

1. JANUARY 2016 - 31. DECEMBER 2016

# ANNUAL REPORT 2016

Kapitalforeningen Formuepleje Penta

FORMUE | PLEJE

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## Data

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Kapitalforeningen Formuepleje Penta was founded on 10 July 2013 under the name of Hedgeforeningen Formuepleje Penta.

As of 18 June 2014, the status of the Association was changed to an alternative investment fund (capital association) under the Alternative Investment Fund Managers, etc. Act. The Association has maintained the investment strategy for Formuepleje Penta A/S, which was founded in 1993.

As at 31 December 2016, the Association had one Division: Formuepleje Penta KL.

The performance of the Association can be monitored at [www.formuepleje.dk](http://www.formuepleje.dk).

### **Name and address**

Kapitalforeningen Formuepleje Penta  
Værkmestergade 25  
8000 Aarhus C  
Tel.: +45 87 46 49 00  
Fax: +45 87 46 49 01  
CVR no. 35 40 14 07

Danish FSA reg. no.: 24024

The registered office of the Association is located in the municipality of Aarhus.

[www.formuepleje.dk](http://www.formuepleje.dk)

### **Fund Manager**

Formuepleje A/S  
Værkmestergade 25  
8000 Aarhus C  
Tel.: 87 46 49 00  
CVR no. +45 18 05 97 38

### **Custodian**

Nordea Danmark  
Strandgade 3  
Christiansbro  
1401 Copenhagen K  
CVR no. 25 99 21 80

### **Auditors**

Beierholm Statsautoriseret  
Revisionspartnerselskab  
Ivan Madsen, State-Authorised Public Accountant  
Martin Rasmussen, State-Authorised Public  
Accountant Dusager 16  
8200 Aarhus N  
CVR no. 32 89 54 68

### **Investment adviser**

Formuepleje A/S  
Værkmestergade 25  
8000 Aarhus C  
Tel.: 87 46 49 00  
CVR no. 18 05 97 38

Approved at the General Meeting on

25 April 2017

Chairman of the meeting

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## Overview

Division profile	Financial ratios	
Issuer of units and listed on the stock exchange	Return (%)	
Base currency: DKK	Net asset value	
Benchmark: No benchmark	Expense ratio	2.31
ISIN code: DK0060498343	Expense ratio excl. performance fee	2.31
Introduced: July 2013 (1993 *)	Sharpe ratio	1.01
Adviser: Formuepleje A/S	Standard deviation	14.82
Tax status: Cumulative	Total expense ratio (TER)	2.68
	TER excl. performance fee	2.68
	High-water mark (performance fee)	180.42

\*The investment strategy was formulated for Formuepleje Penta A/S in 1993 and has been maintained for Kapitalforeninge Formuepleje Penta.

### PROFIT FOR THE PERIOD

The Division realised a profit of DKK 487 million for 2016.

The total assets for the period increased by DKK 554 million and totalled DKK 2,964 million at the end of the financial year.

### RETURN

The return for the accounting period amounted to 21.40%, which breaks down into 14.70% equities and 8.82% bonds and corporate bonds. The total borrowing costs of the Division also contributed with a positive return of 0.19%, from which the total costs of 2.31% should be deducted.

In 2016, the investment market was marked by a number of significant events, which, despite being characterised by a mood of insecurity, resulted in near-record price levels at year-end. It was a rough start with plummeting equity prices during the first six weeks.

The leading equity indexes dropped significantly and reached their ultimate lows in the middle of February. The following

months saw a gradual rise and, in spite of the surprising outcome of the Brexit referendum and the US presidential election, the markets were particularly buoyant in the second half of the year.

Notwithstanding significant investment-related challenges, Kapitalforeningen Formuepleje Penta delivered significantly excess returns for the investors.

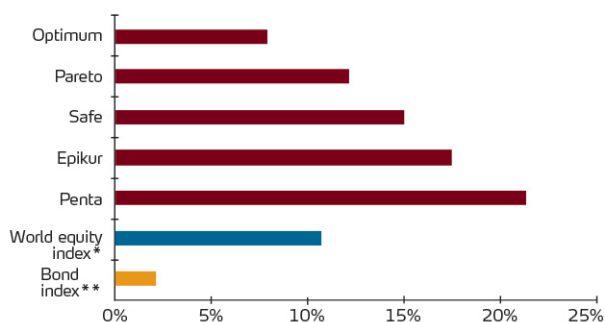
The return for the accounting year was 21.40%, which surpasses the Division's goal of an annual average of 14.9% to achieve a 5-year return of 100%.

Chart 1 below shows the return for 2016 compared with the 'affiliated divisions', with both higher and lower risk in the form of, for example, gearing level. The chart also shows return for the world equity index and a bond benchmark.

Chart 2 shows the net asset value of Kapitalforeningen Formuepleje Penta in the accounting period.

### NET ASSET VALUE

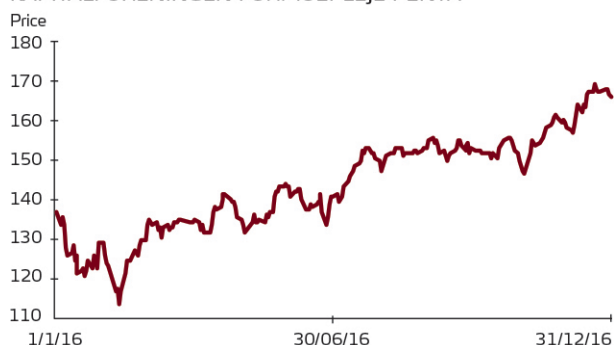
Compared to benchmark index - 1/1 2016 - 31/12-2016



\* MSCI World AC TR

\*\*50% Nordea CM MTG 2Y and 50% Nordea CM MTG 3Y

### NET ASSET VALUE 1/1-31/12-2016 KAPITALFORENINGEN FORMUEPLEJE PENTA



## **Management's review // Board of Directors and Fund Manager**

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### **MEMBERS OF THE BOARD OF DIRECTOR**

#### **CARSTEN WITH THYGESEN, Chairman**

CEO, MSc (Forestry), E-MBA, B.Com  
(Finance) Ahornvej 64  
8680 Ry

Born: 1964

Appointed to the Board of Directors on 10 July 2013 and up for re-election in 2018.

#### **Chairman:**

Aktieselskabet Rold Skov Savværk  
A/S Lindenberg Skovselskab  
Investeringsforeningen Absalon Invest  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Epikur  
The Market Development Fund  
Skovrådet

#### **Deputy Chairman:**

A/S Lindenberg Gods  
Realdania

#### **Directorships:**

Aarhus School of  
Architecture Chrisca Holding  
A/S  
Karen og Karl Buttenschøns Familiefond  
Forest & Landscape Denmark, University of  
Copenhagen  
3PS A/S

#### **CEO:**

Chrisca Holding A/S  
3PS A/S

#### **Profile**

Carsten With Thygesen has an MSc in Forestry, an E-MBA and a B.Com in Finance and more than 25 years' experience, including nine years at Realkredit Danmark A/S, four years as group chief executive at Hedeselskabet and 12 years as CEO of HedeDanmark A/S. He has served as a director on the boards of a number of investment associations since 1998, as Deputy Chairman of Realdania since 2009 and as Chairman of the Investment Committee at Realdania since 2013. Since 2016, he has been Chairman of the Market Development Fund.

#### **JØRN NIELSEN, Deputy Chairman**

Project adviser  
Christianslund 110 A  
8300 Odder

Born: 1949

Appointed to the Board of Directors on 10 July 2013 and up for re-election in 2017.

#### **Deputy Chairman:**

Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto

Kapitalforeningen Formuepleje Epikur

#### **Directorships:**

Formuepleje A/S  
K/S Butikscenter Herning  
K/S Engmarken  
K/S Logistikcenter Nord  
K/S Marsalle  
K/S Søndervang

#### **CEO:**

Komplementarselskabet Butikscenter Herning ApS  
Komplementarselskabet Engmarken ApS  
Komplementarselskabet Logistikcenter Nord ApS  
Komplementarselskabet Marsalle ApS  
Komplementarselskabet Søndervang ApS

#### **Profile**

Jørn Nielsen has more than 35 years' experience in investment and finance. He has gained his experience from positions in the financial and private sectors and as self-employed. He has served as a director on the boards of a number investment associations since 1990.

#### **BØRGE OBEL**

Professor, Dr.Sc (Economics)  
Grumstolsvej 66  
8270 Højbjerg

Born: 1948

Appointed to the Board of Directors on 10 July 2013 and up for re-election in 2019.

#### **Chairman:**

Centre for Business Research  
Danmarks Elektroniske Fag-  
og Forskningsbibliotek  
DelC - Danish e-Infrastructure  
Cooperation  
EcoMerc ApS

#### **Directorships:**

Investeringsforeningen Absalon Invest  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Epikur

#### **CEO:**

Obel og Obel ApS  
ODC-C IVS

#### **Profile**

Børge Obel is Dr.Sc in Economics. During his professional career he has focused on Management Science – as a professor at University of Odense/University of Southern Denmark for a number of years. In 2004-2010, he was Rector and Dean of Aarhus School of Business at Aarhus University and, since 2010, he has been a professor and Centre Director at Aarhus University. Over the years, he has been a member of a number of public-sector education and IT committees. In the past 20 years, he has also served as a director on a number of boards such as BankInvest and Albani Bryggerierne.

**HENRIK AHLEFELDT-LAURVIG**

Estate owner, MA  
Bygaden 70  
8700 Horsens

Born: 1946

Appointed to the Board of Directors on 10 July 2013 and resigns in 2017.

**Chairman:**

Stensballegaard Golfdrift A/S

**Directorships:**

Investeringsforeningen Absalon Invest  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Epikur Kjærulff Holding A/S

**CEO:**

Stensballegaard Golf A/S

**Profile**

Henrik Ahlefeldt-Laurvig has an MA in History from Aarhus University and is also an agrarian economist. Since 1977, he has operated the Manor of Stensballegaard, today a golf course.

**LARS SYLVEST**

CEO, MSc (Economics)  
Langdalsvej 18  
8220 Brabrand

Born: 1955

Appointed to the Board of Directors on 10 July 2013 and up for re-election in 2018.

**Chairman:**

CAJ Associates  
ClickAJob  
ClickATest

**Directorships:**

Aktieselskabet CBH  
Ferm Invest  
Grundfos Pumps Limited Retirement Fund  
Investeringsforeningen Absalon Invest  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Epikur  
Pearless Pump Company Pension Fund

**CEO:**

Ferm Invest

**Profile**

Lars Sylvest has an MSc in Economics from the Department of Management at Aarhus University and has long-standing experience with global responsibility for the Grundfos Group's finances and asset management including 25 years as Group Finance Director of Grundfos Holding

and 19 years as CEO of the of the group's bank Grundfos Finance. During his entire professional career, Lars Sylvest has worked with banking, finance and financial market activities and as CRO at Grundfos he was responsible for the group's overall risk management and insurance activities. Prior to his time at Grundfos, he worked at Alfa-Laval Finance Management, Privatbanken (now Nordea), Aalborg Shipyard and the Danish Export Finance Corporation. Moreover, since 1995, Lars Sylvest has served on the boards of a number of financial and industrial enterprises.

**MICHAEL VINTHER**

Attorney, Partner at LETT, LL.M.  
Skovholmvej 19  
2920 Charlottenlund

Born: 1963

Appointed to the Board of Directors on 10 July 2013 and up for re-election in 2017.

**Chairman:**

Aktieselskabet Franske Vingårde  
Anlama 3 ApS  
AromaTeknik A/S  
Don Plast 2003 A/S  
Drømmeland A/S  
Indkøb A/S  
JMI Gruppen A/S  
JMI Investering A/S  
K.A. Invest Holding A/S  
Living Mart Copenhagen A/S  
MJJM A/S  
Nybolig Jan Milvertz A/S

**Deputy Chairman:**

NCF01 Holding A/S

**Directorships:**

Adelis Advisory I A/S  
AKP Group A/S  
Cerberus AB  
Derma Pharm A/S  
Ejendomsselskabet Reskavej 1 A/S  
Esoft A/S  
Esoft systems a/s  
FB Gruppen A/S  
Goodwings ApS  
Glasværket A/S  
Inox Stål Handelsselskab A/S  
Intercool Food Technology ApS  
Investeringsforeningen Absalon Invest  
Investeringsforeningen Formuepleje  
Justt ApS  
Kameraudlejningen ApS  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Epikur  
Kodak Huset A/S  
Moneyx Financial Group AB  
Newco af 11. februar 2004  
Newcap Holding A/S  
Nordic Petrol Systems Holding ApS  
Ny Valby Byggemodning P/S  
Ny Valby Holding A/S  
Ny Valby Udvikling A/S  
Online Grænsehandel Group ApS  
Umove A/S

**CEO:**

H S-S ApS  
Jimmi Holding ApS

**Profile**

Michael Vinther is an attorney and a partner at LETT. He has a Master of Laws from the University of Copenhagen and specialises in M&A and Corporate & Commercial. During his career, he has worked for, among others, Lund-Nielsen & König, Accura Advokatfirma, Rønne & Lundgren and now LETT. Michael Vinther has extensive board experience.

**BOARD MEETINGS**

In 2016, the Board of Directors held four ordinary meetings.

**REMUNERATION OF THE BOARD OF DIRECTORS**

A total amount of remuneration to the Board of Directors for 2016 of DKK 390,000 is proposed for approval at the Annual General Meeting.

The basic remuneration for members is DKK 50,000. In addition to this, the Chairman receives DKK 45,000. Members of the audit committee receive an additional DKK 10,000 while the chairman of the audit committee receives an additional DKK 15,000.

No additional expenses for the remuneration of particular tasks performed by Directors for the Association were incurred in 2016.

**FUND MANAGER**

Formuepleje A/S  
Værkmestergade 25  
8000 Aarhus C

**SØREN ASTRUP, Partner, CEO**

MSc (Economics)  
Born: 1969  
Appointed CEO of Formuepleje A/S on 5 July 2013.

**CEO:**

Formuepleje A/S  
Søren Astrup Holding ApS  
Formuepleje Safe A/S  
Formuepleje Epikur A/S  
Formuepleje Penta A/S  
Formuepleje Merkur A/S  
Formuepleje Pareto A/S  
Formuepleje Limittellus A/S  
Formuepleje Optimum A/S  
Formuepleje Fokus A/S  
Triple Alfa Global Equities ApS

**Profile**

Søren Astrup has an MSc in Economics from Aarhus University and has been employed by the Formuepleje Group since 2003, initially as Head of Investment and later as Director of Investments and Director of the Formuepleje companies. During his entire career he has focused on finance and financial markets, and he has also been an associate professor at the Department of Finance at Aarhus University, where he is currently an external examiner. Søren Astrup has a seat on Formuepleje's investment committee, which also consists of Niels B. Thuesen, CEO of the Formuepleje Group, Leif Hasager, Director of Investment and Henrik Franck, Investment Strategist.



## Management's review // Investment markets in 2016

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### HEADLINES

#### *Good year for equities – good year for bonds*

As a whole, global equities performed well in line with expectations. Added to this was the positive development of the US dollar against the Danish krone, which increased the total return even further. In contrast to previous years, Danish equities had a hard time, experiencing an overall decline of more than 10%. This development is related, in particular, to the highly unfavourable development of Novo Nordisk.

During the year, Danish mortgage bonds and corporate bonds delivered solid returns and Danish government bond yields fell by 0.20% - 0.50%, depending on maturity.

#### *Oil prices under pressure*

In Q1 in particular, oil prices came under substantial pressure, resulting in prices below USD 30 per barrel. The sharp decline increased the credit risk - more specifically in the energy sector, but also in other related sectors, which put further pressure on the credit and equity markets.

#### *Market jitters and surprising optimism*

Uncertainty over growth in China, Brexit, the constitutional referendum in Italy and the surprising election of Donald Trump in the US significantly raised market volatility over the year. Nevertheless, the markets shook off these developments and 2016 ended on an upbeat note.

#### *Historically tough start in Q1*

The first quarter was characterised by high volatility in the financial markets, with dramatic developments in January and the global equity markets getting off to their worst start in recent times. Most notably concerns about growth in China combined with the further decline in oil prices led to turbulence on the global equity markets. Following a certain degree of stabilisation in February, the markets rose in March, but the overall decline over the entire quarter could not be prevented.

Like so many times before, the central banks lent a helping hand, with the European, Japanese and Chinese central banks contributing with additional help. At the same time, the US Federal Reserve signalled its reluctance to raise rates on several occasions. This led to a 4.6% decline in the USD rate in the course of Q1.

Price drops in oil and other commodities led to an unstable start to the year for corporate bonds. The spread widening was most pronounced in the developed markets.

#### *Brexit in Q2*

The referendum in the UK on EU membership left its mark on the financial markets in Q2, resulting in large price fluctuations. On the macro front, the spotlight was mainly on the economic indicators for the US economy, which came out at the low end. Labour market figures in particular came as an unpleasant surprise. In combination with the uncertainty after Brexit, the talk about an imminent US interest rate increase fell silent. The diminishing fear of rate increases by the Federal Reserve gave a boost to the financial markets and counterbalanced the uncertainty in the wake of the Brexit referendum.

ECB started buying Investment Grade corporate bonds in June, which supported the prices of European corporate bonds in general. Corporate bonds from Emerging

Markets performed well during the quarter in the wake of increasing commodity prices and less fear of a hard landing in China.

The quarter saw good returns on bonds and a rising dollar, while the global equities markets remained more or less unchanged.

#### *The lull before the elections in the US and Italy in Q3*

The uncertainty in the aftermath of Britain's decision to leave the EU decreased relatively quickly as it initially primarily affected only the British economy. At the same time, the financial markets were supported by new monetary policy stimuli from the central banks, where notably the response of the Bank of England to Brexit was to cut rates and buy up British government and corporate bonds. Furthermore, the Federal Reserve (FED) postponed the rate increase, thus supporting the markets. Instead the markets turned their attention to the upcoming elections in the US and Italy.

The positive trend continued for corporate bonds from developed and development markets driven by an expectant Federal Reserve and the continued acquisitions of corporate bonds by the European Central Bank (ECB) and the Bank of England (BOE).

The quarter ended with solid returns on equities, corporate bonds and mortgage bonds.

#### *Q4 dominated by Trump*

Trump's astonishing election win and the Republican majority in Congress gave rise to considerable expectations of significant fiscal easements in the US in the form of tax cuts and public investments. If met, these expectations will increase the pressure on the Federal Reserve to further raise interest rates, and consequently the US dollar strengthened by almost 6% in the quarter.

This also contributed to a significant rise in interest rates in the quarter, which, however, did not result in any bond portfolio losses, as the increases primarily related to long-term interest rates - rate increases from which the portfolios were protected.

Equity investors also welcomed the prospect of fiscal stimuli. In the wake of the presidential election, they chose to sell the stable, non-cyclical sectors, buying instead into the more cyclical sectors that are more likely to profit from an increase in US growth. For the quarter as a whole, the global equity markets rose significantly.

Trump's election victory brought greater volatility for corporate bonds, due to increased interest rates. However volatility on the corporate bond market was short-lived, since credit spreads returned as a consequence of rising macroeconomic indicators and, not least, rising oil prices following OPEC's agreement on supply adjustment.

## **Management's review // Overall market outlook for 2017**

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### ***Reasonable global growth in 2017***

Global growth is forecast to increase by 3.5% in 2017. The US economy will remain the key growth driver in the Western world, where especially tax cuts and increased consumer spending for infrastructure projects will support consumption and investments. At the same time, the labour market is continuing to pick up, hence US growth of more than 3.0% is on the cards for 2017, which is higher than in 2016. The Eurozone will, in particular, benefit the weaker euro, which will help to boost growth compared to 2016. Consequently, growth of 1.5% is expected for the Eurozone in 2017. General trend growth is declining in China, but China's growth is expected to land at between 5.5% and 6.5% in 2017. The reasonable growth rates in the Western world and in China will generally support Emerging Market growth, which is forecast at around 4.5%.

Expectations for equity returns in 2017 are in the range of what was registered in 2016. Thus a return of almost 10% in dollar terms is expected, which, with positive expectations regarding the dollar rate, may bring total returns for Danish investors up to more than 15%.

The assumption about operational recovery, which has been the baseline scenario in equity exposure over a longer period, continues. Increasing economic activity is expected to spread to turnover and earnings growth. It is expected that the US will continue to head the development with possible further acceleration as a consequence of expectations regarding the US fiscal policy pursued by Donald Trump.

The evaluation of shares has experienced a considerable, overall increase since 2012, but is still at a level where performance expectations can be met. Compared to government bonds, for example, the stock markets are still trading at a lower level.

### ***Continued focus on central banks***

On the interest rate side, 2017 will be characterised by divergence between the world's two largest central banks – the FED and the ECB. The FED is likely to continue to raise the fed funds rate, which will both lead to higher short-term and long-term US interest rates. This may in turn have a knock-on effect on long-term European interest rates. It is expected that the ECB will keep its key policy rate at the current low level. This will be reflected in Danish interest rates.

### ***Fewer bankruptcies and credit friendly environment***

As regards companies in developed markets, it is expected that the default rate will drop in 2017 due to fewer bankruptcies among companies producing raw materials. The default rate for companies not producing raw materials will remain at a limited level in 2017. We expect that the credit spreads for the global market will be reduced, but not to the same degree as in 2016.

A moderate increase in growth rates is expected on the Emerging Markets, where companies are likely to continue to act as "credit friendly", meaning that they will continue to focus on not taking up too much debt. In that respect, and together with the higher commodity prices, it is expected that the default rates in Emerging Markets will fall in 2017. This means that for 2017, stable to slightly lower credit spreads on corporate bonds in Emerging Markets are expected.

### ***Special risks associated with market trends in 2017***

One of the most significant risk elements in relation to equity returns is a stagnation of US and global growth. This would challenge the operational upswing and reduce the earnings growth on which the expected equity price increases are based.

Large differences in growth and monetary policies across regions will also be a source of equity market volatility in 2017.

A major risk element in relation to the bond markets (especially mortgage bonds) still arises from the continued regulation of both issuers of and investors in bonds. Together with a growing foreign investor base, this may lead to volatility at OAS levels (option-adjusted spread) in Danish mortgage bonds.

