



Nordea 1 – Heracles Long/Short MI Fund

ISIN: LU0375726329 (BP-EUR) / LU0375726162 (BI-EUR)

A true absolute return fund

The Nordea 1 – Heracles Long/Short MI Fund strategy is based on taking long and short positions with a high degree of diversification. Indeed, it has exposure to equity, fixed income, foreign exchange and money market classes in a number of markets around the world.

The objective of the fund is to offer investors a positive return under any market conditions, **targeting a return (net of fees) of 200 – 400 bps above the Euribor 1M over a period of 12 months.**

This fund is a Newcits, which is a hedge fund style strategy available within the UCITS III framework. In order to comply with regulations, and to benefit from maximum liquidity of underlying instruments, the fund achieves its exposure through use of **futures on indices**. Cash not employed as a margin requirement in the purchase of futures, is invested in money market instruments.

Futures are used in such a way to replicate option-like payoffs. This is achieved through a proprietary mathematical algorithm and internally-developed proprietary software. This technology has been developed and refined over 5 years, with the collaboration of some of the finest financial mathematicians and software engineers. This option-based model facilitates, in a cost efficient way, implementation of the features described below.

A perfectly liquid investment

The fund invests in futures and currency forwards, exchanged in regulated markets and presenting a high degree of liquidity. Furthermore, the investors can redeem their shares on every day in which the NAV is calculated. In summary, the fund constitutes **a totally liquid alternative to hedge funds**. Such hedge funds may bear heavy costs due to a lack of liquidity. This has become very visible during the latest credit and liquidity crunch.

A forecast-free quantitative model

Up to 50 strategies are run simultaneously taking long or short positions in 50 different international stock index futures, bond futures and/or currency forwards. These strategies profit from trends in asset prices. In this respect, the Heracles model is similar to trend-following strategies. However, there are a variety of differences: the quantitative model underlying Heracles is based on option pricing theory and hence does not make any assumptions about past prices containing information about future prices. This is in contrast to technical models such as trend-following strategies. Therefore, the Heracles model is not influenced by the data in any way.

In terms of practical implementation, the Heracles option-based strategy **generates procyclical and anti-cyclical investment behaviour** (which is illustrated on the following page), while technical models (trend-following) are pro-cyclical.

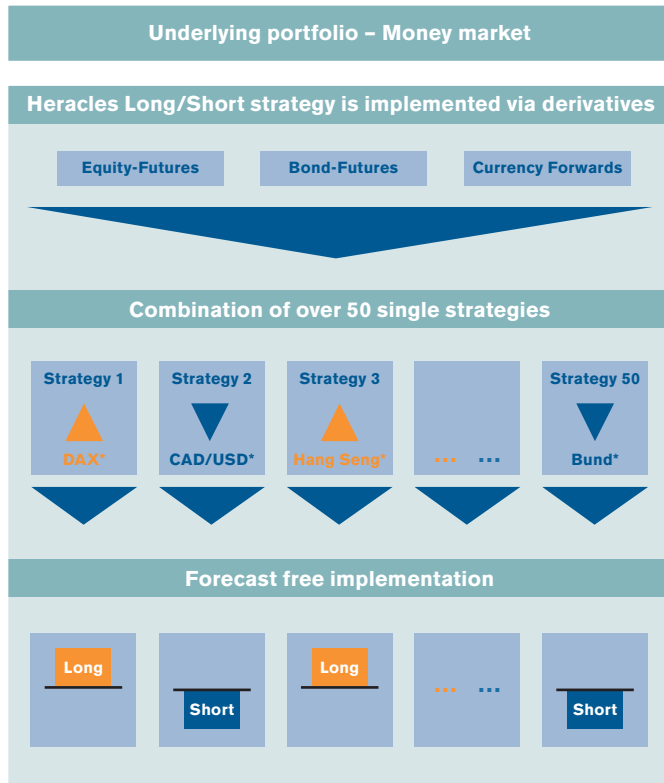
Finally, in technical models, the two steps of generating a signal (long or short) and the positioning sizing are two independent steps. In Heracles, the two steps are integrated, as the replication of the option directly leads to the asset exposures.

A limited drawdown risk

The Heracles strategy is not only diversified across asset classes but also across time. Specifically, each strategy has a 12-month horizon, and a new position in the strategy is launched at the beginning of each month. This means that, at any point in time, there are 50 times 12 long or short positions taken. **High diversification across asset classes, markets and time implies a limited drawdown risk.**

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Heracles Long/Short strategy



*Only exemplary. Not necessarily reflecting the current strategy mix.

