

NEWSLETTER OCTOBER 2017



PFA
INVESTMENT FUND

Performance & NAV	AA	A	B
Monthly return	0.42%	0.42%	0.30%
Return year-to-date	7.45%	7.45%	6.14%
NAV per share	313.22	154.48	141.60

All statistics, unless otherwise stated, are for the AA share class.

MARKET UPDATE OCTOBER 2017

PFA Investment Fund - Midgard Fixed Income Fund returned 0.42 % in October, bringing total YTD return to 7.45 %.

The expected Year end drift in Swedish fixings continued throughout October, going from -46bp to -54bp low, as the financial market prepared for the effects of the Resolution Fund payments. Last couples of Years of experience will have Swedish kronor as 'thrash' as banks are to pay Resolution Fee relative to size of their balance over turn. Expectations are for the fixings to continue a downward drift and basically the effect ought to be larger this Year as one very large bank has chosen to gather all activities in Sweden (although it has been decided to move from Sweden to Finland going forward).

In the aftermath of the surprising reelection of governor Ingves as head of Riksbanken, end September, it seemed as if spreads took a more reasonable widening versus EURO as key figures out of Sweden continued to impress.

Mid-month this changed. Going from an absolute denial of the rapid rising house/flat prices, all due to demand was the explanation, focus turned to the fact that prices were stagnating or even dropping and developers in Sweden were under pressure. Now it seemed very evident that prices had to correct and who knows where the bottom is? From one camp to another – Swedish yield spreads performed versus EURO and Swedish kronor continued to lose momentum.

So where to go from here? Basically the Swedish issue is more a matter of WHEN yields will rise and which effects we, participating in the financial market, should expect. Higher yields will potentially draw down deposits at banks, which in itself will have the effect of less demand for short dated bonds and, perhaps more important, issuers will have to come more often to the market. I am not convinced the entire market is basically seeing this as a negative, but from my humble perspective supply, and especially more supply than expected, is more often than not followed by wider spreads.

And if You add stories of a housing market in the start of distress as well as Swedish debtors preference for fixed rate mortgages WHEN Riksbanken are on a hiking cycle (which they foresee to happen summer 2018) the cards are laid for a widening and a steepening!

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And hold Your horses – end of month supply actually sent Swedish covered bonds wider relative to interest rate swap.

I suspect the market is a bit early in being jitterish – but who knows....maybe it is time for a larger correction in spreads. From top to the current bottom Swedish 5 Year covered bonds traded just shy of 100bp back in 2011 and the more recent top of around 70bp can be found in end 2015. Close of October 2017 it was at 34bp.

It seems the interest for longer dated Danish covered to some extent cooled whereas shorter dated continued their drift inwards. Most notably was the suggestion to move funding for social housing from covered bonds – especially longer dated callables – to Danish government bonds. As a prerun it was decided to move issuance from 5 Year to 1Year covered and then gradually move callable issuance into government bonds, hereby effectively removing risk in the near future and in a longer perspective also remove spread risk.

Suggestion still needs to pass legislators.