Another risk element is Denmark's Nationalbank's key rate, which to a large extent reflects the European Central Bank's key policy rate. If, contrary to expectations, this rate is increased, the result will be to the detriment of the present mortgage bond portfolio.

The risk elements for corporate bonds are that the risk-free interest rates in the developed markets are very low relative to the underlying economies. Withdrawal of purchases by the Bank of Japan (BOJ), the European Central Bank (ECB) and Bank of England (BOE) is a risk that should not be ignored.

In particular the massive build-up of debt in China is a worrying development in the longer term, but it is hard to say if and when this trend will stop as China does not have an actual market economy. Added to this, Donald Trump and the various elections in Europe in 2017 present a political risk, which may very well lead to fluctuations in the financial markets.

Investments in the Association are managed on a continuous basis. Among other elements, such management takes into account the many different risk factors in the investment markets. One of the key risk factors – which it is up to the investor to decide upon – is the choice of fund. Investors should be aware that investment always involves a risk.

The risks associated with investing in a capital association relate to four overall risk elements:

### **RISKS ASSOCIATED WITH THE INVESTOR'S CHOICE OF DIVISION**

Before an investor decides to invest, it is important to determine an investment profile so that the investments can be tailored to the individual investor's needs and expectations. It is also crucial that the investor is aware of the risks associated with the specific investment. It may be a good idea to decide on an investment profile in consultation with an adviser.

Among other factors, the investment profile should take into account the risk that the investor is prepared to take and the investment horizon.

The financial statements of a Division show its risk classification, measured by the risk indicator in the key investor information document. The risk indicator is a uniform method for calculating the risk of investing in the EU. The method is based on fluctuations in historical returns. The more the returns of a Division fluctuate, the greater the risk of investing in the Division. Fluctuations in weekly returns are measured over a period of five years and expressed by the standard deviation. After that, the Division is classified on a scale of 1 to 7, depending on its standard deviation.

A Division's position on the risk indicator is determined by fluctuations in its net asset value over the last five years and/or representative data. Large historical fluctuations equal high risk and a position on the right-hand side of the indicator (6 to 7). Small fluctuations equal lower risk and a position on the left-hand side of the indicator (1 to 2). The Division's position on the scale is not constant. It may change over time. The risk indicator does not take into account sudden events such as devaluation, political intervention and unexpected exchange rate fluctuations.

Investors who want a very stable development in the value of their units should, as a main rule, not invest in Divisions with high risk (i.e. Divisions with a value of 6 or 7 on the risk indicator).

Risk categor	Annual fluctuation in returns, % (standard deviation)	
	Equal to or greater	Smaller than
1	0%	0.5%
2	0.5%	2%
3	2%	5%
4	5%	10%
5	10%	15%
6	15%	25%
7	25%	

The risk, which is expressed by the figure in the left-hand column, is between 1 and 7, where '1' indicates the lowest risk and '7' the highest risk. The category '1' does not indicate a risk-free investment.

### **RISKS ASSOCIATED WITH THE INVESTMENT MARKETS**

These risk elements include equity market risk, interest rate risk, credit risk and exchange rate risk. Each of these risk factors is addressed within the given framework in the many different areas in which investments are made. Examples of risk management elements could be a Division's advisory services agreements and investment policy, our internal controls, provisions in the Articles of Association regarding risk diversification, and access to use derivative financial instruments.

### **RISKS ASSOCIATED WITH INVESTMENT DECISIONS**

Any investment decision is based on the investment adviser's expectations for the future. Every attempt is made to form a realistic view of, e.g., future interest rates, economic trends, corporate earnings and political factors. On the basis of these expectations, equities and bonds are purchased and sold. Obviously, such decisions are subject to uncertainty.

The objective of the Association's Division, which pursues an active investment strategy, is to achieve a return in line with the Division's target return, see page 19. As the investment strategy is active, it is sought to find the best investments that will provide the highest possible return, taking into account the degree of risk.

The Fund Manager of the Association has laid down risk limits for the Association.

### **RISKS ASSOCIATED WITH THE OPERATION OF THE ASSOCIATION**

To avoid errors in the operation of the Association, a number of controls and procedures have been laid down to reduce these risks. The systems are continuously being developed, and it is sought to reduce the risk of human errors as much as possible. In addition, a management information system has been built up to ensure current follow-up on costs and returns. The status of returns is calculated on a regular basis. If areas are not developing in a satisfactory manner, possible courses of action are discussed with the investment adviser.

The Association's Fund Manager, Formuepleje A/S, is also subject to supervision by the Danish FSA and statutory audit by the auditors elected at the General Meeting. In this respect, the main focus is on risks and controls.

In terms of IT, the Association's Fund Manager attaches great importance to data and system security. Procedures and contingency plans have been prepared with a view to being able to restore the systems within given time limits in the event of large or small breakdowns. These procedures and plans are tested on a regular basis.

In addition to the Fund Manager's focus on security and precision in connection with day-to-day operational tasks, the Board of Directors also monitors developments.

For further information about the Division, see the Investor Information document and the Key Investor Information document. These documents are available for download on [www.formuepleje.dk](http://www.formuepleje.dk) under product information about the Division.

## **GENERAL RISK FACTORS**

### **Country risk**

When investing in securities from only one country, e.g. Denmark, there is a risk that all the Division's investments are negatively affected by country-specific political or regulatory initiatives. Furthermore, market-related or general economic conditions in that country, including exchange and interest rates, may have a substantial impact on the value of the investments.

### **Exposure to other countries**

Investment in well-organised and highly developed foreign markets often entails a lower overall portfolio risk than investment in just one country or market.

However, some foreign markets may be more uncertain than the Danish market due to an increased risk of strong market responses to company-specific, political, regulatory, market-related or general economic conditions. Furthermore, investments abroad entail an exchange rate risk that may lead to further fluctuation in returns measured in Danish kroner, see below.

### **Emerging markets**

Emerging markets comprise virtually all countries in Latin America, Asia (except Japan, Hong Kong and Singapore), Eastern Europe and Africa. These countries may be characterised by political instability, relatively uncertain economic trends and developing equity and bond markets. Investment in emerging markets involves special risks. For example, an unstable political system entails an increased risk of sudden and fundamental changes in the economy and in monetary policy. For investors, this could mean that assets are nationalised, that the access to dispose of assets is restricted or that special governmental monitoring and control mechanisms are introduced. The national currencies often fluctuate strongly. Some countries have introduced restrictions on export of currency; others may do so at short notice. Market liquidity may be low in the emerging markets due to economic and political changes or natural disasters.

### **Liquidity risk**

In some situations, it may be difficult to trade securities at their actual value. The reason could be that there is no interest in the securities in the given situation. This is typically either because the securities have a low outstanding volume and are therefore rarely traded, or because of extreme market situations where many investors wish to sell the same type of securities at the same time. This could either be directly in the market or via an investment fund that operates in the market on behalf of the investors. In such situations, the spread between bid and ask prices is wide. The liquidity risk is most pronounced in connection with sale of securities and indicates that the securities can be sold only at a considerably lower price than their actual value, assessed on the basis of the price achievable for smaller holdings of the securities. In extreme situations, where many investors choose to sell their units at the same time, the liquidity risk could mean that some investment funds at times have to suspend the redemption of units until market conditions have improved.

### **Exchange rate risk**

The net asset value of a Division with foreign exchange exposure will be affected by exchange rate fluctuations. Conversely, investment funds investing only in Danish equities or bonds have no direct exchange rate risk.

Investment funds investing in European equities or bonds have limited exchange rate risk. Investment funds that systematically hedge foreign exchange exposure have very limited exchange rate risk. The Division pursues an active foreign exchange policy and may be affected by

developments in exchange rates in the countries in which it invests.

### **Concentration risk**

Investment funds diversify their investments across many different securities in order to reduce dependence on price developments for individual securities. Nevertheless, specific conditions affecting a particular geographical area, sector or asset type may have a major impact on the return. As regards investment funds with a narrow investment universe, a fund wishing to reflect the market may be compelled to concentrate a large share of its assets on relatively few securities, so that the risk diversification is not quite as good as in funds with a broader investment universe.

### **Company-specific factors**

Price developments for equities and bonds issued by a company are more uneven than the market average. Company-specific factors, including the general development of the company, developments in key business areas, funding conditions, sensitivity to developments in interest rates in Denmark and abroad, sensitivity to exchange rates and changes in the regulatory and fiscal framework conditions of the company, in Denmark and abroad, may lead to far stronger day-to-day fluctuations at company level than the average daily fluctuations seen in the market overall. Ultimately, a company could default, in which case the investment would be lost.

### **Fluctuations in bond prices**

The bond market may be subject to special political or regulatory initiatives, which may lead to price fluctuations that affect the value of the Division's investments. Furthermore, market-related or general economic conditions, including global interest rates, may affect the value of the investments.

### **Interest rate risk**

The level of interest rates varies from region to region, driven by regional inflation levels and other factors. The level of interest rates plays a major role in relation to the attractiveness of investing in e.g. bonds.

A rising level of interest rates means falling bond prices and hence a lower value of the Division's bond investments. The key indicator duration describes how much bond prices decline in connection with a given interest rate increase. The lower the duration, the more stable the bond prices are when interest rates change.

### **Credit risk**

Credit risk is the risk that an issuer of bonds is unable to service the bond loan. For many issuers, the credit risk is indicated by a credit rating assigned to the issuer by one of the international credit rating agencies. The rating is based on, among other things, an assessment of the collateral behind the bond and of the issuer's earnings and assets. If the issuer is downgraded, the price of the bond usually falls.

The market usually rewards investors investing in bonds with low credit ratings with a yield premium, which can be seen as compensation (risk premium) for the additional credit risk on the investment relative to a comparable government bond without any credit risk.

### **Fluctuations in equity prices**

Equity prices vary considerably, and sudden, substantial price falls are not unusual. Such price fluctuations may be seen in response to company-specific, political or regulatory conditions. They may also reflect sector conditions or regional, local or general market-related or economic conditions.

***Depository receipts***

Depository receipts are investments with risk exposure to underlying securities. In certain situations, depository receipts are used to create exposure to underlying securities, e.g. if the underlying securities cannot be owned directly or are unsuitable for direct ownership.

### **Background and purpose**

The following is a description of Kapitalforeningen Formuepleje Penta's fund governance policy. The policy has been based on the fund governance recommendations of the Danish Investment Fund Association (IFB). The presentation has been laid out in accordance with these recommendations. This policy should be seen as a supplement to applicable legislation and hence, as a main rule, does not comprise governance issues covered by the extensive regulatory provisions.

### **Relationship between the Association and the Fund Manager**

In accordance with Danish law, the Board of Directors of the Association, elected at the General Meeting, has appointed Formuepleje A/S as Fund Manager. Formuepleje Holding A/S owns this company.

## **GENERAL MEETINGS AND INVESTOR RELATIONS**

### **Information about investor rights**

The Board of Directors wishes to promote active ownership of the Association, including investor participation in the general meetings of the Association. This is done by giving investors access to information, including about investor rights, e.g. via a website, an Investor Information document, a Key Investor Information document, annual reports and interim reports.

### **Influence and communication**

Each member has one vote for each DKK 100 nominal units. The Articles of Association of the Association include further and more detailed information, including about general meetings of the Association and investor issues.