A target return is explicitly incorporated into the model, whereby every strategy¹ has the same target return. When a position has met its target return, **profits are locked in** and the corresponding exposure is brought to zero. This further limits the drawdown risk considerably.

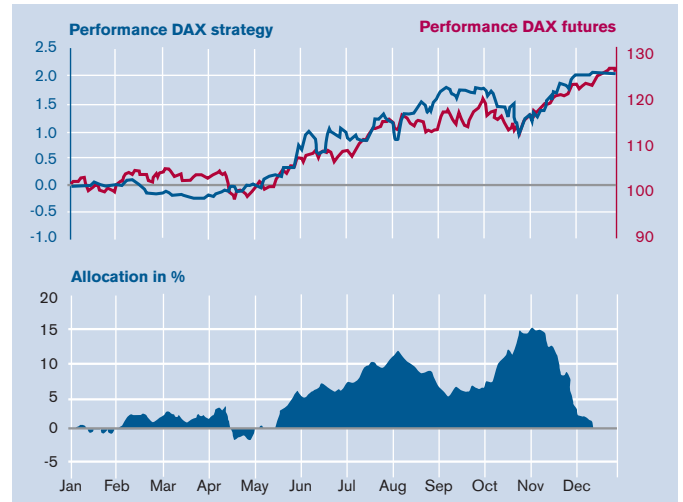
Risk and maximum loss are quantifiable ex-ante at any time. The expected volatility of the portfolio is around 6 to 8%.

Illustrations of exposure deriving from the application of strategies

In the following chart we illustrate how one position in the DAX strategy responds to changes in the performance of the DAX index futures. The target return for a single position shown in the examples below is for illustrative purposes only and does not correspond to the actual target.

¹ It should be noted that to each strategy is allocated an equal target return, i.e. 1/50th of the total target return. In turn, as one strategy is composed by 12 positions, one single position will have about 1/12th of the performance target allocated to one strategy.

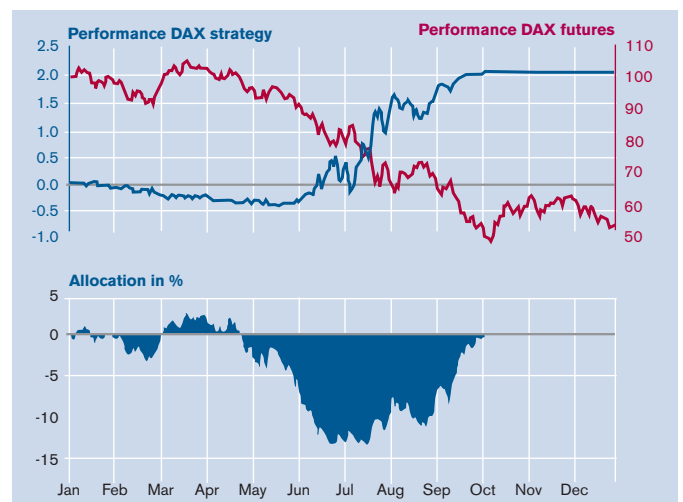
Single position simulation in a bull market environment (strategy DAX-futures 2005)



Source: Thomson Financial Datastream and Bloomberg, Metzler calculations based on historical data. Quoted performance data represent past returns which do not guarantee future results.

In the first months of the year, rising markets generate long positions, while declining markets result in short positions. In the second half of the year, the strategy shows an anticyclical behaviour (reducing long positions when prices are rising and vice versa), until the target return is reached.

Single position simulation in a bear market environment (strategy DAX-futures 2002)



Source: Thomson Financial Datastream and Bloomberg, Metzler calculations based on historical data. Quoted performance data represent past returns which do not guarantee future results.

The above chart repeats the analysis for the crash year 2002. Again, the strategy shows procyclical and anticyclical elements. In October 2002, the exposure is brought to zero, since the contribution of the strategy has reached the target return.

