

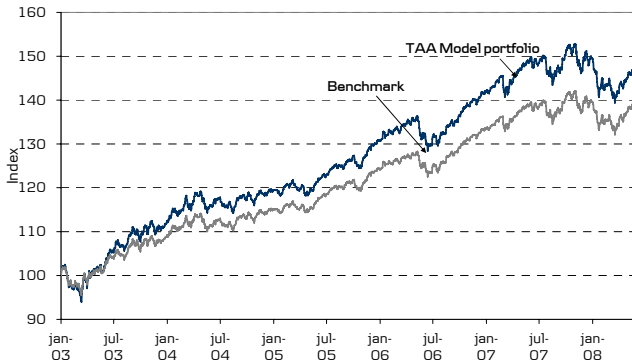
Tactical Asset Allocation

Danske Capital – 9 June 2008



Historical Performance

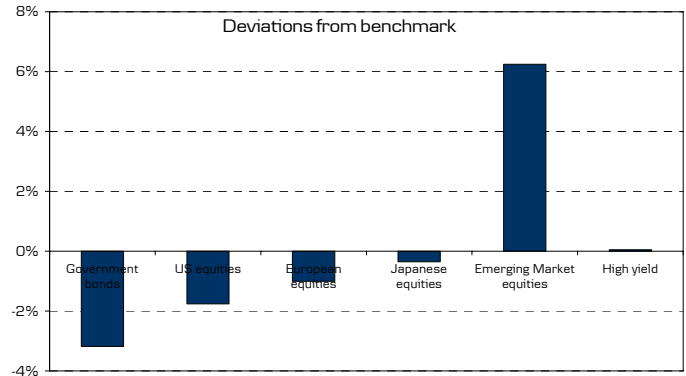
TAA Performance



Information Ratio: 0.9

Current recommendation

Model portfolio June 2008



Note: Benchmark is rebalanced at the beginning of each year

Performance results:

Model portfolio 2008 (ytd):	-2.9 percentage points
Performance 2008 (ytd):	-1.3 percentage points

Latest strategy changes:

09/06/08:	EM Equities upweighted 3%, government bonds downweighted accordingly.	08/06/07	Equities downweighted 5%, bonds upweighted accordingly. Global equities downweighted from 8% to 4%, European equities downweighted from 2 to 1%. Overall, equity overweight 5%
12/03/08:	Equities downweighted to neutral, government bonds upweighted accordingly. EM upweighted 3 % at the expense of the rest of the MSCI AC World index.	25/04/07:	Global equities downweighted 2% to 8% overweight, bonds upweighted accordingly, European equity 2% overweight retained, overall equity overweight 10%
08/02/08:	Equities downweighted from 8% to 5% (allocated according to MSCI AC World). European overweight neutralised.	01/01/07:	Equities upweighted 2%, bonds downweighted accordingly
09/11/07:	Emerging Market equities downweighted 3%, global equities upweighted accordingly. Overall equity overweight unchanged	22/08/06:	European equities upweighted 2%, bonds downweighted accordingly
13/09/07:	Emerging Market equities upweighted 3%, bonds downweighted accordingly.	07/06/06:	Japan, Emerging Markets downweighted to neutral, USA upweighted to neutral

We are increasing our equity weight to plus 3 percentage points, at the expense of government bonds. The 3 percentage points will be allocated to Emerging Market equities. We are thus recommending an overall EM equity weight of 6 percentage points above benchmark, funded by a 3 percentage point (market-cap weighted) underweight in global equities and a 3 percentage point underweight in government bonds. The major risk to this allocation is a continued rise in global energy and food prices, but to put it very clearly – we expect oil prices to stay flat or fall over the coming quarters.

“Inflation is back – but not where you think” – that was the cover of the Economist magazine last week. We fully agree! However, we think markets are overestimating the inflation threat at this point in time. In essence, the further oil prices rise at this speed, the harder the global economy will fall, either because of central banks being forced to tighten, social unrest or via the direct drag on growth. To be very clear – we do not have a problem with oil at 80 to 100 USD per barrel, but we do have a problem with oil going from 90 to 130 USD per barrel in the course of just 4 months. We think the majority of the rise in oil prices over the past 5 years has to do with demand outpacing supply, but the latest movements are too much too fast. As such, the high oil prices constitute the biggest risk to our forecast for continued global growth and solid equity performance.

