Fund Update – Special Edition

January 2022

There was more to 2021 than meets the eye

Nordea 1 – Alpha 7 MA Fund

ISIN: LU1807426629 (BI-EUR) / LU1807426207 (BP-EUR)

Nordea 1 – Alpha 10 MA Fund

ISIN: LU0445386955 (BI-EUR) / LU0445386369 (BP-EUR)

Nordea 1 – Alpha 15 MA Fund

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

- All portfolios had yet another extraordinary year, managing to outperform their respective risk/return objectives, while limiting downside correlation to traditional assets[1]
- The SuperStrategies where we had the highest conviction were the biggest positive contributors to performance
- The Alpha MA solutions remain an outstanding tool to diversify traditional portfolios as investors face growing uncertainties in the years to come

As another year has come to an end, it is time to take a step back and look at how market events developed over the period and how our Alpha MA solutions managed to navigate them.

Covid-19 who?

Covid-19 variants, supply chain challenges, higher inflation rates, a more hawkish stance from key central banks and higher yields had their fair share of airtime during 2021, fueling several bouts of volatility. Nevertheless, none of these variables delivered a strong headwind for equity markets. By the year end, developed market equities had gone up more than 20%, strongly outperforming their emerging peers (which were dragged by Latam and especially Asia) and other risk assets within the credit space.

Historic Performance

Fund	Share class	2021		3 year		5 years		10 years	
		Return	Volatility	Return (p.a.)	Volatility	Return (p.a.)	Volatility	Return (p.a.)	Volatility
Nordea 1 - Alpha 7 MA Fund	BP-EUR	6.07%	4.68%	4.64%	5.34%	-	-	-	-
	BI-EUR	6.94%	4.68%	5.50%	5.34%	-	-	-	-
Nordea 1 - Alpha 10 MA Fund	BP-EUR	9.88%	6.78%	7.81%	8.67%	5.00%	7.95%	4.97%	7.97%
	BI-EUR	10.77%	6.75%	8.72%	8.69%	5.86%	7.95%	5.52%	7.93%
Nordea 1 - Alpha 15 MA Fund	BP-EUR	15.53%	9.96%	12.53%	11.44%	8.57%	10.88%	6.98%	10.99%
	BI-EUR	16.58%	9.96%	13.56%	11.44%	9.57%	10.88%	8.07%	10.91%
Euribor 1 month*	EUR	-0.56%	-	-0.49%	-	-0.44%	-	-0.20%	-

Source: Nordea Investment Funds S.A. Period under consideration: 31.12.2011 – 31.12.2021. 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 31.12.2021. 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. Volatility figures are based on daily data. *With effect from 14.12.2020, the official reference index of the funds is EURIBOR 1M. Prior to this date, the funds did not have an official reference index. The performance of the reference index before this date is provided for convenience purposes.

In this environment, the Alpha MA solutions clearly outperformed their respective risk/return objectives, while also offering strong protection during many of the volatility stints experienced by traditional asset classes during the year. The aim of this piece is, therefore, to try explain the main drivers of the strong performance, as well as to share the portfolio management team's positioning and outlook going into 2022.

Stay diversified but true to your convictions

Long term investors in our Alpha MA solutions will remember that while 2020's performances were very strong across the palette and the strategies' ability to protect clients´ portfolios was extraordinary during the Q1 2020 Covid-19 sell-off, the overall contribution of one of our high conviction SuperStrategies – Equity – was negative for the whole year.

Despite this, the portfolio management team maintained its high conviction on the SuperStrategy going into 2021, and conversely, reduced its conviction to the Fixed Income SuperStrategy, that was contributing positively in 2020. Readers will be pleased to know that these convictions played out just the right way during the last 12 months, as our Equity SuperStrategy delivered the highest contribution on record and accounted for around two-thirds of the overall portfolio return. On the contrary, the Fixed Income SuperStrategy delivered its first year of negative – even if only slightly – contribution, in a very volatile year for yields and spreads.

The very strong contribution from our Equity SuperStrategy was driven by the strong comeback of our long/short Low Risk Equity strategies, which give us exposure to a diversified set of equity risk factors (i.e. low risk with value, quality and growth). This came as no surprise to the team, given the historical amount of fundamental value Stable/Low Risk Equities had accumulated relative to the market in 2020, and the change in investors' behavior, which broadened in 2021 from solely focusing on growth into a more diversified number of styles.

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Meanwhile, the Strategic Risk Balancing and the Cross Asset and Momentum SuperStrategies, also had a very strong 2021. An important point to note is that the Strategic Risk Balancing SuperStrategy was able to capture a sizeable amount of the equity beta rally, while also delivering protection during corrections (like the one seen in November) via its anti-beta alternative strategies. Equally important is that these protections came at little to no cost. Moreover, Currencies and Reversal Premia SuperStrategies delivered flat to moderately negative contributions, in line with their overall conviction and risk budget levels.

Historic Performance Contribution by SuperStrategy

	2021	2020	2019	2018	2017	2016	2015
Currencies Premia	-0.02%	-2.86%	1.22%	1.42%	1.81%	1.73%	1.55%
Equity Premia	12.02%	-1.35%	3.08%	2.56%	3.07%	-1.38%	0.81%
Fixed Income Premia	-0.42%	3.65%	1.08%	2.14%	2.49%	2.63%	3.48%
Strategic Risk Balancing Premia	5.17%	12.26%	11.08%	-1.56%	8.03%	7.02%	0.17%
Cross Asset and Momentum Premia	2.85%	5.39%	-2.75%	-1.85%	1.58%	4.61%	1.24%
Reversal Premia	-1.27%	-2.27%	0.47%	-3.09%	-1.15%	1.68%	7.28%
Cash and Implementation	-0.91%	-0.12%	-2.02%	-1.38%	-1.33%	0.42%	-0.17%
Grand Total	17.41%	14.70%	12.17%	-1.77%	14.49%	16.71%	14.37%

Source: Nordea Investment Management AB. Period under consideration: 01.01.2015 – 31.12.2021. Performance contributions based on the Nordea Alpha 15 MA Strategy (gross of fees and in 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.**

Lastly, and going into 2022, our convictions for our SuperStrategies – and the resulting risk budget allocations – remain unchanged. Our expectations for future risk-adjusted returns continue to be higher for Equities and Strategic Risk Balancing Premia, medium on Cross Asset and Momentum Premia, and low for Fixed Income, Currencies and Reversal Premia.