The Association communicates with investors by electronic means only. This decision to do so was motivated by cost considerations. Issues such as simplicity and topicality also spoke in favour of the decision.

### **General meetings**

General meetings are convened with sufficient notice for investors to prepare and decide on the issues to be discussed at the general meeting. The official notice convening the meeting provides an account of the individual items on the agenda. It is sought to do so in a reader-friendly language.

By giving power of attorney to the Board of Directors or to named proxies, investors may make their voices heard in the discussion of items on the agenda. Investors will be notified via the website of the deadline for submitting written proposals for discussion at the general meeting. If there are proposals to amend the Articles of Association, interested investors may obtain the full wording of the proposals by contacting Formuepleje A/S. The full proposals will also be published on [www.formuepleje.dk](http://www.formuepleje.dk). It is sought to ensure that all members of the Board of Directors and at least one member of the Executive Board of the Fund Manager are present at the Annual General Meeting.

## **BOARD OF DIRECTORS**

### **Size of the Board of Directors**

Investors elect the Board of Directors at the Annual General Meeting. The Board of Directors must have at least three and no more than six members. This is assessed to be a suitable number to allow constructive and efficient debates in which all members can participate actively. The Board of Directors regularly assesses whether the number of Board members is suitable in relation to the

requirements of the Association. The Board of Directors elects its own Chairman and one or more Deputy Chairmen.

### **Composition**

The IFB's fund governance recommendations say that members of the Board of Directors should be elected for no more than one year at a time, and that a limit should apply to the number of terms the Chairman and other Board members may be re-elected. In this respect, the Association derogates from the recommendations, as only the two longest serving members are up for election every year. Furthermore, no maximum has been set for the number of terms. These derogations have been introduced with a view to ensuring a higher degree of continuity on the Board of Directors.

Along with the notice convening the general meeting at which election to the Board of Directors is on the agenda, competency profiles of the proposed candidates are published, stating their executive functions/directorships.

Investors may also propose candidates for the Board of Directors at the actual general meeting. In that case, it is expected that the candidates will be able to provide accounts of their competences, including their executive functions/directorships, intentions and expectations in relation to working for the Association.

The Chairman holds meetings with the Executive Board of the Fund Manager as required; at these meetings the collaboration between the parties is regularly assessed.

Once a year, the Board of Directors determines the competences that are necessary for the performance of its duties in the best manner possible and determines the areas, if any, where the competences and knowledge of the members need to be updated.

New members elected to the Board of Directors receive an introduction to the Association when taking office.

### **Time required for Board work and Board members' other executive functions/directorships**

Candidates for the Board of Directors are requested to provide an account of their other directorships and active functions and must acquaint themselves with the time required for Board work and set aside the necessary time to perform their Board duties.

### **Age limit**

A member of the Board of Directors must resign at the general meeting after the expiry of the financial year in which he or she reaches the age of 70 at the latest.

The ages of the individual Board members can be found elsewhere in the Annual Report, where a more detailed presentation of the Board of Directors is provided.

### **Term of office**

Every year, the two longest serving Board members are up for election counting from that person's most recent election. If several Board members have served equally long terms, the person to resign is chosen by a draw of lots. Re-election may take place. This is deemed to be an advantage for the Association, as members over time acquire specific knowledge and experience of the business of the Association. The term(s) of office of the individual Board members can be found elsewhere in the Annual Report, where a more detailed presentation of the Board of Directors is provided.

The members of the Board of Directors receive a fixed annual fee approved by the general meeting.

***The Fund Manager***

It should be noted that Board member Jørn Nielsen is also a member of the Board of Directors of the Fund Manager of the Association.

The collaboration between the Board of Directors and the Fund Manager is assessed on an ongoing basis, among other things at regular discussions between the Chairman and the Executive Board of the Fund Manager.

### **AUDIT COMMITTEE**

The Board of Directors has appointed an audit committee, consisting of Carsten With Thygesen, Jørn Nielsen, Børge Obel and Lars Sylvest, who chairs the audit committee. Several members of the audit committee meet the requirement under the Danish Executive Order on Audit Committees that at least one member of the audit committee must have special qualifications within finance or audit. The audit committee meets at least twice a year with the Association's external auditors and the Executive Board of the Association, among other things, to review the accounting and audit process in more detail, including to review reports from the Fund Manager's compliance and risk functions. The audit committee subsequently informs the rest of the Board of Directors about these issues.

### **EXERCISE OF VOTING RIGHTS/SHAREHOLDER RIGHTS (ACTIVE OWNERSHIP)**

The Board of Directors has adopted a policy for its exercise of ownership. This policy is available on [www.formuepleje.dk](http://www.formuepleje.dk).

The monitoring of developments in the companies invested in is normally performed by the Association's investment adviser and Fund Manager, who will contact the Association if company events make it relevant for the Board of Directors to consider whether, and if so how, voting rights should be exercised. In this assessment it is important to seek to ensure that the company in which the Association has invested is managed in such a way that the interests of the owners, including those of the Association, are served.

Taking applicable rules into account, the Association will collaborate with other investors where this is found to be expedient and efficient with a view to obtaining greater impact and clout.

### **COMMUNICATION AND STAKEHOLDER RELATIONS**

#### ***Communication strategy***

As stated above, the Association has chosen to communicate electronically in the interests of topicality, environmental considerations and costs. It is the view of the Board of Directors that all information about the Association should be available on its website, [www.formuepleje.dk](http://www.formuepleje.dk), to the extent that this does not compromise the current competitive environment. For example, information about investments made is published with a lag to keep it confidential from the colleagues/competitors of the Association. The Association fully complies with the industry standards laid down by the Danish Investment Fund Association (IFB) and therefore publishes all information about returns, risks and costs, and it also observes the standards applying to operation and marketing of the Association.

#### ***Serving the interests of stakeholders***

Generally speaking, Management always seeks to ensure professional management of the investors' assets, taking into account a number of factors such as good practice, costs and accessibility. In many cases, direct contact with customers is undertaken by the Association's team of advisers, and hence the management of the Association has strong focus on ensuring that they are always updated on information of current interest.

### **AUDIT**

With a view to recommending a candidate for election as auditor at the general meeting, the Board of Directors assesses the competences and independence, etc. of the auditor. The audit engagement letter and remuneration of the auditor are approved by the Board of Directors. The Board of Directors lays down the overall, general framework for the auditor's provision of non-financial audit services with a view to ensuring the independence, etc. of

the auditor. The auditor participates in the Board meeting at which the Annual Report is considered, and in this connection the accounting policies and the audit performed are discussed. The outcome of the audit is discussed with the Board of Directors with a view to reviewing the auditor's observations and opinion, possibly based on the draft auditor's records. The Board of Directors ensures that a dialogue and exchange of information take place between the auditor and the Board of Directors.



## **SECURITIES LENDING**

### ***Lending of securities***

Before the Association makes use of securities lending, a specific assessment will in each case be made of whether this decision is in the interests of the investors. The decision will be based on a trade-off between the expected earnings and the costs and potential risk. Securities lending should take place to the benefit of the managed funds only.

If the Association makes use of securities lending, the extent of such lending and the resultant earnings are stated in the Annual Report, with notes specifying earnings and costs, and this is also mentioned in the report on the Division.

### ***Securities lending in connection with loan funding***

The Division's loan finance comprises securities lending. Securities lending is equivalent to a loan under which the borrower lends securities against collateral in the form of, e.g., cash.

## **MISCELLANEOUS**

### ***Management of the Association (Board of Directors and Fund Manager)***

The general meeting, which is the supreme decision-making body of the Association, elects the Board of Directors at the Annual General Meeting, see above. The Board of Directors then appoints a Fund Manager, which is responsible for the day-to-day management of the Association. As previously stated, the Board of Directors has appointed Formuepleje A/S as Fund Manager. To ensure that the Fund Manager has the necessary competences, certain minimum requirements for its management have been laid down in Danish law. Basically, it is a requirement that the Board of Directors and Executive Board have sufficient experience to perform their duties and to make the necessary investment decisions. Furthermore, Management must have a clean criminal record, and must not have suspended payments, be subject to insolvency proceedings or similar. When the management of a Fund Manager is replaced, new members of management must be approved by the Danish FSA.

The Board of Directors of the Association prepares rules of procedure for performance of its duties. No incentive programmes have been adopted for the Board of Directors or the Executive Board. The Association has employed Formuepleje A/S as Fund Manager. This means that the Board of Directors of the Association has no direct influence on remuneration policy and management fees in Formuepleje A/S, but that these will be determined by the Board of Directors of Formuepleje A/S, which is independent of the Association. The Association pays fees to Formuepleje A/S in accordance with the agreements made.

The rules of procedure ensure that general impartiality rules are observed in connection with Board members' own purchases and sales of investment assets. For example, they may be prohibited from trading securities that have been discussed at a meeting.

### ***Procedures***

In all major areas, the Fund Manager has prepared written procedures and controls in order to ensure optimum day-to-day operations. The procedures are extended and maintained on an ongoing basis. To address any disputes with a member of the Association,

the Board of Directors has adopted a procedure that has been published on the website of the Association. This procedure emphasises a speedy response in the form of a dialogue so that a formal complaint will be necessary only if a satisfactory resolution of the issue cannot be achieved.

### ***Trade in fund units***

In connection with issuance and redemption of units in the Association, it is important that valuation takes place on a current basis. The Fund Manager has an IT system that continuously updates price information for the underlying assets with a view to calculating the net asset value. This means that the valuation of the Association units always takes place on the basis of current prices. Net asset value is published via IFX.dk and on the Association's website when changes take place. This gives all stakeholders, including the custodian, market makers and members, access to the net asset values of the Association at the same time, and hence to current bid and ask prices. The Association never trades with individual members, only with market makers.

### ***Settlement of trades in underlying securities***

The Fund Manager and investment adviser undertake all tasks in connection with trading, settlement and registration in custody accounts. All trades are concluded on best execution terms, and in order to get access to relevant market information, the investment adviser makes sure to place trades with many different market participants. Trading terms and conditions are checked on a regular basis, the aim being to maintain the terms and conditions applying to large customers.

### ***Clients and brokers***

The Association and the Fund Manager have concluded a cooperation agreement on among other things marketing and distribution of the Association's units. It is a mutual agreement that ensures that the Fund Manager is informed of the Association's products so that the Association can provide the members of the Association with professional advice, taking into account the Danish Executive Order on Good Practice for Financial Enterprises.

### ***Relationship with advisers regarding the Association's investments***

The Association's Fund Manager is responsible for the portfolio management of the Association and is therefore the Association's primary adviser.

### ***Valuation of assets***

The assets of the Association are valued in accordance with applicable legislation. Valuation work is limited to portfolio administration and is performed on the basis of price data automatically sourced by the Association's IT systems. See the section 'Accounting policies' in this Annual Report for further information about the policies applying to valuation.

### ***Risk management***

The investment policy of the Association has been laid down by the Fund Manager of the Association in the form of instructions specifying the scope for choice of assets and risk, as well as the option to hedge foreign exchange exposure. The Fund Manager continuously oversees that the Division's investment and risk limits do not deviate from the limits laid down by the Board of Directors.

## Report and statement // Management's review

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The Board of Directors and Fund Manager have today discussed and approved the Annual Report for the financial year 1 January 2016 to 31 December 2016 of Kapitalforeningen Formuepleje Penta.

The financial statements have been prepared in conformity with the Danish Alternative Investment Fund Managers, etc. Act combined with the accounting provisions of the Danish Investment Associations, etc. Act.

The Management's review includes a fair review of developments in the activities and financial position of the Association and a description of the significant risks and uncertainties that may affect the Association.

Aarhus, 27 March 2017

### **Fund Manager**

Formuepleje A/S  
Executive Board

Søren Astrup

### **Board of Directors**

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Carsten With Thygesen  
Chairman

---

Jørn Nielsen  
Deputy Chairman

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Michael Vinther

---

Børge Obel

---

Lars Sylvest

---

Henrik Ahlefeldt-Laurvig

We consider the accounting policies applied to be appropriate, and in our opinion the financial statements give a true and fair view of the assets, liabilities and financial position and of the financial performance of the Association.

We recommend that the Annual Report be approved by the General Meeting.

## Report and statement // The independent auditors' report

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### TO THE INVESTORS IN KAPITALFORENINGEN FORMUEPLEJE PENTA

#### **OPINION**

We have audited the financial statements of the Division of Kapitalforeningen Formuepleje Penta for the financial year 1 January 2016 to 31 December 2016, which comprise the income statement, balance sheet, notes and accounting policies. The financial statements are prepared in accordance with the Danish Alternative Investment Fund Managers, etc. Act combined with the accounting provisions of the Danish Investment Associations, etc. Act.

In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of the Division at 31 December 2016 and of the results of the activities of the Division for the financial year 1 January 2016 - 31 December 2016 in compliance with the Danish Alternative Investment Fund Managers, etc. Act combined with the accounting provisions of the Danish Investment Associations, etc. Act.

#### **BASIS OF OPINION**

We conducted our audit in accordance with International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence is sufficient and appropriate to provide a basis for our opinion.

#### **KEY AUDIT MATTERS**

Key audit matters are those matters which, in our professional judgment, had the greatest significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion, and we do not provide a separate opinion on these matters.

#### **Valuation and presence of financial instruments**

The investments made by the Association and Division in bonds, equity investments and derivative financial instruments (collectively referred to as "financial instruments") at fair value constitute the main element when calculating the return and assets of both the Association and the Division.

We do not find that these investments bear any significant risks of material misstatement in the financial statements or significant estimates, as the financial instruments are primarily composed of liquid, listed financial instruments with quoted prices on an active market. Only a small part of these investments are made into less liquid instruments whose fair value is determined by the use of generally accepted valuation techniques and management estimates.

It is, however, our opinion that the financial instruments account for a significant part of the return and assets of the Association and the Division for which reason we have

placed high emphasis on the valuation and existence of the financial instruments.

#### *Auditing procedure:*

Our main auditing procedure in respect of the valuation and existence of the financial instruments included, but was not limited to:

- Testing the Fund Manager's systems and related business procedures and internal controls, including IT and systems-based controls supporting the valuation of the financial instruments.
- Obtaining external verification from the Association's custodian and any other banks.
- Checking reconciliation of nominal holdings against external sources.
- Checking the valuation against external sources or control of applied valuation techniques and management estimates by determining the fair value of less liquid financial instruments.

#### *Valuation and completeness of loans from our custodian*

The loans taken out from the custodian by the Association and the Division at fair value are an essential part of the return and assets of both the Association and Division. The Association uses an investment strategy using leverage by taking out loans from the Association's custodian.

We do not associate the loans with significant risks of material misstatement in the financial statements or significant estimates, as the loans - taken out in Danish kroner or foreign currency - are valued at fair value equalling the nominal residual debt, possibly translated into Danish kroner at the listed exchange rate at the cut-off date, if the loan was made in foreign currency.

However, in our opinion, the loans constitute such an important element in the statement of assets and liabilities of the Association and Division that a large part of our audit has focused on the valuation and completeness of the loans taken out by the Association and Division from the custodian or other lenders.

#### *Auditing procedure:*

Our main auditing procedure in respect of the valuation and completeness of the loans taken out included, but was not limited to:

- Testing the Fund Manager's systems and related business procedures and internal controls, including IT and systems-based controls that support the registration and valuation of the loans taken out.
- Obtaining exposure statements from the Association's custodian bank and any other financial institutions.
- Checking reconciliation of residual debt against external sources.

- Checking the valuation against external sources.

### **STATEMENT ON MANAGEMENT'S REVIEW**

Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review and we do not draw any kind of conclusion on the management's review.

In connection with our audit of the financial statements, it is our responsibility to read the management's review and consider whether it is inconsistent in any significant way with the financial statements or the knowledge we gained during our audit, or otherwise appears to contain material misstatements.

Furthermore, it is our responsibility to consider whether the management's review contains the information required according to the Danish Alternative Investment Fund Managers, etc. Act in combination with the accounting provisions of the Danish Investment Associations, etc. Act.

In our opinion, based on the work performed, the management's review is consistent with the financial statements and has been prepared in accordance with the requirements of the Danish Alternative Investment Fund Managers, etc. Act in combination with the accounting provisions of the Danish Investment Associations, etc. Act. We have not found any material misstatement in the management's review.

### **RESPONSIBILITIES OF THE MANAGEMENT FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Danish Alternative Investment Fund Managers, etc. Act combined with the accounting provisions of the Danish Investment Associations, etc. Act. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the Division of the Association to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Division or to cease operations or has no realistic alternative but to do so.

### **AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements under Danish law will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial

statements.

As part of an audit in accordance with ISAs and additional requirements under Danish law, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

-Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness for the internal control of the Division of the Association.

-Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by management.

-Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Division of the Association to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up the date of our auditor's report. However, future events or conditions may cause the Division to cease to continue as a going concern.

-Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aarhus, 27 March 2017

Beierholm  
Statsautoriseret  
Revisionspartnerselskab  
CVR no. 32 89 54 68

Ivan Madsen  
State-Authorised Public  
Accountant

Martin Rasmussen  
State-Authorised Public  
Accountant

## Division report // Formuepleje Penta KL

### Investment area and profile

The investment strategy of the Division is based on the theory of optimal portfolios. This means that, based on statistical and theoretical analyses, the Division composes a portfolio primarily consisting of bonds and equities and seeks to optimise the expected risk-return balance. By raising loans in Danish kroner or euros, the Division can invest more in the optimal portfolio and thereby increase the expected return. The strategy therefore implies that the Division raises loans and also that the risk-return profile differs from those of traditional divisions of investment associations investing in bonds or equities. The Division aims to generate a NAV return of 100% over a 5-year period. The Division invests in foreign-currency assets and may therefore be impacted by exchange rate fluctuations in the countries targeted by the Division. The Division uses financial instruments for risk management purposes.

Division profile	Financial ratios
Issuer of units and listed on the stock exchange	Return 21.40%
Base currency: DKK	Net asset value 166.19
Benchmark: No benchmark	Expense ratio 2.31
ISIN code: DK0060498343	Expense ratio excl. performance fee 2.31
Introduced: July 2013 (1993 *)	Sharpe ratio 1.01
Adviser: Formuepleje A/S	Standard deviation 14.82
Tax status: Cumulative	Total expense ratio (TER) 2.68
	TER excl. performance fee 2.68
	High-water mark (performance fee) 180.42

\* The investment strategy was formulated for Formuepleje Penta A/S in 1993 and has been maintained for Kapitalforeningen Formuepleje Penta.

### Target return

The Division has a target return, but no benchmark. The Division's target return is its expected mean return under normal market conditions.

The target return is 100% measured by NAV over a 5-year period.

Also, the Division has an absolute risk measure. The maximum capital loss with a 95% probability should not exceed 25% over a 3-year period.

### Risk classification

1	2	3	4	5	6	7
Low risk				High risk		

The report on the Division should be read together with the general sections of the Annual Report

- *Investment markets in 2016*
- *Overall market outlook for 2017*
- *Risk and risk management*

to obtain a complete picture of developments. Management's assessment of the particular risks of the Division is described below. For further information about the risks of investing in the Division, reference is made to the applicable investor information document available on [www.formuepleje.dk](http://www.formuepleje.dk).

### Division-specific risks

The Division is designed for investors wishing to benefit from the risk diversification offered by the portfolio of the Division rather than making individual investments and building individual securities portfolios. The typical investor in the Division has an investment horizon of at least five years and considers an investment in the Division to be one of several elements of an overall portfolio.

The Division invests in bonds, equities and investment

associations in mature markets as well as emerging markets. Secondly, the Division also invests in derivative financial

instruments. Investments are made using loans, i.e. the Division aims to boost its return by making investments with borrowed funds. Basically, the Division will borrow an amount corresponding to 400% of its assets, i.e., every time DKK 100 is invested in the Division, a loan corresponding to DKK 400 is raised. The borrowed amount varies, but must at no time exceed DKK 500 for each DKK 100 of the investors' net assets.

The performance of the Division is impacted by interest rate changes caused by changes in the overall level of interest rates or changes in the credit spreads of the various bond classes. If interest rates increase, the value of the bond holding will decline and cause losses for the Division. An isolated widening of the credit spreads of the individual bond classes will have a similar effect. The size of the capital loss depends partly on the composition of the bond portfolio, partly on the size of the rise in interest rates or the widening of the yield spread. The Division uses financial instruments with a view to minimising losses from rising interest rates, etc.

The financial markets' assessment of credit risks changes on an ongoing basis, which may have negative implications for the performance. If the financial markets suddenly assess that Danish mortgage bonds are associated with a higher risk, the value of the holding of Danish mortgage bonds may drop while government bond yields remain unchanged or decline.

When investing in equities, the Division takes on several types of risk. Market risk is the general risk that equity markets decline with a negative impact on performance. Company risk is the risk that an individual stock of the Division performs unfavourably compared to the stock market overall. Accordingly, the choice of overweight or underweight positions in equities in general and in sectors or geographical areas based on the investment strategy may have an impact on the overall performance.

The Division assumes several types of exchange rate risk. As a large portion of the equity portfolio is invested in currencies other than Danish kroner, such investments are also subject to exchange rate risk. Exchange rate strengthening in respect of equities and bonds in foreign currency has a positive influence on performance.

A significant part of the investment strategy of the Division is the option to raise loans. Accordingly, rising borrowing costs will adversely affect the performance. Since the Division depends on continued availability of credit facilities, the absence of credit facilities will constitute a risk for the long-term investment strategy.

To some extent, the Division uses derivative financial instruments as a supplement to the underlying equity and bond portfolio and for the management of the overall exchange rate risk. The risk relating to investments in derivative financial instruments depends on the underlying asset on which the derivative financial instruments are based. However, investments through derivative financial instruments should be viewed in the context of the underlying investment strategy and, like the underlying asset classes, the risks of the derivative financial instruments are impacted by interest rate, equity, exchange rate, counterparty and settlement risks.

The Division may make investments using borrowed funds, which might entail a higher risk as the investments then exceed the assets of the Division. If the value of the securities declines, then the assets decline and, as a result, the value of the unit declines even more. To this should be added the potential risk of an increase in the interest rate on the loan. The Division may raise loans up to 500% of the assets of the Division.

Moreover, there are upper limits on certain types of exposure. According to these limitations, the market value of:

- total long-term and short-term positions may not exceed 1450% of the assets of the Division.
- long-term positions may not exceed 500% of the assets of the Division.
- the net exposure to equities may account for 130% of the assets of the Division at the time of investment.

These risks are described under *General risk factors*.

The Division invests in instruments issued in currencies other than Danish kroner and, generally, cannot be hedged. Therefore, the return may to a great extent be positively and negatively impacted by exchange rate trends.

The Division has a risk profile that differs from traditional investment associations due to a more extensive use of derivative financial instruments. Accordingly, it is possible for the Fund to vary the risks of the Fund by using derivatives and in that way positively or negatively affect the return.

The Division invests in the alternative investment fund *Formuepleje Triple Alfa Global Equities ApS (TAGE)*, which employs an alpha investment strategy. This means that TAGE buys equity exposure in a global investment association on the advice of *Fondsmægterselskabet CPH Capital*. In order to make the strategy neutral to general market movements, market exposure (so-called beta) is sold against the portfolio purchased. In consequence, TAGE has no market risk. The risk of the strategy is that equities underperforming the world market index are selected.

However, as the alpha strategy does not correlate with the other positions of the Division, the strategy has strong portfolio properties in relation to ordinary equity and bond investments. It has been decided that the alpha strategy may only account for up to 13% of the assets at the time of investment. The absolute maximum limit is 14.95% of the assets of the Division.

#### **Cost structure**

The administrative expenses of the Division cover expenses for advisory services and fund management as well as other operating costs. The fixed fees paid to the adviser and the Fund manager are calculated based on the assets of the Division and account for 2.25% p.a. of the assets.

The remuneration of the investment adviser also includes a performance fee of 10% of the Division's return. The performance fee is only payable if NAV exceeds the most recently fixed high-water mark. The high-water mark is defined as the highest value of the Division at the end of the quarter. Accordingly, the performance fee is only payable if NAV exceeds the most recent level at which a performance fee was paid.

Calculations based on the high-water mark ensure that a return-based fee is only payable if a positive value increase of the Division's assets is obtained and that a return-based fee is only paid once for the same return.

Performance fees are settled quarterly while fixed fees are settled monthly. If investments are made in other collective savings products, for which the Fund Manager has concluded an investment agreement, the Fund Manager's income from such investments is deducted from the fee paid to the Fund Manager.

#### **Performance and assets**

In the accounting period, the Division's issues totalled DKK 250 million and redemptions totalled DKK 187 million. Profit for the year was DKK 487 million. As at 31 December 2016, the assets of the Division totalled DKK 2,964 million.

#### **Return and performance for the period**

The Division generated a return of 21.40% for the financial year, which is above expectations in light of the Division's target of generating an annual average return of 14.9% in order to achieve a 5-year return of 100%.

The result was generated in a volatile, but rising market. All areas have seen growth in the form of rising prices in equities, corporate bonds and Danish mortgage bonds, as well as a higher USD rate. Simultaneously, the selection of both Danish mortgage bonds and global corporate bonds was marked by outperformance, and these bond strategies have also contributed to the return.

**Market outlook, strategy and specific risks**

As mentioned above, global growth is forecast to be at a level of 3.5% for 2017.

Expectations with regard to stock market development are positive, but will be largely influenced by the level of macroeconomic activities that can be converted into earnings growth. Within this area, the expected expansionary US fiscal policy will have a relatively large impact.

On the interest rate side, 2017 will be characterised by divergence between the world's two largest central banks – the FED and the ECB. The FED will probably continue to raise its key rate, which may lead to higher short and long-term US interest rates, which will presumably rub off on long European interest rates. The Division's key strategic position is, however, based on the ECB maintaining the current level or lowering it, which again will influence Danmarks Nationalbank.

Please refer to the management's review on page 8 for further comments on the market outlook. A description of the specific market risks in 2017 is also available there.

As periods of strong price fluctuations are expected, tactical asset allocation will likely be applied in 2017, like in 2016, than previously. This can temporarily reduce the share of equities in the portfolio, e.g. to a level of 10-30%.



### **Securities lending**

In pursuance of the Articles of Association of the Association, the Division may enter into securities lending arrangements to optimise the return on the assets in which the Division invests. There were no securities lending activities in 2016.

### **Securities lending in connection with loan finance**

The Division's loan finance comprises securities lending. Securities lending is equivalent to a loan under which the borrower lends securities against collateral in the form of, e.g., cash.

### **Events after the reporting period**

In management's view, the recognition and measurement of assets was not affected by any uncertainty or unusual circumstances, and no events occurred after the reporting period that could affect the financial statements.

### **Knowledge resources**

The Division has no employees, but makes use of external partners. Accordingly, most of the Division's knowledge base is held by the employees of its partners.

A fund management agreement has been concluded with Formuepleje A/S, which has developed a number of control and administrative procedures to counter any operating risks. Formuepleje A/S has IT systems that provide a high level of data and system security, and emergency plans and procedures have been developed to ensure that data and systems are restored in case of a breakdown. The Fund Manager uses considerable resources to ensure the most correct valuation of the equities, bonds and other instruments included in the portfolio of the Division.

On an ongoing basis, Formuepleje A/S also ensures that all tasks are performed by sufficient, well-educated and experienced staff. The overall security level is designed and monitored on an ongoing basis by the Board of Directors. As Fund Manager, Formuepleje A/S is subject to the supervision of the Danish FSA and statutory audit. In this respect, the main focus is on risks and controls. The auditors present the audit opinion to the Board of Directors and have an obligation to describe any material weaknesses.

Management is confident that, together, the Division and its partners command the breadth and depth of the financial and administrative knowledge expertise necessary.

### **Remuneration**

In pursuance of the fifth and sixth sentences of section 61(3) of the Danish Alternative Investment Fund Managers, etc. Act, the following information must be provided. The comparative figures are adjusted as a consequence of the merger at the beginning of 2016 between the Fund Manager Formuepleje A/S (Formuepleje Fund Management A/S) and Formuepleje A/S Fondsmæglerselskab.

In 2016, the total remuneration of the Fund Manager, Formuepleje A/S, amounted to DKK 44,771,000 (2015: DKK 52,228,000), of which DKK 42,111,000 (2015: 48,632,000) was in the form of a fixed salary and DKK 2,660,000 (2015: DKK 3,596,000) was in the form of a variable pay.

The total remuneration of the Executive Board of the Fund Manager amounted to DKK 1,772,000 (2015: DKK 3,019,000), of which DKK 1,772,000 (2015: DKK 3,015,000) was in the form of a fixed salary and DKK 0 (2014: DKK 4,000) was in the form of a variable pay.

The Executive Board and three employees with the Association's Fund Manager have significant influence on the risk profiles of the capital associations under management in accordance with the Danish Alternative Investment Fund Managers, etc. Act. The total remuneration amounted to DKK 4,761,000 (2015: DKK 4,595,000).

No preferred return is paid to the employees or the Executive Board of the Fund Manager by any of the capital associations under management. No information is available to enable an allocation of the total remuneration paid to the individual capital associations under management.

The Fund Manager's average number of employees (FTE) in 2016 was 47 (2014: 53).

### **Corporate social responsibility statement**

At the beginning of 2016, Formuepleje A/S decided to adopt the UN's six Principles for Responsible Investment UN PRI. UN PRI consists of six principles, which will be incorporated into future investment processes to an increasing extent. The Association has no employees and has not drawn up any specific corporate social responsibility statement. When selecting investments for the portfolio, the expectations to the company's financial potential and several other parameters are taken into account, among these the company's actions in relation to corporate social responsibility.

## Holdings // Formuepleje Penta KL

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The Association obtains equity exposure via Danish and international investment associations.

Please see the annual reports of the below associations for a precise description of the composition of shares.

### The Division's equity exposure as a percentage of investors' assets

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Invf. Formuepleje LimiTellus (DK0060502631)	92.84
ACMBernstein SICAV Global Core Equity (LU072585160)	9.42
Invf. Formuepleje Globale Aktier (DK006033709)	4.50
Kapitalforeningen Absalon Invest Verdensaktieselskab (DK0060742435)	3.56
Formuepleje Lux SICAV - Emerging Markets Equities (LU1288551739)	2.29

### The Division's 10 largest indirect investments as a percentage of investors' assets

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Service Corp International US	5.46
Microsoft Corp	5.03
SAP AG	4.73
UnitedHealth Group Inc	3.94
Anthem Inc	3.37
Dover Corp	3.29
Teva Pharmaceutical Industries	2.91
S&P Global Inc	2.85
Jyske Bank	2.84
Kone OYJ	2.80

### Market-neutral investments as a percentage of investors' assets

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Triple Alfa Global Equities ApS	10.23
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The Association obtains bond exposure via direct investments and via Danish and foreign investment associations.

### The Division's bond exposure by issuer as a percentage of investors' assets

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Nykredit	167.93
Realkredit Danmark	56.14
BRF Kredit	39.82
Nordea Kredit	28.07
DLR Kredit	25.56
Others	0.00

## Risk framework and risk statement // Formuepleje Penta KL

The table below shows numerical risk frameworks in accordance with the Articles of Association and the risk frameworks determined by the Fund Manager (Formuepleje A/S) as well as the risk calculated as at 31 December 2016. The Fund Manager (Formuepleje A/S) has adopted numerical risk frameworks that entail lower risks and are applicable at the time of the investment. They may subsequently be exceeded due to market movements. The investors' assets are defined as assets in the table.

	AoA lower limit	BoD lower limit	Risk at 31 Dec 2016	BoD upper limit	AoA upper limit
<b>Position and market risk</b>					
Equity exposure as a percentage of assets	0%	0%	117.7%	130%	150%
Alpha strategy exposure as a percentage of assets	0%	0%	10.2%	14.95%	-
Other securities as a percentage of assets	0%	0%	0.1%	10%	10%
Other bonds as a percentage of assets	0%	0%	0.0%	10%	10%
Option-adjusted duration	-2	-1	2.50	6	8
<b>Concentration risk</b>					
Largest individual equity exposure as a percentage of equity	0%	0%	5.0%	10%	13%
Total equity positions in excess of 5% of equity investments	0%	0%	5.0%	40%	42%
Largest issuer as a percentage of bond investments	0%	0%	42.0%	80%	80%
<b>Exchange rate risk</b>					
EUR loan as a percentage of foreign currency loans	0%	0%	100.00%	100%	100%
Hedge of EUR loan as a percentage of EUR loans	-	0%	100.00%	100%	-
Foreign currency loans in currencies other than EUR and DKK as a percentage of assets	0%	0%	0.00%	10%	10%
<b>Gearing risk</b>					
Gearing as a percentage of assets	0%	0%	341.4%	500%	500%
Market value of long-term positions as a percentage of assets	0%	0%	446.1%	500%	600%
Gross exposure as a percentage of assets	0%	0%	850.8%	1450%	1500%
<b>Standard deviation</b>					
Return over 12 months*	0%	0%	23.8%	50%	56%
Return over 36 months*	0%	0%	23.0%	34%	40%
Return over 60 months*	0%	0%	20.0%	31%	37%

\*Here, standard deviation is measured by a reference index for the sub-elements of the portfolio to paint a picture of the current composition of the portfolio risk.

**Income statement (DKK '000)**

Note	2016	2015
<b>Interest and dividends</b>		
1 Interest income	162,473	196,795
2 Interest expenses	(17,506)	(42,875)
3 Dividends	0	7,535
<b>Total interest and dividends</b>	<b>144,967</b>	<b>161,455</b>
<b>Capital gains and losses</b>		
4 Bonds	80,094	(173,230)
4 Equity investments	319,398	252,795
4 Derivative financial instruments	(33,231)	59,777
Currency accounts and loans	33,673	(22,889)
Other assets and liabilities	0	601
5 Transaction costs	(354)	(283)
<b>Total capital gains and losses</b>	<b>399,580</b>	<b>116,771</b>
<b>Total revenue</b>	<b>544,547</b>	<b>278,226</b>
6 Administrative expenses	(57,063)	(57,191)
<b>Profit before tax</b>	<b>487,484</b>	<b>221,035</b>
7 Tax	0	(94)
<b>Net profit for the year</b>	<b>487,484</b>	<b>220,941</b>
<b>Transferred to assets</b>	<b>487,484</b>	<b>220,941</b>

### Balance sheet (DKK '000)

Note	ASSETS	31 Dec 2016	31 Dec 2015
8	<b>Cash and cash equivalents</b>		
	Deposits with custodian	128,103	115,751
	Deposits with other financial institutions	1,965	0
	<b>Total cash and cash equivalents</b>	<b>130,068</b>	<b>115,751</b>
8	<b>Bonds</b>		
	Listed bonds from Danish issuers	9,336,978	8,647,481
	<b>Total bonds</b>	<b>9,336,978</b>	<b>8,647,481</b>
8	<b>Equity investments</b>		
	Unlisted equity investments in Danish companies	305,337	307,960
	Units in other Danish investment associations, etc.	2,990,997	2,757,313
	Units in international investment associations, etc.	347,300	294,910
	<b>Total equity investments</b>	<b>3,643,634</b>	<b>3,360,183</b>
8	<b>Derivative financial instruments</b>		
	Unlisted derivative financial instruments	2,397	8,729
	<b>Total derivative financial instruments</b>	<b>2,397</b>	<b>8,729</b>
8	<b>Other assets</b>		
	Interest, dividends, etc. receivable	75,825	78,606
	Other receivables	358	336
	Balance concerning trade settlement	1,711	0
	Current tax assets	61	61
	<b>Total other assets</b>	<b>77,955</b>	<b>79,004</b>
	<b>TOTAL ASSETS</b>	<b>13,191,032</b>	<b>12,211,147</b>

### Balance sheet (DKK '000)

Note	EQUITY AND LIABILITIES	31 Dec 2016	31 Dec 2015
9	<b>Unit holders' assets</b>	<b>2,964,059</b>	<b>2,409,583</b>
8	<b>Derivative financial instruments</b>		
	Unlisted derivative financial instruments	106,470	78,803
	<b>Total derivative financial instruments</b>	<b>106,470</b>	<b>78,803</b>
	<b>Loan from custodian</b>	<b>10,119,754</b>	<b>9,716,346</b>
	<b>Other payables</b>		
	Accounts payable	548	1,831
	Balance concerning trade settlement	202	4,584
	<b>Total other payables</b>	<b>749</b>	<b>6,415</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,191,032</b>	<b>12,211,147</b>
	Notes to which no reference is		
10	Underlying exposures, forward foreign exchange contracts		
11	Underlying exposures, interest rate swaps		
12	Underlying exposures, Options		
13	Underlying exposures, Futures		
14	Underlying exposures, Total-Return-Swaps		
15	Counterparties, derivative financial instruments		
16	Mortgages, etc.		
17	Unlisted equity interests in which the Association holds more		
18	than 5% of the capital or voting rights		
	Financial highlights		

## Financial statements // Formuepleje Penta KL

### Notes (DKK '000)

Note	2016	2015
<b>1 Interest income:</b>		
Listed bonds from Danish issuers	162,459	196,795
Deposits with custodian	14	0
<b>Total interest income</b>	<b>162,473</b>	<b>196,795</b>
<b>2 Interest expenses:</b>		
Deposits and loans from custodian	4,088	32,779
Interest rate swaps	13,418	10,096
<b>Total interest expenses</b>	<b>17,506</b>	<b>42,875</b>
<b>3 Dividends:</b>		
Unlisted Danish shares	0	7,535
<b>Total dividends</b>	<b>0</b>	<b>7,535</b>
<b>4 Capital gains and losses</b>		
<b>Capital gains and losses, bonds:</b>		
Listed bonds from Danish issuers	80,094	(173,230)
<b>Total capital gains and losses, bonds</b>	<b>80,094</b>	<b>(173,230)</b>
<b>Capital gains and losses, equity investments:</b>		
Unlisted Danish shares	(7,077)	(11,826)
Units in Danish investment associations, etc.	291,775	244,799
Units in international investment associations, etc.	34,700	19,823
<b>Total capital gains and losses, equity investments</b>	<b>319,398</b>	<b>252,795</b>
<b>Capital gains and losses, derivative financial instruments:</b>		
Interest rate swaps	(23,707)	(3,013)
Forward exchange transactions	(26,231)	67,264
Options	1,012	2,002
Futures	15,694	(6,476)
<b>Total capital gains and losses, derivative financial instruments</b>	<b>(33,231)</b>	<b>59,777</b>
<b>5 Transaction costs:</b>		
Gross transaction costs	379	296
Covered by income from issues and redemptions	(25)	(12)
<b>Total transaction costs</b>	<b>354</b>	<b>283</b>

### Notes (DKK '000)

Note	2016	2015
<b>6 Administrative expenses:</b>		
Directors' remuneration	390	390
Auditors' remuneration	257	230
Other remuneration of auditors	44	19
Custodian fees	216	77
Consultancy fees etc., fixed	50,025	50,262
Consultancy fees, performance-based	0	0
Fixed administration fee	5,421	5,447
Other expenses	709	736
<b>Total administrative expenses</b>	<b>57,063</b>	<b>57,191</b>
<b>7 Tax:</b>		
Non-refundable dividend tax	0	94
<b>Total tax</b>	<b>0</b>	<b>94</b>
<b>8 Financial instruments as a percentage of assets:</b>		
Listed financial instruments	427.6%	485.5%
Other financial instruments	6.8%	9.95%
Other assets and liabilities	(334.4%)	(395.4%)
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

A specification of securities is available from Formuepleje A/S upon request

9 Investors' assets	Units in issue	Value of assets
	(Nom. value, DKK '000)	(DKK '000)
<b>2016</b>		
Investors' assets, beg. of year	1,760,180	2,409,583
Issues for the period	162,781	250,154
Redemptions for the period	(139,400)	(187,411)
Net sales charges and redemption fees		4,249
Transferred from income statement		487,484
<b>Total investors' assets</b>	<b>1,783,561</b>	<b>2,964,059</b>
<b>2015</b>		
Investors' assets, beg. of year	1,843,208	2,308,245
Issues in the period	81,572	103,955
Redemptions for the period	(164,600)	(226,233)
Net sales charges and redemption fees		2,675
Transferred from income statement		220,941
<b>Total investors' assets</b>	<b>1,760,180</b>	<b>2,409,583</b>



Notes to which no reference is made (DKK '000)

10	<b>Underlying exposures, forward foreign exchange contracts</b>		<b>2016</b>	<b>2015</b>
	Currency		<b>Exposure</b>	<b>Exposure</b>
	EUR		9,862,782	9,716,346
	USD		259,306	0
	DKK		(10,124,284)	(9,706,714)
11	<b>Underlying exposures, interest rate swaps</b>	<b>Maturity</b>	<b>Exposure</b>	<b>Exposure</b>
	Currency			
	DKK receipt of variable rate and payment of fixed rate	Over 1 year	100,000	100,000
	EUR receipt of variable rate and payment of fixed rate	Over 1 year	479,592	481,340
12	<b>Underlying exposures, Options</b>			
	Underlying exposures, equity options purchased		91,224	0
	Underlying exposures, equity options sold		0	1,947
13	<b>Underlying exposures, Futures</b>			
	Underlying exposures, equity futures purchased		175,884	143,905
14	<b>Underlying exposures, Total-Return-Swaps</b>	<b>Maturity</b>	<b>Exposure</b>	<b>Exposure</b>
	Portfolio returns received and index returns paid	1-3 months	105,531	0
15	<b>Counterparties, derivative financial instruments</b>			
	Nordea			
	Danske Bank			
16	<b>Mortgages, etc.</b>			
	The following assets have been pledged as collateral for the Association's commitment with banks:			
	Deposits with custodian		101,100	75,823
	Listed bonds from Danish issuers		9,155,478	8,683,567
	Units in other Danish investment associations, etc.		1,766,585	1,909,764
	<b>Total</b>		11,023,163	10,669,154
17	<b>Unlisted equity interests in which the Association holds more than 5% of the capital or voting rights</b>			
	<b>31 Dec 2016</b>	Equity interest	Equity interest	
	Triple Alfa Global Equities ApS, Værkmestergade 25, 8000 Aarhus C, Denmark	895,180	33.88	%
	Formuepleje Penta A/S, Værkmestergade 25, 8000 Aarhus C, Denmark	761	46.79	%
	Formuepleje LimiTTellus A/S, Værkmestergade 25, 8000 Aarhus C, Denmark	3,018	46.33	%
	Formuepleje Fokus A/S, Værkmestergade 25, 8000 Aarhus C, Denmark	583	44.84	%
	<b>31 Dec 2015</b>			
	Triple Alfa Global Equities ApS, Værkmestergade 25, 8000 Aarhus C, Denmark	933,771	32.89	%
	Formuepleje Penta A/S, Værkmestergade 25, 8000 Aarhus C, Denmark	646	46.79	%
	Formuepleje LimiTTellus A/S, Værkmestergade 25, 8000 Aarhus C, Denmark	721	46.33	%
	Formuepleje Fokus A/S, Værkmestergade 25, 8000 Aarhus C, Denmark	547	44.84	%

18 <b>Financial highlights</b>	<b>2016</b>	<b>2015</b>	<b>2013/14</b>
Net profit (DKK '000)	487,484	220,941	560,389
Assets (DKK '000)	2,964,059	2,409,583	2,308,244
Average assets (DKK '000)	2,466,614	2,465,540	2,039,332
Units in issue (number)	17,835,614	17,601,803	18,432,080
NAV per unit	166.19	136.89	125.23
Percentage return for the period	21,4	9.31	*25.23
Administrative expenses, %	2.31	2.32	**2.29
Administrative expenses (%) excl. performance fee	2.31	2.32	**2.29
Transaction costs, %	0.01	0.01	**0.20
TER (total expense ratio), %	2.68	2.71	**2.83
TER excl. performance fee	2.68	2.71	**2.83
Rate of turnover	1.28	1.64	7.07
Sharpe ratio***	1.01	-	-
Standard deviation***	14.82	-	-

\* Extended accounting period. The return for the period 1 January to 31 December 2014 was 12.20%

\* Expense ratios are converted to annual rates.

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\*\* Sharpe ratio and standard deviation are only calculated when the Association has existed for more than 36 months.

## Accounting policies

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### **General comments**

The financial statements have been prepared in conformity with the Danish Alternative Investment Fund Managers, etc. Act combined with the accounting provisions of the Danish Investment Associations, etc. Act, including the Danish FSA's Executive Order on Financial Reports for Danish UCITS. Considering the structure and activities of the Division, changes have been made to the accounting policies as required for the financial statements to provide a true and fair view.