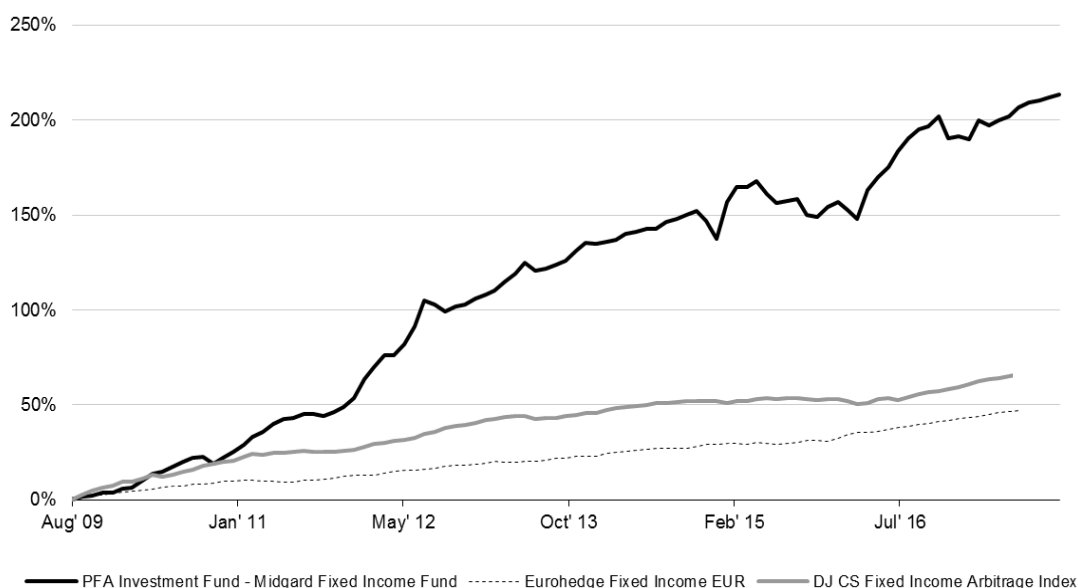
So first month of Q4 over and the themes from the last couple of Years seem to dominate – buy on dips and carry. That said, it seems very evident that across the globe market participants are looking for exit. Everybody wants to be first out the door. Question is what is on the other side of the door? We have witnessed a decade of falling interest rates, tightening spreads and performing high yield, corporates and equities. Will we eyewitnesses to the opposite movements as extremely loose monetary policy shifts into a tightening cycle? And will central banks across the world return 'normal policy' before the next growth downturn?



Jesper Slemming
Chief Investment Officer, PFA Investment Fund

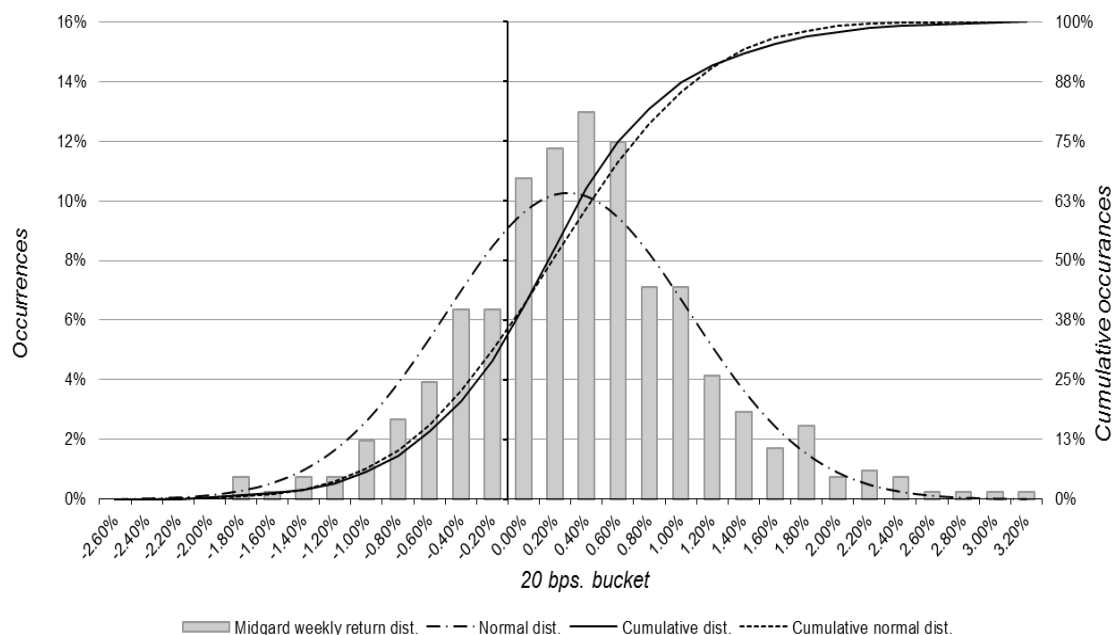
HISTORICAL PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YoY
2009									1.66%	0.59%	1.32%	0.39%	4.01%
2010	1.98%	0.44%	3.23%	3.34%	0.91%	2.32%	2.16%	2.03%	0.31%	-2.98%	2.80%	2.56%	20.67%
2011	2.71%	3.40%	1.65%	3.32%	1.74%	0.30%	1.49%	0.18%	-0.75%	1.31%	1.77%	3.45%	22.50%
2012	6.20%	4.03%	3.56%	-0.01%	3.43%	5.25%	6.97%	-1.07%	-1.82%	1.47%	0.50%	1.54%	34.00%
2013	0.91%	1.01%	2.41%	1.81%	2.70%	-1.82%	0.36%	0.89%	1.14%	2.24%	1.71%	-0.16%	13.95%
2014	0.51%	0.41%	1.29%	0.42%	0.64%	-0.05%	1.57%	0.62%	0.83%	0.88%	-2.06%	-3.82%	1.11%
2015	8.18%	3.01%	0.07%	1.26%	-2.69%	-1.74%	0.37%	0.53%	-3.37%	-0.28%	1.92%	1.18%	8.27%
2016	-1.67%	-1.86%	5.99%	2.64%	1.94%	3.09%	2.39%	1.63%	0.61%	1.62%	-3.75%	0.41%	13.42%
2017	-0.62%	3.53%	-0.84%	0.82%	0.74%	1.45%	0.87%	0.33%	0.57%	0.42%			7.45%



