



Fund Update – Special Edition

March 2020

Who said capital preservation disappeared?

Nordea 1 – Stable Return Fund

ISIN: LU0227384020, BP-EUR / LU0351545230, BI-EUR

- **Strong resilient performance**, both compared to peers and to the broader market¹
- The fund's **proprietary defensive return drivers** are a **distinct advantage** compared to peers and can offer **protection and diversification**
- Stable equities have **accumulated a lot of value**, which is waiting to be unlocked
- **Risk-balanced investment approach is key** to navigate complex and uncertain markets
- **Strong conviction** in portfolio to deliver **attractive absolute and relative performance** going forward²

Risk Premia Contribution (as per 31.03.2020)	March	Since 20.02.2020
Credit	0.00%	0.00%
Cross Assets Anti-Beta	0.76%	1.52%
Developed Market Stocks Beta	-3.76%	-7.52%
Developed Market Stocks Low Risk Anomaly	0.17%	-0.98%
Emerging Market Stocks Beta	-0.24%	-0.56%
Emerging Market Stocks Low Risk Anomaly	-0.33%	-0.43%
FX Valuation	0.54%	1.20%
Duration	0.15%	0.21%
Momentum	0.71%	1.40%
TAA	-0.17%	-0.07%
Total (gross of fees)	-2.17%	-5.23%

Source: Nordea Investment Management AB. Period under consideration: 20.02.2020 – 31.03.2020. Data shown is preliminary and for the Nordea Stable Return Diversified Strategy (gross of fees). **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

The outbreak of the coronavirus triggered a **sharp reduction of risk appetite**, especially since the end of February, driving yields to historic lows and leading equity markets and volatility to levels not seen since 2008. Many investors were caught by surprise and – being unprepared for such an environment – suffered significant losses.

How did the Nordea 1 – Stable Return Fund (SRF) perform in this environment?

Since beginning of the Coronavirus sell-off on February 20th, the Stable Return Fund posted a negative return of -5.7%³ (BP-EUR) and -5.6%³ (BI-EUR) as per March 31st, whereas the broad equity market (MSCI World 100% EUR Hedged) dropped around -23.5%⁴.

Main contributors and detractors in March:

Positive: almost all of our **defensive risk premia strategies** (coloured in green) performed positively, e.g. our **Cross Assets Anti-Beta** strategy (short term positions across G10 currencies and high quality government futures), the **Momentum** strategy (implemented through short equity futures positions) and our **defensive Currencies** (mostly long USD vs. short commodity-driven FX). It is also noteworthy that the **Low Risk Anomaly turned positive** a few weeks after the start of the crisis. A clear sign that its protection does not come immediately at the beginning of a crisis but with a slight delay when investors begin to value fundamentals again. In addition, when earnings revisions start to hit the cyclical parts of the market, we expect this to further unlock the value of our stable fundamentals and attractive valuation in the portfolio.

Negative: as expected, the portfolio's sensitivity to global equity markets (**DM Stocks beta**), has been the largest detractor over the period. Also the fund's exposure to EM equity markets posted slightly negative returns.

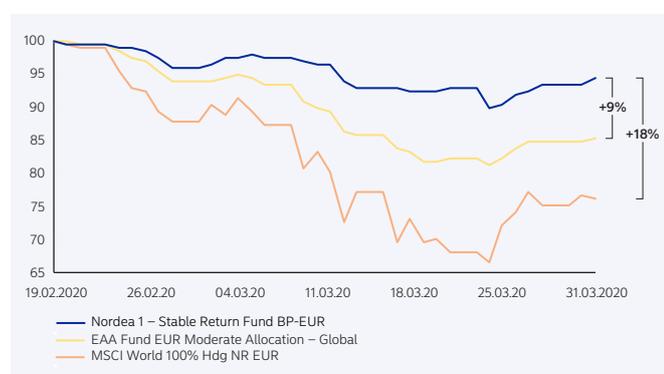
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It's important to highlight that thanks to our **defensive risk premia**, we showed a **very resilient performance** despite the fund's low duration (around 1 year). In this **low/negative yield environment**, where duration cannot play its diversifying role anymore, it's important to have **other proprietary defensive drivers** inside the portfolio, such as the SRF's defensive Currency strategy, the Momentum strategy and the Cross Assets Anti-Beta strategy that can fill this gap.

Performance vs. competitors⁵

Our risk balancing approach also worked very well when comparing it to our Morningstar peer group as well as to the broader market (please see chart below).

Coronavirus Sell-off performances



Source: © 2020 Morningstar, Inc. All Rights Reserved as at: 02.04.2020. Period under consideration: 20.02.2020 – 31.03.2020. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of your investment can go up and down, and you could lose some or all of your invested money.

The fund managed to **protect capital better** than its Morningstar peer group (**outperformance of +9%**) and even more so compared to the broader equity market (**outperformance of +18%**).⁶

The fund follows a **risk-balanced investment approach** to achieve **true diversification**. As recent years have been dominated by growth and strong risk appetite, the fund could not always demonstrate its capital preservation features. Nevertheless, these features have always been there and they now strongly prove their value **when it matters the most!** This is a **distinctive advantage compared to peers** and shows the fund's **protective nature** and **more resilient performance!**

Why invest now in the Nordea 1 – Stable Return Fund?

We are in an extreme **low/negative yield environment** and this is likely to persist for longer. This means that **duration is much less attractive** and cannot provide the diversification benefits investors are desperately seeking. Secondly, the coronavirus outbreak will most likely have a profoundly **negative effect on future earnings growth**. Therefore, we believe there are **three good reasons why now** is a good time for investors to invest into the SRF or to top-up already existing positions.

1. SRF's alternative defensive return drivers

We want to **emphasize the importance** of having **additional defensive return drivers** in the portfolio to achieve diversification when duration is unable to sufficiently protect going forward. This is exactly what the SRF is able to deliver: the fund employs a diversified set of **proprietary defensive return drivers** which show an **attractive asymmetric return behaviour**, i.e. protection when needed while still enabling the fund to **participate in up-markets!**⁷

2. Tremendous value in our Stable Equities

The Stable Equities play an important role in the portfolio. Our companies are selected based on **fundamental stability and attractive valuation**. Currently there is a huge amount of **locked-up value** that has been building up inside the portfolio. We expect this value to be unlocked when markets start to **look at fundamentals again**. This is supported both by the **relatively better earnings revision picture** (especially when looking at the low estimates) as well as their more attractive valuation compared to the broader market. This gives rise to attractive return potential going forward!

3. Highly liquid portfolio

Markets have experienced liquidity issues in recent weeks and it was a strong reminder for many investors that liquidity is not to be neglected. In sharp contrast, **liquidity has always been of paramount importance** for our Multi Assets Team and the fund offers a good match between the daily liquidity offered and its highly liquid underlying investment instruments. Consequently, the portfolio offers a **high level of liquidity** which allows the fund to **successfully withstand any market condition**.

5) The Nordea 1 – Stable Return Fund does not have any benchmark and this comparison is for illustrative purpose only. The MSCI World 100% EUR Hedged was used as a proxy in order to provide relative performance. 6) Period under consideration: 20.02.2020 – 31.03.2020. © 2020 Morningstar, Inc. All Rights Reserved as of 02.04.2020, EAA Fund EUR Moderate Allocation – Global, Share-class BP-EUR. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of your investment can go up and down, and you could lose some or all of your invested money. There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. Comparison with other financial products or benchmarks is only meant for indicative purposes. 7) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

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