For Professionals Only*

Nordea Boutiques Economic Outlook 2017

*investing for their own account - according to MiFID definition

Asset Management

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Introduction

Economic Outlook 2017

Each year, we compile the investment outlooks for the coming year from our various internal and external boutiques. We are pleased to share this 2017 collection of outlooks on each boutique's respective asset class with you. We thank you, valued client, for investing with Nordea and wish you a successful 2017.

Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients.

Internal boutiques

We have established segregated teams for key asset classes, allowing each team to focus on their primary activity: managing money. This means retaining competence centres that leave freedom to the investment managers. In addition to our Nordic expertise, we have built well-established track records over the years in both equity and fixed income strategies ranging from Credit or Covered bonds to Global, European and Emerging Markets equities as well as Multi Assets solutions.

External boutiques

Nordea External Partners team aims to meet investor needs by selecting best-of-breed asset managers who can generate alpha in specific regions or asset classes. The rationale is to concentrate on boutiques focused purely on money management in the belief that fund distribution distracts investment managers from their primary objective: generating exceptional investment performance.

Nordea Macro-economic outlook

- We see three core themes shaping the 2017 outlook: the late stage of the business-cycle, the end of monetary policy dominance and the politicisation of markets
- More global business cycle divergence and rising macro risks are the consequences
- Fiscal stimulus is a potential game changer if wisely designed and ideally coordinated globally. If not, most of the stimulus will be crowded out by tighter monetary conditions

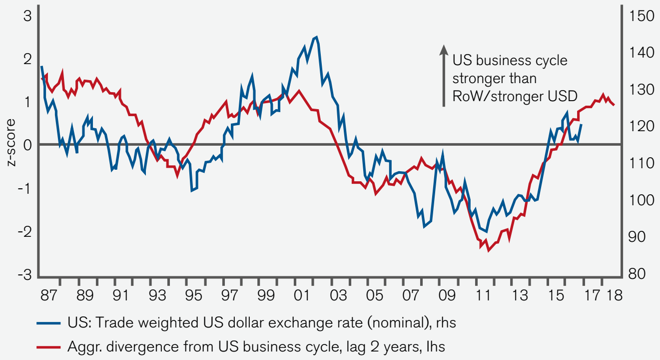
The current economic recovery is one of the longest on record. This in itself does not imply that we are approaching the end of it. Nevertheless, we are seeing warning signs that the business cycle is in its slowdown phase. As a result, we expect rising macroeconomic risks in 2017.

Bull markets do not die of old age, but normally because profits turn sour and the credit cycle rolls over. In the late-cycle phase, markets therefore want to see a renewed lift in profits to put the turn in the business cycle on hold, resulting in another leg up in risk assets. But the underlying current weakness in profits is to a large degree driven by weak productivity lifting input costs. It is hard to see this changing anytime soon. Turning to the credit cycle, the trend of tighter credit conditions is set to continue as a result of tighter monetary conditions and elevated leverage, especially among corporates.

Will the pro-growth agenda of the new US government give a renewed boost to the business cycle? If fiscal stimulus is well balanced, allowing for positive spill-overs to the rest of the world, the business cycle clock might be dialled back from "slowdown" to "boom". Markets' expectations for such a scenario are running high and might have further to run. But as we are approaching the delivery phase, there is plenty of room for disappointments. A large part of any stimulus will be off-set by financial tightening caused by higher rates and a strong US dollar. Markets shoot first and ask later: rates and the Greenback are already rising, without any clarity on the final policy outcome. For all these reasons, there is limited downside to core government bonds looking at the coming 12 months. If combined with more protectionism, positive spill-overs from US fiscal stimulus would be limited or outright negative, especially in emerging markets.

Already high global business cycle divergence (see graph) is therefore likely to increases further in 2017 resulting in more divergent monetary policy and elevated financial risks through dollar strength. The one-way street of easy monetary policy belongs to the past, as the Fed intends to tighten further in 2017, while other big central banks stay relatively dovish. The net effect of these divergent paths will be less monetary support to fill the gap between still weak fundamentals and elevated asset prices, contributing to more market volatility.

Global Business Cycle Divergence



Source: Nordea Asset Management and Macrobond

At the same time, we are witnessing increased political uncertainty. It's not only about the US election. Rising political risks are a result of low growth and a multi-year decline in the share of labour income in the western world. These are structural phenomena, unlikely to reverse easily. This type of risk can be two-way and is close to impossible to price, but should imply higher market volatility. 2017 will be no exception.

Rising macro risks, fading monetary tailwinds and elevated policy uncertainty is a recipe for low return expectations. Consequently, we prefer a defensive portfolio stance. Despite more upside potential in the short term fuelled by stimulus hopes, a lot has already been priced in and so we have a cautious view on equities for 2017 as a whole.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

Asset Allocation

Nordea Multi Assets Team
Nordea 1 – Stable Return Fund; Nordea 1 – Flexible Fixed Income Fund

- Positive outlook on economic growth and earnings in spite of heightened political risks across the globe
- Earnings revisions for 2017 look supportive for equities, credit conditions appears less supportive for developed markets and US long-end yield levels are still expected to provide robust diversification potential in case of risk-asset headwinds

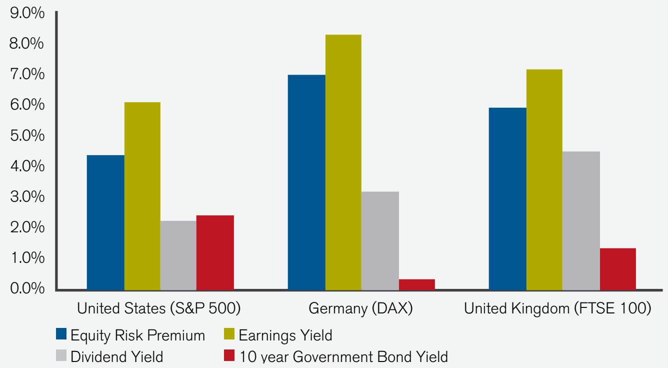
Going into 2017, we expect a rather positive environment towards economic growth and earnings. We don't believe the recent US election outcome is the main source of tailwind for global growth, but rather that Trump's victory appears to be a factor that exaggerates investors' positive anticipation. As markets seem to be pricing Trump's reflation agenda to perfection, the question is how they would react if any of the many hurdles that persist were to materialise. Investors might recall campaign promises about incremental spending and investments, lower taxes and restrictions to trade and immigration in order to boost US growth and labour. What markets have ignored so far is how a high budget deficit, increasing financing costs (yields) and weaker demographics – especially with potentially more strict immigration – could impact long term growth expectations. This means that there is more room for negative surprises than the other way around. Outside the US, political risks are also high on the agenda – especially in Europe where several important elections in core European countries could trigger other bouts of volatility.

Against the political risks stands that the US economy has a lot of tailwind and actually does not need an extra policy boost in our view. For equities, earnings expectations for 2017 were not revised down during the most recent reporting season, which should end up being supportive. The picture looks rather promising globally, particularly outside of Europe. This is a drastic change compared to what we saw a year ago when earnings were revised down considerably. This is also a reflection of the macro tailwinds mentioned before. We still have high conviction in our Stable/Low Risk Equities despite the recent underperformance. The equities' valuation is now more attractive as earnings have remained resilient while prices have moved down. This improved valuation suggests higher expected return potential and better capital preservation features in case markets were to face headwinds during 2017.

Regarding fixed income, we continue to favour US duration as yields around 2.5% for the 10 year Treasury appear attractive. At this level it offers good carry and considerable diversification potential in case risk-assets sell off and the economy goes into a slowdown or recession again. As for credit, we are at a turning point in the business cycle and our conviction is less strong.

Credit spreads are rather tight and we struggle to see other catalysts for credit markets besides default rates. In this sense, financing costs on the rise coupled with historically low default rates in developed markets move us to be relatively more optimistic about emerging market bonds where spreads are higher and fundamentals are somewhat more robust.