Return	PFA Investment Fund - Midgard Fixed Income Fund	EuroHedge Fixed Income Arbitrage Index	DJ CS Fixed Income Arbitrage Index
Annualized	15.00%	4.89%	6.49%
Last 12 months	3.83%	6.44%	6.12%
Last 3 months	1.32%	1.37%	0.22%
Since inception	213.22%	47.07%	66.28%
Best month	8.18%	1.51%	2.77%
Worst month	-3.82%	-0.58%	-1.19%
Positive months	80.61%	86.60%	82.47%
Negative months	19.39%	13.40%	17.53%
Volatility	7.19%	1.41%	2.36%
Sharpe Ratio	2.06	3.31	2.66

RETURN DISTRIBUTION



Moments	PFA Investment Fund - Midgard Fixed Income Fund	EuroHedge Fixed Income Arbitrage Index	DJ CS Fixed Income Arbitrage Index
Return	15.00%	4.89%	6.49%
Standard deviation	7.19%	1.41%	2.36%
Kurtosis	1.65	0.63	1.10
Skewness	0.35	-0.17	0.09

Correlation analysis	PFA Investment Fund - Midgard Fixed Income Fund	EuroHedge Fixed Income Arbitrage Index	DJ CS Fixed Income Arbitrage Index
Correlation coefficient	-	49.54%	26.63%
Beta	-	253.11%	81.53%
Alpha	-	2.05%	9.25%
R2	-	24.54%	7.09%
Autocorrelation	19.65%	4.07%	35.40%

