NORRON
STOCKHOLM | OSLO

MONTHLY REPORT – PRESERVE

Dec 2017

Historical Return (%)

	jan	feb	mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	year
2017	0,22	0,32	0,12	0,15	0,21	0,06	0,15	0,08	0,10	0,12	-0,03	-0,08	**1,45**
2016	-0,24	-0,40	0,65	0,51	0,18	0,11	0,34	0,42	0,27	0,27	0,09	0,11	2,34
2015	0,18	0,26	0,10	0,25	0,08	-0,24	0,22	-0,05	-0,48	0,28	0,04	-0,18	0,44
2014	0,38	0,47	0,33	0,16	0,22	0,25	0,15	-0,03	-0,10	-0,27	-0,19	-0,60	0,76
2013	0,58	0,19	0,24	0,38	0,44	-0,05	0,31	0,41	0,47	0,43	0,38	0,39	4,25
2012	1,31	0,63	1,00	0,29	-0,14	0,24	0,63	1,20	0,54	0,70	0,34	0,30	7,25

Top 5 Positions

1	Swedbank Hypotek AB	2,1
2	Landshypotek Bank AB	2,1
3	Swedbank Hypotek AB	2,0
4	Stadshypotek AB	2,0
5	Realkredit Danmark	2,0

Positive Contributions

1	Klarna T2	0,03
2	Aker BP	0,02
3	Nykredit T2	0,01
4	Telia corp perp	0,01
5	Volvo corp perp	0,01

Negative Contributions

1	Aker ASA	0,00
2	LKAB	0,00
3	Helmstaden	0,00
4	SBAB	0,00
5	Intrum	-0,01

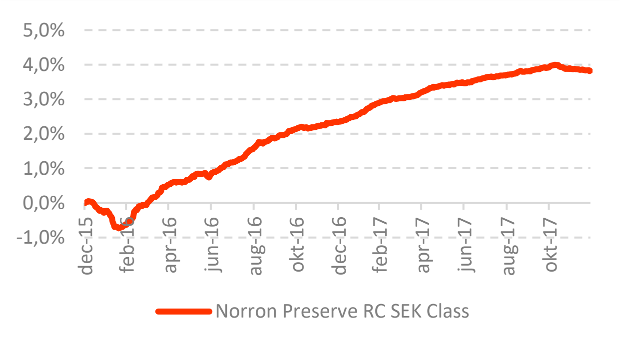
Negative interest rates on covered bonds account for 18% of the fund explains the negative return of -0,08%.

Key Figures December

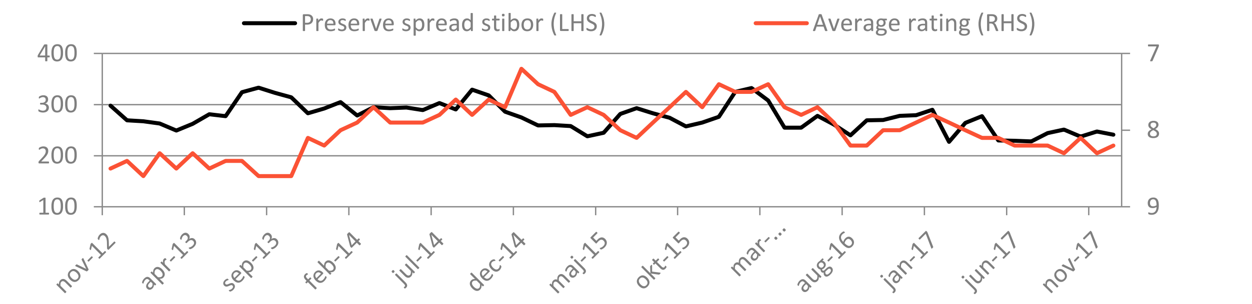
	Current	Last 3 yrs	Since Inception
Std. Dev.		0,8%	1,1%
Correlation (T-Bill)		-0,27	0,15
Positive Month. (%)		78%	83%
Best month (%)		0,7%	1,3%
Worst Month (%)		-0,6%	-0,8%
Portfolio yield	1,9%		
Avg. Weighted Interest Rate Duration	0,40	0,6	0,6
Credit Duration (years)	2,10	2,6	2,8

* Bloomberg

Performance since 2016



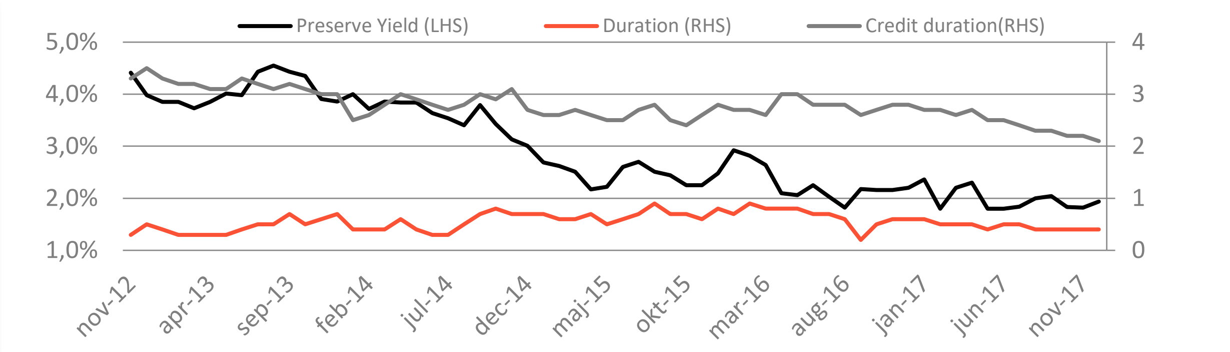
Spread Stibor & Average Credit Rating



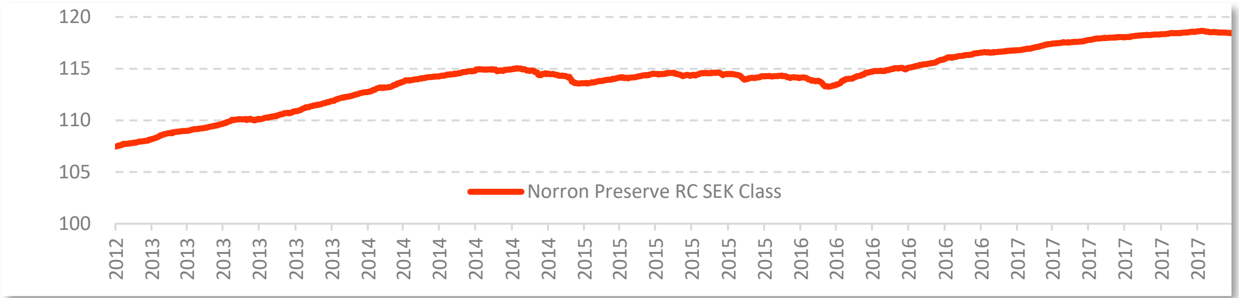
If you have any queries or require additional information, please contact ir@norron.com

NORRON
STOCKHOLM | OSLO

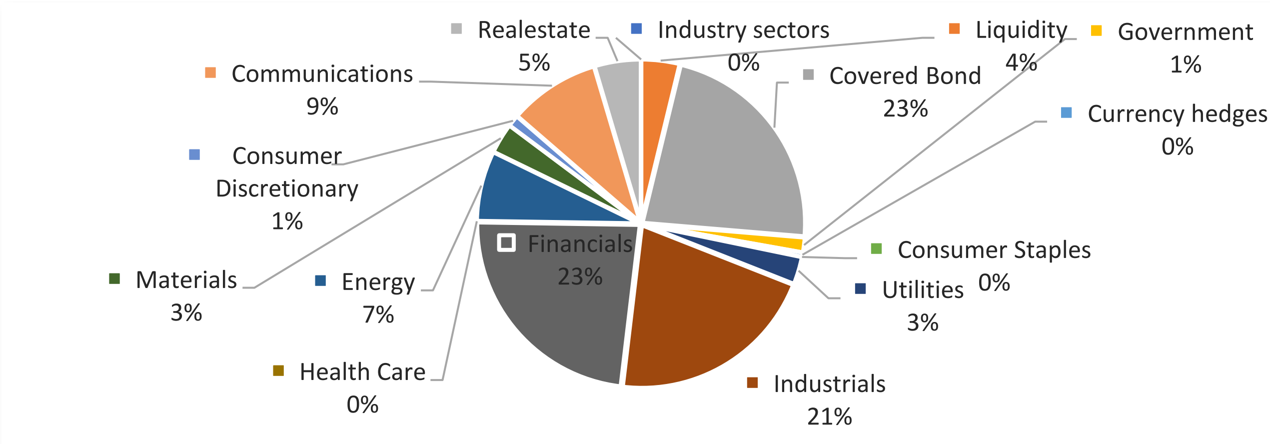
Yield, Duration & Credit Duration



NAV Price (last 5 yrs)



Industrial Breakdown



Fund Manager's comment

December was a month characterized by profit taking, FED meeting and implementation of MIFID II. As expected, FED kept its expected path of planned rate hikes. Global PMI still accelerated, which is of course positive for risk assets. 10yr yield in Germany and US stable over the month. Spreads in general widened, except for US IG spreads that tightened. The effect on the Swedish market regarding Swedish house price development is still lingering.
The fund returned -0,08 per cent in December, mainly caused by increasing IG credit spreads. The fund is keeping shorter credit/interest rate duration than normal due to valuation in the market.

Looking back at 2017, it was an eventful year with resilience towards global political events, weakening of the USD, acceleration and synchronized global growth, stable to somewhat increased 10yr yields, tighter credit spreads and higher equity prices. FED communicated to start reducing their balance sheets and ECB to reduce the QE program with a supposed end in 2018. This did not move the markets either. Hence, it has been a good year for risk assets. 2017 was also a record year in issuance of Nordic bonds and the previous record year 2014 was beaten by nearly 30 per cent. As for the Nordics, Norwegian and Swedish house prices rolled over and declined year over year. This put an immediate pressure on house developers. This will continue to be a hot topic for 2018 so watch this space. Norron Preserve returned 1,44 per cent in 2017 and fulfilled its goal of 200bp over Swedish Treasury bills. Main contributors were Aker BP, Nykredit and Teekay LNG.

Looking at the year ahead, pricing of risk assets can be elevated longer than one thinks. Will 2018 be such a year? Credit spreads are at a multi-year tight. Longer dated government bonds are still low in yield terms. 2018 will most likely be the year when central banks' balance sheets for the first time since 2009 start to shrink. This, combined with potentially some more inflation, caused by tighter labor markets and higher commodity prices, can mean that higher interest rates are on the cards. At least, more volatility can be expected. Credit spreads can be stable and tight as long the corporate sector increases earnings. The next leg in spreads is most likely up, but when? Moreover, we are cautious towards interest rate sensitive sectors like consumer credit and real estate. We position our portfolios with shorter credit and interest rate duration and we have not improved average credit rating yet, but this can happen during 2018.