Or put another way – our Yield Gap has historically (and intuitively) depended on a stationary inflationary environment. And our regional equity indicators are based primarily on US interest rates and thus, by extension, on the premise that the link between US and global (primarily Asian) financial conditions hold. If the Fed (or Asian central banks independently of the Fed) was forced to tighten in order to curb (headline) inflationary pressures, many of our quantitative indicators would probably break down.

However, we want to stress that these inflation considerations are purely *tactical*, i.e. we need inflation to come down over the coming 12 to 18

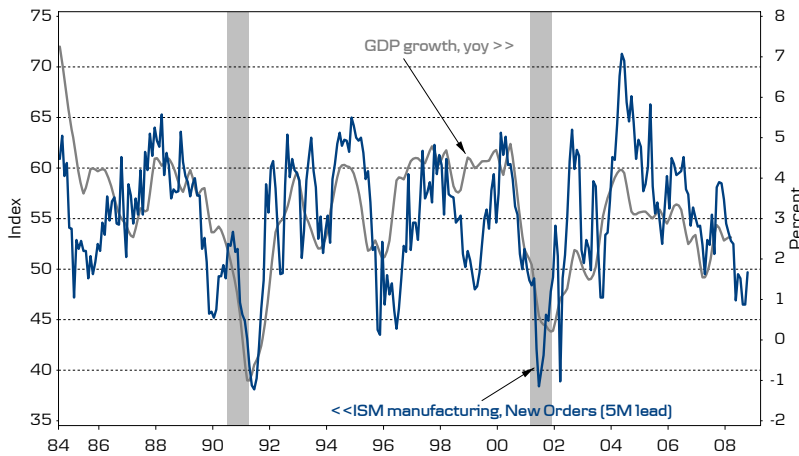
months – which is also what we expect. However, longer term, we continue to think that global real interest rates are too low. They need to rise over the coming 3 years, and we expect them to do just that. However, today, there is a significant distinction between financial conditions and the level of interest rates. The former is what matters most and right now credit conditions are tight, as illustrated by the senior loan officer surveys in both US and Europe. This will eventually change, and when it does, we believe we will be left with western economies with lower leverage and thus lower interest rate sensitivity. With even stronger (and bubbly) EM fundamentals that should pave the way for the end of the “conundrum”, i.e. nominal rates breaking out of the range within which they have been trading for the past 4 to 5 years. That, however, is a story for 2009 (at the earliest), and not for the rest of 2008.

Turning to the tactical allocation, the overriding reason for our equity weight decrease in March was risk management. At the time, financial disorder posed a serious threat to the global system – with the Bear Stearns case; we think the Fed effectively reduced that risk. More broadly, we had three further signposts for a renewed engagement in global equity markets. First and foremost, the reason why we ended up in this situation in the first place was instability in the US housing market, and we wanted to make sure that we were right about a stabilisation as we go through 2008. We think we are. Second, we wanted to gain further conviction in our global growth outlook – i.e. the US avoiding a serious recession and the rest of the world doing OK. With Q1 GDP data now in hand and key confidence indicators holding up fairly well, we are more comfortable with our growth outlook. If anything, consensus has clearly been surprised by the resilience of the global economy over the past few months. Finally, we wanted commodity prices to stop rising. Clearly, this has not happened. However, as we expect prices to level out or even fall short term, this is a risk we are willing to bear. If our expected scenario continues to unfold, we will increase equity weightings further.