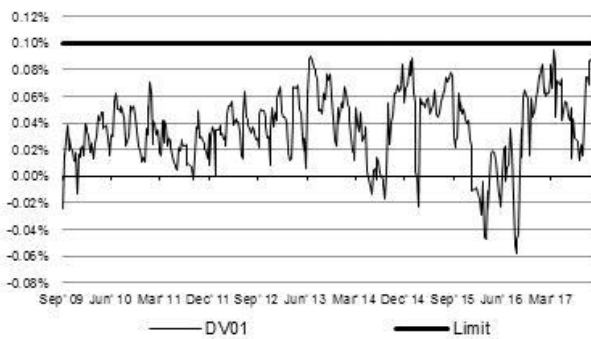
RISK & LINE LIMITS

GEARING BONDS DURATION > 2Y

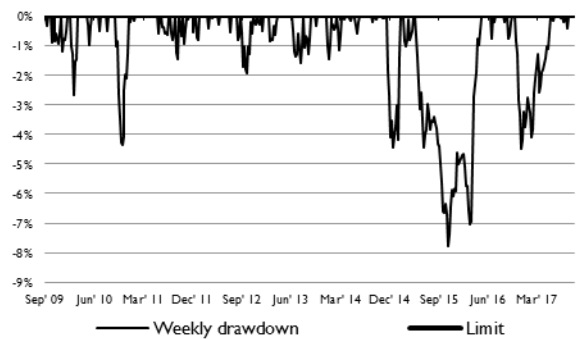


Risk	Midgard	Lime/limit
DV01	0.05%	± 0.10%
Leverage	2.90	Max. 10
VaR	0.27%	Max. 2 %
FX exposure	63.21%	Max. 100 %

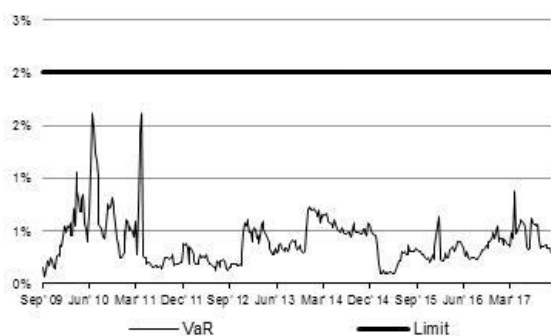
DV01



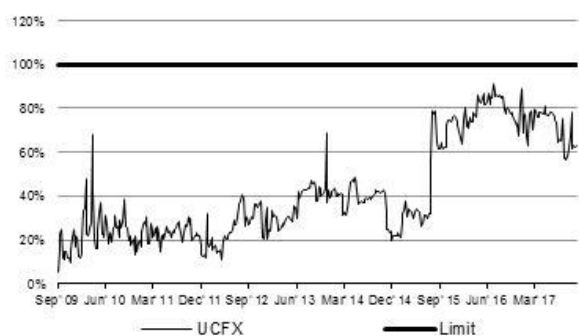
WEEKLY DRAWDOWN



VaR



NON-COVERED FX EXPOSURE



RISK FIGURES

Risk Figure	Weekly data		Note
	Since inception	1Y	
<i>Period</i>			
Portfolio return (r_p)	15.00%	3.83%	
Excess return ($r_p - r_f$)	14.84%	4.20%	
<i>36 month</i>			
Portfolio return (r_p)	7.52%	-	
Excess return ($r_p - r_f$)	7.78%	-	
Maximum drawdown since inception	7.78%	4.48%	
Maximum drawdown 36m	7.78%	-	*
Largest individual drawdown			
First	1.86%	1.57%	
Second	1.85%	1.20%	
Third	1.57%	0.87%	
Average	1.76%	1.21%	
Calmar Ratio	1.00	-	*
MAR Ratio	1.91	0.94	
Sterling ratio	8.43	3.16	
Downside risk	0.66%	1.57%	
Upside risk	1.13%	1.54%	
Loss standard deviation	6.17%	5.12%	
Gain standard deviation	5.03%	3.26%	
Mean absolute moment, downside	-24.80%	-26.27%	
Mean absolute moment, upside	35.15%	20.52%	
Omega ratio	1.69	0.98	
Volatility skewness	0.66	0.41	

* Not applicable for 1-year returns

PFA

INVESTMENT FUND

Strategy AUM	EUR 507.562 million
Listing	Irish Stock Exchange
ISIN	LU1439934933
Bloomberg ID	MIDGFXI LX Equity
Investment Manager	PFA Asset Management Sundkrogsgade 4 2100 Copenhagen Denmark +45 39 17 50 00 www.pfaassetmanagement.dk
Administrator	GlobeOp Financial Services +1 345 945 5664
Prime Broker	Skandinaviska Enskilda Banken AB +45 33 36 85 07
Investor Relations	PFA Asset Management +45 39 17 50 00