

1 JANUARY 2019 – 31 DECEMBER 2019

# ANNUAL REPORT 2019

Kapitalforeningen  
Formuepleje Safe



FORMUE PLEJE

## CONTENT

The fund's management's review // Fund information .....	3
The fund's management's review // Overview .....	4
The Fund's management's review // Board and fund manager .....	5
The fund's management report // Investment Markets in 2019 .....	7
The fund's management's review // Overall expectations for the markets in 2020 .....	8
The Fund's management's review // Risks and risk management .....	9
The Fund's management's review // Fund governance .....	12
The Fund's management's review // Corporate social responsibility .....	15
Statements // Management's statement .....	16
Statements // Independent auditor's report .....	17
Sub-fund report // Formuepleje Safe KL .....	19
Inventories // Formuepleje Safe KL .....	23
Risk limits and risk assessment // Formuepleje Safe KL .....	24
Annual accounts // Formuepleje Safe KL .....	25
Common notes // Applied accounting policy .....	33
Common notes // The fund's main agreements .....	36

## The fund's management's review // Fund information

---

The capital fund Formuepleje Safe was founded on 10 July 2013 as Hedgeforeningen Formuepleje Safe. On 18 June 2014, the Fund changed its status to that of an alternative investment fund (capital fund) under the Act on Managers of Alternative Investment Funds, etc. The Fund continues its investment strategy in Formuepleje Safe A/S, founded on 1 May 1988.

As of 31 December 2019, the Fund had one sub-fund: Formuepleje Safe – 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 Safe  
Værkmestergade 25  
DK-8000 Aarhus C  
Telephone: 87 46 49 00  
Fax: 87 46 49 01  
Company Reg. No. (CVR): 35 40 14 31

Financial Supervisory Authority's reg. number: 24026

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**

Danske Bank A/S  
Holmens Kanal 2-12  
1092 Copenhagen K  
CRN 61 12 62 28

### **Revision**

Ernst & Young P/S  
Dirch Passers Allé 36  
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, 28 April 2020

**Chairman of the meeting:**

---

The sub-fund's profile	Key figures	
Certificate issuing and listed	Return (pct.)	23.49
Base currency: DKK	Net asset value	183.09
Benchmark: No benchmark	High Water Mark (performance remuneration, end of Dec. 2019)	184.18
ISIN: DK0060498186	Expense ratio	3.16
Start date of investment strategy: May 1988	Expense ratio excl. performance remuneration	1.77
Advisor: Formuepleje A/S	The Sharpe Ratio	0.88
Tax status: Accumulative	Standard deviation	10.97
	APR	3.44
	APR ex. Performance remuneration	2.06
	Indirect trading costs (pct.)	0.29

**NET INCOME AND ASSETS FOR THE PERIOD**

In 2019, the sub-fund generated a return of DKK 1,339 million.

In the period, the sub-fund's total assets increased by DKK 2,199 million. At the end of the financial period, the sub-fund held assets of DKK 7,730 million.

**RETURN**

In the financial year, the sub-fund generated a return of 23.49 percent.

Measured over the latest five-year horizon, from 01/01 2015 to 31/12 2019, the sub-fund has generated a return of 59.3 percent, which corresponds to an average annual return of 9.7 percent. In the same period, an index with the same risk profile as the sub-fund, i.e. medium risk, has generated a return of 37.2 percent, corresponding to an annual return of 6.5 percent.

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

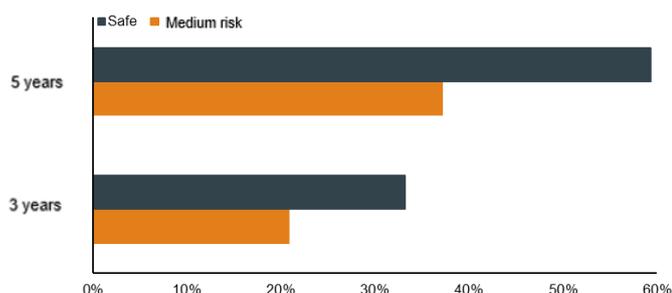
Figure 2 shows the financial period's development in net asset value for Kapitalforeningen Formuepleje Safe, compared to the index with the same risk profile.

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.

The risk in Formuepleje Safe is best suited to investors with a medium risk profile. Measured as risk of loss, Formuepleje Safe should thus be compared to a medium-risk index composed of 50 % equities, 30 % mortgage-credit bonds and 20 % corporate bonds. A portfolio composed as this index will be the investors' alternative to Formuepleje Safe.

Figure 1

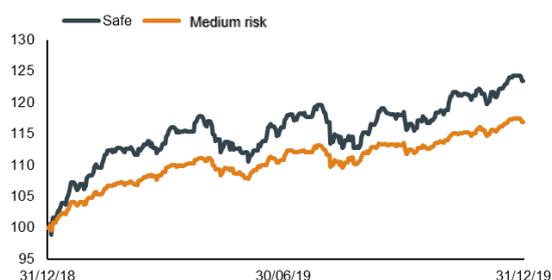
Return compared with index with the same risk profile



Comparison is made to an ungeared index representing a comparable risk profile. Medium risk consists of 50 % equities, 30 % mortgage-credit bonds and 20 % corporate bonds.

Figure 2

Development in net asset value 1/1 – 31/12-2019  
Kapitalforeningen Formuepleje Safe



Comparison is made to an ungeared index representing a comparable risk profile. Medium risk consists of 50 % equities, 30 % mortgage-credit bonds and 20 % corporate bonds.

