



## Nordea 1 – European High Yield Bond Fund

ISIN: LU0141799501 (BP-EUR) / LU0141799097 (BI-EUR)

### Fund highlights

- Creating alpha through rigorous bottom-up credit selection
- Strong conviction management
- Investment process focussing on fundamental valuation and avoiding market-timing considerations
- Stable and very experienced investment team
- Established track record of alpha generation capability

### Nordea Multi-Boutique approach

The Nordea 1 – European High Yield Bond Fund has been managed by the same team since launch in January 2002. In 2007, this management team established an independent company, **Capital Four Management A/S**, with the sole object of managing European High Yield bonds. Nordea Investment Funds S.A. secured an exclusive agreement with Capital Four Management A/S regarding management of the Nordea 1 – European High Yield Bond Fund.

This was consistent with Nordea Investment Funds S.A. pursuit of establishing a multi-boutique of asset managers by identifying, managing and securing the services of the best fund managers in the industry.

### Creating alpha through rigorous bottom-up credit selection

The fund managers believe that they can create value for their clients in the High Yield fixed income market by rigorous bottom-up credit selection, as well as

disciplined downside risk management. Their investment philosophy is based on four characteristics:

- Focussing on fundamental valuation and avoiding market-timing considerations
- Research and analysis of individual credit issues as opposed to sectors and countries
- Risk management across segment, sector and security levels
- Consensus decision-making by a small team of high yield credit specialists

### Investment process

The investment approach is bottom-up, and has remained consistent since inception of the product. It is made up of 5 distinct stages:



### Credit Research

The initial step is to perform an individual credit research at the security level. The credit research process is split into assessment of industry attractiveness, company analysis and bond structure assessment.

- **Industry attractiveness:** qualitative assessment of a company's operational environment with focus on market dynamics/outlook, position of the company within the industry, substitution risk of company's products, profit drivers and pricing rationality within the industry.

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- **Company analysis:** combination of qualitative and quantitative analysis of a company's operations including product/segment profitability, sales & distribution channels, competitive cost position and product differentiation. Their research is also based on a proprietary model/spreadsheet with a company's historical P&L and current balance sheet, as well as projections of future P&L, cash flow statement and balance sheet summary including projected credit statistics. Additional analysis at company level includes assessment of corporate management (industry know-how, experience in similar transactions, ownership stake/incentive), private equity sponsor/ownership (track record, reputation and industry expertise), and purpose of financing (re-capitalisation, dividend payout, finance of acquisition).
- **Bond structure analysis:** performed in order to assess the downside protection of the investment. Stress tests are performed in order to assess exposure coverage should the company's asset value decline. The covenants and terms of the bond indenture (in order to assess the flexibility of the company to incur additional indebtedness) and take-over protection for bondholders are also reviewed.

## Selection/Buy decision

Upon thorough analysis (including write-up and financial modelling) of a credit according to the schedule above, a security is purchased if the investment team agrees that the following criteria are met:

- Minimum requirement on industry attractiveness, company quality, bond structure quality
- Appropriate pricing
- Fit within the current portfolio

Universe	Industry Attractiveness	Company Analysis	Bond Structure
Total: 300 issues	Market dynamics & outlook	Sales & distribution process	Assets/downside protection
Coverage: 100 issues	Position of company	Segment profitability	Position in capital structure
Portfolio: 50 – 80 issues	Substitutes & technology	Relative cost position	Covenants and terms
Rating: BB, B & CCC	Profit drivers	Product differentiation	Take-over protection
Non rated	Pricing rationality	Management	
Long only		Equity sponsor	
		Purpose of financing	

## Portfolio Construction

The portfolio construction stage is a continuous process, with focus on buying/selling credit and risk managing the portfolio against the benchmark.

Aggregate risk management of the portfolio (vs. the benchmark) is important in the process as there is a very clear philosophy/target to add value by superior credit selection.

Therefore, the focus is to develop/maintain a portfolio with a very similar structure as its benchmark, but with a high degree of idiosyncratic risk. For this purpose, various risk management and performance attribution tools have been constructed in order to allow the investment team to assess the risk of the portfolio against its benchmark and measure the composition of historic investment results.

Implementation/trading of the portfolio is performed by all members of the team, as it is important for every investment professional to be involved/follow the High Yield market and establish relationships with sales personal, analysts, traders and High Yield brokers.

## Portfolio Monitoring

Portfolio monitoring is performed at two levels in the investment process, top-down and bottom-up.

### Top-down:

- On a weekly basis: review of over/underweights of individual credits vs. benchmark and aggregated risk factors of portfolio vs. benchmark (e.g. yield distribution, rating distribution etc.).
- On a monthly basis: review of macroeconomic trends, industry/technology developments, regulatory changes and market sentiment.

### Bottom-up:

- On a daily basis: trading levels and review credit focus list (high risk names, if any).
- On a quarterly basis: update of the proprietary financial models and qualitative assessment of changes that have led to the deviation of actual results vs. projected results from the investment team.

## Sell Decision

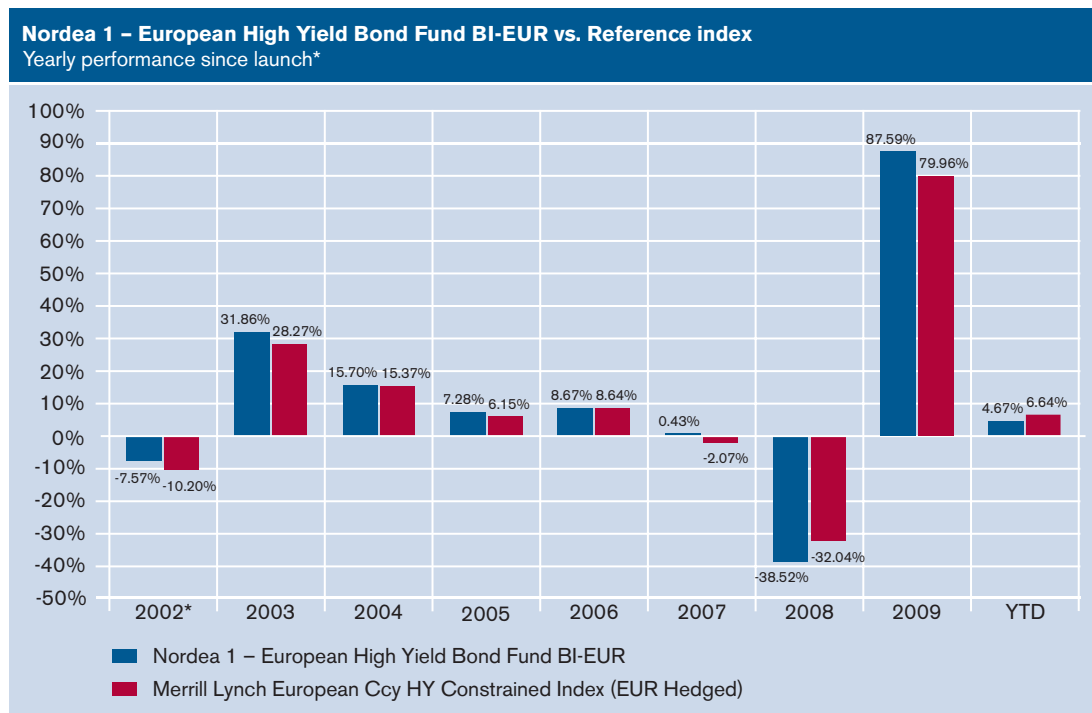
- Target price reached: driven by improved credit fundamentals: strong operating results, debt pay-down;
- Credit concerns: deteriorating industry dynamics, compressed financial margins, threat of violating covenants, managerial problems – event risk.

