Nordea
ASSET MANAGEMENT

Fund Portrait

2024

Nordea 1 – Alpha 15 MA Fund

LU0607983896 (BP-EUR) / LU0607983383 (BI-EUR)

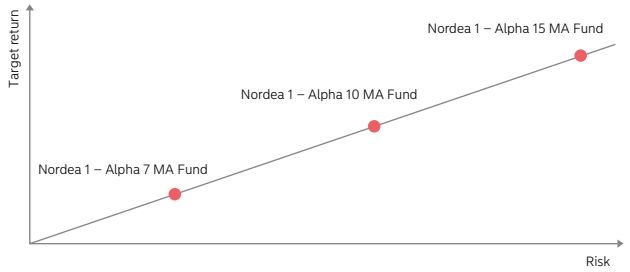
Highlights

- A **liquid alternative** which benefits from **Nordea's Multi Assets Team** exclusive research capabilities
- Combines a variety of **uncorrelated risk premia** strategies to **generate attractive long term returns with limited risk**
- **Return objective:** Cash +7 – 10%[1] p.a. (gross of fees) over a full investment cycle
- **Expected volatility:** 10 – 15%[2]

Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages and sources investment solutions across the full investment spectrum with the aim to provide investment solutions to clients, irrespective of prevailing financial market conditions. Nordea offers many outcome – as opposed to benchmark – oriented investment solutions, which are designed to meet clients' risk appetite and needs. Harnessing this outcome approach, Nordea's Multi Assets Team (MAT) has engineered a number of investment solutions with different risk/return profiles. They all have one common denominator: **looking beyond asset classes to exploit specific risk premia.** The MAT research structure focuses therefore on identifying, analysing, and testing risk premia across liquid asset classes and then implementing them into specific investment vehicles according to the targeted risk profile.[1]

The breadth of our capabilities in Liquid Alternatives
For illustrative purposes only



These products are liquid alternatives which use a broad and diversified source of return, leverage and advanced trading strategies.

The **team oversees around EUR 150bn[3] of assets across various asset classes and has succesfully worked with risk premia for over a decade,** during which time this approach has proven very effective. The Nordea 1 – Alpha 15 MA Fund is one of the funds managed by the team based on this distinct approach and was launched in 2011.

The need for liquid alternative solutions

After the historic increase in interest rates seen in 2022 and the sizeable correction that followed across fixed income markets, investors cannot continue to solely rely on bonds to diversify their portfolios. At the same time equity markets are still subject to elevated volatility, meaning investors are urged to look for **alternative** investment **solutions** that can help improve diversification and deliver returns while controlling risk in their portfolios. This is obviously not an easy task.

Nordea's MAT has a longstanding tradition, and strong track record, in managing products based on risk premia underpinned by a coherent risk management, which forms the backbone of its investment approach. At Nordea we believe that these competencies can help alleviate some of the challenges presented by the market today.

What is a risk premium?

Risk premium is a phrase well-known in the investment community but can refer to multiple other terms. In a nutshell, risk premia are **rewards for taking risk in excess of the risk free**

1) **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.** 2) **During adverse market environments, the volatility can reach on average 15%.** 3) Source: Nordea Investment Management AB. Date 31.12.2023.

rate. The basic idea is that investors are not compensated by investing in asset classes, but rather for both the type and amount of risk they take. Risk premia are generally backed by economic theory and have been widely researched and endorsed by the academic community.

Even though the concept of risk premia is well-known and accepted, the implementation of a diversified range of them can be complicated. Experience, accuracy and the right set of tools are needed to be able to exploit them.

How does Nordea use risk premia?

Since Nordea's MAT was founded in 2004, the choice of developing investment processes around the use of risk premia and risk budgeting has been the key. This investment approach has shown resilience in times of market turmoil when more traditional investment solutions have struggled to deliver on its objectives. Our multi assets/flexible solutions represent today some of the most attractive products in their respective categories.

Using risk premia leads the team to build portfolios where risk budgeting and control is at the centre of any investment decision. The investment team has the possibility, over time, to develop and focus on the risk premia where they assess the market is adequately compensating them for the risk taken. **Continuous innovation and on-going development is the key to success.**

The MAT considers a broad and diversified set of different risk premia, all of which are continuously monitored and tested to ensure that their portfolios are, at any given point in time, running with the most attractive combination of risk premia. In particular the team actively relies on **more than 30 risk premia,** spread across all asset classes. These are selectively used for different investment solutions depending on the client's risk/return profile.

Risk Premia (example)

Underlying	Strategic beta	Value	Momen-tum	Low Volatility	Time Variation (TAA)	Liquidity	Size	Inflation	Curve
Equities				Risk off					
Safe Govern. Bonds					Directional				
Credit bonds	Risk on								
Currencies									
Implied Volatility									
Com-modities*									

Risk on — Risk off — Directional

*Please note that as per UCIT directives the Nordea 1 – Alpha 15 MA Fund is not invested directly in commodities. However, the asset class is included in the table as this is an illustration of the risk premia research the Multi Assets team conduct.