### BOARD MEMBERS

#### **CARSTEN WITH THYGESSEN, 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  
Investeringsforeningen Formuepleje  
Kapitalforeningen FP  
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  
Formuepleje Ejendomme 4 A/S  
Formuepleje Triple Alfa Global Equities A/S  
Mobilhouse A/S  
Mobilhouse Holding A/S  
Skovrådet  
Lfi Silva Investments A/S  
Aarhus School of Architecture

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

Realdania

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

Karen og Karl Buttenschøns Familiefond

#### **Director of:**

Cresco Capital A/S  
Cresco Capital Services A/S

#### **Special expertise**

Carsten With Thygesen holds a Master's degree in Forestry Management, an E\*MBA and an HD(F) and has more than 30 years of professional experience, including 10 years at Realkredit Danmark 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 from 2013 to 2019. From 2016 to the end of 2018, he was also chairman of The Market Development Fund, appointed by the Minister of Industry, Business and Financial Affairs, and from 1 January 2020 has been appointed Chairman of the Aarhus School of Architecture, appointed by the Minister for Higher Education and Science.

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

Project advisor  
Christianslund 110 A  
8300 Odder  
Born: 1949  
Joined the Board of Directors on July 10, 2013 and will resign from the Board at the General Meeting on 28 April, 2020

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

Formuepleje A/S  
K/S Butikcenter Herning  
K/S Engmarken  
K/S Søndervang

#### **Director of:**

Komplementarselskabet Butikcenter Herning ApS  
Komplementarselskabet Engmarken ApS  
Komplementarselskabet Søndervang ApS

#### **Deputy chairman of the Board of: (resigns from all of the below boards at the 2020 General Meeting)**

Investeringsforeningen Formuepleje  
Kapitalforeningen FP  
Kapitalforeningen Formuepleje Epikur  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Safe  
Kapitalforeningen Formuepleje Penta  
Formuepleje Triple Alfa Global Equities A/S

#### **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.

#### **LARS SYLVEST**

Director, Master of Economics.  
Orionsvej 6B  
8270 Højbjerg  
Born: 1955  
Joined the board of directors on 5 December 2013 and is up for election again in 2020.

#### **Chairman of:**

CAJ Associates  
ClickAJob  
ClickATest  
Ferm Invest

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

Aktieselskabet CBH  
Grundfos Pumps Limited Retirement Fund  
Investeringsforeningen Formuepleje  
Kapitalforeningen FP  
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  
Formuepleje Ejendomme 4 A/S  
Formuepleje Triple Alfa Global Equities 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 2021.

#### **Chairman of:**

Aktieselskabet Franske Vingårde  
Anlama 3 ApS  
AromaTeknik A/S  
BG Byg Odense A/S  
Bolliggruppen A/S  
Bolliggruppen Erhverv A/S  
Bolliggruppen Fyn A/S  
Bolliggruppen Sydfyn ApS  
Fyns Erhvervspark A/S  
Don Plast 2003 A/S  
Drømmeland A/S  
Indkøb DK A/S  
Investeringsforeningen Formuepleje Invest  
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  
Tech Town Odense A/S

#### **Vice chairman of:**

Megatrend Invest 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  
Formuepleje Triple Alfa Global Equities A/S  
Glasværket A/S  
Inox Stål Handelsselskab A/S  
Intercool Food Technology ApS  
Investeringsforeningen Formuepleje  
Kameraudlejningen ApS  
Kapitalforeningen FP  
Kapitalforeningen Formuepleje Epikur  
Kapitalforeningen Formuepleje Fokus  
Kapitalforeningen Formuepleje Merkur  
Kapitalforeningen Formuepleje Pareto  
Kapitalforeningen Formuepleje Penta  
Kapitalforeningen Formuepleje Safe  
Newcap Holding A/S  
Nordic Compliance Services 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 2019, the Board has held four ordinary meetings.

#### **REMUNERATION OF THE BOARD OF DIRECTORS**

As remuneration for 2019 to the board, a total amount of DKK 332 thousand is proposed for approval at the 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 2019, there have been no additional expenses for remuneration of Board members for performing specific tasks for the Fund.

#### **FUND MANAGER**

Formuepleje A/S  
Værkmestergade 25  
DK-8000 Aarhus C

#### **SØREN ASTRUP, partner, director**

MSc in Advanced Economics and Finance

Born: 1969

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

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

Honeycomb IO ApS

#### **Director of:**

Formuepleje A/S  
LMC Invest ApS  
Formuepleje Safe A/S  
Formuepleje Ejendomme 1 P/S  
Formuepleje Ejendomme 2 P/S  
Formuepleje Ejendomme 3 A/S  
Formuepleje Ejendomme 4 A/S  
Formuepleje Triple Alfa Global Equities A/S  
Emiliedalen Aarhus Holding ApS  
Finderupparken Aarhus Holding ApS  
Keep P1 Holding ApS  
KGV Aarhus 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

#### Good year for all assets

2019 began with nervousness about an impending recession but ended up with a high degree of optimism. This was mainly due to the central banks becoming more moderate in their statements on monetary policy, and due to geopolitical risks such as the trade war between the US and China and Brexit appearing less serious than first feared over the course of the year.

#### First-quarter relief

The first quarter ended with a return on global equities of over 14%, which made the quarter the second best since the summer of 2009.

This was predominantly due to more accommodating attitudes from the central banks, where in January the Federal Reserve (FED) signalled that the central bank 'was not in a rush' to raise interest rates, while Draghi at the European Central Bank (ECB) saw 'more black than white clouds on the horizon'.

In February, this was followed by the FED lessening the reduction of its balance — known as (minor) tapering, while in March the ECB signalled that it would take even longer before the first rate hike.

Credit spreads in the global high yield market narrowed sharply, in part due to the excessive reaction at the end of 2018, as well as dropping interest rates and rising oil prices.

The credit market among non-developed countries was marked by optimism after a year of increasing uncertainty over i.a. the trade war between the US and China. Strong key ratios among a number of EM companies resulted in positive returns across all EM regions.