The Annual Report is presented in Danish kroner (DKK '000), and all values are rounded off. Accordingly, the total amounts may deviate from the total of the underlying figures.

The accounting period runs from 1 January 2016 to 31 December 2016.

The accounting policies are consistent with those of the previous year.

### **General comments on recognition and measurement**

Assets are recognised in the balance sheet if, as a result of past events, it is probable that future economic benefits will flow to the Division and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet if, as a result of past events, the Division has a legal or actual liability and it is probable that future economic benefits will flow out of the Division and the value of the liability can be measured reliably.

On recognition and measurement, foreseeable risks and losses arising before the time when the Annual Report is prepared and proving or disproving matters existing at the balance sheet date are taken into consideration.

### **INCOME STATEMENT**

Income and expenses are accrued and, as a result, contain the amounts attributable to the financial year.

### **Interest and dividends**

Dividends comprise the dividends received in the accounting period. Non-refundable dividend tax is deducted under Tax.

Interest and dividends in foreign currency are translated into Danish kroner at the transaction date.

### **Capital gains and losses**

Net profit comprises realised as well as unrealised capital gains and losses. Realised capital gains and losses are determined as the difference between the selling price and the value at the beginning of the financial year or the acquisition cost in the accounting period, respectively. Unrealised capital gains and losses are determined as the difference between the market value at the end of the financial year and the market value at the beginning of the financial year or the acquisition cost in the financial year, respectively.

All costs relating directly to transactions conducted as part of the day-to-day portfolio management are recognised under transaction costs. Transaction costs relating to issues or redemptions are recognised as issue/redemption costs under assets.

### **Administrative expenses**

The composition of the Division's administrative expenses is described in a note to the financial statements.

'Consultancy fees' include costs relating to a specific agreement with Formuepleje A/S concerning investment advisory services. The performance-based part of the fee is shown separately.

'Fixed administration fee' includes costs charged under a specific agreement with Formuepleje A/S concerning the fund management function.

### **Tax**

Tax comprises non-refundable tax on dividends.

## **BALANCE SHEET**

### **Cash and cash equivalents**

Cash and cash equivalents in foreign currency are measured at nominal value and translated at the exchange rates prevailing at the balance sheet date.

### **Bonds and equity investments**

Bonds and equity investments are measured at fair value both on initial recognition and subsequent measurement. The fair value of listed bonds and equity investments is determined as the closing rate at the balance sheet date or, if such rate is unavailable, at another official rate that is assumed best to reflect the rate. If that rate does not reflect the fair value of the instrument due to lack of or insufficient trading in the period up to the balance sheet date, the fair value is determined using a valuation technique, the purpose of which is to determine the transaction price that would be realised in a transaction at the time of measurement between independent parties applying usual business terms. Listed securities in foreign currency are measured at the exchange rates prevailing at the balance sheet date. Drawn bonds are measured at present value, determined as par, discounted to net present value on an individual assessment. Unlisted bonds and shares are measured at fair value determined in accordance with recognised methods.

### **Securities lending, repo and equity swap transactions**

Bonds and equity investments comprised by the above-mentioned loan agreements are included in the balance sheet under the respective securities and are recognised in accordance with the principle described under 'Bonds and equity investments'. Any obligations attached thereto are included under loans.

### **Derivative financial instruments**

Derivative financial instruments are measured at fair value on initial recognition and subsequent measurement. Derivative financial instruments with a positive fair value are included under assets and those with a negative fair value under liabilities.

Changes in fair value are recognised in the income statement under 'Capital gains and losses'.

**Other assets**

'Other assets' are measured at fair value and include:

- 'Interest receivable' comprising accrued interest at the balance sheet date.
- 'Dividend receivable' comprising dividends declared before the balance sheet date, but with settlement after the balance sheet date.
- 'Current tax assets' comprising refundable dividend tax and tax on interest revenue retained abroad.
- 'Balance concerning trade settlement' comprising the value of proceeds from the sale of financial instruments (bonds, shares, etc.), loans and issues effected prior to the balance sheet date for which payment takes place after the balance sheet date.

**Investors' assets**

Net sales charges and net redemption fees are determined after recognition of transaction costs paid in respect of issues or redemptions.

**Loans**

The Division's loans from banks comprise loans characterised as short-term loans. Initial recognition is made at the net proceeds received. Subsequent measurement is at fair value.

**Other payables**

'Other payables' are measured at fair value.

'Balance concerning trade settlement' comprises the value of proceeds from the purchase of financial instruments (bonds, shares, etc.) and redemptions effected prior to the balance sheet date for which payment takes place after the balance sheet date.

**Foreign currency translation**

Exchange differences arising between the exchange rate prevailing at the transaction date and the exchange rate at the payment date are recognised in the income statement under 'Capital gains and losses'.

Foreign currency transactions are translated at the exchange rate prevailing at the transaction date. Securities holdings, cash and cash equivalents and receivables in foreign currency are translated at the exchange rate prevailing at the balance sheet date. The difference between the closing rate and the rate at the time of acquisition of the securities holding or the creation of the payable is recognised in the income statement under 'Capital gains and losses'.

## **FINANCIAL RATIOS**

### **NAV per unit**

Calculated as Investors' assets/Units in issue and shows the value per unit.

### **Percentage return for the year**

Calculated as follows:

$((\text{Net asset value end of year}/\text{Net asset value beginning of year}) - 1) \times 100$ .

### **Administrative expenses, %**

Calculated as Administrative expenses/Investors' average assets x 100.

As 'Administrative expenses' is used the corresponding item in the income statement, and 'Investors' average assets' is determined as a simple average of the value of the assets calculated at the end of each month.

The ratio is calculated both inclusive of and exclusive of performance fee.

### **Total expense ratio (TER)**

TER is calculated based on the administrative expenses for the financial year and the Association's transaction costs not covered by sales charges and redemption fees. To this is added the highest possible sales charges and redemption fees. Sales charges and redemption fees are distributed over a period of seven years. TER is calculated as a percentage and on an annual basis.

Any costs of sub-funds are included in TER.

TER is calculated both inclusive of and exclusive of performance fee.

Example of a TER for a time period of seven years: current costs amount to 0.9%; direct transaction costs of current operations amount to 0.2%; the sales charge is 2%; and the redemption fee is 1%. This corresponds to a TER of  $(0.9 + 0.2) + ((2 + 1)/7) = 1.53\%$ .

TER assumes that the investor always buys units at the issue price and sells them at the redemption price. However, that is not always the case. Accordingly, the investor's actual costs may be lower than indicated by TER. The reason is that the investor's transaction costs for units traded on NASDAQ OMX (IFX) are the actual difference between the purchase price and the selling price on IFX plus brokerage fee on purchase and sale. On IFX, the investor can often buy units at prices below the issue price and sell them at prices above the redemption price. Typically, the difference between the purchase price and the selling price on IFX is only half the difference between the issue price and the redemption price, according to TER.

### **Rate of turnover, number of times**

Calculated as  $((\text{Value of purchase} + \text{Value of sale})/2)/\text{investors' average assets}$ .

The value of purchase and the value of sale are calculated as 'Market value of purchase and sale of securities' adjusted for issues and redemptions, liquidity from operations etc. in the financial year, so that '(Value of purchase + Value of sale)/2' corresponds to transactions conducted as part of the portfolio management. The investors' average assets are calculated as described under 'Administrative expenses, %'.

## **Risk ratios**

The Sharpe ratio is calculated by dividing the excess return by its volatility/standard deviation. The Sharpe Ratio measures investment return in relation to investment risk. The higher the Sharpe Ratio, the higher the risk-adjusted return. The use of the Sharpe Ratio enables comparison between the return on investments at different risk levels. The Sharpe Ratio is only calculated for associations that have existed for at least 36 months.

Standard deviation is a measure of return fluctuations over time. The greater the volatility, the greater the uncertainty about the future return of the investment. Thus, volatility is a risk objective. Volatility is usually expressed as a percentage per year. Volatility is a measure of the spread of returns around its mean value - the standard deviation of the return. If the return is normally distributed, it can be expected that approx. 2/3 of all return observations will fall between the mean plus the standard deviation and the mean minus the standard deviation. Standard deviation/volatility is only calculated for associations that have existed for at least 36 months.

## Material agreements

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### ***Fund Management Agreement***

The Association has entered into a Fund Management Agreement with Formuepleje A/S (FP). FP is responsible for the day-to-day management of the Association in accordance with the legislation, the guidelines of the Danish FSA and the European Securities and Market Authority (ESMA), the Articles of Association of the Association, the guidelines of the Board of Directors of the Association, including investment frameworks, and agreements on portfolio advisory services and portfolio management.

### ***Agreement on custody accounts and custodian function***

The Association has entered into an agreement with Nordea Danmark to the effect that, as custodian, the branch keeps the securities and cash and cash equivalents of the Division of the Association separately in accordance with the EU and Danish legislation in force at any time and the regulations of the Danish FSA and ESMA and undertakes the control tasks and obligations laid down therein.

### ***Agreements on facilitation of fund units***

As part of the fund management agreement, FP arranges for the sale of the fund units in the Association's Division and may enter into agreements with other distributors.

The Association has granted FP permission to enter into sub-agreements with distributors and major customers on the redistribution and reimbursement of distribution fees.

On behalf of the Association, FP has entered into agreements with Absalon Capital Fondsmæglerselskab A/S and Aktiv Invest Partners to the effect that these companies facilitate the sale of fund units in the Association's Divisions.

Absalon Capital Fondsmæglerselskab A/S is an affiliate of the Fund Manager of the Association, FP.

The Association does not pay any subscription, facilitation or portfolio commission.

FP determines its own marketing efforts with a view to promoting sales of the Association's fund units.

### ***Portfolio advisory services agreements***

FP is also responsible for the portfolio management of the Association's Division and the Association has authorised FP to enter into agreements with third parties on investment advisory services or portfolio management of the Association's Division. At this stage, this authorisation has not been used.

Following the selection of transactions considered to be advantageous as part of the portfolio management, FP will decide on and to what extent these transactions are to be effected. The individual investment proposals must be within the framework and guidelines, which are also included in the Association's investment policy for the Division, must be presented to the Fund Manager who then decides whether and to which extent they are to be effected. The conduct of securities transactions as part of the day-to-day management of the individual portfolios is an integral part of the Association's agreement with FP that has the best execution obligation towards the Association. Transactions are conducted at the prices prevailing in the Danish and international professional/institutional markets with the addition of or deduction of any brokerage, taxes, foreign costs, settlement fees, etc.

### ***Agreement on market-making and issue of units***

The Association has entered into an agreement with Nordea Bank AB to the effect that, except in special situations, the bank continuously quotes prices in, e.g., NASDAQ OMX Copenhagen's trading systems for the Division's units for the purpose of boosting liquidity and reducing the costs of trading in the units. Market-making must include bid and ask prices and must be based on current issue and redemption prices.

The Association has also entered into an agreement with Nordea Bank AB on the Association's issuing function. The bank handles the function as issuing institution in VP Securities A/S (VP).

FORMUEPLEJE A/S  
Værkmestergade 25, 8000 Aarhus C  
[www.formuepleje.dk](http://www.formuepleje.dk)

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