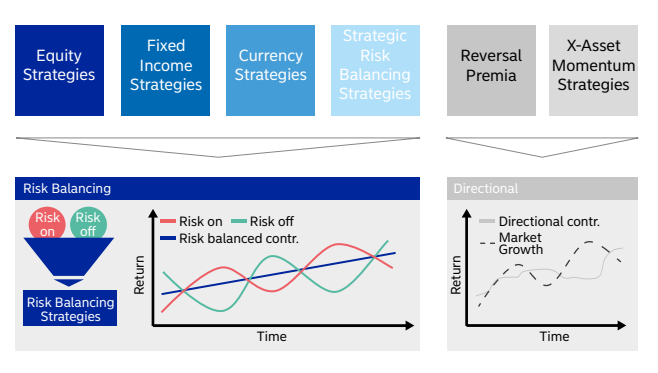
Combining a wide set of risk premia will allow the portfolio managers to **broaden the set of opportunities** and have access to a **diversified source of returns,** which will allow **higher expected return with lower risk.**[4]

Once the team understands the behaviour of risk premia, they are divided into: risk on (highly correlated to equity beta), risk off (negatively correlated to equity beta during stressed market environments) and more directional strategies where the beta can vary over time.

The team looks at the **expected return, correlation** and **volatility** of each risk premium. Proprietary models help to manage this process efficiently as well as drive on-going monitoring. An important element that the team also considers is the level of diversification that each risk premium brings to the portfolio. Thus, various **correlations** matrices (peak, conditional, etc.) are used to analyse portfolio dependency from different angles and to ensure that the portfolio is truly diversified. The timeframe from the research and development of a risk premium to full implementation can vary substantially, but it is not uncommon to take more than a year.

Investment process

In the Nordea 1 – Alpha 15 MA Fund, the team allocates investments across **6 underlying SuperStrategies** which operate independently (as sub-portfolios) and include multiple different risk premia.



- The **first four SuperStrategies** are built following the **risk balancing principle,** which consists of combining both risk on and risk off premia, with the aim to deliver positive convexity (positive beta on the upside and beta neutrality on the downside). Such portfolios are created to perform well independently from the investment cycle. The result is more balanced and less volatile returns over time[4]
- The **last two SuperStrategies** are directional strategies aiming to deliver absolute returns (alpha) over time. These strategies will not invest in trades that are meant to 'offset' each other in different market environments, but rather tend to exploit particular market inefficiencies and recognised patterns identified and developed by the Multi Assets Team proprietary models[4]

The **first four SuperStrategies** are defined as: **Equities, Fixed Income, Currencies and Strategic Risk Balancing.**

4) 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.

In the **Equity SuperStrategy** we identify risk premia such as the low risk anomaly which performs well in a risk off environment, or value quality which tends to be more correlated to beta and perform well in risk on environment.

Another example would be our **Currency SuperStrategy.** Here we try to identify currency pair trades that work well in bull (carry trade for instance) and bear markets (FX valuation models for instance) respectively.

The **two final SuperStrategies, X-Asset Momentum and Reversal Premia** exploit time variation in beta across asset classes, but on different horizons. **Reversal Premia** has the shortest horizon, whereas the **X-Asset Momentum SuperStrategy** works more medium term.

The allocation across SuperStrategies depends on the conviction level of the investment team. SuperStrategies that are more attractive from a fundamental, diversification and valuation perspective, will have a higher risk budget allocation.

Relying more on directional (alpha) strategies will enable to generate **higher expected returns** than what is available in the current market environment and what is implied by our risk balanced strategies. However, it also involves higher directional (beta) risks. That is why **we use a broader universe of risk premia** when building our risk balanced (beta neutral in the tail) strategies. This will allow us to control better downside risk and to add more diversification.

A well-diversified portfolio

Within each SuperStrategy we use at least 3 – but generally around 7 – underlying risk premia/strategies. Therefore, the decorrelation effects are two-fold: the fund will benefit 1) from the decorrelation across SuperStrategies as well as 2) from the decorrelation across the different risk premia inside a single SuperStrategy.

The final portfolio shows a very high degree of diversification across SuperStrategies. Based on historical backtest, each one of them has shown over the years an independent behaviour to one another as the table below shows.

Strategies	Equity	Fixed Income	Currency	Strat. Risk Bal.	Reversal Premia	X-Asset Mom.
Equity	1.00					
Fixed Income	0.15	1.00				
Currency	0.09	0.18	1.00			
Strat. Risk Bal.	0.21	0.37	0.16	1.00		
Reversal Premia	0.05	0.14	−0.16	0.13	1.00	
Cross Asset	0.17	0.10	0.12	−0.06	0.03	1.00

Source: Nordea Investment Management AB. The data are based on monthly returns of the backtest between 31.12.2003 and 31.12.2017. **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. For illustrative purposes only.**

As a consequence of this broad diversification effect, returns of individual SuperStrategies have low to zero beta over time. Nevertheless, this diversification comes at a price. The breadth and different nature of the many risk premia strategies used, implies that the overall level of transparency and granularity of the portfolio will be relatively lower than in other more traditional total return portfolios.