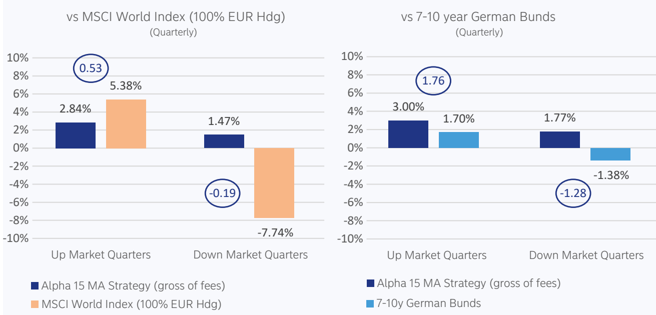
It's all about positive convexity

2021 was one of the best years on record for our Alpha MA solutions but it is also true that the performance was achieved in an overall bull market environment for equities. However, investors should note that the Alpha MA Strategies' long-term historical correlation to both bonds as well as equities has been consistently positive, even if it has dynamically ranged between 0 and 0.4, approximately.

Does this mean that the Alpha MA solutions are not a good alternative to diversify investors' portfolios already packed with equity and fixed income allocations? Not in our view. After a more-than-decade long bull market for equities and bonds, portfolios showing negative correlation to both would most likely accumulate negative returns. The aim of our Alpha MA solutions is to deliver beta neutrality during tail/volatile market environments, while retaining the ability to capture some positive equity beta during the bulls.[2]

Moreover, correlation is a linear concept and does not capture convexity. So, in a market that has been mostly going up for a decade and has only struggled on a handful of occasions, what investors should be focusing on right now is not the overall correlation during the period (which on average has of course been positive) but the strategies' ability to decorrelate/diversify during the sell-offs. This is exactly what our solutions have achieved since inception, as it can be seen in the below graphs.

Alpha 15 MA Strategy Performance in Up & Down Markets vs Equities & Bonds



Source: Nordea Investment Management AB. Period under consideration: 01.01.2012 – 31.12.2021. The mean returns represents a geometric calculation. Performance based on the Nordea Alpha 15 MA Strategy (gross of fees and in 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.** For illustrative purposes only. Comparison with other financial products or benchmarks is only meant for indicative purposes.

Quo Vadis?

One of the good things about the success of our Alpha MA solutions is that it has given us the opportunity to talk and interact with a wide range of institutional and wholesale investors across the globe. In those dialogues, investors inquire about the impact that higher rates, inflation or even new Covid-19 variants could have on markets and our portfolios. Our answer has so far been that our Alpha MA solutions have a limited sensitivity to fixed income premia (duration is expected to struggle with higher yields and inflation) and a relatively higher exposure to equities (beta and other style premia), as these have historically shown a more positive correlation to higher inflation rates.

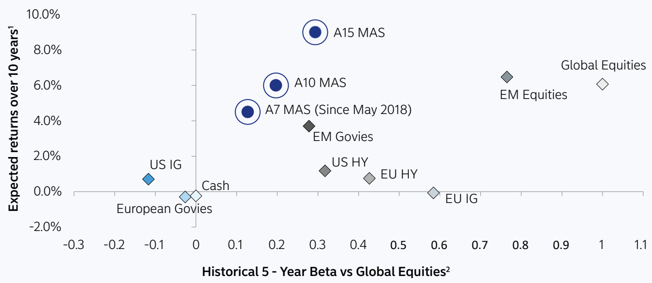
The second concern we often hear relates more to portfolio construction. Most clients tend to share our less positive view on duration and even credit. They also tend to be relatively bullish on equities, even if they recognize valuations are maybe a bit high in absolute terms – although relatively attractive looking at where real yields are. Their concerns are then, how can they diversify their equity exposure and if our Alpha MA solutions could help them achieve that objective?

This is exactly what our Alpha MA portfolios were created for. As the team has been working with this low/negative yield environment for almost a decade now, we have developed a wide range of alternative risk premia solutions to take on the role of traditional duration in multi-asset portfolios. Our solutions aim to offer positive expected returns as well as diversification during equity beta sell-offs.[2] That's why we focus not so much on the net equity exposure of the portfolio but more on their overall equity beta.

2) 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 fact, one of the biggest reasons why we believe the Alpha MA solutions can be an outstanding tool to construct more balanced portfolios in the years to come is because there is not a single traditional asset class out there that can offer such a high and attractive expected return with such a low/limited beta (sensitivity) to equities.

Attractive Expected Returns with a Limited (Historic) Sensitivity to Equities



1) Expected return numbers are only targets. There can be no warranty that an investment objective, targeted returns or results of an investment structure are achieved. The value of your investment can go up and down, and you could lose some or all of your invested money. Source: Nordea Investment Management AB, on the basis of analyses carried out by the Multi Assets Team. Data as of 30.06.2021. 2) Sources: Nordea Investments Funds S.A. and Datastream. Period under consideration: 01.07.2016 – 30.06.2021.

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