Nordea ASSET MANAGEMENT

# Fund Update – Special Edition

April 2020

## Our Liquid alternatives are true diversifiers: look at their resilience in March

### Nordea 1 – Alpha 10 MA Fund – Nordea 1 – Alpha 15 MA Fund

ISIN: LU0445386955, BI-EUR / LU0445386369, BP-EUR – ISIN: LU0607983383, BI-EUR / LU0607983896, BP-EUR

- **Strong absolute and relative performance** during financial markets' most volatile month ever[1]
- Attractive **asymmetric behavior**
- **Top solution** in the liquid alternatives space
- Exclusive research **capabilities and experience**
- Robust **liquidity** and **risk management**

## How did our Alpha strategies stay the course in the coronavirus storm?

The global Coronavirus outbreak triggered headwinds investors struggled to navigate as it dragged risk assets to high seas performances, with **US equities' fastest drawdown ever, paired with all-time highs volatility and US Treasury yields' unchartered low levels,** as investors rushed to safe harbours.

The Nordea 1 – Alpha 15 MA and Nordea 1 – Alpha 10 MA Funds managed to protect and diversify over this highly volatile quarter, returning +2.93% and +1.87% respectively (BI-EUR), while global equity markets (MSCI World 100% Hedged to EUR) plummeted –20.38%[1, 3].

Focusing on March performance only, the Nordea 1 – Alpha 15 MA and Nordea 1 – Alpha 10 MA Funds offered **strong returns and diversification,** returning +4.95% and +3.32% respectively (BI-EUR), while global equity markets (MSCI World 100% Hedged to EUR) tumbled –12.86%[1, 2].

### Alpha 10 MA Strategy Contributions (as of 31.03.2020)

| SuperStrategy Name | March | YTD |
|---|---|---|
| Fixed Income | 1.14% | 1.91% |
| Equity | –0.44% | –1.79% |
| Trading Strategies | –1.26% | –1.80% |
| Currencies | –1.86% | –2.30% |
| Cross Asset and Momentum | 4.27% | 4.38% |
| Strategic Risk Balancing | 0.79% | 1.97% |
| Cash and Implementation | 0.09% | –0.18% |
| **Total Return** | **2.72%** | **2.19%** |

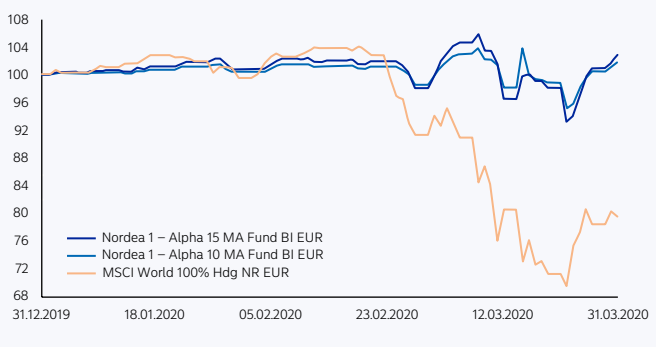
Source: Nordea Investment Management AB. Period under consideration: 01.01.2020 – 31.03.2020. Data shown is preliminary and for the Nordea Alpha 10 MA Strategy (gross of fees). **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of your investment can go up and down, and you could lose some or all of your invested money.**

**Main contributors and detractors over the March sell-off:**

**Positive:** Overall, **the underlying directional strategies from our Cross Asset and Momentum SuperStrategy thrived with very strong returns, as they benefited from clear trends on equities, yields and volatility.** This was magnified by our Risk Momentum strategy, which is only implemented to reduce equity beta via short equity futures positions. **Moreover, most of our defensive risk premia in other SuperStrategies also posted flat to positive returns and have offset the negative impact of our more aggressive ones.** This was mainly driven by the positive return of Anti Beta Factors and Defensive currencies strategies.

**Negative: The portfolio's sensitivity to equities** (beta) was the main detractor, **followed by our Currencies' Carry strategy. Our Trading SuperStrategy's underlying mean reversion premia were also impacted in this one way sell-off.** Our Equity SuperStrategy's **Low Risk Anomaly was moderately affected too** and struggled during this sentiment selloff, with no place to hide, and no discrimination between resilient and more cyclical companies (all segments' beta moved to 1). This is normal in such a tumble, but it started to rebound at the end of March. That said, once earnings revisions start to reflect the Coronavirus's impact, more stable fundamentals and attractive valuations should unlock a lot of value.

### Alpha funds during coronavirus and crude oil sell-off




Source: © 2020 Morningstar, Inc. All Rights Reserved as at: 01.04.2020. Period under consideration. 01.01.2020 – 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 shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.**

1, 2, 3) **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.** 2) Source: © 2020 Morningstar, Inc. All Rights Reserved as of 16.04.2020. Period under consideration: 29.02.2020 – 31.03.2020. 3) Source: © 2020 Morningstar, Inc. All Rights Reserved as of 16.04.2020. Period under consideration: 31.12.2019 – 31.03.2020.

It is also key to highlight that this **notable performance resilience** mostly stemmed from our **proprietary alternative, directional and defensive premia, despite moderate duration.** This fuelled **strong diversification and positive returns** compared to the broader equity market **(outperformance above +16% for Nordea 1 – Alpha 10 MA Fund and close to +18% for Nordea 1 – Alpha 15 MA Fund against the MSCI World 100% Hedged to EUR ).**[4]

## Why consider the Alpha funds now to navigate these volatile markets?

Given growing uncertainties, paired with all-time high volatility and unchartered low yields, traditional diversification is no longer able to protect. Moreover, it is key to **emphasize the importance** of having **additional tools as our proprietary alternative, directional and defensive premia** in the portfolio to achieve true diversification. This is what the Alpha funds delivered so far, leading to attractive performance behaviour.

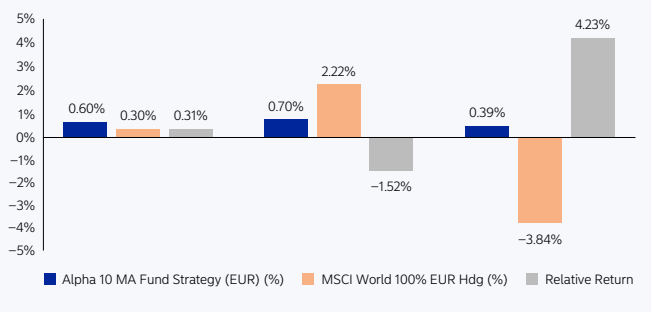
### Diversification and low correlation to traditional assets:

The Alpha solutions tend to have moderate correlation to main asset classes, such as equities or government bonds (i.e. duration). This tends to offer long-term diversification potential, which usually thrives during market shocks. The historic "stress test-like environment" investors went through in March proved that sound liquid alternative solutions were able to truly diversify while duration was not.

### Up and down market analysis: an attractive asymmetry

Historically, the Alpha solutions' returns were fairly aligned with returns from global equities. This stems from their asymmetric capture ratio, which usually captures less than 50% of equities' outcome in up market months, but tends to deliver flat to positive return in down market months, as in March.

| | Count of Months | Alpha 10 MA Strategy (EUR) (%) | MSCI World 100% EUR Hdg (%) | Relative Return | Beta |
|---|---|---|---|---|---|
| All months | 63 | 0.60% | 0.30% | 0.31% | 0.12 |
| Up Market Months (MSCI World 100% Euro Hdg) | 43 | 0.70% | 2.22% | –1.52% | |
| Down Market Months (MSCI World 100% Euro Hdg) | 20 | 0.39% | –3.84% | 4.23% | |



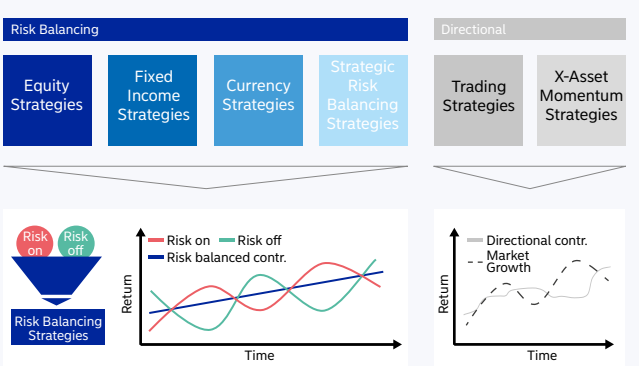

Source: Nordea Investment Management AB. Period under consideration: 01.01.2015 – 31.03.2020. Performance represents a composite, gross of management fees. Figures are based on calculations using monthly performance intervals since inception. The mean monthly performance returns represents a geometric calculation. **The performance represented is historical; past performance is not a reliable indicator of future results. 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.

### Robust risk management and high liquidity

Risk and liquidity management being the bedrocks of our investment approach proved to be key during this historically high markets' sell-off as it preserved portfolio's flexibility and prevented our investors from liquidity trap, thanks to aligned liquidity within the portfolio and the funds. This was reflected in March by the funds' strong resilience and positive returns.

## Why was the Alpha vessel ready for tidal waves?

To ensure the Alpha vessel was in good repair before setting to sea, **the Multi Assets Team leveraged on 15 years of extensive research capabilities to bundle traditional and alternative premia in six SuperStrategies split into a Risk Balanced bucket and a Directional one.** The former is allocated four SuperStrategies: Equity, Fixed income, Currency and Strategic Risk Balancing. The latter includes two SuperStrategies Trading and X-Asset Momentum.




### Risk Balancing SuperStrategies

Risk Balancing is the compass of these four SuperStrategies, mixing risk-on and risk-off premia, which tend to be negatively correlated to deliver long-term positive and stable return.

| Risk Balanced SuperStrategies | Examples of underlying Risk Premia |
|---|---|
| Fixed Income | Value and momentum premia from Credit and Duration |
| Equity | Value, Low Risk, Growth, Momentum risk premia |
| Currencies | Carry and Quality premia within FX |
| Strategic Risk Balancing | Equity beta, Anti Beta Factors, Defensive FX and Duration |

### Directional SuperStrategies

The two Directional SuperStrategies tend to be negatively correlated by nature, on top of being market neutral in the long run, thanks to trend reversals and volatility regime shifts.

| Directional SuperStrategies | Examples of underlying Risk Premia |
|---|---|
| Trading Strategies | Mean reversion premia on Equities |
| Cross Asset and Momentum | Trend following premia on Equities, Duration and Volatility |

4) **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 shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.**

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration: 01.01.2020 – 31.03.2020. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) in the currency of the respective share class, gross income and dividends reinvested, excluding initial and exit charges as per 16.04.2020. Initial and exit charges could affect the value of the performance. **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 shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.** If the currency of the respective share class differs from the currency of the country where the investor resides the represented performance might vary due to currency fluctuations. 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