Why now Liquid Alternative Strategies?[5]

- **Higher rates environments** have historically been challenging for traditional asset classes and multi asset portfolios as they have historically come with **higher correlations** between equities and bonds (less diversification) and **lower realized returns in excess of cash**
- Long/Short **Liquid Alternative strategies** have historically been able to deliver **higher returns (in excess of cash)** compared to traditional asset classes and multi asset portfolios, particularly **when rates levels are higher**

Why invest in Nordea's Alpha 15 MA Fund?

The Nordea 1 – Alpha 15 MA Fund offers investors a very attractive investment proposition:

- A global multi-asset and multi-strategy **liquid alternative** solution that targets equity-like returns with limited sensitivity to traditional asset classes
- Generate **attractive and risk controlled** returns by implementing an innovative investment approach based on more than 10 years of experience:
  - A **return of cash +7 – 10% p.a. (gross of fees)** over a full investment cycle[6]
  - With a **volatility between 10 – 15%**[7]
- Benefit from a large set of risk premia that offer **low sensitivity to traditional asset classes** by combining:
  - **Risk balancing principles,** that aims to deliver positive convexity (beta neutrality during stressed market environments and positive capture ratios on the upside)
  - **Directional strategies** aiming to deliver absolute returns (alpha) over time

We at Nordea believe that using such a broader set of risk premia **offers an innovative and optimal investment portfolio to fulfill clients' expectations.**

5) **Past performance is not a reliable indicator of future results.** 6) **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.** 7) **During adverse market environment, the volatility can reach on average 15%.**

Nordea 1 – Alpha 15 MA Fund	
Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0607983896 (BP-EUR) LU0607983383 (BI-EUR)[8]
Annual management fees	2.00% p.a. (BP-EUR) 1.20% p.a. (BI-EUR)[8]
Base currency	EUR
Reference index	EURIBOR 1M
Launch date	15.06.2011 (BI-EUR)[8] 11.08.2011 (BP-EUR)

Change in fee structure

19.03.2016 – Removed performance fees
In order to offer a more attractive product for investors and a more transparent fee structure, effective 19.03.2016, Nordea removed all performance fees (20% of the outperformance vs Euribor 1 month, with a high water mark).

To find out more, visit our local microsite:
nordea.lu/AlphaSolutions.ExperienceMatters
nordea.ch/AlphaSolutions.ExperienceMatters
nordea.co.uk/AlphaSolutions.ExperienceMatters

*Other share classes may be available in your jurisdiction. 8) BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

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Risk indicator

1	2	3	4	**5**	6	7

Lower risk — Higher risk

Risks

The summary risk indicator is a guide to the level of risk of this product compared to other products.

For more information on risks the fund is exposed to, please refer to the section "Risk Descriptions" of the prospectus.

Other risks materially relevant to the PRIIP not included in the summary risk indicator:

Credit risk: A bond or money market security, whether from a public or private issuer, could lose value if the issuer's financial health deteriorates.

Depositary receipt risk: Depositary receipts (certificates that represent securities held on deposit by financial institutions) carry illiquid securities and counterparty risks.

Derivatives risk: Small movements in the value of an underlying asset can create large changes in the value of a derivative, making derivatives highly volatile in general, and exposing the fund to potential losses significantly greater than the cost of the derivative.

Emerging and frontier markets risk: Emerging and frontier markets are less established, and more volatile, than developed markets. They involve higher risks, particularly market, credit, legal and currency risks, and are more likely to experience risks that, in developed markets, are associated with unusual market conditions, such as liquidity and counterparty risks.

Hedging risk: Any attempts to reduce or eliminate certain risks may not work as intended, and to the extent that they do work, they will generally eliminate potentials for gain along with risks of loss.

Prepayment and extension risk: Any unexpected behaviour in interest rates could hurt the performance of callable debt securities (securities whose issuers have the right to pay off the security's principal before the maturity date).

Securities handling risk: Some countries may restrict securities ownership by outsiders or may have less regulated custody practices.

Taxation risk: A country could change its tax laws or treaties in ways that affect the fund or shareholders.

For UK investors, please refer to the SRRI and risks as per the Key Investor Information Document (KIID) and Prospectus, which are available on nordea.co.uk.

Investment policy

The fund mainly invests, directly or through derivatives, in various asset classes such as equities, bonds issued by companies, financial institutions or public authorities, money market instruments and currencies from anywhere in the world. Specifically, the fund may invest in equities and equity-related securities, debt securities and debt-related securities, money market instruments, and UCITS/UCIs, including exchange-traded funds. The fund may invest in credit default swaps. Due to its extensive use of derivatives, the fund may hold above 20% of its total assets in cash and cash equivalents. The fund may be exposed (through investments or cash) to other currencies than the base currency. The fund is actively managed.

SFDR classification

The fund has been classified as an article 6 fund under SFDR. The fund does not promote environmental or social characteristics and does not have sustainable investment as its objective.

For more information on sustainability-related aspects of the fund, please visit:
nordea.lu/SustainabilityRelatedDisclosures
nordea.ch/SustainabilityRelatedDisclosures
nordea.co.uk/SustainabilityRelatedDisclosures