#### Trump and tweets in focus in Q2

In the second quarter, trade politics particularly dominated the agenda in the financial markets. The escalation of the US trade war in particular created increased uncertainty. Donald Trump tweeted that he would raise tariffs on a large amount of Chinese goods, prompting shares to drop in May.

Once more, the central banks came to the aid of the markets, with the FED all but promising to cut interest rates in July, while the ECB opened up to more bond acquisitions. In addition, June brought positive overtures from the trade negotiations between the US and China.

Therefore, the quarter ended with moderate increases in the equity markets.

In the bond markets, interest rates dropped sharply in response to first the uncertainty about the trade war and secondly the moderate statements from central banks

In Denmark, for the first time ever, we therefore saw a 30-year 1% bond as the leading bond, and thus also significant withdrawals in the existing series with higher coupon rates.

During the second quarter, the trade dispute between the US and China was exacerbated, where in addition to the introduction of a number of tariffs on Chinese goods, the US administration also threatened to blacklist Chinese telecommunications company Huawei. Despite the deteriorating political situation, the market for global high yield and EM corporate bonds remained relatively robust across the tense period, which was also supported by dropping interest rates.

#### Interest rate record in Q3

This year's third quarter was kicked off with the first rate cut from the FED in 10 years. At the same time, the ECB promised to cut interest rates in September, and to start new bond purchases that had otherwise been ended in December 2018. The reason for the strong response from the ECB was a new record in (low) inflation expectations, that could indicate a lack of faith in ECB's ability to deliver an inflation rate around 2% at all.

Market participants reassessed how far the ECB can actually drop interest rates. In Denmark, however, the mortgage credit market did experience a 30-year 0.5% bond, why record repayment levels were achieved in the 3rd quarter.

#### Growth in Q4

The 4th quarter was marked by relief on two fronts. Firstly, Boris Johnson succeeded in solving the first part of the Brexit knot, i.a. by convincingly winning the December parliamentary elections. This pushed the problems some way into the future.

There was also positive news from the US-China trade war, as the parties approached a partial agreement, and the already announced tariff increases were cancelled in December. Therefore, equity markets experienced quite significant growth in the quarter.

In December, the new head of the ECB, Lagarde, held her first policy meeting, where she moved the interest rate policy 'into committee'. Specifically, 2020 shall be used to discuss whether the monetary policy is done right, and whether the central bank has the right tools.

Global high yield followed equity markets up, and optimism from the de-escalation of the trade war and rising oil prices at the very end of the year meant that sectors such as energy and auto outperformed in the fourth quarter, despite a difficult 2019.

### Global growth in 2020

In 2020, the global COVID-19 pandemic has led to sharp price fluctuations in the financial markets. Expectations below should be viewed in light of the still-great uncertainty surrounding the impact on the markets and the economy.

The COVID-19 issue will dominate financial markets, especially in the first half of 2020.

Formuepleje expects a positive equity return going forward, but with fluctuations in the coming period. Whether equity returns for the calendar year 2020 as a whole can be positive is very uncertain.

In 2020, focus will be on the upcoming presidential election in the United States. The nomination of the Democratic presidential candidate, as well as the outcome of the presidential election, might create significant fluctuations in the stock market, as the differences among current Democratic challengers are relatively great, and focus is on i.a. health reforms, regulation and rollback of the tax reform.

### Continued focus on central banks

In terms of interest rates, 2020 will be marked by the end of the 'policy reviews' expected to be completed in both the FED and the ECB.

If the objective of approx. 2% inflation is maintained, and if QE continues to be deemed a useful tool, they will be among the most significant to bond investors.

These 'reviews' and economic development in general are estimated to result in rising long-term interest rates in both the US and Europe. At Formuepleje, the ECB is expected to keep its key policy rate at the current low level, and the Danish interest rates are expected to reflect this.

### Special risks associated with market trends in 2020

In addition to the exogenous shock that the COVID-19 pandemic has caused in the markets, other conditions such as unanticipated geopolitical shocks may influence development.

An essential element of risk in relation to equity returns will be a stagnation of US and global growth. This would challenge the operational recovery and reduce the earnings growth that forms the basis of the expected share price increases. Furthermore, 2020 is a US election year, in which both the Democrat nomination and, not least, political statements from both camps could create volatility in the market.

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) continues to be the growing foreign investor base. These investors largely invest in Danish mortgage credit because 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 ECB's key policy rate. However, the Danish krone has been weak against the euro, which may result in one or more independent Danish interest rate hikes.

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 risk of investing via a capital fund can generally be attributed 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 returns, 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 purpose of the Fund's sub-fund, which follows an active investment strategy, is to achieve a return that is in line with the sub-fund's return target, which can be found on page 20. 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.

Furthermore, the Fund's manager, Formuepleje A/S, is subject to supervision by the FSA.

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 from

[www.formuepleje.dk](http://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 may generate additional deviation in returns measured in Danish kroner.

### 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.

### Currencies

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 the capital fund Formuepleje Safe'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 has been made 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 of Directors elects its own Chairman and Vice-Chairman.

### **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. Information regarding individual board members' 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 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, the manager 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. If the Board considers it necessary, it will meet with the auditor once annually, without the executive board being present.

### **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 during 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.

In cases where securities lending is used, the Fund details the extent of and earnings from it in the annual reports, specifying income and expenses in the accompanying notes and with discussion 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. In this way, all stakeholders, including depositary, market maker and members, have access to the Fund's NAV and the relevant buying and selling prices at the same time. 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 its work with ESG, Formuepleje focuses 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 addresses all areas in accordance with the same principles. Generally, Formuepleje wants to raise ESG standards in the markets where investments are made, as this has a number of social benefits in the form of i.a. higher growth and a 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 and the policy for active ownership have been adopted by the board in September 2019. The current policy can be found on the fund's website, 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 reports on companies suspected of serious violations of international norms and conventions are regularly received. As a rule, these recommendations are followed, but all input is evaluated and Formuepleje's investment committee makes the final decision on possible exclusions of companies. However, Formuepleje generally views active ownership as a more effective tool than exclusion.