Equity and Government Bond risk premia



Source: Nordea Investment Management A.B. Date: 31.12.2016

In our view, staying true to our philosophy of building a risk balanced portfolio with no top-down biases should allow us to successfully face most market environments that could arise over the next few years.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

Nordic Equities

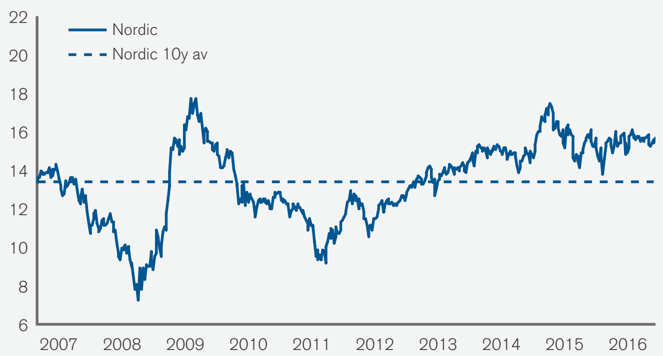
Nordea Nordic Equities / Fundamental Equities Team
Nordea 1 – Nordic Equity Fund

- Deflation fears are becoming less of an issue and pockets of growth are likely to emerge in 2017
- Globally exposed companies with quality characteristics are key attractions
- The Nordic macro development is mixed but moderately growing

Fears of deflation are becoming less of an issue following improvements in commodity markets and increased employment in larger economies. Although the Federal Reserve has started to increase interest rates we expect loose monetary policies to remain in place globally.

The Nordic equity market offered below-average performance during 2016. Throughout the year there has been an ongoing battle between deflationary risks, increased political uncertainty and improving commodity prices. At an aggregate level the Nordic market is priced at approximately 15x 12-month forward earnings. This is a level that is high in a historic context, the 10 year average being 13x However, bearing in mind low interest rates, the level is not considered excessive.

Nordic Equities 12m forward P/E vs history



Source: Datastream

A large part of the Nordic universe is exposed to the global economy due to companies' history of expanding internationally. This, quality business models, and strong corporate governance are key attractions for the Nordic market. Meanwhile the financial and telecom sectors, in addition to smaller companies, are more dependent on the local economies in the Nordics where we are seeing a mixed development. In Sweden, the combination of urbanisation, strong export markets and a very accommodative Riksbank policy has positively influenced Swedish GDP growth in recent years. Going forward a potentially more hawkish central bank could lead to a strengthening of the Swedish Krona which would hamper export oriented companies' earnings growth, especially those that lack pricing power.

In Denmark, consumer spending has held up on the back of rising house prices and declining interest expenses. While financial companies, and banks in particular, have seen earnings held back by negative interest rates, exports should start to reap the benefits of a lower currency which is pegged to the Euro.

Finland's competitiveness vs. other European countries is not supportive, leaving the country in a slow albeit improving environment. Structural reforms are needed to change the overall growth trend. Still, domestic demand is likely to remain stable with support from the construction and consumer sectors in particular.

In Norway, oil and oil-related companies continue to scale back their investments which continues to impact the economy. However, oil companies' investment plans look to bottom out in 2018. The domestic economy has held up surprisingly well during 2016 partly on the back of fiscal policy measures and a weak currency. Going forward, the oil price is likely to remain a significant driver of Norwegian economic growth but so far the economy has been more diversified than most observers argued in 2015.

In general, we are cautiously optimistic regarding the prospect of a self-sustaining recovery as pockets of growth are likely to be seen during 2017. With this framework in mind, well-run companies with solid balance sheets and a discretionary opportunity to allocate capital in an accretive way should remain a fertile ground for stock ideas. This is reflected in the portfolio as we strive to invest in above average companies at below average prices.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

European Equities

Nordea European Equities / International Focus Equities Team
Nordea 1 – European Focus Equity Fund

- The European economy is recovering but is still in its early stages
- The ECB measures, lower Euro and oil prices as well as a spill-over from the US growth acceleration represent growth opportunities for the Eurozone economy
- Political risks are expected to have an impact on European equities next year, not only due to the elections that will happen during 2017 but also because of the clarification of the impacts of Brexit and the Italian referendum

After four consecutive years of positive returns for European equities, the market was not so strong in 2016. European equities have more than doubled their value since the 2009 lows, however they have lagged US equities significantly over the period as a result of lower earnings growth and a more muted multiple re-rating.

The European economy is improving after a few false starts. Relative to the US, the Eurozone is in the early stages of a rebound from the double-dip recession. The combination of accommodative monetary policy, low oil prices and a weak Euro has finally created positive momentum in the European economy. Looking into 2017, we believe that there are opportunities and threats on the horizon.

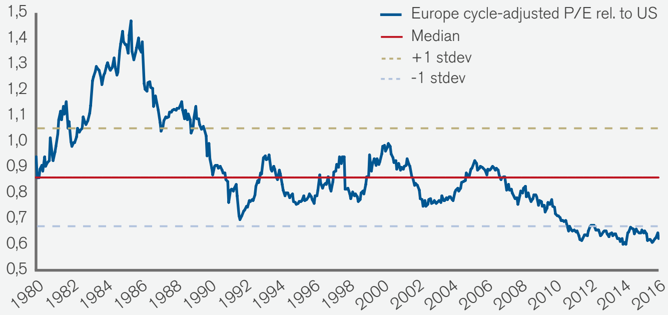
The opportunities that we identify are the following ones:
- Continued economic recovery in Europe
- Spill-over from US growth accelerating
- Low Euro and oil prices
- Continued ECB quantitative easing (QE)
- European companies narrowing the profit margin gap relative to US peers

On the other side, the threats on the horizon relate to:
- European politics
- Global growth could be negatively affected by possible changes in US trade policy
- US economy overheating
- China and Emerging Markets slowdown
- Fed rate rise and inflation overshoots

The European recovery is still in its early stages. Credit growth turned positive only last year and remains weak, while capital investments have collapsed and are still near lows. These investments typically benefit from a recovery in profitability, which now appears to be happening. Finally, private loan growth has turned positive in the Eurozone and improvements are broad-based in both the core and the periphery. The ECB continues to be supportive and there is material catch-up potential for corporate earnings.

The risks for European equities mostly arise from politics and from the fear of negative contagion from the US/EM, in our view. In terms of European politics, 2016 had two significant events – the UK decision to leave the EU and the Italian rejection of constitutional reform. The market has taken a view that these events matters only a little, but we still do not know what the true economic impact will be. Next year, we will see several key European general elections and for that reason, political risks remain elevated in our opinion. In addition, the US is probably in the later stages of the business cycle. Despite the current optimism around the incoming US administration's focus on deregulation and tax reform there is a clear risk that the US economy will overheat. In our view, rising rates in the US and rising inflation expectations could happen too fast, which would represent a risk of negative spill-overs for European equities.

Europe cycle-adjusted P/E relative to the US



Source: JP Morgan

We remain positive on European equities, however we emphasise caution as valuation is no longer as supportive as it has been in previous years on an absolute basis. On a relative basis, European equities are still very attractive relative to global and especially US equities.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

North American Equities

Eagle Asset Management, Inc.
Nordea 1 – North American All Cap Fund

- Tax and regulatory reforms proposed by Trump expected to boost corporate cash flow, M&A opportunities, and capital investment
- OPEC production cuts expected to boost prices and margins for US shale producers
- Anticipated lower taxes and higher economic growth should support earnings growth for 2017

After brief hesitation on election night, the US stock market has greeted the prospect of a new administration in Washington with a vigorous rally. In the five weeks since the election, the broad market has gained more than it did in the previous ten months of 2016. We believe the post-election trends will continue into 2017. Investors have quickly tried to position themselves in stocks and sectors that could see positive changes based on specific policies regarded as likely under President-elect Trump with Republican majorities in both Houses. Business confidence is soaring as a more business-friendly government is in prospect.

Under the Obama administration, we witnessed the negative impact government scrutiny could have on proposed merger-and-acquisition (M&A) activity. We believe the Trump administration will make it easier for mergers to close and would note that our strategy has historically benefitted from M&A activity.

