



## Nordea 1 – US High Yield Bond Fund

ISIN: LU0278531610 (BP-USD) / LU0378611387 (BI-USD)

### Fund highlights

- Regimented process in a team environment, rather than basing the system on a “star” portfolio manager
- Experienced and stable management team: the decision making team has worked together for at least 13 years
- Excluding rather than including bonds – “avoiding the losers”
- Maximising yield and capital appreciation while controlling risk and limiting defaults through a bottom-up approach
- Focusing on superior credit selection
- Successful performance history

### Nordea Multi-Boutique approach

Building on the existing strengths of a multi-boutique product offering by identifying, managing and securing the services of the best fund managers in the industry, Nordea Investment Funds S.A. has appointed **MacKay Shields**, New York as adviser for the Nordea 1 – US High Yield Bond Fund launched on July 28, 2008.

Since July 1, 1997, the team has been managing the MacKay Shields High Yield Active Core Composite which includes all discretionary High Yield Active Core accounts managed with similar objectives.

This composite represents a model portfolio which has the same investment philosophy, investment process and investment team as for the Nordea 1 – US High Yield Bond Fund.

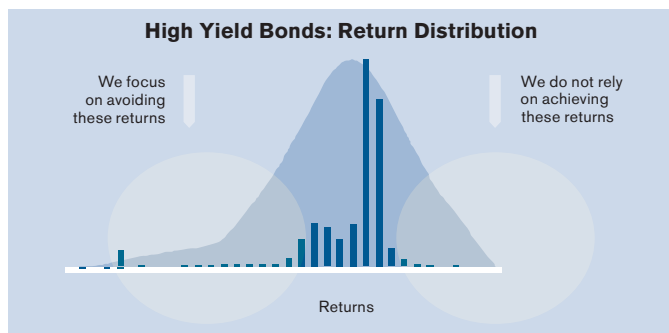
The management team is steadfast in its belief that using a **regimented process in a team environment**, rather than relying on a “star” portfolio manager, offers a distinct advantage. Their investment divisions support each other by exchanging information, market research, and judgements that have surfaced through their investment processes. Investors, therefore, benefit from the knowledge and experience of all the investment professionals at MacKay Shields.

### Excluding rather than including bonds – “avoiding the losers”

The fund management team believes that the best risk-adjusted returns and, ultimately, the best absolute returns are generated by a **strategy of yield capture and error avoidance**.

They screen the investment universe for risk in order to quantify upside potential using bond analysis, not equity-style analysis. By targeting the “sweet spot” for risk compensation, **the goal is to exclude rather than to include bonds**. The underlying belief is that to deliver attractive returns it is more important to recognise which bonds NOT to include in the portfolio, than to focus on the ones that should be selected.

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Therefore one can add great value in the management of this asset class by concentrating on avoiding the bonds which will deliver the lower return, i.e. those which are positioned in the left part of the distribution of returns, as shown in the graph above. When this fact is considered in combination with the fact that over any given cycle total return is driven almost entirely by income, the logic of the approach becomes clear:

- **Capture the yield offered through the market by investing in stable, quality credits;**
- **Aggressively protect this yield through a variety of risk control measures;**
- **Resist the temptation to augment returns by “stretching” for the yield offered by the market’s riskiest credits;**
- **Manage risk relative to the benchmark.**

This investment philosophy has not changed since 1989 when the Active Fixed Income Group first started managing high yield portfolios. While having continually explored ways to improve this process, the basic components have remained the same.

## Investment process

MacKay Shields’ high yield process is distinctive in that it focuses on the following two aspects:

- **Minimising risk to principal;**
- **Locating capital appreciation.**

The goal, despite market conditions, is to identify securities that will minimise defaults and maximise yield and capital appreciation.

The investment approach is bottom-up, and has remained consistent since the inception of the product. It consists of 6 distinct stages.

## 6-step investment process



### *Credit Screen*

The initial credit screen is the most important filter, as only those bonds that pass this test will be subject to further in-depth analysis. At this initial screen, bonds are run through a 32-factor progression of both quantitative and qualitative characteristics seeking to identify “gross indicators of inappropriate risk”: basic financial and liquidity risk; political risk; regulatory risk; litigation or liability risk; technology risk; and other risks found in areas such as capital structure, footnotes to financials, market capitalization or size of issue.

Approximately 80% of all bonds are excluded at this stage. The team believes that there is no substitute for in-depth analysis or market experience, but the advantage of a highly disciplined initial screen is that these resources can be much more tightly focused on a smaller universe of investment opportunities.

### *Payoff Analysis*

Once an issuer has passed the initial screen, the various bonds in the capital structure are subject to a payoff analysis. This looks at the risk/return profile that each of the bonds provides and considers a range of possible scenarios. This serves two purposes. Firstly, it seeks to highlight those cases where the current market price does not leave sufficient potential return to compensate for the risk of loss. Secondly, it seeks to identify those bonds within the capital structure that have the most attractive profile.

### *Credit Analysis*

Having screened out a large number of candidates on the basis of unacceptable risks, the credit skills of the team can be highly focused. In order to identify companies with high credit worthiness, improving fundamentals, positive outlook, good liquidity, etc., the team will concentrate on the following factors:

- Management and business plan
- Industry environment
- Competitive dynamics
- Cash flow
- Liquidity

### *Relative Value Analysis*

The team extends the relative value analysis beyond the traditional comparison of one bond to another and focuses on the positioning of the entire portfolio relative to the benchmark. The goal is to maximise performance but to be constantly mindful of basis risk.