Back testing the model

Performance back test

Below you will find the result of a back test in the model from 1992 to the end of 2009*. The back test takes into account the return from cash invested in money market instruments and alpha generated

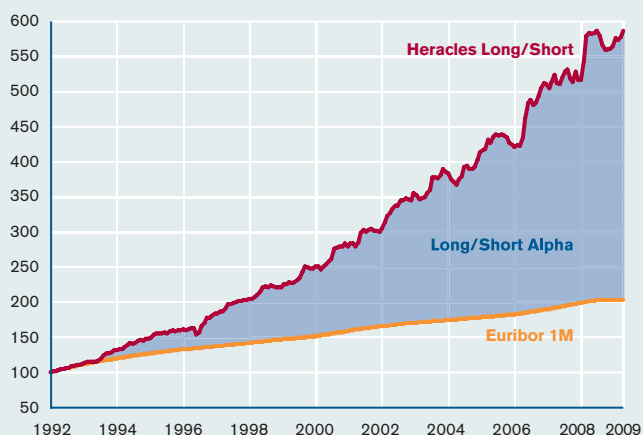
through the strategy based on futures. Due to the forecast-free design of the quantitative model, the **back testing of the model is reliable**.

Over the period from January 1992 to December 2009, the strategy delivered an excess return of more than 6% over cash, with a volatility of around 6%.

Simulated and actual performances in % p.a. (in EUR)*

Performance

	Return in % p.a.	Volatility in % p.a.
Euribor 1M	4.02	0.59
Heracles L/S	10.34	5.64



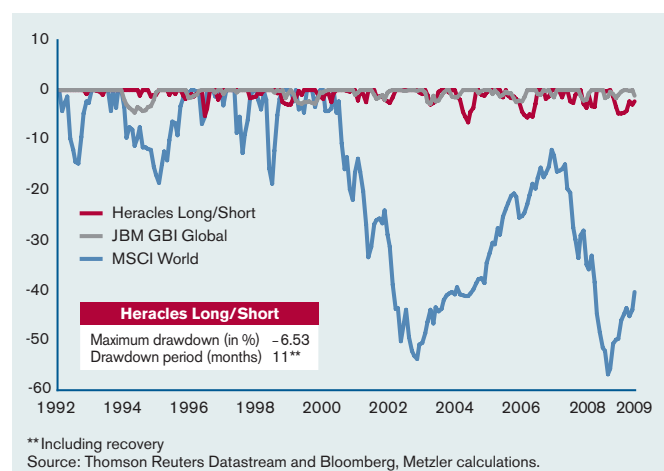
Sources: Thomson Reuters Datastream, Bloomberg, Metzler calculations.

Year	Long/Short excess	Euribor 1M	Heracles Long/Short
1992	2.19	10.00	12.19
1993	8.19	7.92	16.11
1994	7.64	5.57	13.21
1995	3.10	4.66	7.76
1996	8.48	3.40	11.88
1997	10.17	3.30	13.48
1998	6.52	3.58	10.09
1999	10.31	2.91	13.22
2000	6.47	4.26	10.73
2001	4.68	4.48	9.16
2002	10.00	3.38	13.38
2003	7.40	2.42	9.82
2004	1.94	2.10	4.04
2005	9.52	2.16	11.68
2006	7.17	2.93	10.11
2007	1.47	4.24	5.69
2008	9.67	4.44	14.11
2009	-0.31	0.92	0.61
Return p.a.	4.02	10.34	10.34
Cumulative return	103.38	487.55	487.55

Attractive drawdown characteristics compared to traditional assets

The magnitude of drawdowns in the back test* is around 6%. Drawdowns occurred in years like 2004 or 2006 where markets either develop sideward or are characterized by sharp short-term reversals. As mentioned above, the multi-dimensional diversification effectively limits drawdown.

The chart on the right shows a comparison of performance and drawdown in % for the period January 2002 – December 2009. The maximum drawdown was 6.53% (in 2004). The longest drawdown period was seven months, and it took four months for the portfolio to recover (in 2006).



**Including recovery
Source: Thomson Reuters Datastream and Bloomberg, Metzler calculations.

* For the period 1992 to March 11, 2008: historical simulation based on market data. The hypothetical performance is calculated under the assumption that the fund would have been managed according to the Heracles Long/Short strategy. The quoted performance is net of fees (1.2% management fee, 15% outperformance fee) and regardless of other charges (i.e. sales load). The simulation applies to investments in equity and bond futures based on historical exchange rates of the countries, in which the strategy invests. After the launch on March 12, 2008, calculations are based on actual data of the fund (net of fees). Past returns are not a guarantee, warranty or a liable indicator for future results.