## Consistency of investment results

Investment results' consistency is based on:

- **Stability and experience of the investment team:** the key investment professionals have been working as a team since the inception of this product. They have complementary skills and backgrounds and have a high degree of trust and mutual agreement about the way they invest.
- **Superior skills in security selection:** all senior investment professionals have spent the majority of their career (average 10+ years of investment experience) in the High Yield market and have university degrees in Finance at Master Level and/or advanced professional qualifications (CFA).
- **Clearly structured investment process:** the security selection process follows distinct steps which aim to affirm the quality of each investment. These steps are a result of a long commitment to markets and ensure repeatability of the results of the process. The process is flexible such that it manages to cope with the developments in the market.
- **Advanced quantitative tools to monitor portfolio/performance:** a proprietary system allows verifying risk contribution on single name exposure and controlling performance contribution at a high level of detail. This ensures consistency between the investment hypotheses and actual achieved investment results. If a bond becomes more risky because of a fall in its price, it will automatically show up in the top of the "most risky bonds list", hence its exposure would be assessed.

## Established track record of alpha generation capability



Source: Nordea Investment Funds S.A. and Bloomberg. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in EUR, excluding initial and exit charges as per 30.06.2010. The performance represented is historical; past performance is not necessarily a guide to the future and investors may not recover the full amount invested. \* Launched on 18.01.2002 (BI-EUR share class)

The fund has substantially over-performed its reference index in all years since inception except in 2008. The underperformance in this year is explicable in terms of the investment philosophy and process of the fund. The approach is strictly bottom-up: it concentrates on valuation of bonds based on analysis of fundamentals and it avoids any market-timing consideration.

In 2008 market focus on the credit crunch and liquidity issues had pushed considerations about fundamentals to the side-lines, and consequently the fund had suffered.

# Nordea 1 – European High Yield Bond Fund

## Cumulative performance in % (30.06.2010)

Timeframe	Fund	Index*
YTD	4.67	6.64
1 month	-0.70	0.05
3 months	-3.72	-2.87
6 months	4.67	6.64
1 year	37.83	37.69
3 years	17.37	25.37
5 years	38.82	44.56
Since inception (18.01.2002)**	99.30	95.73

\* Merrill Lynch European Ccy HY Constrained Index (EUR Hedged). \*\* Starting from 18 January 2002. Source: Nordea Investment Funds S.A. and Bloomberg. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in EUR, excluding initial and exit charges as per 30.06.2010. The performance represented is historical; past performance is not necessarily a guide to the future and investors may not recover the full amount invested.

Top Ten in % (30.06.2010)	Weight
Unity Media 8.125 % 2017-12-01	4.15
Wind Acquisition Finance 11.75 % 2017-07-15	3.69
Prologis Int Fundi 7.625 % 2014-10-23	3.21
Ziggo Bond Co BV 8.0000 % 2018-05-15	3.21
Polypore 8.75 % 2012-05-15	3.09
Danske Bank VAR Perpetual	2.93
Seat Pagine Gialle 10.5 % 2017-01-31	2.76
Allied Irish Banks 10.75 % 2017-03-29	2.71
Barclays Bank VAR Perpetual	2.54
Grohe Holding FRN 2014-01-15	2.51

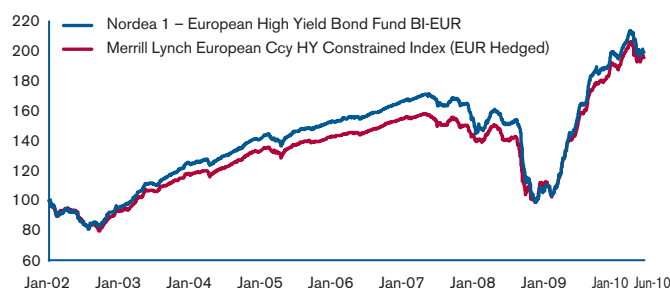
Source: Nordea Investment Funds S.A. Date: 30.06.2010.

Nordea 1 – European High Yield Bond Fund	
Fund manager	Capital Four Management A/S
Fund domicile	Luxembourg
ISIN codes	LU0141799501 (BP-EUR) LU0141799097 (BI-EUR)*
Annual management fees	0.85 % p.a. (BP-EUR) 0.50 % p.a. (BI-EUR)*
Base currency	EUR
Fund size in millions	1017.49
Reference index	Merrill Lynch European Currency High Yield Constrained Index (EUR Hedged)
No. of holdings	82
Launch dates	02.01.2006 (BP-EUR) 18.01.2002 (BI-EUR)*

Source: Nordea Investment Funds S.A. Date: 30.06.2010.

\* BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent)

## Nordea 1 – European High Yield Bond Fund BI-EUR vs. Reference index (18.01.2002 – 30.06.2010)



### Opportunities

- Active European High Yield Bond portfolio with a clearly structured investment process
- Investment team: stability, experience, superior skills in security selection and strong conviction management

### Risks

- Investment in High Yield debt securities can show significant volatility and may suffer from losses
- The investments made in this sub-fund may be subject to fluctuations and no guarantee can be given that the value of the shares will not fall below the value at the time of their acquisition. A list of possible factors, which could cause such fluctuations, can be found in the latest Nordea 1, SICAV sales prospectus

The Nordea 1 – European High Yield Bond Fund has received a **2010 Lipper Fund Award** in Austria, Germany, France, Switzerland, the Netherlands and the Nordic region.

The fund was selected best in the Lipper category “Bond Europe – High Yield” over three years in all above mentioned countries.



The sub-funds mentioned are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d'investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 85/611/EEC of 20 December 1985. The custodian of the SICAV's assets is Nordea Bank S.A., Luxembourg. Investments in the Nordea funds should be made on the basis of the current prospectus, which is available, along with the simplified prospectus, current annual and semi-annual reports, free of charge upon request from Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, from the local representatives or information agents, or from our distributors. A transaction involving a foreign exchange transaction may be subject to fluctuations of currency values which may affect the value of an investment. Investments in Emerging Markets involve a higher element of risk. 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Telephone (+41) 44 421 42 42, Fax (+41) 44 421 42 82. **Additional information for investors in Germany:** The Information and Paying Agent in Germany is Nordea Bank Finland Plc, Niederlassung Deutschland, Grüneburgweg 119, D-60323 Frankfurt am Main. A hard copy of the above-mentioned fund documentation is also available from here. **Additional information for investors in Austria:** Sub-paying Agent and Representative in Austria is the Erste Bank der Österreichischen Sparkassen AG, Graben 21, A-1010 Vienna. **Additional information for investors in France:** With the authorisation of the Autorité des Marchés Financiers (AMF) as per 11 March 2003, 13 December 2005, 03 April 2007, 28 September 2007, 29 February 2008, 29 April 2008, 25 November 2008 and 09 June 2009, Nordea 1, SICAV may be distributed to investors in France, as published in the Bulletin des Annonces Légales Obligatoire dated 19 March 2003, 19 December 2005, 18 April 2007, 10 October 2007, 19 March 2008, 28 May 2008, 15 December 2008 and 26 June 2009. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, 75013 Paris. Investors are advised to conduct thorough research before making any investment decision. **Additional information for investors in Spain:** Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription, or that may be obtained from the CNMV registries. **Additional information for investors in Italy:** Fund documentation as listed above is also available in Italy from the distributors and on the website www.nordea.it. The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at Intesa Sanpaolo S.p.A. branches (located in the main towns of each region), BNP Paribas Securities Services, Banca Sella Holding S.p.A., Allfunds Bank S.A., Societe Generale Securities Services Sp.A. and on the website www.nordea.it. Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. For the risk profile of the mentioned sub-funds, please refer to the fund prospectus. **Additional information for investors in the United Kingdom:** Approved by Nordea Bank Finland Plc, London Branch, which is regulated by the FSA in the United Kingdom. **Additional information for investors in Latvia:** The Representative and Paying Agent is Nordea Bank Finland Plc, Latvia Branch, 15, Kalku Street, LV-1050 Riga. **Additional information for investors in Estonia:** The Representative and Paying Agent in Estonia is Nordea Bank Finland Plc, Estonia Branch, Hobujaama 4, 15068 Tallinn. **Additional information for investors in Lithuania:** The Representative and Paying Agent in Lithuania is Nordea Bank Finland Plc, Lithuania Branch, Didžioji str. 18/2, LT-01128 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. Source: Nordea Investment Funds S.A. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in base currency, excluding initial and exit charges as per 30.06.2010. **The performance represented is historical; past performance is not necessarily a guide to the future and investors may not recover the full amount invested.** The value of shares can fluctuate and is not guaranteed.