Quantitative indicators for Tactical Asset Allocation

Asset classes	Equities/Bonds	High Yield/Equities	High Yield/Bonds
Valuation (+/- 2)	buy(+2) Yield gap	sell(-2) High Yield gap	neutral (0) Credit Spread
Trigger 1 (+/- 1)	neutral (0) Risk appetite	buy (+1) Slope of the yield curve	buy (+1) Slope of the yield curve
Trigger 2 (+/- 1)	sell (-1) Production	buy(+1) Capacity Utilisation	buy (+1) Real Interest Rate
Trigger 3 (+/- 1)	neutral (0) Volatility	neutral (0) Volatility	buy (+1) Investments
Total Score (+/- 5)	+1 buy	0 neutral	+3 buy

USA: Business confidence and GDP growth



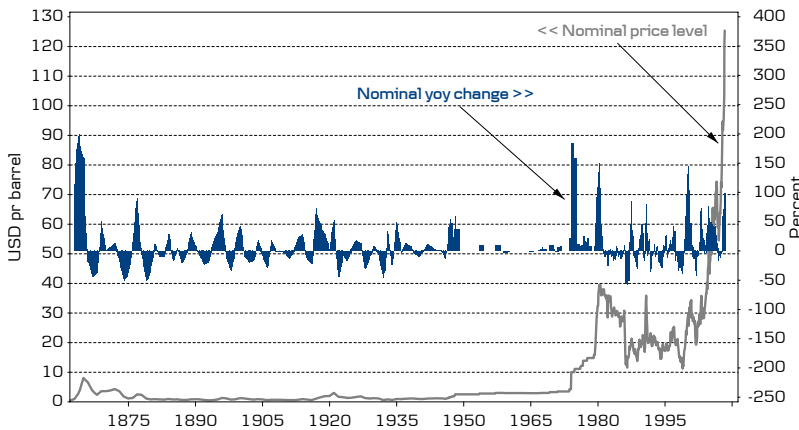
Global growth momentum: OK

With GDP data for Q1 now in hand for most of the major economies, we think it is fair to say that the market consensus has been surprised by the resilience of the global economy. In addition, we want to add that this slowdown appears increasingly conventional.

In terms of the economic outlook, we continue to think that a serious global downturn will be avoided and that the outlook for the US in particular is one of sub-trend growth – not a collapse. This is also the signal from our favourite statistic – the US manufacturing ISM. More importantly, we think both the ISMs have corroborated our expectations, i.e. that the most severe loss of growth momentum was at the beginning of this year.

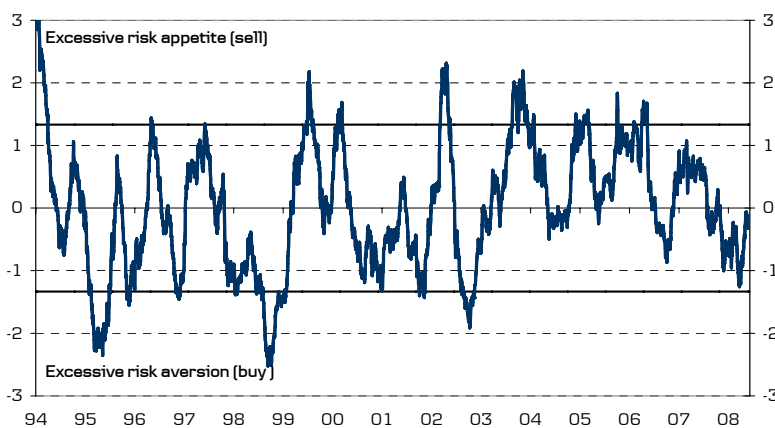
World: Nominal oil price

Note: Crude oil price from BP prior to 1946 and after 1946 spot WTI



However, a key threat to this outlook is a continued surge in commodities, primarily oil. The structural rise in oil prices has proven far less disturbing to global growth than most macro economic models would have forecasted 5 years ago – the reasons are many of course, but key to us is that growth in demand (driven by EM countries) has outpaced growth in supply, and second because oil producing nations have had a lower savings ratio than during the 70s. And compared to that critical period, there is a fundamental difference between OPEC turning off the taps and simply not being able to supply enough. In addition, we have the lesser energy intensity of global GDP. We are nevertheless concerned that the recent spike is too far too fast, which means that it is more of a tax on growth and more inflationary than previously.