	Heracles Long/Short	JPM GBI Global	MSCI World
Maximum drawdown	-6.53	-4.44	-56.70
Downside deviation p.a.	3.90	2.35	12.21
Longest profitless period (years)	0.92	1.33	9.33

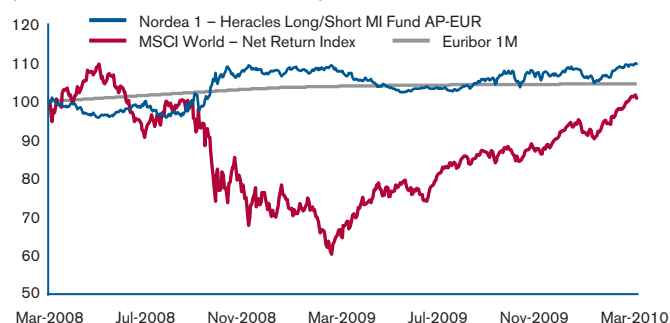
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Timeframe	Nordea 1 – Heracles Long/Short MI Fund AP-EUR	MSCI World – Net Return Index*	Euribor 1M
Year to date	2.00%	8.85%	0.11%
1 month	3.25%	7.10%	0.04%
3 months	2.00%	8.85%	0.11%
6 months	3.47%	16.06%	0.22%
1 year	2.41%	49.50%	0.59%
2 years	10.17%	2.45%	4.33%
Since inception (12.03.2008)	9.75%	0.79%	4.56%

Source: Nordea Investment Funds S.A. and Datastream. Date: 31.03.2010. Performance is calculated NAV to NAV (distributed dividends included), in EUR, excluding initial and exit charges as per 31.03.2010. Past performance is not necessarily a guide to the future and investors may not recover the full amount invested.

*The sub-fund does not have any official reference index. However, for comparison purposes, we have shown the performances of the MSCI World – Net Return Index and of the Euribor 1M.

Performance comparison since launch (12.03.2008 – 31.03.2010)



Source: Nordea Investment Funds S.A. and Datastream. Date: 31.03.2010. Performance is calculated NAV to NAV (distributed dividends included), in EUR, excluding initial and exit charges as per 31.03.2010. Past performance is not necessarily a guide to the future and investors may not recover the full amount invested.

Nordea 1 – Heracles Long/Short MI Fund	
Fund manager	Metzler Asset Management
Fund domicile	Luxembourg
ISIN codes	LU0375726329 (BP-EUR) LU0343921457 (AP-EUR) LU0375726162 (BI-EUR)*
Annual management fees	2% p.a. (BP-EUR and AP-EUR) 1.2% p.a. (BI-EUR)*
Performance Fees	20% p.a. (BP-EUR and AP-EUR) ¹ 15% p.a. (BI-EUR)* ¹
Base currency	EUR
Fund size in million	306
Reference index	None
Launch dates	12.03.2008 (AP-EUR) 01.10.2008 (BP-EUR and BI-EUR*)

Source: Nordea Investment Funds S.A. Date: 31.03.2010.

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

¹Percentage of the annual outperformance in comparison to the Euribor 1M (High watermark and hurdle rate method). Criteria for the calculation of the performance fee are the so-called „hurdle rate“, a benchmark for the performance of the fund, and the so-called „high watermark“, that is the highest fund price achieved so far at the end of the year. The Euribor 1M is used as the „hurdle rate“ for the Nordea 1 – Heracles Long/Short MI Fund. If the performance of the fund is greater than this at the end of the year, the first criterion for payment of a performance fee is fulfilled. If the fund price is, moreover, higher than the highest annual end-of-year value („high watermark“) ever reached by that point in time, the portfolio management has fulfilled both criteria for the payment of a performance fee.

Opportunities

- The objective of the fund is to offer investors a positive return (excess of cash)
- The high diversification across asset classes, markets and time, implies a contained drawdown risk
- The model is quite robust due to its quantitative forecast-free design

Risks

- Investments made in this sub-fund may be subject to substantial fluctuations. A list of possible factors, which could cause such fluctuations can be found in the latest Nordea 1, SICAV prospectus
- In addition, investors must read carefully the special risk considerations as described in the chapter “Special Risk Considerations” of the Nordea 1, SICAV prospectus before investing in the fund

The sub-funds mentioned are part of the 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 the European Community Directive 85/611/CEE of 20th December 1985. The custodian of the assets of the SICAV 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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The above-mentioned fund documentation is also available on paper 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 the 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. 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(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.** It is recommended to read the last 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:** Representative and Paying Agent is Nordea Bank Finland Plc, Latvia Branch, 15, Kalku Street, LV-1050 Riga. **Additional information for investors in Estonia:** 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, Didzioji str. 18/2, LT-01128 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in EUR, excluding initial and exit charges as per 31.03.2010. **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. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration.