

# Kapitalforeningen Formuepleje Penta



ÅRSRAPPORT 2018

01.01.2018 – 31.12.2018



FORMUE | PLEJE

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## Fund information

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Kapitalforeningen Formuepleje Penta was founded on 10 July 2013 as Hedgeforeningen Formuepleje Penta. As of 18 June 2014, the Fund changed its status to an alternative investment fund (capital fund) under the Act on Managers of Alternative Investment Funds, etc. The Fund is continuing the investment strategy of Formuepleje Penta A/S, which was founded in 1993.

As of 31 December 2018, the Fund had one sub-fund: Formuepleje Penta KL

On the website [www.formuepleje.dk](http://www.formuepleje.dk), the development of the Fund can be monitored on an ongoing basis.

### Name and address

Kapitalforeningen Formuepleje Penta  
Værkmestergade 25  
DK-8000 Aarhus C  
Telephone: 87 46 49 00  
Fax: 87 46 49 01  
Company Reg. No. (CVR): 35 40 14 07

Financial Supervisory Authority's reg. number: 24024

The Fund is based in Aarhus.

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

### Fund manager

Formuepleje A/S  
Værkmestergade 25  
DK-8000 Aarhus C  
Telephone: 87 46 49 00  
Company Reg. No. (CVR): 18 05 97 38

### Depository

Nordea Denmark, branch of Nordea Bank Abp, Finland  
Strandgade 3  
Christiansbro  
1401 Copenhagen K  
CVR 25 99 21 80

### Revision

Ernst & Young P/S  
Oswald Helmuhs Vej 4  
2000 Frederiksberg  
Company Reg. No. (CVR): 30 70 02 28

### Portfolio advisor

Formuepleje A/S  
Værkmestergade 25  
DK-8000 Aarhus C  
Telephone: 87 46 49 00  
Company Reg. No. (CVR): 18 05 97 38

Approved at the annual general meeting, 25 April 2019

Chairman of the meeting:

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## Overview

### The sub-fund's profile

Certificate issuing and listed  
 Base currency: DKK  
 Benchmark: No benchmark  
 ISIN: DK0060498343  
 Start date of investment strategy: 1 January 1994  
 Advisor: Formuepleje A/S  
 Tax status: Accumulative

### Key figures

Return (%)	-1.98
Net asset value	187.67
Expense ratio	3.30
Expense ratio excl. performance remuneration	2.27
The Sharpe Ratio	0.98
Standard deviation	13.24
APR	3.68
APR ex. Performance remuneration	2.65
High-Water Mark (performance remuneration end of August 2018)	212.68

### NET INCOME AND ASSETS FOR THE PERIOD

In 2018, the sub-fund generated a result of DKK -114 million.

The sub-fund's total assets for the period increased by DKK 411 million. At the end of the financial period, the sub-fund had assets of DKK 4,478 million.

### RETURN

The sub-fund delivered a return for the financial year of -1.98 percent, which was lower than expected when compared to the sub-fund's target of delivering an annual average return of 13.7 percent to achieve a 5-year return of 90 percent measured over the latest five-year horizon, from 01/01 2014 to 31/12 2018, the sub-fund has delivered a return of 69.9 percent, which corresponds to an average annual return of 11.2 percent.

An index with the same risk profile as the sub-fund, i.e. a high risk, has yielded a return of 48.5 percent in the same period, corresponding to an annual return of 8.2 percent.

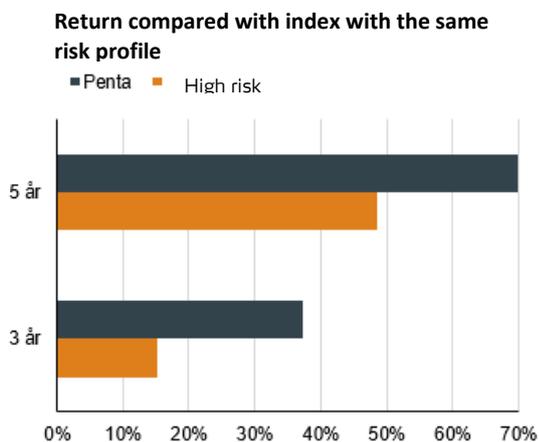
Management's review on page 7 closely describes how the market development in the various asset classes affected the sub-fund's returns during the period.

Figure 1 below shows the return in the sub-fund as compared to the index with the same risk profile.

Figure 2 shows the development in NAV in the accounting period for Kapitalforeningen Formuepleje Penta, compared to the index with the same risk profile.

The risk in Formuepleje Penta is best suited for investors with a high risk profile. Measured as risk of loss, Formuepleje Penta can thus be compared to a high risk index consisting of 100 % equities. A portfolio composed like this index will be the investor's alternative to Formuepleje Penta.

Figure 1



Comparison is made to an ungeared index representing a comparable risk profile. High risk is 100 % equities.

Figure 2



Comparison is made to an ungeared index representing a comparable risk profile. High risk is 100 % equities.

## The Fund's management's review // Board and fund manager

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### BOARD MEMBERS

#### **CARSTEN WITH THYGESEN, chairman**

CEO, MA in Forestry Management, E\*MBA, HD (F)  
Ahornvej 64  
8680 Ry

Born: 1964

Joined the board of directors on 10 July 2013 and is up for election again in 2020.

#### **Chairman of:**

Aktieselskabet Rold Skov Savværk  
A/S Lindenberg Gods  
A/S Lindenberg Skovselskab  
Formuepleje Ejendomme 1 P/S  
Formuepleje Ejendomme 2 P/S  
Formuepleje Ejendomme 3 A/S  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Epikur  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Penta  
Kapitalforeningen Formuepleje Safe  
Mobilhouse A/S  
Mobilhouse Holding A/S  
Skovrådet  
Lfi Silva Investments A/S

#### **Deputy chairman of the board of:**

Realdania

#### **Board member of:**

Aarhus School of Architecture  
Karen og Karl Buttenschøns Familiefond

#### **Director of:**

Cresco Capital A/S

#### **Special expertise**

Carsten With Thygesen has a Master of Forestry Management, an E\*MBA and an HD(F) and has more than 25 years of professional experience, including 10 years at Realkredit Denmark A/S, 5 years as group managing director for Hedeselskabet and 13 years as CEO of HedeDanmark A/S. Since 1998, he has been a member of the board of a number of investment companies, including as deputy chairman of Realdania since 2009 and as chairman of Realdania's Investment Committee since 2013. From 2016 to the end of 2018, he was also the chairman of the Market Development Fund, appointed by the Minister of Industry, Business and Financial Affairs.

#### **JØRN NIELSEN, deputy chairman**

Project advisor  
Christianslund 110 A  
8300 Odder

Born: 1949

Joined the board of directors on 10 July 2013 and is up for election again in 2019.

#### **Deputy chairman of the board of:**

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

Kapitalforeningen Formuepleje Penta  
Kapitalforeningen Formuepleje Safe

#### **Board member of:**

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

#### **Director of:**

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

#### **Special expertise**

Jørn Nielsen has more than 35 years' experience in investment and financing. This experience comes partly from employment in the financial and private sector and partly from self-employment. Since 1990, he has been a board member of a number of investment companies.

#### **BØRGE OBEL**

Professor of economics  
Grumstolsvej 66  
8270 Højbjerg

Born: 1948

Joined the board of directors on 10 July 2013 and will leave the board in 2019.

#### **Chairman of:**

Denmark's Electronic Research Library  
EcoMerc ApS

#### **Board member of:**

Investeringsforeningen Absalon Invest  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Epikur  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Penta  
Kapitalforeningen Formuepleje Safe  
Formuepleje Ejendomme 1 P/S  
Formuepleje Ejendomme 2 P/S  
Formuepleje Ejendomme 3 A/S

#### **Director of:**

Obel og Obel ApS  
ODC-C IVS

#### **Special expertise**

Børge Obel is a professor of economics and has worked in management science, for a number of years, as a professor at Odense University/University of Southern Denmark. In the years 2004 to 2010, he was the rector and dean of the School of Business and Social Sciences at Aarhus University, and since 2010 he has been a professor and centre director there. Over the years, he has been involved in numerous public committees in areas such as education and IT. Furthermore, he has been a member of a number of boards for the past 20 years – including BankInvest and Albani.

**LARS SYLVEST**

Director, Master of Economics  
Orionsvej 6B  
8270 Højbjerg

Born: 1955

Joined the board of directors on 10 July 2013 and is up for election again in 2021.

**Chairman of:**

CAJ Associates  
ClickAJob  
ClickATest  
Ferm Invest

**Board member of:**

Aktieselskabet CBH  
Grundfos Pumps Limited Retirement Fund  
Investeringsforeningen Formuepleje  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Epikur  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Penta  
Formuepleje Ejendomme 1 P/S  
Formuepleje Ejendomme 2 P/S  
Formuepleje Ejendomme 3 A/S  
Pearless Pump Company Pension Fund

**Director of:**

Ferm Invest

**Special expertise**

Lars Sylvest has a Master of Economics from the Department of Management at Aarhus University, and he has many years of experience with global responsibility for Grundfos group's financial affairs and asset management, with over 25 years as the CFO of Grundfos and i.a. managing director of the group's internal bank, Grundfos Finance. Throughout his professional career, Lars Sylvest has been engaged in banking and finance and financial markets, and as CRO he was responsible for Grundfos Group's overall risk management and insurance. Apart from his employment at Grundfos Group, he has previous professional experience from working for i.a. Alfa-Laval Financial Management, Privatbanken (now Nordea), Aalborg Shipyard and the Danish Export Financing Fund. Since 1995, Lars Sylvest has also served as a board member on several boards of financial and industrial companies.

**MICHAEL VINTHER**

Lawyer, Partner, DLA Piper Denmark, Limited Partnership  
Company of Lawyers, Master of Law  
Skovholmvej 19  
2920 Charlottenlund  
Born: 1963

Joined the board of directors on 10 July 2013 and is up for election again in 2019.

**CHAIRMAN OF:**

Aktieselskabet Franske Vingårde  
Anlana 3 ApS  
AromaTeknik A/S  
Boliggruppen A/S  
Don Plast 2003 A/S  
Drømmeland A/S  
Indkøb DK A/S  
JMI Ejendomme A/S  
JMI Gruppen A/S  
JMI Investering A/S  
Justt A/S

K. A. Invest Holding A/S  
MJJM A/S  
Nybolig Jan Milvertz A/S  
Rossings Gaard II Slagelse ApS  
Sjællandske Ejendomme A/S

**Board member of:**

Adelis Advisory I A/S  
AKP Group A/S  
Brøndbyernes I.F. Fodbold A/S  
C.S. Electric ApS  
C.S.E. Holding A/S  
Derma Pharm A/S  
DLA Piper Danmark Advokatpartnerselskab  
DLA Piper Danmark Komplementar ApS  
Ejendomsselskabet Reskavej 1 A/S  
Ejendomsselskabet Servicevej A/S  
Esoft System A/S  
FB Gruppen A/S  
Glasværket A/S  
Inox Stål Handelsselskab A/S  
Intercool Food Technology ApS  
Investeringsforeningen Formuepleje  
Kameraudlejningen ApS  
Kapitalforeningen Absalon Invest  
Kapitalforeningen Formuepleje Epikur  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Penta  
Kapitalforeningen Formuepleje Safe  
Megatrend Invest A/S  
Newcap Holding A/S  
Nordic Petrol Systems Holding ApS  
Ny Valby Byggemodning P/S  
Ny Valby Holding A/S  
Ny Valby Udvikling A/S

**Director of:**

Vimmi Holding ApS

**Special expertise**

Michael Vinther is a lawyer and a partner at the law firm DLA Piper Denmark, and he has more than 25 years of experience in M&A as well as extensive board experience. During his career, Michael has been a legal advisor for a number of private equity funds and businesses regarding matters of business and corporate law.

**BOARD MEETINGS**

In 2018, the board held four ordinary meetings.

