	N/O
Note: N = Neutral, O = Overweight, U = Underweight.	

Loan mix	Medium Risk	High Risk
EUR	100%	100%
Note: Medium Risk is obtained by a Low Risk portfolio leveraged up to one time. High Risk is obtained by either a Low Risk leveraged up to two times or a Medium Risk leveraged up to one time.		

Monetary reflation supports growth

A new year has started and markets seems to be positive that monetary reflation will support growth. Therefore, we have invested some of the large cash holding we have had for several months. However, we are aware that risks are still high and hence, we have included in all portfolios elements of “all weather investments” as we wrote in December in our Outlook 2012 report.

The U.S.

- Resent unemployment figures have been uplifting.
- Better economic figures have reduced the probability that the Fed will engage in an third round of Quantitative Easing (QE) but the interest rate is still expected to be kept low for a long period.

Europe

- Economic figures are not uplifting. Especially, unemployment figures from Spain are alarmingly high.
- The ECB has provided a record high level of liquidity for European banks, a European version of QE. This has taken away the systemic risk on European banks for the next three years but left the banks with the credit risk on sovereign debt and hence, preserved the pressure to deal with the fiscal problems within the eurozone. A clever move by the ECB.
- A large amount of sovereign debt has to be refinanced in 2012. Germany is refinancing at negative interest rates whereas Southern European countries are paying a penalty. However, lately the yield spreads vis-à-vis Germany have narrowed to more sustainable levels.
- A new eurozone treaty is expected to be ready end-January and according to plan approved by the 17 eurozone members on 1 March. The treaty shall include measures to discipline fiscal policy among member countries.
- It's an open question whether Greece can satisfy the troika of ECB, EU and IMF, unlocking the next installment of the bail-out package. A default cannot be ruled out.

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China

- Growth is slowing down and the central bank is expected to shift into an accommodating mode.

The Middle East

- Tension is building up between Iran and the US, Israel and Europe.
- The US has banned trading with the central bank in Tehran, Europe has placed restrictions on trade with Iran and Iran is threatening to block the Strait of Hormuz. The root cause of this conflict is Iran's plan to enrich uranium making the country capable of producing nuclear weapons.

Bonds

- 10-year bond yields are below 2% in the US and Germany, historically low levels.
- Corporate bonds tends to reflect a more negative view on economic growth than stocks in general.

Equities

- US stocks have reacted positively on the latest positive economic news.
- Short-term European stocks are vulnerable to the euro crisis but longer-term a depreciation of the euro will benefit the competitiveness of European companies.

Commodities

- Gold has so far bottomed just below 1,500 USD per ounce.
- Soft commodities are suffering because of slowing economic growth.
- Oil prices are rising because of increasing geo-political tensions in the Middle East.

Currencies

- The euro (EUR) has fallen vis-à-vis the US dollar (USD). The EUR/USD cross rate has lately been down below 127. Market consensus is that the Purchasing Power Parity (PPP, a measure of "fair value") is close to 120.
- The "risk on" scenario since the start of the year has generally supported EM currencies.
- Yen (JPY) is very strong in nominal terms, partly because deflation in Japan causes the real interest rate on JPY to be high compared to other currencies. Bank Credit Analyst estimate that JPY is fair valued measured on a PPP basis as falling prices in Japan in the past two decades have caused a real depreciation of the Japanese currency.

Asset allocation

Fixed income

- We move to a less **underweight** position and allow room for a **neutral** position going forward.
- Based on recommendations from Pershing we buy the following **US corporate bonds** and a **Mexican bond** for selected portfolios, matching risk category and credit rating:
 - MXN 8% Mexican 2013 (rating A-)
 - USD 3.75% Arcelormittal 2015 (BBB-)

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- USD 3.625% Entergy Corp 2015 (BBB-)
- USD 3.75% Best Buy 2016 (BBB-)
- USD 6.5% Chesapeake Energy 2017 (BB+)
- We avoid euro bonds and euro in general until a credible solution to the euro crisis is found and agreed on by policy makers.

Equities

- We move to a less **underweight** position and allow room for a **neutral** position going forward .
- We increase our exposure to defensive and less cyclical US stocks. Based on recommendations from Morgan Stanley we buy:
 - **Target Corp.**, is the second-largest discount retailer in the United States, behind Walmart. The company is ranked at number 33 on the Fortune 500 as of 2010 and is a component of the Standard & Poor's 500 index. The company's merchandising operations include general merchandise and food stores and a fully integrated online business. Target also offers credit to qualified applicants. On 13 January 2011, Target announced its expansion into Canada and through its purchase of leaseholds from the Canadian chain Zellers. Target expects to be operating 100 to 150 stores by 2013.
 - **QUALCOMM Incorporated** (only bought for high risk portfolios) designs, manufactures and markets digital wireless telecommunication products and services. It has four segments: Qualcomm CDMA Technologies (QCT), Qualcomm Technology Licensing (QTL), Qualcomm Wireless & Internet (QWI), and Qualcomm Strategic Initiatives (QSI). QCT is a developer and supplier of CDMA-based integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning system products. QTL grants licenses or otherwise provides rights to use portions of its intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products. In May 2011 it acquired Atheros Communications Inc. In November 2011, it acquired all of the technology and other assets of HaloIPT.

Alternatives

- We keep a **neutral** to **overweight** position.
- We add to the existing **gold** position (an Exchange Traded Fund, ETF) which is one of our "all weather investments" protecting the portfolios in case the "risk off" scenario returns.
- An oil position is taken which is also considered an "all weather investment" in case the conflict in the Middle East escalates. We buy:
 - **United States 12 Month Oil Fund**. This ETF have exposure to crude oil by equal exposure to the near month future contract to expire and the contracts for the following eleven months, for a total of 12 consecutive months' crude oil contracts.
- We sell **grains** (ETF) as economic slowdown in China and other EM countries reduces the demand for food. Long-term we are still positive on soft commodities but short-term (one year) we see growth restrains on this asset class.

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Cash

- We reduce the **overweight** position in USD cash and allow room for a **neutral** position going forward.

Loan mix

- The loan mix is changed from 50% USD and 50% EUR to **100% EUR**.
- We expect the ECB's new reflation policy of unlimited liquidity to banks to weaken the EUR.

Leverage

- The gearing is kept at a level **significantly below maximum**.
- We consider scaling up the gearing level but awaits a higher likelihood that the euro debt crisis can be solved and that the conflict in the Middle East will not escalate.

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Analysis and investment approach

JGAM make macroeconomic research and financial analysis on various types of securities. These analyses form the basis for JGAM's decision on asset allocation, i.e. the tactical weighting on asset classes.

JGAM does not make analysis on specific securities. Instead JGAM uses analysis from external sources to decide what specific securities to invest in.

JGAM follow a top-down approach when deciding how to invest. First, the economic and financial trends are examined. Second, JGAM's asset allocation is determined including currency exposure, the composition of loan mix in leveraged portfolios and level of gearing. Third, we select specific securities within the asset classes.

Tactical weights in JGAM portfolios are equal to market determined dynamic weights unless JGAM decide to change the asset allocation or positions in specific securities.

JGAM's analysis, recommendations and investment decisions on Managed Asset Allocation Portfolios are presented in the following reports:

- Portfolio Update
- Asset Allocation Strategy

Further, recommendations and decisions on Managed Foreign Exchange (FX) Portfolios are presented in the following reports:

- FX Update
- FX Positions

Finally, recommendations for Advisory Accounts are presented in the following report:

- Investment Cases

Editor

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When an investment is denominated in a currency other than the investor's base currency, the investor must be warned that changes in exchange rates may have an adverse effect on the value and price of or return on an investment.

Bond investment involves risk. Many factors, including the country's credit quality, willingness to pay, liquidity, social conditions and economic developments may affect the price of a bond. Indirect factors may also affect the price of a bond, for instance global economic factors, global risk tolerance and geopolitical risks.

Equity investments are associated with risk. Movements in the equity market, the sector and/or news flow, etc. regarding the company may affect the price of the equity. In connection with an ADR or similar papers, the foreign exchange risk exists relative to the currency in which the underlying equity trades.

Alternative investments (including commodity investments) involve risk. Movements in the credit market, the sector and/or the news flow, etc. regarding the issuer may affect the price of an alternative investment.

Leveraged investments are very risky, exposed to all the above mentioned factors as well as a fall in the value of collaterals combined with an increase in the value of the loan currencies. Leveraged investments are only recommended for investors with a suitable risk profile.

All of the above mentioned risk factors should not be regarded as exhaustive.