The work on responsible investment is coordinated by an ESG working group which refers to the investment committee. The ESG working group works across the organisation and is to ensure that the responsible investment policy is implemented and complied with.

Regardless of the market being invested in or which company is being invested in, there is always a risk that violations of international norms and conventions may occur without detection.

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 undetected 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 has entered into consulting agreements with external investment advisors for all equity funds. The advisors have all signed the UN PRI or meet similar requirements, and all advisors incorporate ESG factors into their investment process. For example, this may happen by a worse ESG score or uncertainty about the ESG score detracting from the valuation of companies. Work on responsible investment is also an integral part of the ongoing evaluation of the advisors, and at least annually separate ESG meetings are held with investment advisors, where the ESG work is the main point on the agenda. Through the primary equity advisors, Formuepleje works actively to influence companies where there are suspected violations. Support for companies which move in the right direction with respect to ESG issues is generally more effective than selling.

Policy for active ownership, which is part of the policy for responsible investment, is available 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. Often, Formuepleje will refrain from exercising its voting rights, as the effect relative to cost is small. Whether Formuepleje publishes what was voted for depends on the specific case.

Formuepleje found no reason to use its voting rights in 2019, reflecting that there have been no votes where the related administrative expenses would be commensurate with the expected results for the investors. This should be seen in light of Formuepleje's very small stake in the companies, and the fact that, as a rule, Formuepleje divests investments where there is no trust in the management.

In August 2019, Formuepleje created the sub-fund Better World Global Opportunities. Like the sub-fund Better World Environmental Leaders from 2018, the sub-fund invests in listed companies that support the green transition and focus on four areas: Clean energy, clean water, sustainable food and recycling of waste. A number of sectors have thus been opted out of by the sub-funds, as they do not meet the criteria. The focus of the sub-funds is on impact, which means that companies will be chosen actively if they support the green transition.

## Statements // Management's statement

---

Today, the Fund's board of directors and manager have processed and approved the Annual Report for 2019 for Kapitalforeningen Formuepleje Safe.

The annual report has been prepared in accordance with the Act on Managers of Alternative Investment Funds, etc., with the adoption of the accounting provisions of the Investment Associations, etc. Act

The annual accounts of each sub-fund provides a true account of the individual sub-fund's assets and liabilities, financial position and performance in the period 1 January to 31 December 2019.

The Fund's management's review and the management's review for each sub-fund contain true accounts of the development in the Fund's and sub-fund's activities and financial positions, and describes significant risks and factors of uncertainty which the Fund, respectively the sub-fund, may be affected by.

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

Aarhus, 31 March 2020

Fund manager  
Formuepleje A/S  
Executive board

---

Søren Astrup

Board of directors

---

Carsten With Thygesen  
Chairman

---

Jørn Nielsen  
Deputy chairman

---

Michael Vinther

---

Lars Sylvest

### FOR THE INVESTORS IN THE KAPITALFORENINGEN FORMUEPLEJE PENTA

#### CONCLUSION

We have audited the annual accounts of capital fund Formuepleje Safe for the financial year which ended on 31 December 2019, including 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 2019 and of the results of the Fund's activities for the financial year 1 January — 31 December 2019, in accordance with the Act on Managers of Alternative Investment Funds, etc. with the adoption of the accounting provisions of the Investment Associations, etc. Act

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 auditor for Kapitalforeningen Safe on 25 April, 2018 and were re-appointed annually at the general meeting for a total project period of 2 years, up to and including the 2019 financial year.

#### KEY ISSUES OF THE AUDIT

Key issues of the audit 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 2019. 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 the management's review and the sub-fund review for the sub-fund, subsequently referred to as the "management's reviews".

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

In connection with our audit of the annual accounts, it is our responsibility to read the management's reviews and, in this context, consider whether the management's reviews are materially inconsistent with the annual accounts or our knowledge gained from the audit, or whether they appear to be otherwise materially misstated. Our responsibility is also to consider whether the management's reviews contain the information required under the Act on Managers of Alternative Investment Funds, etc., with the adoption of the accounting provisions of the Investment Associations, etc. Act.

Based on the work performed, it is our opinion that the management's reviews are consistent with the annual accounts and have 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 Investment Associations, etc. Act. We have not found material misstatements in the management's reviews.

#### 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, 31 March, 2020

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

Thomas Hjortkjær Petersen  
State-authorised public accountant  
mne33748

Michael Laursen  
State-authorised public accountant  
mne26804

**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. 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	Key figures	
Certificate issuing and listed	Return (pct.)	23.49
Base currency: DKK	Net asset value	183.09
Benchmark: No benchmark	High Water Mark (performance remuneration, end of Dec. 2019)	184.18
ISIN: DK0060498186	Expense ratio	3.16
Start date of investment strategy: 1. May 1988	Expense ratio excl. performance remuneration	1.77
Advisor: Formuepleje A/S	The Sharpe Ratio	0.88
Tax status: Accumulative	Standard deviation	10.97
	APR	3.44
	APR ex. Performance remuneration	2.06
	Indirect trading costs (pct.)	0.29



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

- Investment markets in 2019
- Overall expectations for the markets in 2020
- Risks and risk management

to provide a complete picture of the development. The sub-fund's special risks are 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 investor in the sub-fund has an investment horizon of at least four 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. The investments can be made directly or through investments in other funds. 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 200 % of assets. This means that for every DKK 100 invested in the sub-fund, a loan equivalent to DKK 200 is taken out. Borrowing may vary, but shall at no time exceed DKK 500 for each DKK 100 of investors' net assets.

Changes in interest rates triggered by changes in the general interest rate level 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 capital loss depends on the bond portfolio's composition and on the size of the increase in interest rates or 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 850 % of the sub-fund's assets.
- long dispositions cannot exceed 500 % of the sub-fund's assets
- net exposure towards equities may represent 90 % 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 A/S (TAGE), which invests by 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 that perform worse than the world market index are selected. 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 9 percent of assets at the time of investment. The absolute maximum limit represents 10.35 % 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 of advisors and fund managers has been calculated based on the sub-fund's assets, and represents a total of 1.75 % 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 858 million and redemptions of DKK 3 million. In the financial year, a result of DKK 1,339 million has been realised. As of 31 December 2019, assets amounted to DKK 7,730 million.

#### **Return for the year and performance**

The sub-fund delivered a return for the year of 23.49 percent, which is higher than the return expected at the beginning of the year. During the financial period, an index with the same risk profile as the sub-fund, i.e. high risk, has yielded a return of 16.84 percent.

When compared to the index, the board finds both the performance to be satisfactory, both in absolute and relative terms.

#### **The market in 2019**

The result was created in a positive market, where most asset classes have ended the year in positive territory. The equity exposure, provided by Formuepleje LimiTellus, has delivered a strong absolute and, not least, relative equity return in 2019. At the same time, there has been a significant performance contribution from bonds throughout the year. This has also been a contributing factor to the return.

For a further description of the market for the year 2019, refer to page 7.

#### **Market outlook and strategy**

The global COVID-19 pandemic has led to sharp price fluctuations in the financial markets. Expectations below should be viewed in light of the still-great uncertainty surrounding the impact on the markets and the economy.

The COVID-19 issue will dominate financial markets, especially in the first half of 2020.

Formuepleje expects a positive equity return going forward, but with fluctuations in the coming period. Whether equity returns for the calendar year 2020 as a whole can be positive is very uncertain.

In 2020, focus will be on the upcoming presidential election in the United States. The nomination of the Democratic presidential candidate, as well as the outcome of the presidential election, might create significant fluctuations in the stock market, as the differences among current Democratic challengers are relatively great, and focus is on i.a. health reforms, regulation and rollback of the tax reform.

Formuepleje will continuously evaluate the equity exposure in LimiTellus and make adjustments to the extent that it seems opportune in the long term. At the start of 2020, the equity portfolio is exposed towards shares with a proportion corresponding to 95% of the investment instructions.

In terms of interest rates, in addition to the COVID-19 situation, 2020 will be marked by the end of the 'policy reviews' expected to be completed by both the FED and the ECB. If the objective of approx. 2% inflation is maintained, and if QE continues to be deemed a useful tool, they will be among the most significant to bond investors. These 'reviews' and economic development in general are estimated to result in rising long-term interest rates in both the US and Europe. At Formuepleje, the ECB is expected to keep its key policy rate at the current low level, and the Danish interest rates are expected to reflect this.

At the beginning of the year, the bond portfolio, where investment is done i.a. via Kapitalforeningen Fokus II, is therefore protected against moderately rising interest rates and positioned to benefit from continued low interest rates.

#### **Special risks associated with market trends in 2020**

In addition to the exogenous shock that the COVID-19 pandemic has caused in the markets, other conditions such as unanticipated geopolitical shocks may influence development.

An essential element of risk in relation to equity returns will be a stagnation of US and global growth. This would challenge the operational recovery and reduce the earnings growth that forms the basis of the expected share price increases. Furthermore, 2020 is a US election year, in which both the Democrat nomination and, not least, political statements from both camps could create volatility in the market.

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) continues to be the growing foreign investor base. These investors largely invest in Danish mortgage credit because 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 ECB's key policy rate. However, the Danish krone has been weak against the euro, which may result in one or more independent Danish interest rate hikes.

#### **Uncertainty in recognition or measuring**

The manager estimates that there is no uncertainty in the recognition and measurement of the value of assets.

#### **Significant events**

During the accounting period, the sub-fund has restructured its bond exposure in Danish and Swedish mortgage credit bonds from direct investment to indirect investment through Kapitalforeningen FP Fokus II. This has resulted in a significant change in the balance sheet composition, as Kapitalforeningen FP Fokus II is included under the equity holdings post. However, the underlying bond exposure remains unchanged, and the restructuring is thus not due to changes in the sub-fund's investment framework.

As of 31 December 2019, the exposure to Danish mortgage credit bonds amounted to 146%, while Swedish mortgage credit bonds amounted to 6%, relative to the sub-fund's assets.

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

To a varying degree, the Fund's sub-fund has been affected by the great uncertainty and market turmoil that has characterised the financial markets since the end of February, due to the global spread of COVID-19. The World Health Organization has declared COVID-19 a global pandemic, and the financial markets have reacted strongly to the uncertainty about the length and depth of the temporary slowdown which authorities' infection containment strategy has inflicted on the global economy.

There are no post-balance sheet events that affect the annual accounts.

#### **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 2019, there has been no securities lending.

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 banking days following the date of payment of dividends. A control environment has been established to ensure that this is complied with.

#### **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.

#### **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 in the Formuepleje Group and with other 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 company's management. As a fund manager, Formuepleje A/S is subject to supervision by the FSA.

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

**Salary information**

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

The total payroll for 2019 to employees, excl. management, of the manager Formuepleje A/S amounts to DKK 72,934 thousands, of which DKK 54,911 thousands are fixed salary and DKK 18,023 thousands are variable salary.

The total payroll for the management of the fund manager amounts to DKK 8,227 thousands, of which 6,136 thousands are fixed salary and 2,091 thousands are variable salary.

The total payroll for employees of the fund manager who, under the AIFM Act, have a significant impact on the risk profile of the managed funds amounts to DKK 25,370 thousands, of which 18,428 thousands are fixed salary and 6,942 thousands are variable salary.

There will be no preference return to any employees or the management of Formuepleje A/S from any of the managed funds.

There is no information which allows allocation of the total payroll sums to individual managed funds.

In 2019, the average number of employees at the fund manager translates into 57 FTEs.

## Inventories // Formuepleje Safe KL

---

The fund's equity and bond exposure is made via Danish and foreign investment and capital funds.

For further information about the underlying funds, see note 9 of the annual accounts and the respective investment and capital funds' annual reports for 2019.

The sub-fund's 10 largest indirect investments as % of investor assets	Pct.
Alphabet Inc CL C	3.10
Microsoft Corp.	2.70
Anthem Inc	2.64
Service Corp International/US	2.33
Berkshire Hathaway Inc	2.26
Intl Flavours & Fragrances	2.22
Secom Ord (9735)	2.06
Julius Baer Group Ltd	1.89
Cognizant Tech	1.83
3M Co,	1.83
<hr/>	
The sub-fund's indirect bond exposure, by issuer as % of investors' assets	Pct.
Nykredit	80.98
Realkredit Danmark	37.51
Nordea Realkredit	18.52
Jyske Realkredit	7.92
DLR Kredit	1.32
Others (various issuers of Swedish mortgage credit bonds)	6.14
<hr/>	
Market neutral investment as % of investors' assets	
Triple Alfa Global Equities A/S	8.26

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

The below table shows numerical risk limits in accordance with the sub-fund's statutes and risk limits set by the Fund's manager (Formuepleje A/S), as well as the risk calculated on 31 December 2019. 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 31-12-2019	Board of directors upper limit	Statute upper Limit
<b>Position and market risk</b>					
Equity exposure as % of assets	0 %	0 %	86.5%	90.0 %	105 %
Alpha strategy exposure as % of assets	-	0 %	8.3%	10.35 %	-
Other securities as % of assets	0 %	0 %	0.0 %	10.0 %	10 %
Other bonds as % of assets	0 %	0 %	0.4%	10.0 %	10 %
Option-adjusted duration	-2	-1	2.53	6	8
<b>Concentration risk</b>					
Single greatest exposure towards single equity as % of equity investments %	0 %	0 %	4.7%	10.0 %	13 %
Sum of equity positions exceeding 5 % of equity investments	0 %	0 %	0.0 %	40.0 %	42 %
Largest issuer as % of bond investments	0 %	0 %	53.1	80.0 %	80 %
<b>Currency risk</b>					
Foreign currency loans in EUR as % of foreign currency loans	0 %	0 %	100.0 %	100.0 %	100 %
Hedging of EUR loans as % of EUR loans*	-	0 %	100.0 %	100.0 %	-
Unhedged foreign currency loans in currencies other than EUR and DKK as % of assets	0 %	0 %	0.0 %	10.0 %	10 %
<b>Gearing risk</b>					
Loan gearing as % of assets	0 %	0 %	152.4%	500.0 %	500 %
Market value of long dispositions as % of assets	0 %	0 %	270.5%	500.0 %	600 %
Gross exposure in % of assets	0 %	0 %	343.0%	850.0 %	900 %
<b>Standard deviation</b>					
Return over 12 months**	0 %	0 %	12.1%	34.0 %	40 %
Return over 36 months**	0 %	0 %	11.0%	24.0 %	29 %
Return over 60 months**	0 %	0 %	13.9%	21.0 %	27 %

\* 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	2019	2018
Interest and dividend yields		
1 Interest income	27,996	150,033
2 Interest expenses	-3,640	-17,648
3 Dividend yield	6,469	10,061
Total interest and dividend yields	30,826	142,447
Capital gains and losses		
4 Bonds	24,787	-65,982
4 Equity holdings	1,529,974	-102,124
4 Derivates	-37,052	23,668
Currency accounts and loans	4,867	-22,791
Other assets and liabilities	-5	0
5 Trading costs	-107	-114
Total capital gains and losses	1,522,463	-167,343
Total revenue	1,553,289	-24,896
6 Administrative expenses	-214,094	-135,973
Net result for the year	1,339,195	-160,869
Total transferred to assets	1,339,195	-160,869

Balance (DKK thousands)

Note	ASSETS	2019	2018
	Cash and cash equivalents		
	Balance with depositary	53,180	126,476
	Cash and cash equivalents total	53,180	126,476
	 Bonds		
	Listed bonds from Danish issuers	0	9,363,878
	Listed bonds from foreign issuers (Swedish)	0	377,474
	Total bonds	0	9,741,352
	 Equity holdings		
	Unlisted equity holdings from Danish companies	638,654	493,604
	inv.certificates in other Danish UCITS, etc.	6,652,490	4,109,072
	inv.certificates in foreign investment funds	1,098,107	815,230
	Total equity holdings	8,389,251	5,417,906
	 Derivates		
	Unlisted derivates	528	6,490
	Total derivates	528	6,490
	 Other assets		
	Receivable interest and dividend yield	0	53,008
	Other receivables	0	240
	Balance due to trade settlement	65,993	694,838
	Total other assets	65,993	748,087
	 ASSETS TOTAL	8,508,953	16,040,310

Balance (DKK thousands)

LIABILITIES	2019	2018
7 Investors' assets	7,730,074	5,531,460
Derivates		
Unlisted derivatives	0	92,578
Total derivatives	0	92,578
8 Loans	687,564	10,068,510
Other debt		
Owed expenses	246	1,564
Balance due to trade settlement	91,069	346,199
Total other debt	91,315	347,763
<b>TOTAL LIABILITIES</b>	<b>8,508,953</b>	<b>16,040,310</b>

Notes to which no reference is made

- 9 Additional notes on financial instruments
- 10 Underlying exposures of forward foreign-exchange contracts
- 11 Underlying exposures of interest rate swaps
- 12 Underlying exposures of futures
- 13 Counterparties in derivatives
- 14 Collateral liabilities etc.
- 15 Unlisted ownership shares wherein the fund possesses more than 5 % of the capital or the votes
- 16 Key figures

## Notes (in DKK thousands)

Note	2019	2018
<b>1 Interest income:</b>		
Balance with depositary	0	2
Loans	3,111	21,688
Listed bonds from Danish issuers	24,699	125,619
Listed bonds from foreign issuers (Swedish)	187	2,724
<b>Total interest income</b>	<b>27,996</b>	<b>150,033</b>
<b>2 Interest expenses:</b>		
Balance with depositary	578	1,014
Interest rate swaps	3,062	16,634
<b>Total interest expense</b>	<b>3,640</b>	<b>17,648</b>
<b>3 Dividend yields:</b>		
inv.certificates in other Danish UCITS, etc.	472	8,547
inv.certificates in foreign investment funds	5,997	1,514
<b>Total dividend yields</b>	<b>6,469</b>	<b>10,061</b>
<b>4 Capital gains and losses, bonds</b>		
Listed bonds from Danish issuers, realised	29,171	-52,250
Listed bonds from Danish issuers, unrealised	0	-16,743
Listed bonds from foreign issuers (Swedish), realised	-4,384	-3,195
Listed bonds from foreign issuers (Swedish), unrealised	0	6,205
<b>Total capital gains and losses, bonds</b>	<b>24,787</b>	<b>-65,982</b>
<b>Capital gains and losses, equity holdings:</b>		
Unlisted Danish equities, unrealised	8,071	50,973
Investment certificates in other Danish UCITS, etc., realised	184,969	78,381
Investment certificates in other Danish UCITS, etc., unrealised	1,250,470	-187,473
Investment certificates in foreign investment funds, realised	5,789	3,906
Investment certificates in foreign investment funds, unrealised	80,675	-47,911
<b>Total capital gains and losses, equity holdings</b>	<b>1,529,974</b>	<b>-102,124</b>
<b>Capital gains and losses, derivatives:</b>		
Interest rate swaps, realised	-19,850	88,239
Interest rate swaps, unrealised	0	-92,578
Forward foreign-exchange contracts, realised	4,473	22,615
Forward foreign-exchange contracts, unrealised	528	6,490
Futures, realised	-22,204	-1,099
Futures, unrealised	0	0
<b>Total capital gains and losses, derivatives</b>	<b>-37,052</b>	<b>23,668</b>

Notes (in DKK thousands)

Note	2019	2018
5 Trading costs:		
Gross sales	107	182
Covered by issue and redemption income	0	-68
<b>Total trading costs</b>	<b>107</b>	<b>114</b>
6 Administrative expenses:		
Remuneration to the board	332	375
Remuneration to auditors	133	81
Other auditors' remuneration	12	13
Fees to depositary	823	969
Consulting fees, fixed	103,646	85,102
Consulting fees, performance fees	93,935	36,421
Administration fee	14,903	12,237
Other expenses	311	775
<b>Total administrative expenses</b>	<b>214,094</b>	<b>135,973</b>
7 Investors' assets in 2019	Circ. certificates (Nom. in DKK thousands)	Asset value (in DKK thousands)
Investors' assets (start of year)	3,730,855	5,531,460
Issues during the period	493,113	858,146
Redemptions during the period	-2,000	-3,045
Net issue and redemption charges		4,318
Transferred from income statement		1,339,195
<b>Total investor assets</b>	<b>4,221,968</b>	<b>7,730,074</b>
Investors' assets in 2018	(Nom. in DKK thousands)	(in DKK thousands)
Investors' assets (start of year)	3,385,333	5,145,559
Issues during the period	481,915	754,253
Redemptions during the period	-136,393	-212,684
Net issue and redemption charges		5,202
Transferred from income statement		-160,869
<b>Total investor assets</b>	<b>3,730,855</b>	<b>5,531,460</b>
8 Loans	2019	2018
Loans with depositary bank and other financial institutions	687,564	6,335,570
Repo loans	0	3,732,940
<b>Total Loans</b>	<b>687,564</b>	<b>10,068,510</b>

Notes to which no reference is made (DKK thousands)

Note	2019	2018
9 Financial instruments as percentage of assets:		
Listed financial instruments	84.73%	265.13%
Other financial instruments	23.80%	7.37%
Total financial instruments	108.53%	272.50%
Other assets and debt	-8.53%	-172.50%
Total	100.00%	100.00%

Asset allocation as % of investors' assets	Pct.
Share-based investment funds	69.60
Unlisted shares - market-neutral strategy	8.26
Total equity-based investments	77.86
Bond-based investment funds	30.67
Bonds - mortgage credit	0.00
Total bond-based investments	30.67
Total	108.52

Specification of investment and capital fund certificates	Pct.
<i>Danish bond-based inv. certificates</i>	
Formuepleje EM Virksomhedsobligationer	0.25
Formuepleje Obligationer	0.65
Formuepleje Global High Yield	0.03
Kapitalforeningen FP Fokus II	15.53
Total Danish bond-based inv. certificates	16.46
<i>Danish equity-based inv. certificates</i>	
Formuepleje LimitTellus	67.40
Formuepleje Better World	2.01
Formuepleje BW Global Opportunities	0.14
Formuepleje Globale Aktier Akk.	0.04
Total Danish equity-based inv. certificates	69.60
<i>Foreign bond-based inv. certificates</i>	
Absalon - Global High Yield R	0.29
Absalon - Global High Yield I - EUR	4.92
Absalon - EM Corporate Debt R	0.29
Absalon - EM Corporate Debt I	7.84
Absalon - EM Corporate Debt I - USD	0.87
Foreign bond-based inv. certificates, total	14.21
Total investment fund certificates, proportion of assets	100.27

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

Notes to which no reference is made (DKK thousands)

Note

10	Underlying exposures of forward foreign-exchange contracts		
	Currency	Exposure	Exposure
	EUR	702,412	6,335,570
	DKK	-701,618	-6,329,080
11	Underlying exposures of interest rate swaps	Exposure	Exposure
	DKK variable rate is received and fixed rate is paid	0	105,000
	EUR variable rate is received and fixed rate is paid	0	656,690
	SEK variable rate is received and fixed rate is paid	0	370,949
12	Underlying exposures of futures	Exposure	Exposure
	Underlying exposure for selling US interest rate futures	-648,018	-540,784
13	Counterparties in derivatives	Nordea	Nordea
		Danske Bank	Danske Bank
		Jyske Bank	Jyske Bank
			SEB
14	Collateral liabilities etc.		
	As security for the fund's engagement with bank, the following assets have been pledged as collateral:		
	Balance with depositary	5,835	87,375
	Listed bonds from Danish issuers	0	5,081,077
	Listed bonds from Danish issuers (repo loans)	0	3,309,543
	Inv.certificates in other Danish UCITS	891,939	1,968,051
	<b>Total</b>	<b>897,775</b>	<b>10,446,046</b>
15	Unlisted ownership shares wherein the fund possesses more than 5 % of the capital or the votes		
	2019	Equity	Ownership share
	Triple Alfa Global Equities A/S, Værkmestergade 25, 8000 Aarhus C	1,909,675	33.43%
	Formuepleje Safe A/S, Værkmestergade 25, 8000 Aarhus C	1,842	14.13 %
	2018	Equity	Ownership share
	Triple Alfa Global Equities A/S, Værkmestergade 25, 8000 Aarhus C	1,379,663	35.76 %
	Formuepleje Safe A/S, Værkmestergade 25, 8000 Aarhus C	1,855	14.13 %

## Notes to which no reference is made

Note

16	Key figures	2019	2018	2017	2016	2015
	Net result (DKK thousands)	1,339,195	-160,869	454,837	494,651	144,257
	Assets (DKK 1,000s)	7,730,074	5,531,460	5,145,559	3,979,028	3,619,058
	Average assets (DKK thousands)	6,785,409	5,575,356	4,706,698	3,573,504	3,814,322
	Circulating shares (pcs.)	42,219,681	37,308,553	33,853,329	28,950,861	30,283,816
	Net asset value per share	183.09	148.26	152.00	137.44	119.50
	Returns for the period as a percentage.	23.49	-2.46	10.59	15.01	3.98
	Cost percentage.	3.16	2.44	2.91	2.82	2.72
	Cost percentage, excl. performance fee	1.77	1.79	1.78	1.81	1.81
	Trading costs as percentage	0.00	0.00	0.01	0.01	0.01
	Indirect trading costs**	0.29	0.17	-	-	-
	APR (annual percentage rate)	3.44	2.76	3.24	3.10	3.01
	APR excl. performance remuneration	2.06	2.10	2.11	2.09	2.10
	Sharpe ratio *	0.88	0.89	1.02	0.93	-
	Standard deviation*	10.97	9.41	9.57	10.39	-

\* 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.

### 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 Investment Associations, etc. Act, including the FSA's 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

Interest rates include interest on bonds, derivatives and interest on deposits with depository company. Dividend yields comprise dividends from equity stored with depository. Gross dividend yields received are adjusted for non-refundable dividend 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.

Changes in the fair value of derivatives are recognised in the income statement under capital gains and losses from derivatives.

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.

When a sub-fund owns shares in another sub-fund, the parent sub-fund is partially reimbursed for certain costs in the underlying funds. Accrued costs in underlying funds are included in the fair value, and thereby in the calculation of capital gains and losses. To signal as correct a calculation of administrative expenses as possible, in terms of money and as a percentage, the reimbursements received in the parent sub-fund are recognised under "Capital gains and losses on investment certificates" on the income statement.

### Tax

Tax includes dividend yield tax and interest rate tax withheld abroad and not refundable.

### BALANCE SHEET

#### Cash and cash equivalents

Cash and cash equivalents include bank deposits. Cash and cash equivalents in foreign currencies are measured at nominal value and converted 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. For investment certificates in sub-funds of investment funds in which the fund's manager has full knowledge of the composition of the sub-fund's underlying bonds and equity holdings (funds of funds), these are measured on the basis of the above measurement principles, applied to the underlying bonds and capital investments. Securities are taken in and out on the trade date.

#### 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. The fair value of derivates of the same type is recognised by a net principle. The change in fair value is recognised on 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 trade settlement" consisting of the value of the proceeds from the sale of financial instruments (equities and bonds), borrowing and issues before the balance sheet date, where settlement occurs 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 trade settlement" consists of the value of the proceeds from the sale of financial instruments (equities and bonds), borrowing and issues before the balance sheet date, where settlement occurs 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  $((\text{value of purchase} + \text{value of sale})/2) / \text{Investors' average assets}$ .

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

*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 higher 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.

*The 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.

### **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 custody and depositary bank function**

The Fund has signed an agreement with Danske Bank A/S that, as a depositary, the bank holds securities and cash and cash equivalents 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.

FP has signed contracts with external financial companies for the distribution of capital fund certificates to i.a. increase the availability to investors.

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 Danske Bank A/S, the 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 Danske Bank A/S on the Fund's issuing function. The bank assumes the role of issuer with VP Securities A/S (VP).