**REMUNERATION OF THE BOARD OF DIRECTORS**

As remuneration to the board for 2018, a total amount of DKK 375,000 was presented for approval by the annual general meeting.

The basic remuneration for an ordinary board member is DKK 55,000. In addition, the chairman receives a supplement of DKK 55,000. Ordinary members of the audit committee receive DKK 10,000 as a supplement, while the chairman of the audit committee receives DKK 15,000.

In 2018, no additional expenses have been incurred for the remuneration of board members for performance of specific tasks for the Fund.

**FUND MANAGER**

Formuepleje A/S  
Værkmestergade 25  
DK-8000 Aarhus C

**SØREN ASTRUP, partner, director**

Master of Economics  
Born: 1969

**Appointed as director of Formuepleje A/S on 5 July 2013.**

**Board member of:**

Honeycomb IO ApS

**Director of:**

Formuepleje A/S  
Søren Astrup Holding ApS  
Formuepleje Safe A/S  
Formuepleje Ejendomme 1 P/S  
Formuepleje Ejendomme 2 P/S  
Formuepleje Ejendomme 3 A/S  
Triple Alfa Global Equities ApS  
Emiliedalen Aarhus Holding ApS  
Finderupparken Aarhus Holding ApS  
Keep P1 Holding ApS

**Special expertise**

Søren Astrup has a Master of Economics from Aarhus University and has been part of the Formuepleje Group since 2003: first, as chief investment officer and then as investment director and director of the Formuepleje companies. Throughout his professional life, he has been engaged in financial matters and the financial markets, and he was also an external lecturer in the Department of Finance at Aarhus University, where he is currently an examiner. Søren Astrup is also on the investment committee of Formuepleje.

### HEADLINES

#### **Disappointing absolute returns but good relative returns in 2018**

Global equities, particularly in Q4, have been challenged by concerns about the momentum of growth in the US and globally. Thus, the leading equity index has delivered negative returns in 2018. Relatively speaking, Formuepleje's quality focus in the selection of equities contributed to a strong relative performance in 2018.

Danish mortgage-credit bonds delivered solid returns during the year. This was caused by DKK interest rates generally declining slightly in 2018 but also by the fund's bond portfolios outperforming the market.

The credit market delivered negative returns in 2018, where the first half was marked by weakness among non-developed countries out of fear of rising US interest rates. By contrast, Europe was impacted due to rising political uncertainty related to elections in Italy and Brexit.

#### **A year of two halves**

2018 consisted of two very different halves. The first half was a continuation of 2017, when stock markets continued to rise based on expectations of continued high growth. In the second half, the key ratios curved towards weaker numbers, while monetary tightening in the US in particular began to bite. Therefore, the second half of the year saw negative returns for both equities and credits.

#### **Fluctuations in Q1**

The first quarter of the year started with great optimism, especially in the wake of growth in the global economy and rising expectations for earnings in US businesses.

In early March, Trump announced raised tariffs and tightened technology transfers to China. The market reacted with equity price declines. An actual trade war will obviously be very serious and can, if corporate earnings growth must be revised downwards due to lower global trade and thus lower global growth, lead to large price drops.

On the interest rate side, there has also been volatility with large interest rate increases in late January, primarily due to expectations of rising inflation and less stimulants from the European Central Bank. At the same time, the yield premium on Danish mortgage-credit bonds increased sharply, which resulted in price declines for these bonds

The credit market among non-developed countries was marked by a growing trade war between the US and China. Finally, the market came under pressure because of fears of rising US interest rates and a stronger US dollar. By contrast, the European credit market started strongly in the first half of 2018.

#### **Strong dollar in Q2**

In the second quarter, politics particularly set the agenda in the financial markets. The escalation of the US trade war in particular created increased uncertainty. Donald Trump introduced tariffs on selected goods from mainly China, but Europe, Canada and Mexico were also hit. This led to "retaliatory actions", which only served to make the United States introduce even more tariffs for an even greater amount.

In Europe, the Italian elections ended with a surprising formation of government by the two EU-critical fringe parties, the Five Star Movement and Lega. This briefly led

to some uncertainty, during which, among other things, short-term Italian interest rates rose by almost 2 percentage points in a matter of days, and that spilled over into European equities.

The second quarter saw declining interest rates, especially in Germany and Denmark. The uncertainty after the Italian elections saw investors seek safe havens in German and Danish bonds, which was reinforced at the end of the quarter, where the escalation of the trade war contributed to a strong demand for safe assets. Another significant factor was that the European Central Bank announced that it was in no hurry to raise interest rates.

Furthermore, the dollar exchange rate rose by approx. 5.5 percent. Initially, this was due to expectations of further US interest rate increases in the wake of higher US inflation, and subsequently the turmoil surrounding the Italian elections contributed to a weakening of the euro and thus a strengthening of the dollar.

In this quarter, the Danish mortgage-credit bonds in the portfolios delivered reasonable returns, although the Danish interest rates rose in the same period. This was because longer-term rates rose in particular, which Formuepleje's portfolios were protected against. During the second quarter, political uncertainty in Turkey rose, just as rising volatility in Chinese high-yield bonds was instrumental in the credit market coming under additional pressure.

#### **Trump, EM and Italy impacted Q3**

During the third quarter, the trade dispute between the US and China, the development in emerging markets and the budget negotiations in Italy dominated the market.

During the quarter, there was a strong focus on emerging markets and especially the Turkish one. During the quarter, Turkish equities dropped by 20 percent, while emerging markets as a whole dropped by 1 percent, measured in US dollars.

In the bond markets, interest rate fluctuations in the third quarter were limited in the sense that the European Central Bank eliminated all uncertainty surrounding the interest rate meetings by promising to keep interest rates unchanged until "late summer 2019". This was reflected in a bond index development of 0.03 percent in the quarter.

In the late summer months, the Chinese government introduced more lenient conditions of risk for banks, which had a positive effect on the Asian credit market. By contrast, there was still considerable uncertainty in Turkey and increasing political risk in a number of Latin American countries. Finally, the second half of the year was marked by negative returns in the European credit market. In particular, increasing political uncertainty in Italy and Brexit placed the market under pressure.

#### **Fears of growth dominated Q4**

The overriding issue for global equities was concern about the slowdown in growth. Lower momentum, both among macroeconomic variables and companies in selected areas of the stock market, was the main cause of significant price declines through the fourth quarter.

Another rate hike from the US Federal Reserve and a rhetoric that was not as soft as hoped were instrumental in challenging investors' patience and views of the global growth momentum further.

The quarter ended with small declines in interest rates, which was why there were small, but nevertheless positive, returns on mortgage-credit bonds.

On the credit market for non-developed countries, Brazil and Mexico took particular focus because of major changes

in the political arena. The uncertainty surrounding the future political agenda made the credit market yield prior to the election results. Finally, the European Central Bank started to scale down and stop the supporting purchases of government and corporate bonds (the QE programme). The US credit market could not keep up at the end of 2018. A sharp drop in oil prices and corrections in the stock market contributed to the negative development.

### Decent global growth in 2019

Global growth is estimated to increase by approximately 2.7%-3.1 % in 2019. The US economy remains the main engine of growth in the Western world, and the previously agreed tax cuts and possible increased spending for infrastructure projects will particularly support consumption and investment. At the same time, the labour market remains strong, which is why US growth will also be quite strong in 2019 – although less so than in 2018. The eurozone will benefit from the extremely accommodative monetary policy, but may also be hit by weaker international conjunctures. The general trend in China is that growth is falling, but it is expected that growth in China will end up at around 6.0 % for 2018. The moderate growth in the western world and China will generally support growth in emerging market countries, which are expected to grow by about 4.5 %.

Against this background, we expect a positive equity return, combined with a greater degree of price fluctuations. Relative to other asset classes, equities are deemed to remain competitive in 2019.

The US tax reform has been an important element in the growth which businesses have been able to achieve in 2018. With a mature recovery, focus has shifted to a more normal year of operation in 2019, where crucial parameters such as growth in sales and earnings are essential for the generation of equity returns. These quality parameters, combined with valuation, have been among the main causes of the equity portfolio's strong relative performance in 2018 and will definitely be the main focus in 2019.

Growth concerns and continued geopolitical risks have been among the primary reasons why equities, especially US equities, have experienced a decrease in valuation. In other words, equities have generally become cheaper as expected earnings growth for 2018 experienced strong increases while equities generally dropped.

### Continued focus on central banks

With regard to interest rate, 2019 will be characterised by

continued global monetary tightening, with American interest rate hikes and the scaling down of the central bank's bond portfolio in particular - in conjunction with the effects of the ECB's ended bond-purchasing programme - top of investors' agendas. This is expected to result in rising long-term interest rates in both the US and Europe. However, it is expected that the European Central Bank will keep its key policy rate at the current low level and that the Danish interest rates will reflect this.

### Special risks associated with market trends in 2019

One of the main elements of risk in relation to equity returns is a stagnation of US and global growth. This will challenge the operational recovery and reduce the earnings growth that forms the basis of the expected share price increases.

In addition, a potential acceleration of expected inflation in either the US or Europe could lead to a change in expectations for future central bank interest rates.

Moderately rising interest rates are not expected to pose a significant threat to the expected equity returns, but accelerating interest rate increases might challenge this year's expected returns.

An essential element of risk with respect to the bond markets (especially mortgage-credit bonds) comes from the growing foreign investor base. These investors largely invest in Danish mortgage credit because the foreign alternatives are even more expensive. Volatility in the prices of other credit bond markets could therefore lead to volatility in the OAS levels (option-adjusted spread) of Danish mortgage-credit bonds.

Another risk element is Nationalbanken's key policy rate, which largely reflects the European Central Bank's (ECB) key policy rate. If, contrary to expectation, this interest rate is raised, it will provide a challenge to the current mortgage-credit bond portfolio.

As an investor in the capital fund, one is provided with ongoing management of one's savings. Among other things, management includes a consideration of the variety of risk factors in the investment markets. One of the main risk factors – and investors must take this into account themselves – is the choice of investment fund. Investors should be aware that there is always a risk when investing.

The risks of investing via a capital fund are generally related to four elements:

### RISKS ASSOCIATED WITH THE INVESTOR'S CHOICE OF SUB-FUNDS

Before the investor decides to invest, it is important to establish an investment profile so that investments can be put together based on the individual investor's needs and expectations. Moreover, it is crucial that the investor is aware of the risks associated with the specific investment. It may be a good idea to establish your investment profile in consultation with an advisor. Among other things, the investment profile will take into account the risks that the investor wants to take with their investment and how long the time horizon for the investment is.

From the sub-fund's accounts, this risk classification measured by the risk indicator appears in the document Significant Investor Information. The risk indicator is a common method for calculating the risks of investments in the EU. The method is based on the volatility of past returns. The greater the fluctuations in a sub-fund's return, the greater the risk of investing in the sub-fund. The fluctuations in the weekly returns are measured over a period of five years and are expressed as the key ratio *standard deviation*. Then the sub-fund is grouped on a scale from 1 to 7, according to the size of its standard deviation.

A sub-fund's position on the risk indicator is determined by the fluctuations in the sub-fund's NAV in the accounts over the past five years and/or representative data. Significant historical volatility equals high risk and a ranking to the right on the indicator (6-7). Small fluctuations result in a lower risk and a ranking to the left on the risk scale (1-2). The sub-fund's position on the scale is not constant. The position may change over time. The risk indicator does not account for sudden events, such as devaluations, political intervention and sudden currency fluctuations.

If, for example, the investor wants a very stable development in their certificates, they should generally not invest in an area with high risk (i.e. a sub-fund marked with a 6 or 7 on the risk indicator).

Risk class	Annual fluctuations in returns in percent (standard deviation)	
	Equal to or greater than	Less 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 expressed by the number in the left-hand column takes a value between 1 and 7, where "1" expresses the lowest risk and "7" the highest risk. The "1" category does not indicate a risk-free investment.