Following this fundamental analysis, the investment team undertakes a scenario analysis in which they seek to forecast the reaction of the security to a range of changes in economic, credit, market and interest rate conditions. The team also considers the possibility of positive or negative "event risk". There is no interest in owning bonds whose principal or sole appeal is that they are "cheap" on an absolute basis. The team seeks to screen out or otherwise exclude those investments whose risk/reward profile is inconsistent with the basic philosophy, and to invest exclusively in those opportunities viewed as "cheap" relative only to their stability and positive outlook.

#### Portfolio Construction

In constructing the model portfolio, the team is unconstrained by sector/industry allocations as they seek the best opportunities to add value. Nevertheless, they do incorporate a top-down sector/industry bias in the security selection process.

This view is influenced both by macro-economic views and by bottom-up evaluation of the securities comprising the sector.

#### Sell Discipline

The team adheres to a strict "sell discipline". They typically sell a bond for one (or more) of the following four reasons:

- Credit deterioration
- Repositioning caused by a change in the top-down outlook
- Excessive downward price volatility and/or
- Recognition of an alternative superior relative value opportunity

Consistent with the philosophy of loss avoidance, credit deterioration is by far the most important of these sell disciplines.

## Performance under different market scenarios

The objective relative to the high yield universe is to produce consistent above median performance, resulting in first quartile returns over a market cycle, with lower volatility.

The high yield market cycle is characterised by increasingly easier credit standards during economic expansions and tight credit and high default rates immediately preceding and during periods of slow growth or recessions. By following a strategy of yield capture and error avoidance, the management team expects to keep up with the market during economic expansions and **outperform during periods of high volatility and weak growth environments\***. By virtue of the market having a larger left tail in difficult environments, it is under these circumstances that the team has been able to garner the majority of their out-performance\*.

\* The performance indication is only indicative and may not be met in the future.

Period	MacKay Shields High Yield Active Core Market Weighted Composite Return **	Merrill Lynch High Yield Master II Index Return	Relative performance
2008	-16.5%	-26.4%	9.9%
2007	3.5%	2.2%	1.3%
2006	11.4%	11.8%	-0.4%
2005	3.0%	2.7%	0.3%
2004	10.5%	10.9%	-0.4%
2003	28.1%	28.2%	-0.1%
2002	0.1%	-1.9%	2.0%
2001	8.4%	4.5%	3.9%
2000	-2.1%	-5.1%	3.0%
1999	5.8%	2.5%	3.3%
1998	7.1%	3.0%	4.1%
1997 (since 1 July)	6.8%	6.9%	-0.1%

The MacKay Shields High Yield Active Core Composite includes all discretionary high yield active core mandates managed with similar objectives for a full quarter, including those mandates no longer with the firm. The composite performance reflects reinvestment of income and dividends and is a market-weighted average of the time-weighted return, before advisory fees, of each mandate for the period since inception. Additional information regarding the policies for calculating and reporting returns is available upon request.

Source: MacKay Shields and Bloomberg. Date: 31.12.2008. \*\*Gross of fees. Performance is expressed in US Dollars. Fees, which are described in the firm's ADV, Part II, and related expenses, will reduce returns. There can be no assurance that the rate of return for any account within a composite will be the same as that of the composite presented. Past performance is not indicative of future results. The composite was created 01.07.1997 and for the period from inception through 29.02.2000 was developed at Forstmann-Leff International (FLI). Substantially all the investment decision-makers from the Fixed Income Group of FLI became employed by Pareto Partners on 29.02.2000 and subsequently by MacKay Shields LLC on 15.10.2004. The decision-making process remained intact and independent within Pareto and continues intact and independent within MacKay Shields. This group and process are responsible for the composite performance; therefore the current composite performance is linked to the prior FLI and Pareto composite history. All portfolios in the composite are fee-paying portfolios except for the period 01.07.1997 through 31.07.1998 when the composite included one non-fee paying account, which represented 100% of the composite as of 31.12.1997. MacKay Shields LLC, a SEC-registered investment adviser, has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). The firm receives a verification from an independent accounting firm on a quarterly basis. An opinion is available on request, as are a complete list and description of the firm's composites. No leverage has been used in this composite. The asset mix of high yield active core mandates may not be precisely comparable to the Merrill Lynch High Yield Master II Index. Indices do not incur management fees or other operating expenses. Investments cannot be made directly into an index. The reported standard deviation is an equal-weighted standard deviation of annual returns between mandates.

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## Cumulative performance in % (30.06.2010)

Timeframe	Fund*	Index**
YTD	4.93	4.74
1 month	1.37	1.35
3 months	-0.55	-0.07
6 months	4.93	4.74
1 year	25.75	27.53
Since inception (28.07.2008)	25.50	24.64

\* BP-USD: ISIN code: LU0278531610. \*\* Merrill Lynch US High Yield Master II Index. Source: Nordea Investment Funds S.A. and Bloomberg. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in USD, 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.

## Performance comparison since launch (28.07.2008 – 30.06.2010)



Nordea 1 – US High Yield Bond Fund	
Fund manager	MacKay Shields LLC
Fund domicile	Luxembourg
ISIN codes	LU0278531610 (BP-USD) LU0378611387 (BI-USD)*
Annual management fees	1.00% p.a. (BP-USD) 0.70% p.a. (BI-USD)*
Base currency	USD
Fund Size in millions	305.05
Reference index	Merrill Lynch US High Yield Master II Index
No. of holdings	238
Launch date	28.07.2008

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

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

## Opportunities

- Regarding their risk return profile high yield bonds are to be found between equities and government bonds. Therefore they are an attractive opportunity for investors searching for higher return potential than with government bonds, while running a lower risk than with equities

## 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 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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Luxembourg, Zweigniederlassung Zürich, Mainaustrasse 21-23, CH-8008 Zürich, 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 Obligatoires 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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The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at State Street Bank 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-01 128 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 USD, 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.