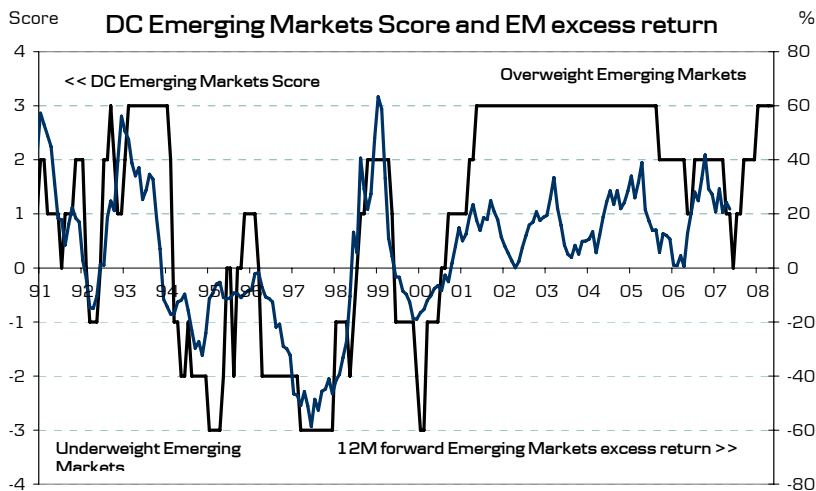
DC Global Risk Appetite Index



However, we are willing to bear that risk. As such, with the tentative stabilisation in the US housing market and better understanding and clarity in respect to the eventual losses stemming from the mortgage meltdown, combined with confirmation of our macro outlook and above all a continued belief that *implied* earnings expectations are too negative, we have decided to increase our equity weight yet again. With respect to timing, we should have acted differently, in the sense that our timing indicators, including our risk appetite index shown to the left, was close to panic (and thus buy signal) territory in mid March. However, we still think there is a lot of pessimism priced into equity markets. Our GRA index remains firmly in neutral territory. Our objective is to get back to an equity overweight in the 8 to 10 percentage points range.

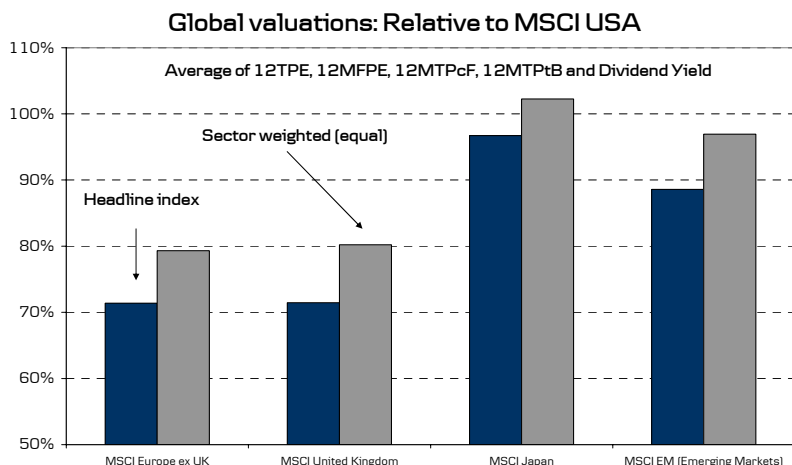
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We chose EM equities given our fundamental belief that this region is the key to the rest of this expansion and that the region offers the best risk/return characteristics among the major regional equity markets. Interestingly, EM equities have performed in line with global equities during the past 3 to 6 months of extreme volatility. Market conditions during which EM would normally underperform. This, however, is fully in line with our models. And our indicators continue to signal strong EM outperformance over the coming 6 to 12 months.

We think US monetary policy will work. Both in terms of stabilising the domestic economy but also in terms of underpinning global growth, which should mean that our models will work as well.



As such, we continue to think that EM equities are significantly undervalued. Our approach is twofold. Our Yield Gap, which is based on US data, tells us that US equities are undervalued. And as the chart on the left shows, EM equities trade at a discount to the US. Obviously, they have been trading at a discount over the past 5 years and briefly traded at premiums during the 90s. We think they will do so again. First of all because we know what has historically driven EM performance, i.e. easy monetary conditions. Second, because we believe they should trade at a premium due to their growth potential and improved fundamentals. And finally because we believe this is the next big bubble in the making.

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