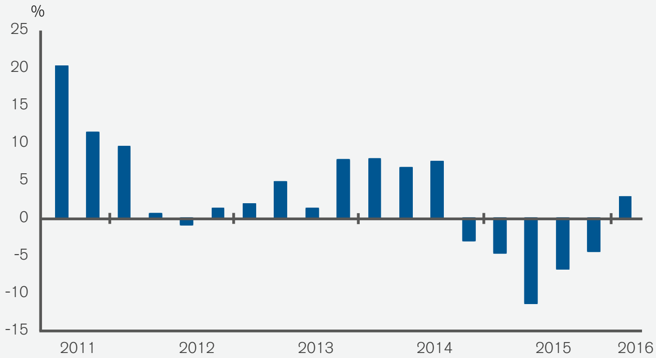
Corporate-tax reform is widely anticipated to be a priority under Trump. Some companies, particularly in the technology sector, could gain from lower taxes on income trapped overseas. Trump has proposed a 10% repatriation tax, down from the current up-to-35%. Much of the potentially repatriated cash could be used to fund dividends, share buybacks and possibly capital investments. Equally important, we expect the corporate income tax to drop from the world's highest, at 35%, to somewhere in the 15-20% area.

In addition, based on the early staffing announcements Trump has made, we expect a major roll-back of regulations that will be particularly beneficial to the financial services and energy sectors. Not surprisingly, these two sectors have been leaders in the post-election market.

We believe that the Organization of the Petroleum Exporting Countries' (OPEC) agreement to cut production will significantly help balance supply and demand in the oil markets. As we expected, the economics of the deal trumped politics as OPEC's mindset shifted from market share to price and revenue maximisation. Inventory levels are expected to drop, helping to increase the price of oil. US shale production is expected to improve and, as many producers have become more efficient during the downturn, we expect margins to improve too.

The United States has recently emerged from an "earnings recession" occasioned by slow gross domestic product (GDP) growth and exacerbated by the strong dollar and the collapse of energy-company earnings. With lower taxes, faster economic growth and the recovery in energy profits, 2017 is shaping up to deliver high-single-digit earnings growth. Depending on how the new government's policies are implemented, the market may now be driven higher by rising earnings, in contrast to the past eight years where price/earnings expansion was the key impetus for higher stock prices. Valuations are still a long way from those of previous market peaks and compared to fixed income alternatives, we continue to find stocks especially attractively valued.

US Corporate Profits – % Change on Prior Year



Source: FactSet

As long as growth continues, the US Federal Reserve will likely spend 2017 and beyond normalising monetary policy. Historically, rising rates have not been a problem for equities because they come with economic growth. But they do make a more difficult environment for the "bond proxies" (e.g., electric utilities), where many investors have found solace in the past few years.

We continue to believe that our strategy of investing in attractively valued stocks of high-quality, financially strong companies will benefit from the trends we see unfolding in 2017.

Source: Eagle Asset Management, Inc. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Eagle Asset Management, Inc.

Latin American Equities

Itaú Asset Management
Nordea 1 – Latin America Equity Fund

- As we begin 2017, Latin American economies face as many challenges as they did a year ago, but in a somewhat different and more uncertain global context
- Slowing inflation has been the norm for most LatAm countries, justifying the dovish bias presented by several Central Banks in the region
- While the external and domestic risks cannot be disregarded, investment opportunities in the region should remain attractive given the prevalence of high real interest rates

Brazil's best days are yet to come, but the worst seems to be behind us. On the cautious side, Brazilian economic activity remained in the doldrums throughout 2016, and is anticipated to have a very gradual recovery in 2017. However, the slower than anticipated upturn has been accompanied by changes that highlight the government's commitment to structural reform. This, coupled with a deceleration of inflation and a re-anchoring of long term inflation expectations, paved the way for a monetary easing cycle, which we believe will be more aggressive than expected by most market participants.

If the Brazilian easing cycle is strongly linked to fundamentals, the same cannot be said of the cuts announced recently by the Central Bank of Argentina. The main difference here is the gap between inflation expectations and the target pursued by the monetary authority, with the first being higher than the latter according to public expectation surveys, in spite of which rates are being cut. The need for fiscal consolidation has eased recently, but the negative impact of measures announced since 2015 is still weighing on activity. Growth is expected for the next year, but so are high unemployment and inflation rates.

Some parts of the Chilean economic story changed last year, yet overall sentiment remained the same. A small tightening cycle was carried out, and inflation decelerated after being at or above the upper limit of the country's inflation targets for the better part of two years. Confidence levels remained at historically low levels, depressing both economic sentiment and activity. This was not missed by the Central Bank, which has stated that it will need to increase monetary stimulus. This raises the question of what impact such action could bring; our answer is not optimistic, as the cycle will probably be small.

As important as the peace deal signed between the Colombian government and the Revolutionary Armed Forces of Colombia (FARC) may be, the signs for 2017 are for a challenging scenario. The country's long term fiscal targets will limit government investment, needed to better integrate regions that were scarcely attended until today. To surpass this challenge, the government and the Congress are negotiating a tax reform. Most market participants admit that such reform will probably have an inflationary impact in coming months, but this has not stopped the Central Bank from announcing a policy rate cut by the end of 2016. Such movement will likely be followed by further cuts in 2017, but growth will remain below potential.

More so than its LatAm peers, in Mexico it is all about external policy. It is too early to know how the result of United States' presidential election will impact the trade relationship between both countries, but it is hard to imagine that the more isolationist approach of president-elect Trump will be positive for Mexico. At the same time, we believe that domestic demand will be weak, keeping growth subdued. If its recent behaviour is any indication, the Mexican Central Bank will likely go in the opposite direction from its regional peers in 2017, raising its policy rate to mitigate the exchange rate depreciation pass-through to inflation.

Macro-economic Forecasts

		2016	2017
CPI	Brazil	6.60%	5.00%
	Mexico	3.30%	4.40%
	Chile	3.00%	2.80%
	Argentina	41.00%	21.50%
	Colombia	5.70%	4.20%
Central Bank Rate	Brazil	13.75%	10.00%
	Mexico	5.75%	7.00%
	Chile	3.50%	3.00%
	Argentina	24.75%	20.00%
	Colombia	7.50%	5.75%
Exchange Rate	Brazil	3.30	3.45
	Mexico	20.50	21.50
	Chile	670.00	700.00
	Argentina	15.80	18.30
	Colombia	3,000.00	3,150.00
GDP Average YOY Growth	Brazil	-3.70%	0.20%
	Mexico	2.10%	1.60%
	Chile	1.50%	1.90%
	Argentina	-2.50%	2.50%
	Colombia	2.00%	2.20%

There is no guarantee that forecasts will come to pass.
Source: Itaú Asset Management.

Source: Itaú Asset Management. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Itaú Asset Management.

Asian Equities

Nordea Emerging Markets Equities / International Focus Equities Team
Nordea 1 – Emerging Stars Equity Fund; Nordea 1 – Asian Focus Equity Fund

- We continue to see attractive risk/rewards with good absolute return potential for Asian and GEM equities in 2017
- Volatility will for sure still be around in the market – the spectrum of potential outcomes from the political scene in US, EU and China is broad – but our base case is that it will be noise rather than actual fundamental changes to economic structures
- Good structural fundamentals, attractive valuation levels, and a currently very weak sentiment towards Asian and Emerging Markets equities in general will be factors that could make this part of the investment universe surprise positively in 2017

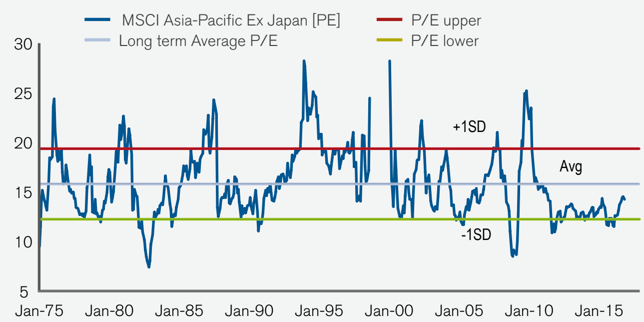
2016 was with no doubts a difficult year – there were many small "black swans" on the global scene with the main events being Brexit and Trump winning the presidential election, followed by a big style shift in the market. The political events will certainly impact 2017 from a global perspective, as the whole EU political project will be up in the air given the forthcoming elections, and undoubtedly Trump will steer up a lot of controversial issues as well. However, the Trump effect will, in all likelihood, also lead to higher growth as fiscal policy is expected to take over from the monetary experiment over the last few years.

For Asia, we generally remain positive from a macro-economic perspective. Over the last years the region has been hit by a number of shocks, and because of that most economies have adjusted key policies and have adopted a reform agenda that now makes them quite robust. We therefore see a low likelihood of larger potential negative hits to the region in our base case scenario. We see cyclical recovery playing out well in Asia for 2017, but there is also a likelihood that it will fade a bit towards the end of the year. A very strong USD on the back of Trump, and potential trade conflicts are risk factors that need to be on investors' minds – and should these factors play out in a negative way, they could change our generally positive base case scenario. We are still of the opinion that Trump is a business man and everything is about "the deal"! We believe there is a lot of positioning before he takes office, when hard words will no longer be for free. His mandate is for jobs in US; trade wars do not create jobs on US – and he knows this.

The two key countries in Asia from an economic growth perspective are China and India and we remain positive on both countries, with a small bias towards India.

From an equity market perspective we are increasingly optimistic and have a very positive view. First of all, we believe we have identified several attractive bottom-up investment cases, and we do feel confident that over the next few years there is huge absolute return potential in these stock-specific cases. However, we see the overall market in Asia as cheap in general, with a high likelihood of earnings recovery, which should create an attractive cocktail combined with the relatively positive macro-economic environment (assuming no geo-political events derail this development trend).

Asia ex-Japan PE



Source: Citigroup

Our key focus areas in Asia – and where we see great return opportunities – are still related to the young urban consumers in India and China, healthcare and internet & eCommerce in China, and leading technology brands and solutions providers in Korea and Taiwan. For India we particularly see opportunities in financial solutions providers, property and discretionary spending – and particularly in the mid- and small-cap area.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

Indian Equities

ICICI Prudential Asset Management Company Ltd.
Nordea 1 – Indian Equity Fund

- GST and demonetisation: short term pain for longer term gain
- India's long term growth story remains intact
- Capacity utilisation at all time low: operating leverage to drive earnings growth
- A good opportunity to accumulate

Over the last 12 months, India has underperformed most Emerging Market peers due to both domestic policy changes and global factors. However, ongoing reforms should create a base for longer term growth, reversing recent underperformance.

India is in the process of economic transformation. Since Prime Minister Narendra Modi came into power in May 2014, a series of reforms has been initiated for long term structural benefits, but they carry short term headwinds. Two landmark reforms, Goods and Services Tax (GST) and Currency Demonetisation, are expected to benefit industry with higher investment-led growth, and government with lower fiscal deficit and higher tax base. Consumers could also gain with lower inflation.

Goods and Services Tax Bill (GST): GST is a value added tax to be introduced across India from April 2017. The prime objective of this bill is to simplify the tax structure, enhance tax collections and improve ease of doing business. The National Council of Applied Economic Research has estimated gains in the range of 0.9%-1.7% of GDP for each year post the implementation of GST. However, in the short term, the GST roll-out could be inflationary.

Currency Demonetisation: This is the boldest reform attempted in the last 25 years. On the evening of 8 Nov, 2016, the Government of India announced that high denomination rupee notes would cease to be legal tender from 9 Nov, with the aim of curbing black money, counterfeit currency and terrorist financing. This decision put over 85% of the currency out of circulation (~USD 220bn). As the Indian economy is largely cash driven, this move is expected to lead to a short-term slowdown in consumption. Over the long run it should contain corruption, boost the formal economy and improve tax compliance.

Financial Inclusion: The "Banking For All" initiative launched by the Modi Government in Aug 2014 has brought access to a bank account to 99% of households compared to 50% a year ago. This is helping with the efficient transmission of subsidies to the poor.

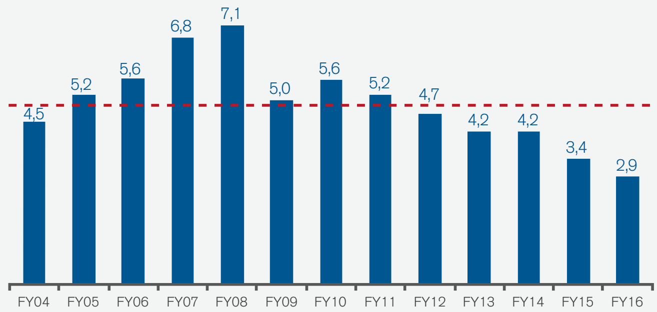
Unique Identification: 86% of the population in India now has a unique identification number (AADHAAR number). These provide a universal identity infrastructure which facilitates access to social benefits and credit. It also brings many more people into the formal economy, aiding productivity and boosting tax collection.

Bankruptcy Code: The new Bankruptcy Code could speed up insolvency proceedings and help in recovery of non-performing assets from stressed companies. This should boost credit off-take, thereby promoting overall growth.

We remain positive on Indian equities as the macro environment is favorable and policy reforms are on track, although near-term disruptions cannot be ruled out. Compared to most other Emerging Markets, the fundamentals remain strong with lower exposure to external debt, a sound balance of payments and substantial forex reserves. Low oil prices lend further support to contain twin deficits and inflation, leading to lower interest rates. Demographics are good, with the working age population expected to grow by 1.4% p.a. until 2025.

Corporate earnings are at an all-time low and are likely to remain subdued for the next few quarters on account of demonetisation. But as operating leverage improves and capacity utilisation increases, corporate India will see a strong rebound in earnings.

Corporate Profit to GDP (%) – Operating leverage will drive earnings growth



Source: CLSA India

Valuations have come down to reasonable levels, providing an opportunity to buy into India's long term structural growth story. In our view investors should take advantage of the volatility to accumulate systematically over the next quarter to make strong returns over the next two years.

Source: ICICI Prudential Asset Management Company Ltd. Date: December 2016. Unless otherwise stated all views expressed are proprietary to ICICI Prudential Asset Management Company Ltd.

European Covered Bonds

Nordea Danish Fixed Income & Euro Covered Bond Team
Nordea 1 – European Covered Bond Fund

- Balanced supply and redemption outlook for 2017
- Technical factors remain supportive for covered bonds
- ECB as important driver

Market background

A large supply of new covered bonds pushed spreads wider in the beginning of 2016. This soon reversed as ECB's third Covered Bond Purchasing Programme (CBPP3) drove covered bond spreads tighter during the year. During the same period, interest rates declined steadily until mid-August, and the combination of falling interest rates and narrowing spreads resulted in strong returns for covered bonds. After the presidential election in the US both overall yields and covered bond spreads increased. Covered bonds currently offer a good return-protection, as the market has already priced in a future 25bp increase in 5 year Euro swap rates. In our view, going into 2017, covered bonds are back at the attractive level seen in the beginning of 2016.

Outlook

Performance of covered bonds in 2017 will again be determined by the supply and demand forces affecting the market.

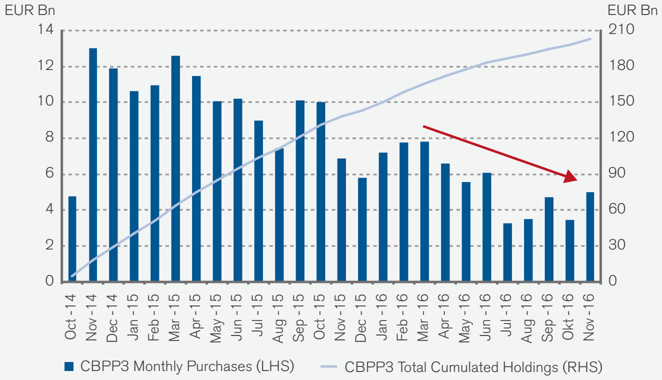
We expect the amount of issuance of covered bonds to be close to the EUR 134bn that will be redeemed in 2017. We expect both French and Spanish banks to issue EUR 10-15bn less covered bonds than they redeem. This is likely to support spreads in these countries. Problems in the Italian banking sector restrict the different funding sources for Italian banks; covered bonds remain a viable funding option, and we therefore anticipate an increase in Italian covered bonds. With the ongoing problems in the sector as well as the increased supply outlook, we do not favour Italian covered bonds in 2017.

Covered bonds are gaining more importance as a funding source for banks all over the world. In 2016 we had the first EUR-denominated covered bonds issued out of Singapore, Poland, and Turkey. These new jurisdictions create interesting investment opportunities that can add diversification benefits to investors. We expect to see more issuance from these countries and other new countries in 2017.

In 2017 the ECB will continue to play an important role in the demand for covered bonds. The whole programme including CBPP3 has been extended at least until the end of 2017. The total purchases of government bonds, covered bonds and corporate bonds have been tapered from EUR 80bn to EUR 60bn a month. Some investors are nervous that this reduction in monthly purchases and the inevitable stop of the program will hurt covered bond spreads. We are more pragmatic when looking ahead. We believe it is possible to avoid the jurisdictions that are most distorted by ECB and that the end of quantitative easing will create many attractive investment opportunities going forward.

Taking a closer look at the numbers from ECB, we have in fact already had a reduction of the monthly purchases of covered bonds. During the start of the programme ECB bought EUR 10-12bn a month. This amount is now reduced to EUR 3-5bn a month (see chart). As the total ECB holdings of covered bonds now amounts to more than EUR 200bn, the estimated monthly reinvestments of this portfolio will approximately equal EUR 3-4bn. From this perspective, we will continue to see the same nominal ECB-support for the covered bond market in many years to come.

History of cumulative purchases under the APP (end of month, in euro billions)



Source: ECB

In all, going into 2017 both yields and covered bond spreads are back at more attractive levels, ECB stimulus remains supportive and new jurisdictions will enter the covered bond market and add further diversification.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

European High Yield Bonds

Capital Four Management A/S
Nordea 1 – European High Yield Bond Fund

CAPITAL FOUR

- We expect low default rates to be supportive for the European High Yield returns with a total return of 2% to 4% in 2017
- We highlight that European High Yield fundamentals remain solid with attractive new issue spreads and leverage
- We expect a benign interest rate environment in Europe and recovering economics

In 2016, the European High Yield (EHY) market returned 9.12%, as per the Merrill Lynch European Currency High Yield Constrained – Total Return Index EUR Hedged ("the EHY market"). However, 2016 was a year of two halves with two overall themes supported by strong underlying EHY fundamentals where new issue leverage and spreads remained at robust levels. On one side, political elections and referenda generally caused volatility while on the other side, monetary policy generally reduced volatility. In the first half of the year, risk asset markets including the EHY market experienced an up-tick in volatility with weakness (starting in December 2015). The banking sector was notably affected by idiosyncratic stories in February when bank credit instruments such as AT1's re-priced temporarily when Deutsche Bank ("DB") announced that it was close to the regulatory trigger that would put the bank's coupon payments on the newer subordinated capital instruments (AT1's) into jeopardy. The weakness in February ended with the announcement of ECB QE expansion, which included investment grade corporate bonds on the list of assets eligible for purchase in their €80bn per month purchase program. The market strengthened significantly and recouped the lost territory. In the second half, market attention shifted towards the political scene and independence movements with the referendum on the UK membership of the EU in June. However, the initial market reaction to 'Brexit' faded after only a couple of days as the Bank of England introduced quantitative easing to minimize the economic impact of leaving the EU. In September, DB experienced renewed turbulence due to the US Department of Justice (DOJ) asking for $14bn of settlement costs relating to US mortgage bonds. However, the negative DB news in February had a significant negative spillover to other bank's bonds whereas the impact was more muted in September with AT1's generally being less volatile during the remainder of the year.

European monetary policy has remained a supportive factor through most of 2016 and with the extension of ECB's asset purchase program until September 2017 we continue to expect some support from asset purchases and low interest rates in EHY throughout 2017. Decent growth in the European economies combined with strong fundamentals in the EHY market has led most sell-side strategists to predict a favorable default rate environment with only 2% in Europe compared to around 4% for the US HY Market.

As we go into 2017 we continues to favour the senior secured part of the high yield market which offers attractive carry combined with good downside protection. However, we also find strong relative value in some of the subordinated banking instruments issued by leading European institutions. These instruments offer exposure to leading banks with strong capital positions and a supportive technical picture as banks continue to reduce their funding gap. The bonds offer higher yields than similar rated credits but with lower historical default rates. Moreover, these instruments had a weak 2016 with potential for further price appreciation in 2017 if they continue to catch up to the high yield market. With a spread above the historic mean we see potential for modest spread tightening in 2017. However, we see a risk of interest rate increases towards the end of the year which may balance the spread tightening, leading to flat bond prices. In summary, we would expect 2017 to be a year with total returns around 2% to 4%, assuming a default rate between 1% and 3%.

European High Yield average credit quality

Source: Bloomberg and Capital Four Management A/S

Source: Capital Four Management A/S. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Capital Four Management A/S.

Nordic Fixed Income

Nordea Norwegian and Swedish Fixed Income Teams
Nordea 1 – Norwegian Bond Fund; Nordea 1 – Swedish Bond Fund

- Mainland growth in Norway is expected to be higher in 2017 than 2016 due to low interest rates, strong growth in residential building investment and public spending, and a moderately weak Norwegian Krone (NOK)
- We expect an upturn in the Swedish economy in 2017, supported by public investment and stronger exports

Norway

The Norwegian economy performed more or less as expected in 2016, growing at a rate of about 1%. This low growth rate was largely caused by lower oil-investments and modest consumption growth. Reduced growth in Norway has led to increased unemployment over the past two years, but a rate of 4.8% is not far above the average for the past 30 years. The rise in unemployment has been focussed on the oil-dependent regions in the south-west, while it has fallen in other parts of Norway. The NOK weakened in 2014 and 2015, but has strengthened by about 7% against the Euro in 2016. Going forward, the development of the NOK will be highly influenced by the development of the oil price. In the beginning of December, the oil price rose to a year high of USD 56 per barrel. While this has had a positive effect on the NOK, it is too early to determine if it will have a more widespread positive economic effect as oil exploration and production are based on long term investment plans.

Both money market rates and bond yields increased in 2016 despite the central bank cut in March from 0.75% to 0.5%. High inflation (CPI) numbers and increasing US Libor and swap rates have been important factors in pushing NOK rates upwards. Recently we have seen core CPI numbers starting to fall again, and we expect this decline to continue for the few next months mainly due to a strong NOK. While this could keep money market rates from rising, we do not rule out a further increase in bond yields on the back of higher international bond yields.

Sweden

Growth in the Swedish economy has slowed after the rapid upturn in 2015. Although many analysts have trimmed their GDP forecasts, in our view the economy will grow faster than its long-term trend in 2017. Growth is still driven by domestic demand. Household consumption is slowing somewhat, however this is offset by expansionary public investment and stronger exports in the wake of the weak SEK.

Employment has accelerated in 2016, and company employment plans indicate strong confidence in the future. The proportion of companies finding it difficult to find suitable labour is at elevated levels, and capacity utilisation continues to rise.

Weak underlying inflation is still problematic for the Riksbank. Despite expansionary monetary policy and quantitative easing programmes, inflation has not reached the Riksbank's 2% target. The Riksbank extended its QE programme at its December meeting, but refrained from further cuts to the repo rate.

The recent sharp weakening of the SEK results from the Riksbank's expansionary monetary policy and ambition to weaken the SEK in order to hit its inflation target. We expect the SEK to strengthen, driven by the relatively strong economy and the likelihood that the Riksbank will raise its repo rate before the ECB.

Both short and long market rates dropped in 2016. The spread between covered mortgage bonds and government securities has narrowed this year. The search for yield has also supported credit bonds. Spreads have narrowed, and bond supply has been lower than before.

We expect expansionary monetary policy to continue throughout most of 2017. We expect inflation to increase gradually and that the Riksbank will probably hike its policy rate at the end of 2017. Both covered bond and corporate bond spreads have performed strongly in 2016 – a trend we expect to continue in 2017. The forecast is that they will continue to generate good returns relative to government securities.

Norway	2014	2015	2016E	2017E	2018E
Real GDP (Mainland) Y/Y	2.2%	1.1%	0.8%	1.7%	1.9%
Consumer prices Y/Y	2.4%	2.7%	3.2%	2.1%	1.5%
Unemployment rate	3.5%	4.4%	4.8%	4.8%	4.6%
EUR/NOK (End of period)	9.07	9.61	8.90	8.50	8.50

Sweden	Nordea	**2017E** Riksb. Dec	Riksb. Oct.	Nordea	**2018E** Riksb. Dec.	Riksb. Oct
GDP	2.1%	**2.4%**	2.0%	1.9%	**2.2%**	2.4%
GDP. cal. Adj.	2.3%	**2.6%**	2.3%	2.0%	**2.4%**	2.5%
Employment	1.1%	**1.3%**	1.1%	0.6%	**0.7%**	0.8%
Unemployment	6.6%	**6.7%**	6.7%	6.6%	**6.7%**	6.7%
CPIF	1.7%	**1.6%**	1.6%	1.5%	**1.9%**	1.9%
CPIF excl. energy	1.4%	**1.3%**	1.4%	1.5%	**2.0%**	2.0%

Source: Nordea Markets, Date: December 2016
2016E, 2017E and 2018E are forecasts. There's no guarantee that these forecasts will actually be realised.

Source: Nordea Investment Management AB. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

Asian High Yield Bonds

Income Partners Asset Management (HK) Limited
Nordea 1 – Renminbi High Yield Bond Fund

- Volatility will persist in 2017, due to higher uncertainties regarding the macro environment
- Asia will be resilient due to strong fundamentals, short duration and supportive local demand
- The net supply of Asian credit should be well absorbed by the market in 2017

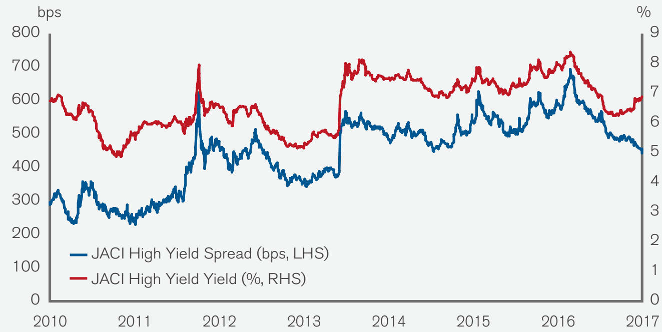
The sharp spike in US Treasury rates since the US election has increased volatility for the EM credit market. We expect volatility to persist as we enter 2017 given the higher uncertainties in the macro picture. Protectionist policies under the Trump administration are viewed as negative for EM in general, and increased fiscal spending could lead to higher inflation expectations and drive US rates higher.

Compared to other regions in EM, we believe Asia will continue to be more resilient due to stronger fundamentals, shorter duration and more supportive local demand. Asia's credit rating is the highest amongst EM regions which we believe justifies the tighter valuation. A breakdown of the default rate by region also shows Asia is a lower beta segment. The EM default rate, in particular LATAM, saw an increase this year mainly due to the collapse in oil prices and corruption investigation in Brazil. We believe both risks have been largely played out and expect default rates to decline for 2017.

Local demand will continue to support the technicals of the asset class. We have seen an increasing interest from onshore Chinese buyers for USD credits and view them as a sticky investor group. This trend is evident in the new issue allocation as a larger portion of new issuances are allocated to Asian investors. USD bonds from Chinese issuers often offer yield pickup to their onshore bonds. Also with the higher volatility in the RMB, we could see a higher demand from onshore investors to hold USD credits.

Finally, the supply picture for Asian credits in 2017 is manageable with estimated gross supply to reach USD200bn, compared to USD162bn YTD 2016. The higher gross supply is offset by higher refinancing needs, which is expected to reach USD120bn in 2017 compared USD50bn in 2016. Net supply will be at the lowest levels in recent years. In the high yield space, China will continue to be the largest issuer as property developers aim to refinance callable bonds. Overall, we believe net supply should be well absorbed.

Asian Credit Market Yield and Spread



Source: Income Partners Asset Management (HK) Ltd.

Source: Income Partners Asset Management (HK) Limited. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Income Partners Asset Management (HK)

Emerging Market Debt

PGIM Limited
Nordea 1 – Emerging Market Bond Fund

- Fundamentals and valuations across EM debt sub-asset classes continue to appear attractive
- Further rises in US yields could hurt EM debt but the recent spike in rates and stronger USD may put a cap going forward

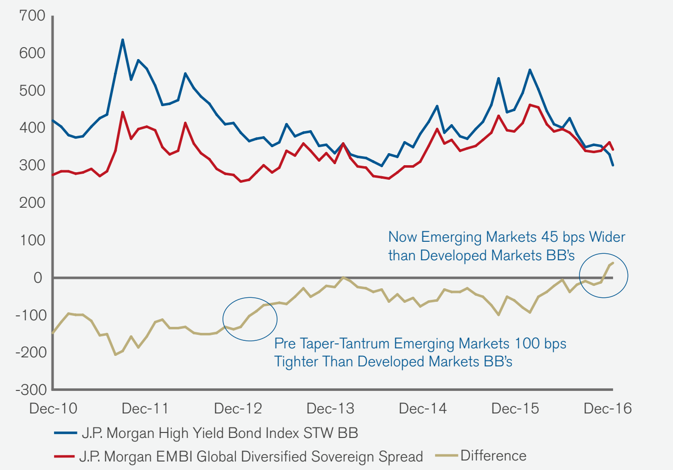
The end of 2016 introduced a host of uncertainties to EMD: a more protectionist administration in the US, higher Treasury yields, and the expectation of US rate hikes in 2017. However, it also brings the possibility of faster global growth, which, combined with solid fundamentals and attractive valuations, could support healthy returns within EMD in 2017.

Our base case is a growth agenda from the new US administration. We recently raised our 2017 global growth estimate from 3.3% to 3.4%, and our forecast for Emerging Market growth of 4.4% is notably higher than our earlier projection of 3.6%.

In addition to the constructive backdrop of accelerating growth and possibly pragmatic trade policies, EM sovereign fundamentals are generally stronger — more competitive foreign exchange rates, less short-term debt, and improved current account deficits — than they were during the last significant bout of volatility, the taper tantrum of 2013.

In this context, we see relative valuations across hard currency sovereigns and quasi-sovereigns, select corporates, local rates, and EM currencies (EMFX) as attractive. Hard currency EM debt has underperformed the BB-rated segment of the US high yield market since the US elections, leaving spreads about 100 bps wider than they were in 2013.

Emerging Market Hard Currency Spreads Have Cheapened Over 100 bps Versus BBs Since 2013



Source: PGIM LTD. Period under consideration: 31.12.2010 – 15.12.2016

The recent market volatility appears to be running a familiar course; notable hard currency selloffs over the past two decades have typically ranged from -5% to -10%. This year, the benchmark hard currency index fell c.6.50% in October/November before stabilising.

At close to 7%, yields on local currency EM bonds are 100 bps higher than pre-taper tantrum levels, not far off 5-year highs in absolute terms and relative to DM rates. EMFX is now well below its peak, having depreciated significantly against the US dollar over the last several years. We are encouraged by the recent performance of higher-yielding EMFX and believe certain currencies could perform well even if the dollar remains strong.

Regarding hard currency and blended strategies, we see attractive opportunities in hard currency sovereign and quasi-sovereign bonds that look cheap both on fundamentals and against potential events on the horizon. These opportunities include issuers in Argentina, Indonesia, Brazil and Mexico. We also believe short-maturity Venezuelan PDVSA bonds remain attractive even after this year's strong performance. In some cases, we see opportunities at the back end of steep curves, but in many instances, we favour five-year quasi-sovereign bonds. We also remain constructive on select frontier names, including Ghana, Dominican Republic, Iraq, and El Salvador. We expect rate cuts in Brazil to help local bonds, and local bonds in Mexico also to perform well. In EMFX, we see opportunities in higher yielding currencies, such as Russia, Brazil, and Indonesia.

Regarding risks, further rises in US Treasury yields may hurt the "search for yield" that has supported the Emerging Markets debt sector. However, US rates have already corrected significantly — the 10 year yield has risen over 100 bps from its recent lows — and we believe the stronger dollar may limit rate increases.

There is also the risk that the incoming US administration may implement more aggressively protectionist policies than expected. However, an all-out trade war could lead to markedly slower US and global growth, and thus be against the best interests of the US.

Source: PGIM Fixed Income. Date: December 2016. Unless otherwise stated all views expressed are proprietary to PGIM Fixed Income.

US Fixed Income Asset Allocation

DoubleLine Capital LP
Nordea 1 – US Bond Opportunities Fund

DoubleLine

- We expect UST yields to rise over the next five years, but the non-linear rise will provide opportunities for bond investors
- US TIPS offer a good mix of protection and credit quality; corporate credit fundamentals remain positive; more caution required towards high yield
- Downward trends in dealer inventory may lead to increased bond market volatility, but structural demand and rate-rises capped by modest growth rates should prove supportive

As we look forward to 2017, it is clear that the economic and political environment is on the cusp of change. Since the bottom in yields, investors have been faced with a wild presidential election season that caught many by surprise. On July 6th during the global low in rates, DoubleLine CEO Jeffrey Gundlach stated that this was the worst risk-reward setup for bonds he had seen in his entire career. Mr. Gundlach recommended that investors get defensive and position themselves in a well-diversified, actively managed, high quality portfolio. Although we believe the 10-year US Treasury (UST) could reach 6% over the next five years, we do not anticipate this occurring in a linear fashion and instead expect tradable rallies and volatility, which could be accretive to returns. We believe a properly constructed fixed income portfolio can still deliver superior risk-adjusted returns by taking advantage of attractive valuations and mis-pricings that may become present in a more normalised rate environment.

As we move forward through a new economic and political landscape, we believe that UST securities should remain a cornerstone in any multi-sector portfolio due to the high credit quality and liquidity they provide. We believe we will see opportunities over the next several years to tactically reduce our UST exposure. Aside from traditional nominal UST securities, Mr. Gundlach turned more favourable toward Treasury Inflation-Protected Securities (TIPS) during the third quarter of 2016. As many components of inflation continue to roll off in the coming year, we expect break-even rates to move higher and benefit TIPS. As we head into 2017, we favour a combination of nominal UST and TIPS for our Government allocation. This will allow us some protection from inflationary pressure while maintaining a higher credit quality.

After a tumultuous start to the year, US corporate credit has been one of the bright spots in 2016. With the help of stable commodity prices and fears of slower global growth subsiding, returns from this sector remained positive despite the recent hike in rates. Although the corporate sector has experienced strong price movements due to its duration characteristics, the underlying fundamentals bode well for the sector. Even aside from policy changes that may benefit certain sectors in the corporate credit market, earnings are expected to remain strong over the next year. Additionally, it appears that much of the uncertainty over commodity-related companies has subsided now that prices have stabilised. For now, we continue to favour the broader industrial and financial sectors.

We maintain a more cautious view toward High Yield after the strong rally off of the lows earlier this year. Although the sector has improved from a fundamental standpoint, we will continue to monitor it for opportunities of weakness. Bank loans are another area we will watch during 2017 as LIBOR has finally reached a level that will allow these coupons to float. Although the asset class is below investment grade, investors could benefit from a floating coupon and stable economic fundamentals. Of course, we prefer high first liens and high quality names with a strong business history and stable management teams. Aside from traditional corporate credit, we continue to favour mortgages and other areas of securitised credit.

Given the recent market action, particularly with regards to interest rates, we've become increasingly concerned with bond fund redemptions into less liquid markets going into 2017. Many dealers have reduced their trading books and are less willing to make markets. As such, there have been downward trends in trading volumes and dealer inventory, which have curtailed market depth and liquidity in the bond market. Redemptions in the face of market illiquidity could lead to higher volatility within fixed income.

A continuous tailwind that we believe will last over the medium-to-long term is the demand for yield, particularly given the domestic demographic situation and aging population. Further, the structural forces of global disinflation are still evident as this is not a world economy heading towards strong growth. Both factors could place a cap on rates in the near term and offer a tailwind for fixed income.

US Corporate Bonds

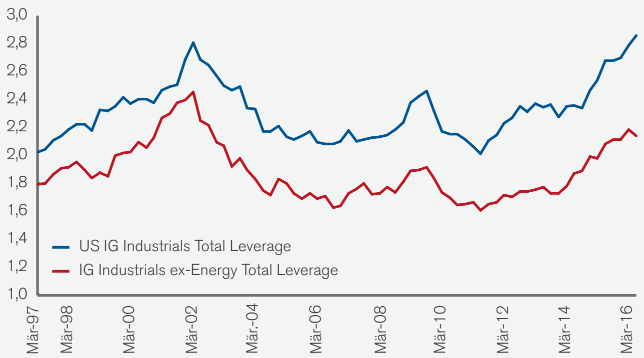
MacKay Shields LLC, Global Fixed Income Team
Nordea 1 – US Corporate Bond Fund

- A healthy fundamental economic backdrop in the US, combined with expectations for continued strong demand should support further compression in credit premia in 2017
- President-elect Trump's plans for increased fiscal stimulus, led by tax cuts, is likely to be stimulative to the US economy in the short-run
- Although corporate fundamentals remain broadly sound, our positive view is tempered by the need to be vigilant as idiosyncratic risk has become more elevated

The fundamental economic backdrop in the US has been durable. Consumption is being supported by a healthy consumer enjoying wage gains from a tighter labour market, and an increase in wealth from a burgeoning housing market. Government expenditures have been increasing and real non-residential fixed investment is still growing outside of the commodity-related sectors. Under a new President-elect Trump administration, it is widely believed that the potential for lower taxes and greater deficit-spending should provide an additional boost to the economy in the short-to-intermediate term. The proposed policies would also result in an increase in the deficit and debt levels in the US. In order to fund the deficit we would expect to see the US Treasury issue more bonds. We expect all of this to result in the continuation of spread compression in the corporate bond markets and upward pressure on interest rates, some of which we have already observed post-election.

Notwithstanding our positive view on macro-economic conditions, extraordinary monetary accommodation is having an impact that bears monitoring. Cheap capital has been made available by a prolonged period of low interest rates. The result has been a world awash with capital and liquidity. According to Bank of America Merrill Lynch, roughly 70% of the global universe of investable bonds yielded 2% or less as of the end of October 2016. This has led to very strong demand technicals emanating from yield-seeking investors.

Leverage in US Grade Industrials



Source: MacKay Shields LLC. Bank of America Merrill Lynch. Time period: Q1 1997- Q2 2016.

As return on capital has fallen in concert with weakening demographics and fast-moving changes from technology, it is worth noting that leverage has increased, interest coverage ratios have declined and profit margins have come under pressure. As a result, a number of companies have taken on greater risk in an effort to boost profits, leading to a rise in idiosyncratic risk for bond investors.

In fact, the distribution of net profit margins over the past several quarters exhibits a 'fat left tail,' or noticeable deterioration in earnings that has typically accompanied periods of economic recessions. The absence of a recession this time around suggests that the current credit cycle may be different. Consequently, unlike prior expansions, our positive view of the market is tempered by the need to avoid unusually high levels of idiosyncratic risk.

While we acknowledge these important risk factors, on balance credit fundamentals among US issuers are broadly sound and we do not consider current debt levels to be excessive. Accordingly, we believe it is still too early to step away from the market as credit premia should contract in 2017 against an improving economic backdrop. At the same time, it is important to be mindful that the next turn in the cycle may not be solely affected by central bank activity.

Source: MacKay Shields LLC. Date: December 2016. Unless otherwise stated all views expressed are proprietary to MacKay Shields LLC.