### RISKS ASSOCIATED WITH THE INVESTMENT MARKETS

These elements of risk are e.g. risk in equity markets, interest rate risk, credit risk and currency risk. Each of these risk factors is handled within the given framework of the many different investment areas invested in. Examples of risk management elements are a sub-fund's advisory agreements and investment policy, our internal controls, the statutes' requirements on risk diversification, as well as access to using derivatives.

### RISKS RELATED TO INVESTMENT DECISIONS

Any investment decision is based on the investment advisor's expectations of the future. A realistic image of the future is sought to be established, e.g. of interest rate trends, state of the market, earnings of businesses and political conditions. Based on these expectations, equities and bonds are bought and sold. This type of decision is inherently uncertain.

The aim of the Fund's sub-fund, which follows an active investment strategy, is to achieve a return that follows the sub-fund's return target, which can be found on page 18. As the investment strategy is active, the ambition is to find the best investments to generate the highest possible return relative to risk.

The Fund's manager has set risk limits for the Fund's sub-fund.

### RISKS ASSOCIATED WITH THE OPERATION OF THE FUND

To avoid errors in the operation of the Fund, a wide range of control procedures and business processes have been established to reduce these risks. Work is constantly being done to develop the systems, and the ambition is that the risk of human error will be minimised as much as possible. Furthermore, a management information system has been established which ensures continuous follow-up on costs and returns. Returns are evaluated continuously. If there are areas that are not performing satisfactorily, this is discussed with the investment advisor to determine what can be done to reverse the trend.

The Fund's manager, Formuepleje A/S, is also subject to supervision by the FSA and statutory auditing by auditors elected by the members of the annual general meeting. Here, the focus on risks and controls comes first.

In the area of IT, the Fund's manager places great emphasis on data and system security. Procedures and contingency plans have been prepared which aim to enable the restoration of systems within specified deadlines in the event of major or minor breakdowns. These procedures and plans are tested regularly.

In addition to the fund's manager being focused on safety and precision when tasks are solved as part of its daily operations, the board is monitoring the area as well.

For more information on the Fund's sub-fund, refer to the documents Investor Information and Significant Investor Information. These can be downloaded at

www.formuepleje.dk under product information about the Fund's sub-fund.

## GENERAL RISK FACTORS

### Country risk

By investing in securities in a single country, e.g. Denmark, there is a risk that all the sub-fund's investments could be adversely affected by country-specific policy or regulatory initiatives. In addition, market or general economic conditions in the country, including developments in the country's currency and interest rates, may affect the investments' value development significantly.

### Foreign exposure

Investing in well-organised and highly developed foreign markets often leads to a lower risk to the overall portfolio than investing in single countries or markets.

Some foreign markets may be less safe than the Danish market because of an increased risk of severe market reactions to company-specific, political, regulatory, market or general economic conditions. Furthermore, foreign investment entails a currency risk that can generate additional deviation in returns measured in Danish kroner, see below.

### New markets (emerging markets)

The term 'emerging markets' encompasses virtually every country in Latin America, Asia (ex. Japan, Hong Kong and Singapore), Eastern Europe and Africa. These countries may be characterised by political instability, relatively uncertain economic developments as well as equity and bond markets which are under development. Investments in emerging markets are subject to special risks. For example, an unstable political system entails an increased risk of sudden and sweeping changes in the economy and monetary policy. For investors, this can mean that assets are nationalised, that availability is limited, or that there is an introduction of governmental monitoring and control mechanisms. The currencies are often subjects to large fluctuations. Some countries have introduced restrictions on the export of currency, others may do so at short notice. The market liquidity in emerging markets may be poor 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 may be that there is no interest in the securities in the current situation. The lack of interest is typically due to these being securities with a low outstanding amount, which is rarely sold, or extreme market situations where many investors want to sell the same type of security at the same time. This can be either directly in the market or through an investment fund which is authorised to trade in the market on behalf of investors. In these situations, the difference between buying and selling prices will be great. The liquidity risk is most marked when selling securities and expresses that you can only sell the securities at significantly lower prices than what the securities are actually worth, estimated from what smaller holdings of securities can be traded at. In extreme situations, where a lot of investors choose to dispose of their certificates at the same time, the liquidity risk can lead to some investment funds being forced to suspend the redemption of certificates until the market situation allows this.

### Currency

The net asset value of a sub-fund with currency exposure will be affected by currency fluctuations. Conversely, for investment funds which invest solely in Danish equities or bonds there is not a direct currency risk. Investment funds that invest in European equities or bonds have a limited

currency risk. Investment funds that systematically hedge their currency exposure have a very limited currency risk. The Fund's sub-fund pursues an active currency policy and can therefore be affected by changes in currency exchange rates in the countries in which the sub-fund invests.

### Concentration risk

Investment funds spread their investments across various securities to reduce dependence on the price development of a single security. Nevertheless, specific conditions within a geographic area, a sector or a type of security can have a major impact on returns. In investment funds with a narrow investment universe, in order to reflect the market, a fund may be forced to concentrate a large part of their assets in relatively few securities, whereby risk diversification is not quite as good as in funds with a broader investment universe.

### Company-specific matters

The price development in equities and bonds issued by a company is more uneven than the market's average price development. Business-specific factors, including the company's general business development, business development in important areas, financing, sensitivity to trends in Danish or foreign interest rates, sensitivity to changes in currency exchange rates and changes in the company's regulatory and fiscal framework conditions in Denmark and abroad may suddenly cause far greater price fluctuations at the company level than the market's average daily price fluctuations. Ultimately, a company can go into insolvency, whereby any investment will be lost.

### Currency fluctuations in the bond market

The bond market may be subject to special political or regulatory initiatives which may lead to currency fluctuations affecting the value of the sub-fund's investments. In addition, market and general economic conditions, including global interest rate trends, will affect the value of investments.

### Interest rate risk

Interest rates vary from region to region, driven partly by the regional inflation levels. Interest rates play a big role in how attractive it is to invest in, among other things, bonds.

A rising interest rate level means falling bond prices and thus a lower value of the sub-fund's bond investments. The ratio *duration* describes how much the bond price will drop in case of a given interest rate increase. The lower the duration, the more price stable the bonds are in case of interest rate changes.

### Credit risk

Credit risk is the risk that the bond issuer will be unable to pay interest and make payments on the bond's payment dates. For many issuers, credit risk is described by a credit rating prepared by one of the international credit rating agencies. Among other things, the rating is based on an assessment of the collateral behind the bonds and on the issuer's earnings and assets. If the credit rating is reduced, the bond will usually drop in price.

The market usually rewards the investors who invest in bonds with a poor credit rating with an interest rate premium that can be considered to be compensation (risk premium) for the credit risk associated with the investment, relative to a comparable government bond without credit risk.

### Currency fluctuations in the stock markets

Equity prices vary greatly and suddenly, significant price drops occur regularly. In particular, such fluctuations may be a response to company-specific, political or regulatory

factors. They may also be due to sectoral factors or regional, local or general market or economic conditions.

**Depository receipts**

Depository receipts are investments with a risk exposure towards the underlying securities. In certain situations,

depository receipts are used to create an exposure to the underlying securities, e.g. in cases where the underlying securities cannot be owned directly or are suitable for being owned directly.

### Background and purpose

The following includes Kapitalforeningen Formuepleje Penta's policy on fund governance, which has been prepared based on the fund governance recommendations produced by Investment Denmark. The review has been organised in accordance with these recommendations. This policy must be regarded as complementary to legislation, and therefore generally does not contain the governance matters covered by relevant regulation.

### The relationship between the Fund and its manager

In accordance with the law, the Fund's board of directors, which is elected at the annual general meeting, has appointed Formuepleje A/S as manager of the Fund. The company is owned by Formuepleje Holding A/S.

## ANNUAL GENERAL MEETING AND INVESTORS' MATTERS

### Information on investor rights

The board wishes to encourage active ownership of the Fund, including investors' participation in the Fund's annual general meeting. This is done through investor access to information, including information on investor rights i.a. through the website, documents containing investor information, significant investor information, annual reports and half-year reports.

### Influence and communication

Each member has one vote for every shareholding with a denomination of DKK 100. The Fund's statutes contain more detailed information, including information about the Fund's annual general meeting and member matters.

The Fund exclusively uses electronic communication with investors. This decision was motivated from a cost perspective. Factors such as clarity and timeliness also contribute significantly to the use of electronic communication.

### Annual general meeting

An annual general meeting is called with sufficient notice to enable investors to prepare and decide on the issues to be considered at the meeting. The official invitation outlines the individual items on the agenda and is attempted to be prepared in easily understandable language.

Investors have the option of using proxies to the board or named proxies to make their voices heard in the treatment of the items on the agenda. Through the website, investors will be informed of the deadline for submission of written proposals for consideration at the annual general meeting. If there are proposals for amendments to the statutes, interested parties can obtain the complete proposals by contacting Formuepleje A/S. The complete proposals are also published on [www.formuepleje.dk](http://www.formuepleje.dk). The aim is for all members of the board and at least one member of the fund manager's executive board to be present at the annual general meeting.

## THE BOARD OF DIRECTORS

### The size of the board

**Investors elect the board at the annual general meeting. The board must consist of at least three and at most six members, which is considered an appropriate number with regard to enabling a constructive and effective debate in which all members have the opportunity to participate actively. The board regularly assesses**

**whether the number of board members is appropriate in relation to the Fund's needs. The board elects its own chairman and one or more deputy chairmen. Composition** Investment Denmark's fund governance recommendations recommend that board members should not be elected for a period longer than one year at a time, and that the chairman and other board members should only be allowed to serve a maximum number of terms. With regard to these points, the Fund deviates from the recommendations, as only the board's two longest-serving members are up for election every year. Furthermore, no maximum number of terms has been set. These deviations have been chosen to ensure greater continuity on the board.

Along with the invitation to the annual general meeting, where elections to the board are on the agenda, a description of the candidates' qualifications is published, including information regarding the candidates' other managerial roles.

During the annual general meeting itself, investors can also nominate candidates for election to the board. In these situations, it is expected that the candidate has the opportunity to present their qualifications, including information about the candidate's other managerial roles, intentions and expectations with respect to the work of the Fund.

As needed, the chairman holds meetings with the fund manager's executive board, where the co-operation is regularly evaluated.

The board conducts an annual assessment of the skills it needs to best perform its tasks, as well as an assessment of whether there are areas where the members' skills and expertise should be updated.

The board has decided that the target for the underrepresented gender should be one person by the end of 2020. This objective will be achieved by continuous development of the board.

Upon joining, new board members receive an introduction to the Fund.

### The amount of time allocated to board work and the board members' other duties

Candidates for the board will be asked to account for other managerial roles and active duties and to consider the time requirements made by board work, and to commit sufficient time to their duties on the board.

### Age limit

A member of the board shall resign no later than at the annual general meeting following the end of the financial year in which they turn 70 years of age.

Individual board members' ages can be found elsewhere in the annual report, where the board is presented in more detail.

### Election term

Every year, the two longest-serving board members are up for election, calculated from their last election. If more than two board members have served for an equal amount of time, the termination shall be determined by drawing lots. Members may be re-elected. This is considered advantageous to the Fund, as over time a member will acquire specific knowledge and experience of the Fund's affairs. The individual board member's term(s) can be found

elsewhere in the annual report, where the board is presented in more detail. Board members receive a fixed annual remuneration, subject to AGM approval.

#### **The Fund's manager**

It is disclosed that board member Jørn Nielsen is a board member of the Fund's manager.

The collaboration between the board and the fund manager is continuously evaluated, including in regular discussions between the chairman and the fund manager's executive board.

#### **AUDIT COMMITTEE**

The board has appointed an audit committee consisting of Carsten With Thygesen, Jørn Nielsen, Børge Obel and Lars Sylvest, who is the chairman of the audit committee. Several of the audit committee's members meet the executive order on audit committees' requirement that at least one member of the audit committee has qualifications in accounting or auditing. The audit committee meets with the Fund's external auditor and the Fund manager's executive board at least twice a year for, among other things, a closer examination of the accounting and auditing process, including i.a. a review of reports from the Fund manager's compliance and risk function. The audit committee subsequently informs all board members of these matters.

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

The board has established a policy for how it exercises its ownership. The policy can be found at [www.formuepleje.dk](http://www.formuepleje.dk). Monitoring of developments in the companies invested in is usually conducted by the Fund's investment advisor and fund manager, and these should contact the Fund if company-specific events make it relevant for the board to consider whether and how voting rights should be exercised. In the assessment of this, it is crucial to support the business in which the Fund has invested being managed so that the interests of owners, including the Fund, are accommodated.

Taking current rules into account, the Fund will co-operate with other investors where this is found to be suitable and effective, in order to achieve greater effect and impact.

#### **COMMUNICATION AND MANAGEMENT OF STAKEHOLDERS**

##### **Communication strategy**

As mentioned above, the Fund has chosen to focus on electronic communications, which can be justified by considering timeliness, environmental concerns and costs. It is the view of the board of directors that all information about the Fund must be made available on the Fund's website, [www.formuepleje.dk](http://www.formuepleje.dk), to the extent that this does not compromise a current competitive situation. For example, information about the investments made are delayed due to consideration of the Fund's colleagues/competitors. The Fund complies with the industry standards laid down by the industry association Investment Denmark and therefore publishes all information about returns, risk and costs, in addition to complying with the standards which apply to the Fund's operation and marketing.

##### **Management of stakeholder interests**

Generally, management works from an ambition to constantly ensure the professional management of investors' funds, taking into account a variety of factors, including good practice, cost and availability. The direct customer contact is handled by the manager's team of advisors, which is why the Fund's management has a strong

focus on these being constantly updated with current information.

#### **REVISION**

For the purpose of recommendations for the annual general meeting's appointment of auditors, the board assesses the auditor's competence and independence, etc. The auditor's agreement and the auditor's remuneration is approved by the board. The board determines the overall general framework for the auditor's delivery of non-financial audit services in order to ensure the auditor's independence etc. The auditor participates in the board meeting where the annual report is processed, including discussion of accounting policy and audit actions. The result of the audit is discussed with the board with a view to reviewing the auditor's observations and conclusions, potentially based on the draft auditor's records. The board ensures that there is an exchange of dialogue and information between the auditor and the board.

#### **SECURITIES LENDING**

##### **Securities lending**

Before the Fund makes use of securities lending, in each case there must always be a concrete assessment of whether the transaction is in the interest of investors. The basis of the decision will be a balancing of whether the expected earnings are in line with the cost and potential risk. Securities lending must be exercised solely for the benefit of the managed sub-funds.

Securities lending cannot take place in periods when dividend yields are paid out in the companies. The period for dividend yield is calculated as five business days before and five business days after the date on which dividend yields were paid. A control environment has been established to ensure that this is complied with.

If securities lending is used, the Fund shall provide information about the extent and earnings of this in the annual report, with specification of income and expenses in the accompanying notes and with a mention in the sub-fund report.

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

The sub-fund's loan financing includes securities lending. Securities lending is loans where the borrower lends out securities and, in return, receives collateral in e.g. cash.

#### **VARIOUS**

##### **Management of the Fund (board of directors and fund manager)**

The annual general meeting, which is the Fund's highest authority, elects a board at the annual general meeting, as per the above. The board shall then appoint a manager responsible for the daily management of the Fund. As initially outlined, the board has appointed Formuepleje A/S as its fund manager. To ensure that the manager has the necessary competence, the law includes some minimum requirements for management. Essentially, there is a requirement that the board of directors must have adequate experience to perform the duties and to take the necessary investment decisions. Furthermore, management must have no criminal record, must not have filed for bankruptcy, must not be in receivership, etc. When a replacement is made in a fund manager's management, the new members of management must be approved by the FSA.

The board of directors of the Fund must establish rules of procedure for the exercise of their duties. No fixed incentive programmes have been established for the board of directors or executive board. The Fund has hired Formuepleje A/S as its manager. This means that the Fund's board has no direct influence on the Remuneration

Policy and executive remuneration in Formuepleje A/S. These are established by the board of directors of Formuepleje A/S, which is independent of the Fund. The Fund pays remuneration to Formuepleje A/S in accordance with the agreements.

The rules of procedure also take into account that the general disqualification rules are complied with for decisions regarding board members' own buying and selling of investment assets, which is why a ban may e.g. be imposed on trading in securities that have been discussed at a meeting.

#### **Business processes**

In all material respects, the fund manager has established written business procedures and controls to safeguard daily operations as best possible. Moreover, developing and maintaining business procedures is a continuous process. In order to address any disputes with a member of the Fund, the board has adopted a procedure which has been published on the Fund's website. The procedure gives priority to a rapid response in the form of dialogue, so that a formal complaint submission will only be necessary where satisfactory clarification cannot be obtained.

#### **Trade in capital fund certificates**

In case of issues or redemptions in the Fund, it is important that the valuation takes place on a current basis. The fund manager has an IT system which continuously updates price information on the underlying assets for use in the calculation of the net asset value. This means that the valuation of the Fund's shares is always based on current prices. NAV is published via IFX.dk and on the Fund's website when it is changed. Thus, all stakeholders, including depositary bank, market maker and members, have access to the Fund's NAV at the same time, and thus the current buying and selling prices. The Fund never trades with the individual member, but only with the market maker.

#### **Settlement of trades with the underlying securities**

The Fund's manager and investment advisor assume all tasks related to trading, settlement and registration in

deposit. All transactions are carried out on best execution terms and in order to get access to relevant market information, the investment advisor makes sure to place trades with many different market participants. Trading conditions are monitored continuously, as the intention is to maintain the conditions which apply to large-scale customers.

#### **Clients and brokers**

The agreement between the Fund and its manager includes i.a. marketing of the Fund's shares. On a reciprocal basis, the agreement ensures that the Fund manager is informed about the Fund's products, so that the Fund manager can thus provide the Fund's investors with professional advice, taking into account the executive order on best practices for financial businesses.

#### **Relationship with advisors regarding the Fund's investments**

The Fund's manager is responsible for the Fund's portfolio management and is, thus, the Fund's primary advisor.

#### **Asset valuation**

The Fund's assets are valued in accordance with the applicable legislation. Work with valuation is also limited to portfolio management and is done on the basis of price data which is collected automatically by the Fund's IT systems. Elsewhere in this annual report, under "Applied accounting policy", the principles which apply to the valuation have been further explained.

#### **Risk management**

The investment policy for the Fund's sub-fund has been established by the Fund's manager in the form of an instruction which shows the latitude in the selection of assets and risks and the possibility of using currency hedging. The fund manager continuously monitors the sub-fund's placement framework and risk limits to ensure these do not differ from the investment framework set out by the board.

### Responsible investment policy

Formuepleje wishes to achieve attractive long-term returns, which requires a focused risk management which also includes assessment of environmental, social and governance-related affairs (ESG). In the work with ESG, focus is on i.a. environmental and climate impact, labour rights, human rights and anti-corruption. The guidelines for the funds' work with CSR appear in the funds' responsible investment policies which cover all ESG areas, including environmental and climate impact, labour rights and employee matters, respect for human rights, anti-corruption and bribery. As a rule, Formuepleje treats all areas according to the same principles. Generally, Formuepleje wants to improve ESG standards in the markets where investments are made, as this has a number of social benefits in the form of, among other things, greater growth and more sustainable development. Thus, Formuepleje also considers companies that understand and manage ESG-related issues in a proper manner to be better long-term investments.

The policy for responsible investment was adopted by the board in August 2018. The current policy can be found on the fund's website, [Formuepleje.dk](http://Formuepleje.dk).

The basis for the fund's responsible investment policy is the UN PRI (the "United Nations Principles for Responsible Investment"), which is a set of principles for responsible investment. UN PRI is a global initiative to promote responsible investment and was established by some of the world's largest investors in co-operation with the UN. Formuepleje has endorsed these principles and conducts an annual reporting and assessment process under the guidelines of the PRI. Part of this report is published on the PRI website.

Formuepleje will not publish an external exclusion list, but can continually opt out of companies which supposedly violate international principles of social responsibility such as the UN Global Compact, UN Guiding Principles and the OECD Guidelines for Multinational Enterprises. As a rule, all equities featuring on Norges Bank's exclusion list, which features almost 150 companies, are excluded. Formuepleje cooperates with an external service provider from which we regularly receive reports on companies

suspected of serious violations of international norms and conventions. As a rule, the recommendations are followed, but all input is evaluated and Formuepleje's investment committee makes the final decision on any possible exclusion of a company. However, Formuepleje generally views active ownership as a more effective tool than exclusion.

Regardless of the market invested in or which company is invested in, there is always a risk that violations of international norms and conventions occur and do not surface. This may be due to a lack of regulatory control or circumstances that are kept hidden by the companies. The majority of the assets in Formuepleje are invested in Danish bonds or major global listed companies, where the risk of violations is limited. However, a minor proportion is also invested in emerging markets, where the risk of violations of standards for environmental and climate impact, labour rights and employee conditions, respect for human rights, anti-corruption and bribery is greater, just as the ability to monitor ESG issues in the companies is lesser. Formuepleje is aware of these risks and aims to minimise them through co-operation with investment advisors and the external ESG adviser.

Formuepleje works with a number of external investment managers. These have all signed the UN PRI or meet similar requirements, and all advisors incorporate ESG factors into their investment process. Specifically this happens through a worse ESG score or uncertainty about the ESG score detracting from the valuation of companies. The work with responsible investment is also an integral part of the ongoing evaluation by the advisors. Through the primary equity advisor, Formuepleje actively works to influence the companies which are suspected of violations. This is done via an external partner who is in constant dialogue with the companies. Support for companies which move in the right direction with respect to ESG issues is generally more effective than selling.

Formuepleje has adopted a policy for the exercising voting rights, which can be found on the website. Formuepleje can choose to exercise its voting rights when it is in the interest of investors based on a principle of proportionality. Whether Formuepleje publishes what was voted for depends on the specific case.

## Statements // Management's statement

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Today, the Fund's board of directors and fund manager have considered and approved this annual report for the financial year starting on 1 January 2018 and ending on 31 December 2018 for Kapitalforeningen Formuepleje Penta.

The annual accounts have been prepared in accordance with the Act on Managers of Alternative Investment Funds Etc., with the adoption of the accounting provisions of the Act on Investment Funds Etc.

Management's review includes a fair review of the development of the Fund's activities and financial position

Aarhus, 28 March 2019

**Fund manager**  
Formuepleje A/S  
Executive board

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Søren Astrup

### Board of directors

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Carsten With Thygesen  
Chairman of the Board

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Jørn Nielsen  
Deputy chairman

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Michael Vinther

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Børge Obel

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Lars Sylvest

and an accurate description of the significant risks and uncertainty factors which the Fund may be affected by.

We consider the chosen accounting policies to be appropriate, and therefore, in our opinion, the annual accounts provide an accurate image of the Fund's assets and liabilities, financial position and results.

The annual report is submitted for approval at the annual general meeting.

### FOR THE INVESTORS IN THE KAPITALFORENINGEN FORMUEPLEJE PENTA

#### CONCLUSION

We have audited the annual accounts of Kapitalforeningen Formuepleje Penta for the fiscal year which ended on 31 December 2018, which comprise the income statement, balance sheet and notes, including accounting policies. The annual accounts have been prepared in accordance with the Act on Managers of Alternative Investment Funds, etc., with the adoption of the accounting provisions of the Act on Investment Funds, etc.

It is our view that the annual accounts provide a true and fair view of the fund's assets, liabilities and financial position as of 31 December 2018 and of the results of the Fund's activities for the financial year ending on 31 December 2018 in accordance with the Act on Managers of Alternative Investment Funds, etc. with the adoption of the accounting provisions of the Act on Investment Funds, etc.

Our conclusion is consistent with the records submitted to the board by our auditor.

#### BASIS FOR CONCLUSION

We have conducted our audit in accordance with international auditing standards, as well as in accordance with the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are described in more detail in the auditor's report, in the section "The auditor's responsibility for the audit of the annual accounts". It is our view that the obtained audit evidence is sufficient and suitable for constituting the basis of our conclusion.

#### Independence

We are independent of the fund in accordance with international rules of ethics for auditors (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, just as we have met our other ethical obligations under these rules and requirements.

To our knowledge, no prohibited non-audit services detailed in Article 5, Subsection (1) of Regulation (EU) no. 537/2014 have been performed.

#### Election of auditor

We were first appointed as auditors for Kapitalforeningen Formuepleje Penta on 25 April 2018 for the financial year 2018.

#### KEY ISSUES OF THE AUDIT

Key issues of the revision are the factors that, in our professional opinion, were the most significant to our audit of the annual accounts for the year which ended on 31 December 2018. These issues were addressed as part of our audit of the annual accounts as a whole and the preparation of our conclusion thereon. We express no separate opinion on these matters. For each of the following matters, the description of how the matter was treated in our audit has been provided in this context.

We have fulfilled our responsibilities as described in the "The auditor's responsibility for the audit of the annual accounts", including in relation to the following key aspects of the audit. Our audit has included designing and

performing auditing procedures in response to our assessment of the risks of material misstatement in the annual accounts. The result of our audit procedures, including the audit procedures we have implemented to process the below issues, form the basis of our opinion on the annual accounts as a whole.

#### Valuation of financial instruments

Valuation of investments in bonds, equities, investment certificates and derivatives (collectively referred to as "financial instruments") at fair value constitutes the main element in the calculation of the fund's returns and assets.

It is our view that, in relation to the valuation of the fund's financial instruments, there is generally no significant risk of material misstatement in the annual accounts, since the fund's financial instruments consist mainly of liquid, listed financial instruments for which a listed price in an active market is available, and only to a limited extent of less liquid listed and unlisted financial instruments whose fair value is determined using generally accepted valuation techniques and management estimates.

Due to the instruments' essential importance to the fund's total income and returns, the valuation of financial instruments is deemed to be the most central aspect of the audit.

Our audit procedures with regard to the valuation of financial instruments have included:

- Test of registration systems, business procedures and internal controls, including IT and system-based controls that support the valuation of financial instruments.
- Random checks of reconciliations of financial instruments against information from the depositary bank and random checks of the instruments' valuation by comparison with independent pricing sources.
- Assessment and random checks of used valuation techniques and managerial estimates in determining the fair value of less liquid listed financial instruments.

The percentage distribution of financial instruments across listed instruments, instruments listed on another regulated market and other financial instruments appears in the note in the annual accounts.

#### STATEMENT ON MANAGEMENT'S REVIEWS

Management is responsible for management's review.

Our conclusion on the annual accounts does not include management's review, and we express no kind of certain conclusion with regard to management's review.

In connection with our audit of the annual accounts, it is our responsibility to read management's review and, in this context, consider whether management's review is materially inconsistent with the annual accounts or our knowledge gained from the audit, or whether it otherwise appears to be materially misstated.

Our responsibility is also to consider whether the management report contains the information required under the Act on Managers of Alternative Investment Funds Etc.

with the adoption of the accounting provisions of the Act on Investment Funds Etc.

Based on the work performed, it is our opinion that management's review is consistent with the annual accounts and has been prepared in accordance with the requirements in the Act on Managers of Alternative Investment Funds Etc. with the adoption of the accounting provisions in the Act on Investment Funds Etc. We have not found material misstatements in management's review.

### **MANAGEMENT'S RESPONSIBILITY FOR THE ANNUAL ACCOUNTS**

Management is responsible for the preparation of annual accounts which provide a true and fair view in accordance with the Act on Managers of Alternative Investment Funds, etc. with the adoption of the accounting provisions of the Act on Investment Funds, etc. Management is also responsible for any internal control which management determines is necessary in order to prepare annual accounts free from material misstatement, whether due to fraud or error.

In preparing annual accounts, management is responsible for assessing the fund's ability to continue operation; to provide information on aspects of continuing operations where applicable; and to prepare annual accounts based on the accounting principle of continuing operations, unless management either intends to liquidate the fund or cease operations or has no realistic alternative but to do this.

### **THE AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL ACCOUNTS**

Our aim is to obtain reasonable assurance as to whether, as a whole, the annual accounts are free from material misstatement, be this due to fraud or error, and to issue an auditor's report with a conclusion. A great degree of assurance is a high level of certainty, but not a guarantee, that an audit performed in accordance with international standards on auditing as well as additional requirements applicable in Denmark will always uncover significant misstatements where they exist. Misstatements can arise from fraud or error and can be considered material if it can be reasonably expected that, individually or collectively, they influence the financial decisions that users of the accounts make on the basis of the annual accounts.

As part of an audit performed in accordance with international standards on auditing, as well as additional requirements applicable in Denmark, we conduct professional assessments and maintain professional scepticism during the audit. In addition:

- ▶ We identify and assess the risks of material misstatement in the annual accounts, be this due to fraud or error, design and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to provide the basis of our conclusion. The risk of failing to detect material misstatements caused by fraud is greater than the risk of failing to detect material misstatements caused by errors, as fraud may include conspiracies, forgery, deliberate omissions, misdirection or overriding of internal controls.
- ▶ We gain an understanding of internal controls relevant to the audit in order to design audit procedures which

are appropriate in the circumstances, but not to express an opinion on the effectiveness of the fund's internal controls.

- ▶ We determine whether the accounting policies applied by management are appropriate, and whether accounting estimates and related information drawn up by management is reasonable.
- ▶ We conclude whether management's preparation of the annual accounts based on the accounting principles of continuing operations is appropriate, and whether, on the basis of the audit evidence obtained, there is significant uncertainty related to events or factors that may create substantial doubt about the fund's ability to continue operations. If we conclude that there is significant uncertainty, we must, in our auditor's report, identify these details in the annual accounts or, if such information is not sufficient, modify our conclusion. Our conclusions are based on the audit evidence obtained up until the date of our auditor's report. However, future events or circumstances may mean that the fund can no longer continue operation.
- ▶ We consider the overall presentation, structure and content of the annual accounts, including the note information, as well as whether the annual accounts reflect the underlying transactions and events in such a way as to provide a true and fair view of these.

We communicate with senior management about i.a. the planned scope and timing of the audit and about significant audit observations, including any significant deficiencies in internal controls which we identify during the audit.

We also provide a statement to senior management that we have complied with relevant ethical requirements regarding independence, and we inform management of all relationships and other matters that are reasonably likely to affect our independence and, where relevant, associated safeguards.

Based on the matters that have been communicated to senior management, we determine what factors were the most significant in the review of the annual accounts for the relevant period and are thus key aspects of the audit. We describe these matters in our auditor's report unless legislation or other regulation precludes that the matter is published or, in very rare cases, where we determine that the matter should not be communicated in our auditor's report because the negative consequences thereof could reasonably be expected to outweigh the public interest benefits of such communication.

Aarhus, 28 March 2019

ERNST & YOUNG  
Authorised limited partnership accounting company  
CVR 30 70 02 28

Thomas Hjortkjær Petersen  
State-authorized public accountant  
mne33748

### Investment area and profile

The sub-fund implements its investment strategy on the basis of the theory of optimal portfolios. This means that, based on statistical and theoretical contexts, the sub-fund puts together a portfolio consisting mainly of bonds and equities, where the relationship between returns and risk is sought to be optimised. The sub-fund may then, by borrowing in Danish kroner or euros, invest more in the optimised portfolio. Thus, the expected return is increased. The strategy thus implies that the sub-fund uses loans. The strategy's aim is for the returns/the risk profile to be different to that of traditional investment funds investing in bonds and equities. Over five years, the target is a return in terms of net asset value of 90 percent. The sub-fund invests in foreign currency assets and can therefore be affected by changes in currency exchange rates in the countries in which the sub-fund invests. The sub-fund uses financial instruments in its risk management.

### The sub-fund's profile

Certificate issuing and listed  
 Base currency: DKK  
 Benchmark: No benchmark  
 ISIN: DK0060498343  
 Start date of investment strategy: 1 January 1994  
 Advisor: Formuepleje A/S  
 Tax status: Accumulative

### Key figures

Return (%)	-1.98
Net asset value	187.67
Expense ratio	3.30
Expense ratio excl. performance remuneration	2.27
The Sharpe Ratio	0.98
Standard deviation	13.24
APR	3.68
APR ex. Performance remuneration	2.65
High-Water Mark (performance remuneration, end of Aug. 2018)	212.68

### Return target

The sub-fund has a return target but no benchmark. The return target is the sub-fund's expected median return in normal market conditions.

The return target is 90 percent over five years in terms of net asset value.

The sub-fund also has an absolute risk target. The maximum exchange rate loss over a three-year period should, at 95 percent probability, not exceed 15 percent.

### Risk classification

1	2	3	4	5	6	7
Low risk					High risk	

The sub-fund report should be read in conjunction with the general section of the annual report

- *Investment markets in 2018*
- *Overall expectations for the markets in 2019*
- *Risks and risk management*

to provide a complete picture of the development.

Management's assessment of the sub-fund's special risks is presented below. For more information about the risks of investing in the sub-fund, refer to the current document with investor information, which can be found at [www.formuepleje.dk](http://www.formuepleje.dk).

### Sub-fund-specific risks

The sub-fund is aimed at investors who, rather than making individual investments and building an individual portfolio of securities, wish to benefit from the diversification that the sub-fund's portfolio offers. The typical fund investor in the sub-fund has an investment horizon of at least five years and considers the investment in the sub-fund as one of several elements in an overall portfolio.

The sub-fund invests in bonds, equity and unit trusts from both mature and emerging markets. Secondly, the sub-fund also invests in derivatives. Investments are made with the use of loans, which means that the sub-fund is trying to increase returns by investing with borrowed funds. As a rule, the sub-fund will borrow an amount equal to 400 % of assets. This means that for every DKK 100 invested in the sub-fund, a loan equivalent to DKK 400 is taken out. Borrowing may vary, but shall at no time exceed DKK 500 for each DKK 100 of investors' net assets.

Interest rate changes brought about by changes in the general level of interest rates or changes in credit spreads on the various bond classes affect the sub-fund's performance. If the interest rate increases, the market price of the bonds will decrease with a consequential loss to the sub-fund. An isolated increase in credit spreads on the individual bond classes will yield the same result. The size of the exchange rate loss depends both on the bond portfolio's composition and on the size of the increase in interest rates or the interest rate spread growth. The sub-fund uses financial instruments in order to minimise losses from interest rate increases, etc.

As financial markets continually change the assessment of credit risk, this can affect the results negatively. If the financial markets suddenly assess that Danish mortgage-credit bonds involve greater risk, the portfolio of Danish mortgage-credit bonds may thereby risk a decline in value, while government bond rates remain unchanged or decline.

By investing in equities, the sub-fund takes several types of risks. The market risk is the general risk of equity markets falling and thus impacting performance negatively. The company risk is the risk that the individual equities in the sub-fund will develop disadvantageously compared to the stock market in general. The investment strategy's choice of over or under-weighting of equities in general and of sectors or geographic areas may therefore affect the overall result.

The sub-fund accepts multiple forms of currency risks. As much of the equity portfolio is invested in currencies other than Danish kroner, there are also currency risks for these

investments. A strengthening of the currency exchange rates for equities and bonds in foreign currencies impacts the result positively. A significant part of the sub-fund's investment strategy is the ability to take out loans. Rising borrowing costs will therefore affect the result negatively. The sub-fund is dependent on the necessary credit facility remaining available, which is why a lack of credit facilities will pose a risk to the long-term investment strategy.

To some degree, the sub-fund uses derivatives as a supplement to the underlying equity and bond portfolio, as well as for managing the overall currency risk. The risk of investing in derivatives depends on the underlying asset that the derivatives are based on. Investments through derivatives must be viewed in the context of the underlying investment strategy, and the risks of the derivatives are, as in the underlying asset classes, affected by interest rate, equity and currency rates, as well as counterparty and settlement risks.

The sub-fund may invest borrowed funds. This may lead to increased risk, as investments thus represent a value greater than the assets of the sub-fund. If securities drop in value, asset value and thus the value of the investment certificate therefore drops even more. In addition, there is also a risk that the interest rate on the loan may increase. The sub-fund may borrow up to 500 % of the sub-fund's assets.

Furthermore, upper limits for certain exposures have been defined. With regard to these restrictions, the market value of:

- total long and short dispositions cannot exceed 1450 % of the sub-fund's assets.
- long dispositions cannot exceed 500 % of the sub-fund's assets
- net exposure towards equities may represent 130 % of the sub-fund's assets at the time of investment

These risks have already been discussed in the section *General Risk Factors*.

The sub-fund invests in instruments denominated in currencies other than Danish kroner, and which are generally not hedged. Therefore, the return may be greatly affected by changes in currency exchange rates, both positively and negatively.

The sub-fund has a different risk profile compared to traditional investment funds, as the sub-fund makes more extensive use of derivatives. This means that the sub-fund has the opportunity to vary the risk in the sub-fund by using derivatives, which can impact results both positively and negatively.

The sub-fund invests in the alternative investment fund *Formuepleje Triple Alpha Global Equities ApS (TAGE)*, which invests in accordance with an alpha strategy. That is, TAGE buys equity exposure in a global investment fund advised by the stockbroker firm CPH Capital. To make the strategy neutral to general market movements, market exposure (so-called beta) is sold against the acquired portfolio at the same time. This means that TAGE has no market risk. The risk of such a strategy is that equities are selected which perform worse than the world market index. However, the strategy has good portfolio properties in the context of ordinary investment in equities and bonds, as the alpha strategy does not correlate with the sub-fund's other dispositions. It has been decided that this alpha strategy cannot make up more than 13 percent of assets at the time of investment. The absolute maximum limit represents 14.95 % of the sub-fund's assets.

### **Cost structure**

The sub-fund's administrative expenses cover both the cost of advisory and management and the sub-fund's other operating costs. The fixed remuneration for advisor and fund manager has been calculated based on the sub-fund's assets, and represent a total of 2.25 % of the assets per year.

In addition, the investment advisor is paid performance remuneration totalling 10 % of the sub-fund's returns. Before triggering performance remuneration, the net asset value must exceed the most recent High-Water Mark. Thus, performance remuneration is only paid out when the net asset value is greater than it was when performance remuneration was paid out last time. This is calculated on a monthly basis. For the year as a whole, it can therefore happen that performance remuneration is paid to the fund manager despite the returns of the financial year being negative.

Calculation by High-Water Mark ensures that returns-based remuneration is only paid when the sub-fund's assets have achieved a positive increase in value, and that no returns-based remuneration is paid more than once for the same returns.

If investments are made in the form of other collective savings products which the fund manager has entered into an investment agreement with, the fund manager's earnings from this are deducted from the fee paid to the fund manager.

### **Performance and assets**

In the financial period, the sub-fund has had issues of DKK 546 million and redemptions of DKK 26 million. In the financial year, a result of DKK -114 million has been realised. As of 31 December 2018, assets amounted to DKK 4,478 million.

### **Returns for the year and performance**

In the financial year, the sub-fund generated a return of -1.98 percent. An index with the same risk profile as the sub-fund, i.e. a high risk, has yielded a return of -4.6 percent for the financial period.

As the result is negative, however, the board does not find the result satisfactory.

When compared to the sub-fund's target of delivering a return of 90 percent over a five-year period, equivalent to an average annual return of 13.7 percent, the result is below expectations.

The result has been created in a year of continuous rising markets throughout the first three quarters. The fourth quarter, however, was characterised by strong price drops in global equity markets.

For the whole year, the vast majority of asset classes ended up in negative territory. However, Danish mortgage-credit bonds were a rare exception. At the same time, however, there has been significant outperformance in the selection of equities and Danish mortgage-credit bonds. These strategies have therefore also been a contributing factor to the performance.

### **Market outlook, strategy and special risks**

The expected equity returns in 2019 are upwards of 10 percent in dollars, where currency developments may detract from or add to the overall portfolio returns.

The US tax reform has been an important element in the growth which businesses have been able to achieve in

2018. With a mature recovery, focus has shifted to a more normal year of operation in 2019, where crucial parameters such as growth in sales and earnings are essential for the generation of equity returns. These quality parameters, combined with valuation, have been among the main causes of the equity portfolio's strong relative performance in 2018, and will definitely be the main focus in 2019.

Growth concerns and continued geopolitical risks have been among the primary reasons why equities, especially US equities, have experienced a decrease in valuation. In other words, equities have generally become cheaper as expected earnings growth in 2018 has experienced strong increases while equities have generally dropped.

At the start of 2019, the equity portfolio was fully exposed to equities.

With regard to interest rates, 2019 will be characterised by continued global monetary tightening, with American interest rate hikes and the scaling down of the central bank's bond portfolio in particular – in conjunction with the now ended European bond purchases – at the top of investors' agendas. This is expected to result in rising long-term interest rates in both the US and Europe. However, it is expected that the European Central Bank will keep its key policy rate at the current low level and that the Danish interest rates will reflect this.

Therefore, at the start of the year, the bond portfolio is protected from moderately rising interest rates and is positioned to benefit from continued low interest rates.

Please refer to management's review on page 9 for a more detailed comment on market expectations.

As periods of strong price fluctuations are expected, the expectation is that, in 2019 as in 2018, tactical asset allocation will be employed, which may mean i.a. that the share of equities in the portfolio may vary over the year. There will thus be periods where there will be full utilisation of the equity limits, while in other periods there will be equity exposure below the long-term normal level.

#### **Special risks associated with market trends in 2019**

One of the main elements of risk in relation to equity returns is a stagnation of US and global growth. This will challenge the operational recovery and reduce the earnings growth that forms the basis of the expected share price increases.

In addition, a potential acceleration of expected inflation in either the US or Europe could lead to a change in expectations for future central bank interest rates. Moderately rising interest rates are not expected to pose a significant threat to the expected equity returns, but accelerating interest rate increases might challenge this year's expected returns.

Please refer to management's review on page 9 for a more detailed comment on the specific risks associated with market trends for 2019.

#### **Securities lending**

In accordance with the fund's statutes, the sub-fund may lend securities to optimise the return on the assets in which the sub-fund invests. In 2018 there was no securities lending.

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

The sub-fund's loan financing includes securities lending. Securities lending is loans where the borrower lends out securities and, in return, receives collateral in e.g. cash.

#### **Significant events after the reporting period**

In late 2018, in cooperation with Formuepleje A/S, the board decided to launch a bidding round of the fund's depository services in order to achieve potential gains for investors. This process was completed in early February 2019, when the board and Formuepleje A/S could observe that both financial savings and efficiency gains could be achieved by making a change to Danske Bank. In the selection of a new depository, a careful assessment of the banks' control environment and compliance standards was also included. Here, it was found that among the relevant depositories, there was a very high standard. The control and compliance environment in Danske Bank was deemed to be "best in class", which also influenced the selection of Danske Bank as a new depository. The switch comes into force on 1 October 2019.

It is the view of the fund manager that there is no uncertainty involved in the recognition and measurement of asset value or unusual conditions that may have affected this, just as no events after the financial year have been significant to the annual accounts.

#### **Knowledge resources**

The sub-fund has no employees, but relies on external partners. The majority of the sub-fund's knowledge base is therefore placed with the employees employed by the partners.

A fund management agreement has been entered into with Formuepleje A/S, which has produced a wide range of control mechanisms and procedures to address risks associated with the operation. Formuepleje A/S has IT systems which ensure a high degree of data and system security, as well as contingency plans and procedures which allow quick restoration of data and systems in the event of a breakdown. Furthermore, the fund manager devotes considerable resources to ensuring the most correct pricing of the equities, bonds and other instruments included in the sub-fund's portfolio.

On an ongoing basis, Formuepleje A/S also ensures that the staff who carry out assignments in the company are adequate, well-trained and experienced. The overall security level is planned and continuously monitored by the board. As a fund manager, Formuepleje A/S is subject to supervision by the FSA and statutory auditing. Here, the focus on risks and controls comes first. The auditors present the conclusion of their reviews to the board and have a duty to inform of significant weaknesses.

Management believes that the sub-fund and its partners jointly have financial and administrative knowledge expertise with the necessary breadth and depth.

#### **Salary information**

According to the Act on Managers of Alternative Investment Funds Etc. (AIFM Act), in accordance with Section 61, Subsection 3, Clauses 5 and 6, the following information shall be provided.

In 2018, the total payroll of the fund manager Formuepleje A/S amounted to DKK 64,873 thousand. (2017: DKK 45,395 thousands) of which DKK 53,953 thousand (2017: DKK 38,021 thousand) is fixed salary and DKK 10,920 thousand (2017: DKK 7,374 thousand) is variable pay.

The total payroll for management of the fund manager amounts to DKK 1,829 thousand. (2017: DKK 1,807 thousand), of which DKK 1,829 thousand (2017: DKK 1,807 thousand) is fixed salary and DKK 0 thousand (2017: DKK 0 thousand) is variable pay.

In addition to management, under AIFM legislation, three employees of the Fund's manager have had material impact on the risk profile of the managed capital funds. The total payroll amounts to DKK 5,518 thousand. (2017: DKK 5,489 thousand)

No preference dividend yields are paid out to the employees or members of management of the fund managers of any of the managed funds. There is no information which allows

the allocation of the total payroll amounts to individual managed funds.

The average number of employees of the fund manager in 2018, converted to full-time employees, is 56 (2017: 41),

## Holdings // Formuepleje Penta KL

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The Fund's equity exposure is made by Danish and foreign investment and capital funds.

For accurate information about the composition of equities, refer to the annual reports for the below funds.

### The sub-fund's equity exposures as % of investor assets

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Invf. Formuepleje LimiTTellus (DK0060502631)	98.30
Invf. Formuepleje Better World (DK0061068624)	1.83

### The sub-fund's 10 largest indirect investments as % of investor assets

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Alphabet Inc CL C	4.69
Anthem Inc	4.65
Microsoft Corp.	4.13
Wells Fargo & Co.	3.47
Service Corp International/US	3.47
Visa Inc	2.70
Naspers Ltd	2.64
Dover Corp	2.54
Starbucks Corp.	2.53
Julius Baer Group Ltd	2.52

### Market neutral investment as % of investors' assets

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Triple Alfa Global Equities ApS	12.99
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The Fund's bond exposure is made by direct investments and through Danish and foreign investment funds.

### The sub-fund's bond exposure broken down by issuers in % of investor assets

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Nykredit	153.26
Realkredit Danmark	118.70
BRF Kredit	32.46
Nordea Kredit	29.03
DLR Kredit	4.12
Other	5.66

## Risk limits and risk assessment // Formuepleje Penta KL

The below table shows numerical risk limits in accordance with the Fund's statutes and risk limits set by the Fund's manager (Formuepleje A/S), as well as the risk calculated on 31 December 2018. The Fund's manager (Formuepleje A/S) has adopted numerical risk limits which involve lower risk and apply at the time of investment. They can thus subsequently be exceeded due to market fluctuations. In the table, investors' assets are defined as assets.

	Statute lower limit	Board of directors lower limit	Risk per 31-12-2018	Board of directors upper limit	Statute upper limit
<b>Position and market risk</b>					
Equity exposure as % of assets	0 %	0 %	128.9 %	130 %	150 %
Alpha strategy exposure as % of assets	0 %	0 %	13.0 %	14.95 %	-
Other securities as % of assets	0 %	0 %	0.0 %	10 %	10 %
Other bonds as % of assets	0 %	0 %	0.0 %	10 %	10 %
Option-adjusted duration	-2	-1	2.25	6	8
<b>Concentration risk</b>					
Single greatest exposure towards single equity as % of equity investments %	0 %	0 %	5.0 %	10 %	13 %
Sum of equity positions exceeding 5 % of equity investments	0 %	0 %	5.0 %	40 %	42 %
Largest issuer as % of bond investments	0 %	0 %	41.0 %	80 %	80 %
<b>Currency risk</b>					
Foreign currency loans in EUR as % of foreign currency loans	0 %	0 %	93.7 %	100 %	100 %
Hedging of EUR loans as % of EUR loans*	-	0 %	96.7 %	100 %	-
Unhedged foreign currency loans in currencies other than EUR and DKK as % of assets	0 %	0 %	0.0 %	10 %	10 %
<b>Gearing risk</b>					
Loan gearing as % of assets	0 %	0 %	382.7 %	500 %	500 %
Market value of long dispositions as % of assets	0 %	0 %	511.7 %	500 %	600 %
Gross exposure in % of assets	0 %	0 %	840.6 %	1450 %	1,500 %
<b>Standard deviation</b>					
Return over 12 months**	0 %	0 %	16.7 %	50 %	56 %
Return over 36 months**	0 %	0 %	17.9 %	34 %	40 %
Return over 60 months**	0 %	0 %	19.0 %	31 %	37 %

\* The sub-fund has hedged its foreign currency loans in EUR via forward foreign-exchange contracts. In addition, the sub-fund uses forward foreign-exchange contracts to hedge the bond portfolio.

\*\* Standard deviations are measured here at the reference index for the portfolio's sub-elements. Thus, an impression of the risk involved in the portfolio as it is currently composed is achieved.

### Income statement (DKK thousands)

Note	2018	2017
<b>Interest and dividend yields</b>		
1 Interest income	229,514	189,481
2 Interest expenses	-20,026	-15,707
3 Dividend yield	0	1,738
<b>Total interest and dividend yields</b>	<b>209,488</b>	<b>175,512</b>
<b>Capital gains and losses</b>		
4 Bonds	-89,422	-14,582
4 Equity holdings	-78,863	394,581
4 Derivates	26,718	77,575
Currency accounts and loans	-32,569	-13,011
5 Trading costs	-22	-466
<b>Total capital gains and losses</b>	<b>-174,158</b>	<b>444,098</b>
<b>Total revenue</b>	<b>35,330</b>	<b>619,610</b>
6 Administrative expenses	-149,178	-116,940
<b>Result before tax</b>	<b>-113,847</b>	<b>502,670</b>
7 Tax	-61	0
<b>Net result for the year</b>	<b>-113,908</b>	<b>502,670</b>
<b>Total transferred to assets</b>	<b>-113,908</b>	<b>502,670</b>

## Annual accounts // Formuepleje Penta KL

### Balance (DKK thousands)

	31/12 2018	31/12 2017
<b>Note ASSETS</b>		
<b>Cash and cash equivalents</b>		
Balance with depository	141,665	154,576
Deposit with other banks	399	187
<b>Cash and cash equivalents total</b>	<b>142,064</b>	<b>154,762</b>
<b>Bonds</b>		
Listed bonds from Danish issuers	14,705,522	13,264,511
Listed bonds from foreign issuers (Swedish)	576,803	306,748
<b>Total bonds</b>	<b>15,282,324</b>	<b>13,571,259</b>
<b>Equity holdings</b>		
Unlisted equity holdings from Danish companies	581,829	481,974
Investment certificates in other Danish UCITS, etc.	4,493,416	4,149,354
Investment certificates in foreign UCITS, etc.	0	508,768
<b>Total equity holdings</b>	<b>5,075,245</b>	<b>5,140,095</b>
<b>Derivates</b>		
Unlisted derivates	9,377	7,687
<b>Total derivates</b>	<b>9,377</b>	<b>7,687</b>
<b>Other assets</b>		
Receivable interest, dividend yields, etc.	85,694	86,327
Other receivables	100	366
Balance due to trade settlement	1,501,388	671,902
Current tax assets	0	61
<b>Total other assets</b>	<b>1,587,182</b>	<b>758,657</b>
<b>ASSETS TOTAL</b>	<b>22,096,191</b>	<b>19,632,460</b>

## Annual accounts // Formuepleje Penta KL

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### Balance (DKK thousands)

	31/12 2018	31/12 2017
<b>LIABILITIES</b>		
8 Investors' assets	4,477,775	4,066,775
<b>Derivates</b>		
Unlisted derivates	106,320	87,461
<b>Total derivates</b>	<b>106,320</b>	<b>87,461</b>
<b>Loans with depositary</b>	<b>17,049,584</b>	<b>15,164,382</b>
<b>Other debt</b>		
Owed expenses	3,583	524
Balance due to trade settlement	458,929	313,318
<b>Total other debt</b>	<b>462,512</b>	<b>313,842</b>
<b>TOTAL LIABILITIES</b>	<b>22,096,191</b>	<b>19,632,460</b>

Notes to which no reference is made

- 9 Financial instruments as percentage of assets
- 10 Underlying exposures of forward foreign-exchange contracts
- 11 Underlying exposures of interest rate swaps
- 12 Counterparties in derivates
- 13 Collateral liabilities etc.
- 14 Unlisted ownership shares wherein the fund possesses more than 5 % of the capital or the votes
- 15 Key figures

## Annual accounts // Formuepleje Penta KL

### Notes (in DKK thousands)

Note	2018	2017
<b>1 Interest income:</b>		
Listed bonds	193,580	186,161
Deposits and loans with depositary	11,379	166
Deposits and loans other banks	24,556	3,154
<b>Total interest income</b>	<b>229,514</b>	<b>189,481</b>
<b>2 Interest expenses:</b>		
Deposits and loans with depositary	969	774
Interest rate swaps	19,058	14,933
<b>Total interest expense</b>	<b>20,026</b>	<b>15,707</b>
<b>3 Dividend yields:</b>		
Unlisted Danish equities	0	1,738
<b>Total dividend yields</b>	<b>0</b>	<b>1,738</b>
<b>4 Capital gains and losses</b>		
<b>Capital gains and losses, bonds</b>		
Listed Danish bonds, realised	-72,267	-57,862
Listed Danish bonds, unrealised	-23,439	46,003
Listed foreign bonds, realised	-3,195	0
Listed foreign bonds, unrealised	9,479	-2,723
<b>Total capital gains and losses, bonds</b>	<b>-89,422</b>	<b>-14,582</b>
<b>Capital gains and losses, equity holdings:</b>		
Unlisted Danish equities, realised	0	-83
Unlisted Danish equities, unrealised	61,439	-1,680
Investment certificates in Danish UCITS, etc., realised	85,258	100,552
Investment certificates in Danish UCITS, etc., unrealised	-207,168	246,322
Investment certificates in foreign UCITS, etc., realised	-20,116	5,289
Investment certificates in foreign UCITS, etc., unrealised	1,724	44,181
<b>Total capital gains and losses, equity holdings</b>	<b>-78,863</b>	<b>394,581</b>
<b>Capital gains and losses, derivatives:</b>		
Interest rate swaps, realised	90,031	-72,628
Interest rate swaps, unrealised	-101,847	87,461
Forward foreign-exchange contracts, realised	29,158	-18,006
Forward foreign-exchange contracts, unrealised	9,377	7,687
Options, realised	0	551
Futures, realised	0	72,511
<b>Total capital gains and losses, derivatives</b>	<b>26,718</b>	<b>77,575</b>

## Annual accounts // Formuepleje Penta KL

### Notes (in DKK thousands)

Note	2018	2017
<b>5 Trading costs:</b>		
Gross sales	32	722
Covered by issue and redemption income	-10	-256
<b>Total trading costs</b>	<b>22</b>	<b>466</b>
<b>6 Administrative expenses:</b>		
Remuneration to the board	375	340
Remuneration to auditors	81	187
Other auditors' remuneration	13	44
Fees to depositary	135	179
Consulting remuneration etc., Fixed	91,244	75,823
Consulting remuneration, Performance remuneration	46,764	31,371
Fixed management remuneration	9,889	8,217
Other expenses	675	778
<b>Total administrative expenses</b>	<b>149,178</b>	<b>116,940</b>
<b>7 Tax:</b>		
Non-refundable dividend yield tax	61	0
<b>Total tax</b>	<b>61</b>	<b>0</b>
<b>8 Investor assets in 2017</b>	<b>Circ. certificates (Nom. in DKK thousands)</b>	<b>Asset value (in DKK thousands)</b>
Investors' assets (start of year)	2,124,041	4,066,775
Issues during the period	275,765	546,002
Redemptions during the period	-13,800	-25,734
Net issue and redemption charges		4,641
Transferred from income statement		-113,908
<b>Total investor assets</b>	<b>2,386,006</b>	<b>4,477,775</b>
<b>Investors' assets in 2016</b>		
Investors' assets (start of year)	1,783,561	2,964,059
Issues during the period	388,580	686,916
Redemptions during the period	-48,100	-93,449
Net issue and redemption charges		6,579
Transferred from income statement		502,670
<b>Total investor assets</b>	<b>2,124,041</b>	<b>4,066,775</b>

## Annual accounts // Formuepleje Penta KL

### Notes to which no reference is made

Note	2018	2017
<b>9 Financial instruments as percentage of assets</b>		
Listed financial instruments	441.6 %	448.3 %
Other financial instruments	10.8 %	9.9 %
<b>Total financial instruments</b>	<b>452.5 %</b>	<b>458.1 %</b>
Other assets and debt	-352.5 %	-358.1 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

The specification of securities may be obtained by contacting Formuepleje A/S

### Notes to which no reference is made (DKK thousands)

	2,018	2,017
<b>10 Underlying exposures of forward foreign-exchange contracts</b>		
<b>Currency</b>	<b>Exposure</b>	<b>Exposure</b>
EUR	8,633,986	10,892,655
DKK	-8,624,609	-10,883,134
<b>11 Underlying exposures of interest rate swaps</b>	<b>Residual maturity</b>	<b>Exposure</b>
Currency		<b>Exposure</b>
DKK variable rate is received and fixed rate is paid	over 1 year	100,000
EUR variable rate is received and fixed rate is paid	over 1 year	986,519
SEK variable rate is received and fixed rate is paid	over 1 year	582,894
<b>12 Counterparties in derivatives</b>		
	Nordea	Nordea
	Danske Bank	Danske Bank
	Jyske Bank	
	Spar Nord	
	SEB	
	Nykredit	
	Sydbank	
<b>13 Collateral liabilities etc.</b>		
As security for the fund's engagement with bank, the following assets have been pledged as collateral:		
Balance with depositary	96,717	83,550
Listed bonds from Danish issuers	6,599,602	8,453,918
Listed bonds from Danish issuers (repo loans)	7,101,675	4,495,104
Investment certificates in other Danish UCITS, etc.	3,245,262	3,364,661
<b>Total</b>	<b>17,043,256</b>	<b>16,397,233</b>
<b>14 Unlisted ownership shares wherein the fund possesses more than 5 % of the capital or the votes</b>		
31/12 2018	Equity	Ownership share
Triple Alfa Global Equities ApS, Værkmestergade 25, 8000 Aarhus C	1,379,663	42.15 %
Formuepleje Safe A/S, Værkmestergade 25, 8000 Aarhus C	1,874	17.73 %
31/12 2017	Equity	Ownership share
Triple Alfa Global Equities ApS, Værkmestergade 25, 8000 Aarhus C	1,201,492	40.08 %
Formuepleje Safe A/S, Værkmestergade 25, 8000 Aarhus C	1,868	17.73 %

## Annual accounts // Formuepleje Penta KL

### Notes to which no reference is made

15 Key figures	2018	2017	2016	2015	2013/14
Net result (DKK thousands)	-113,908	502,670	487,484	220,941	560,389
Assets (DKK 1,000s)	4,477,775	4,066,775	2,964,059	2,409,583	2,308,244
Average assets (DKK thousands)	4,514,116	3,737,923	2,466,614	2,465,540	2,039,332
Circulating shares (pcs.)	23,860,056	21,240,410	17,835,614	17,601,803	18,432,080
Net asset value per share	187.67	191.46	166.19	136.89	125.23
Returns for the period as a percentage.	-1.98	15.21	21.40	9.31	* 25.23
Administrative expenses, percentage	3.30	3.13	2.31	2.32	** 2.29
Administrative expenses, percentage excl. result-based remuneration	2.27	2.29	2.31	2.32	** 2.29
Trading costs as percentage	0.00	0.01	0.01	0.01	** 0.20
Indirect trading costs****	0.16	-	-	-	-
APR (annual percentage rate)	3.68	3.54	2.68	2.71	** 2.83
APR excl. performance remuneration	2.65	2.70	2.68	2.71	** 2.83
Turnover rate	0.91	1.20	1.28	1.64	7.07
The Sharpe ratio ***	0.98	1.09	1.01	-	-
Standard deviation***	13.24	13.70	14.82	-	-

\* Includes an extended accounting period. Returns in the period 1/1-31/12 2014 have amounted to 13.29 %.