US High Yield Bonds

Aegon USA Investment Management, LLC
Nordea 1 – North American High Yield Bond Fund

- Given the continued improvement of US fundamentals, we believe there will be two Federal Reserve rate hikes in 2017
- We remain positive on the high yield market. However, we anticipate 2017 will be a year in which idiosyncratic credit risks dominate
- We continue to look for opportunities to capture decent spread while minimising interest rate exposure

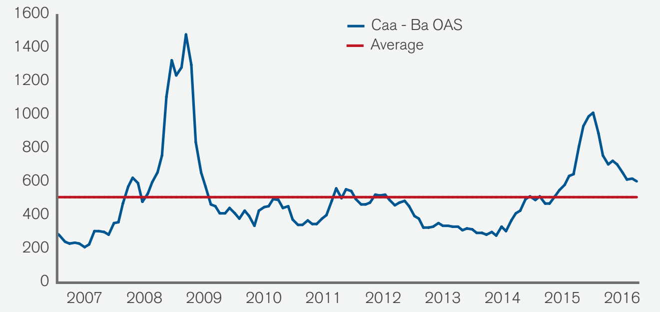
Financial markets got off to a rocky, risk-averse start in 2016, but finished the year strongly. Will the momentum carry over into 2017? We consider President-elect Trump's proposed policies to be broadly reflationary and marginally positive for the economy. Infrastructure spending could spur demand and further tighten the labour market. Corporate and personal tax cuts may stimulate business investment and consumer spending. We anticipate that absent a trade war, major pro-growth reform could spill into the real economy in the second half of 2017. Peak stimulus benefits should likely come in the first half of 2018, with effects starting to dissipate in the second half of 2018.

We look for the US economy to expand at an above-average rate. US unemployment stands at 4.6%, close to the natural rate and boosting consumer spending, a bright spot in the US economy. Housing should be a steady contributor to overall GDP growth as the maturing Millennial Generation continues to form new households. Given the continued improvement in fundamentals and the risks of larger fiscal deficits, we believe there will be two Federal Reserve (Fed) rate hikes in 2017, with the probability that the Fed could proceed with more tightening than is currently priced in. However, quicker-than-expected interest rate increases could lead to US dollar appreciation, which could be a headwind to growth.

We remain constructive on the high yield market, with a base case of 4%-6% total returns for 2017. However, while 2016 was dominated by big and swift market dislocations (both sector and credit), we anticipate 2017 will be dominated by idiosyncratic credit risks. That being said, we haven't seen the last of event-driven volatility, which will remain a risk for the asset class.

From a fundamental perspective, we continue to prefer the US to the rest of the world. While commodity market fundamentals have improved, we view current valuations in the sector as rich and thus maintain our underweight position to global cyclicals. In addition to consumer and communication sectors, key sector overweights include housing-related credits, gaming, communications, and financials, the latter which offer good absolute returns, benefitting from improved capital positions and the steepening yield curve.

Caa less Ba credit spreads converging to long-run average



Source: Aegon USA Investment Management, LLC. Bloomberg Barclays US High Yield Indices.
Time period: 29.12.2006 – 30.11.2016.

Given the improving fundamentals among lower-quality issuers, we maintain a slight down-in-quality bias. We retain a core underweight to BB credits, are overweight to B-rated securities, and are roughly neutral to CCCs.

We are slightly short duration relative to the benchmark and we believe that Fed action throughout 2017 will lead to higher interest rates across the curve. We continue to seek opportunities to capture decent spread while minimising interest rate exposure.

A primary risk for high yield is a jump in US inflation expectations. This could lead to a more aggressive US rate-hiking cycle and higher long-term US Treasury rates. This would have a negative impact on all fixed income assets, and could lead investors to move out of high yield fixed income.

A secondary risk is a greater-than-expected slowdown in global growth. This would likely bring about a greater depreciation of commodity prices and could ultimately lead to recessionary fears rising in developed markets. This could drive another round of credit spread widening as investors withdraw from high yield and recalibrate their default expectations higher.

Source: Aegon USA Investment Management LLC. Date: December 2016. Unless otherwise stated all views expressed are proprietary to Aegon USA Investment Management, LLC

US Mortgage Backed Securities

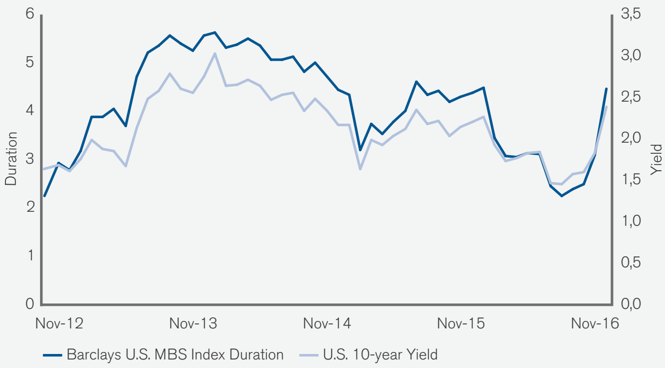
DoubleLine Capital LP
Nordea 1 – US Total Return Bond Fund

- Supply/demand environment supportive for MBS
- MBS sector attractive with its relatively short duration, thanks to prepayment speeds
- Improving fundamentals (credit conditions) for non-agency MBS

Looking to 2017, we expect the new regime will lead to higher US interest rates and an environment that favours active managers. Supply and demand, prepayment speeds, and new opportunities are all likely to factor in the performance of US Mortgage Backed Securities (MBS) and Securitised Products.

As of November 30, 2016, total year-to-date (YTD) gross issuance of Agency MBS surpassed the year prior by just shy of $1.3 trillion. While net issuance started off slow, the pace picked up as rates fell through the second quarter. Since rates bottomed at the beginning of the third quarter, Agency MBS issuance has contracted slightly as higher mortgage rates have slowed new purchase and refinancing activity. Barring drastic policy changes, we believe monthly Agency MBS gross issuance will trend lower through 2017 providing technical support to outstanding supply. Meanwhile, we expect demand for Agency MBS to remain strong: higher rates and stronger earnings may allow banks to reinvest back into loans and ultimately, MBS. Additionally, we anticipate that overseas investors will reinvest at least paydowns due to the attractive yield profile that Agency MBS provide. Thus we expect the current supply/demand environment to be constructive for Agency MBS and structured products.

Barclays U.S. MBS Index Duration vs US Treasury 10-year Yield



DoubleLine Capital LP

Amidst a higher rate environment, we believe prepayment speeds will also be important. Although a tightening of mortgage credit has made prepayment speeds less responsive to interest rates, as of July 30th they rose to the highest levels in over a year causing duration of the Bloomberg Barclays MBS Index to shorten to 2.3 years. This shorter duration has played a key role in the MBS sector's outperformance against several fixed income credit sectors during the most recent rate spike. Although we do not expect the duration of this sector to shorten substantially during 2017, the index exhibited duration of 4.5 years as of November 30th and remains an attractive alternative to corporate credit.

Meanwhile, the non-Agency sector will continue to benefit from voluntary prepayment speeds. This is positive as these securities are mostly priced at discounts to par so an increase in prepayment speeds where the investor receives 100 cents on the dollar is a good thing. Non-Agency securities have also seen a decrease in delinquencies and continuing improvement in credit fundamentals for the underlying borrower. Over time this is likely to lead to a fall in default rates.

Although traditional non-Agency MBS issuance remains muted, we are finding opportunities in alternative residential mortgage credit. The dearth of non-legacy new issuance in the post-crisis era has enabled legacy loan securitisations to take center stage in Residential MBS (RMBS) issuance. Most of these assets reside on bank and government-sponsored enterprise (GSE) balance sheets and are sold periodically as part of whole loan auctions. The loans being sold are comprised of performing, non-performing (NPL) and re-performing (RPL) loans and are subsequently securitised by buyers in both rated and unrated transactions. DoubleLine views the senior front-pay securities issued in these transactions as attractive investments given their high yield-to-effective-duration ratio. The securities typically offer yields ranging between 3.5-4.5% with an effective duration of less than two years.

Additionally, we find opportunity in other securitised credit such as Asset-Backed Securities (ABS). These structures offer an attractive alternative to corporate credit given their lower weighted average lives, greater credit support via structural protections and less concentrated pools of assets.

Source: DoubleLine Capital LP. Date: December 2016. Unless otherwise stated all views expressed are proprietary to DoubleLine Capital LP. DoubleLine has no obligation to provide revised assessments in the event of changed circumstances. While we have gathered this information from sources believed to be reliable, DoubleLine cannot guarantee the accuracy of the information provided. Securities discussed are not recommendations and are presented as examples of issue selection or portfolio management processes. They have been picked for comparison or illustration purposes only. No security presented within is either offered for sale or purchase. DoubleLine reserves the right to change its investment perspective and outlook without notice as market conditions dictate or as additional information becomes available and assumes no duty to update the recipients of this presentation.

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