\*\* Expense ratios have been converted to annual rates.

\*\*\* The Sharpe ratio and standard deviation are not calculated until the fund has existed for over 36 months.

\*\*\*\* Indirect trading costs are calculated as of 2018.

## Applied accounting policy

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### General

The annual accounts have been prepared in accordance with the Act on Managers of Alternative Investment Funds, etc. with the adoption of the accounting provisions in the Act on Investment Funds etc., including the executive order on financial reports for Danish UCITS. Taking the sub-fund's structure and activity into account, with reference to providing a true image, appropriate adjustments have been made to the accounting policy.

The annual report is presented in DKK thousands. Each figure is rounded individually. Therefore, there may be deviations between the stated totals and the sum of the underlying figures.

The accounting policies are unchanged from last year.

### General information on recognition and measurement

Assets are recognised on the balance sheet when, as a result of a past event, it is probable that future economic benefits will flow to the sub-fund and the asset's value can be measured reliably.

Liabilities are recognised on the balance sheet when, as a result of a past event, the sub-fund has a legal or actual obligation, and it is likely that future economic benefits will flow from the sub-fund, and the obligation's value can be measured reliably.

When recognising and measuring, predictable losses and risks arising before the annual report is presented and which confirm or invalidate the conditions that existed on the balance date are included.

### INCOME STATEMENT

Income and expenses have been accrued and thus include the amounts attributable to the financial year.

### Interest and dividend yields

Dividend yields include the dividend yields earned during the accounting period. Non-refundable dividend yield tax is deducted under the item Tax.

Interest and dividend yields in foreign currencies are converted into Danish kroner on the transaction date.

### Capital gains and losses

The financial result includes realised and unrealised capital gains and losses. The realised gains and losses are calculated 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. The unrealised price earnings and losses are calculated 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 during the financial year.

Under trading costs, all direct costs related to transactions made in connection with the ongoing portfolio management are stated. Trading costs related to issue or redemption are recognised as an issue/redemption cost on assets.

### Administrative expenses

The composition of the sub-fund's administration costs is stated in a note to the annual accounts.

"Consultancy remuneration" represents costs under a separate agreement with Formuepleje A/S concerning investment advice. The return-dependent portion of the remuneration is stated separately.

"Fixed administration remuneration" consists of costs charged under a separate agreement with Formuepleje A/S concerning the fund management function.

### Tax

Tax does not include refundable dividend yield tax.

### BALANCE SHEET

#### Cash and cash equivalents

Cash and cash equivalents in foreign currencies are measured at nominal value and are translated at the currency rates quoted on the balance sheet date.

#### Bonds and equity holdings

Bonds and equity holdings are measured at fair value both at initial recognition and at subsequent measurements. For listed bonds and shares, fair value is determined at the closing price on the balance sheet date or, if this is unavailable, another official price likely to correspond to this. If this price does not reflect the instrument's fair value because of the absence or inadequacy of trade in the run-up to the balance sheet date, the fair value is determined using a valuation technique that aims to determine the transaction price that would result from a transaction at the measurement date between independent parties acting on normal commercial considerations. Listed securities denominated in foreign currencies are measured at the currency rates quoted on the balance sheet date. Drawn bonds are measured at present value set at price 100 with discounting according to individual assessment. Unlisted bonds and equities are measured at fair value, which is determined according to generally accepted methods.

#### Securities lending, Repo and equity swap activities

Bonds and shares subject to the aforementioned lending agreements are included in the balance sheet under the respective securities and are recognised according to the same principle as described under bonds and equity holdings. The associated liabilities are included under loans.

#### Derivates

Derivates are measured at fair value on initial recognition and subsequent measurements. Derivates with a positive fair value are recognised as assets and, if they have a negative fair value, as liabilities. Change in fair value is recognised in the income statement under "Capital gains and losses".

#### Other assets

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

- "Receivable interest" consisting of accrued interest at the balance sheet date.
- "Receivable dividend yields" consisting of dividend yields declared before the balance sheet date for settlement after the reporting period.
- "Current tax assets" consisting of refundable dividend yield tax and interest rate tax withheld abroad.
- "Balance due to settlement of trade" consisting of the value of the proceeds from the sale of financial instruments (equities and bonds etc.), loan taking and from issues before the balance sheet date, settled after the balance sheet date.

### Investors' assets

Net issue charge and net redemption charge are calculated after recognition of trading costs incurred in connection with issue or redemption.

### Loans

The sub-fund's loans from banks consist of loans which are classified as short-term. Initial recognition is done for the net proceeds received. Subsequently, measurement is done at fair value.

### Other debt

"Other liabilities" are measured at fair value.

"Balance due to settlement of trade" consists of the value of the proceeds from the sale of financial instruments (equities and bonds etc.), loan taking and from issues before the balance sheet date, settled after the balance sheet date.

### Translation of foreign currency

Currency differences arising between the transaction date rate and the currency rate on the payment date are recognised in the income statement under "Capital gains and losses".

Transactions in foreign currencies are translated at the transaction date price. Holdings of securities, cash and receivables in foreign currencies are translated at the balance sheet day exchange rate. The difference between the balance sheet date price and the price at the time of the securities holding's acquisition or receivable's existence is recognised in the income statement under "Price profits and losses".

## KEY FIGURES

### Net asset value per share

Calculated as Investors' assets/Circulating shares and expresses the value per share.

### The returns for the year as a percentage

Calculated as follows:  
 $((NAV \text{ end of year} / NAV \text{ start of year}) - 1) \times 100$ .

### Administrative expenses as percentage

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

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

The key ratio is calculated both incl. and excl. performance remuneration.

### Annual percentage rate (APR)

APR is calculated on the basis of the financial year's administration costs and those of the Fund's trading costs that are not covered by issue and redemption charges. The maximum possible issue charges and redemption deductions are added to this. Issue charges and redemption

deductions are distributed over a time span of seven years. All APR figures are calculated as a percentage and on an annual basis.

Any costs in sub-funds are included in the APR.

APR is calculated both incl. and excl. performance remuneration.

Example of APR for a time period of seven years:  
The running costs constitute 0.9 percent. Direct trading costs in ongoing operation are 0.2 %. The issue charge is 2 percent. The redemption charge is 1 %. APR thus becomes:  
 $(0.9 + 0.2) + ((2 + 1)/7) = 1.53 \%$ ,

APR assumes that the investor always buys the certificates at issue price and sells at redemption price. But this is not always the case. Investors' actual costs may therefore be lower than the APR indicates. The explanation is that investors' trading cost in sub-funds traded on NASDAQ OMX (IFX) is the current difference between buying and selling price at IFX, plus the investor's brokerage of selling and buying. At IFX, an investor can often purchase their certificates at prices below the issue price and sell them at prices higher than the redemption price. The difference between buying and selling price on IFX is typically only around half of the difference between issue and redemption price according to the APR.

### Turnover rate as number of times

Calculated as  $((\text{Value of purchases} + \text{Value at sale})/2) / \text{Investors' average assets}$ .

Value of purchase and value of sales are determined as "Price of purchases and sales of securities" adjusted for issues and redemptions in the financial year, liquidity from operations, etc., so that  $(\text{Value of purchases} + \text{value of sales})/2$  corresponds to trading due to portfolio management. Investors' average assets are calculated as described under "Administrative expenses as a percentage."

### Key figures for risk

The *Sharpe ratio* is calculated by dividing the investment's additional returns by its volatility/standard deviation. The Sharpe ratio measures the return on investment relative to investment risk. The greater the positive Sharpe Ratio, the better the risk-adjusted return. Using the Sharpe ratio, the return on investments with different risk levels can be compared. The Sharpe ratio is only calculated for sub-funds that have existed for at least 36 months.

*Standard deviation* is a measure of the return's volatility over time. The greater the volatility, the greater the uncertainty surrounding the investment's future performance. Thus, volatility is a measure of risk. Volatility is usually expressed as a percentage per year. Volatility is a measure of the return's spread around its mean value - the return's standard deviation. If the return follows a normal distribution, it is expected that approx. 2/3 of all observations of returns fall between the mean plus the standard deviation and the mean minus the standard deviation. Standard deviation/volatility is only calculated for sub-funds that have existed for at least 36 months.

## The Fund's main agreements

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### **Fund management agreement**

The Fund has entered into a management agreement with Formuepleje A/S (FP). Formuepleje thus handles the daily management of the Fund in accordance with the law, the Danish FSA's and ESMA's guidelines, the Fund's statutes, instructions from the Fund's board, including investment framework, portfolio advisory and portfolio management.

### **Agreement on deposit and depository function**

The Fund has signed an agreement with Nordea Denmark that, as the depository, the branch holds securities and cash separately for the Fund's sub-fund, in accordance with the EU and Danish legislation in force at the time, as well as the FSA's and ESMA's regulations, and assumes the control tasks and obligations specified herein.

### **Agreements regarding the provisioning of capital fund certificates**

As part of the Fund management agreement, Formuepleje mediates the sale of capital fund certificates in the Fund's sub-fund and may conclude agreements with other distributors.

Formuepleje will not receive additional remuneration for the provisioning of capital fund certificates.

On behalf of the Fund, Formuepleje has entered into agreements with Absalon Capital Asset Management A/S, Aros Capital Partners Aps and Aktiv Invest Partners ApS that these companies arrange for the sale of capital fund certificates in the Fund's sub-funds.

Absalon Capital Fondsmæglerselskab A/S is a consolidated company of the Fund's manager, FP.

The Fund pays no subscription, dissemination or stock commissions.

Formuepleje plans its own marketing efforts with a view to promoting the sale of the Fund's capital fund certificates.

### **Agreements regarding portfolio advisory**

Formuepleje is also responsible for the portfolio management of the Fund's sub-fund and has been authorised by the Fund to enter into agreements with third parties regarding investment advisory or portfolio management of the Fund's sub-fund. The authorisation has, at this moment, not been used yet.

After selecting transactions which are considered advantageous as part of the portfolio management, Formuepleje decides whether, and to what extent, transactions must be carried out. The individual proposals for investment must be within the framework and guidelines i.a. laid down in the Fund's sub-fund investment policy. Execution of securities transactions in connection with the ongoing management of individual portfolios is an integral part of the Fund's agreement with Formuepleje, who has the best execution obligation to the Fund. The trades are made at prices in the professional/institutional market domestically and abroad, plus relevant deductions of any brokerage for brokers, taxes, foreign costs, settlement fees and the like.

### **Agreement on pricing in the market and issue of certificates**

With Nordea Denmark, the Fund has entered into an agreement that in i.a. NASDAQ Copenhagen's trading systems, the bank continuously - except under special circumstances - prices the sub-fund's investment certificates with the aim of promoting liquidity and reducing the cost of trading the certificates. Pricing must be done with both purchase and sales prices, and in view of the current issue and redemption prices.

The Fund has also entered into an agreement with Nordea Denmark on the Fund's issuing function. The bank assumes the role of issuer with VP Securities A/S (VP).

