

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 ever¹
- **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' uncharted 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%

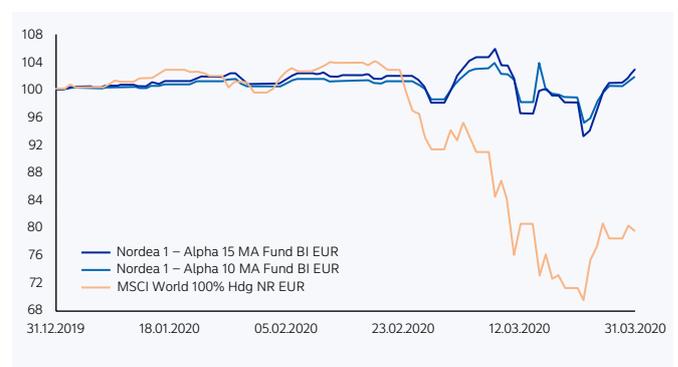
Source: Nordea Investment Management AB. Period under consideration: 01.01.2020 – 31.03.2020. Data shown is preliminary and for the Nordea Alpha 10 MA Strategy (gross of fees). The performance represented is historical; past performance is not a reliable indicator of future results and investors may 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 uncharted 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.

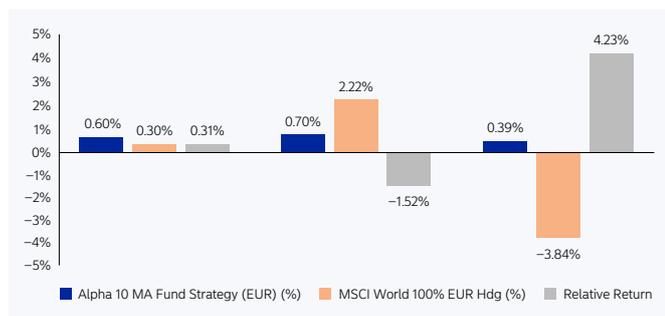
Diversification and low correlation to traditional assets:

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%	



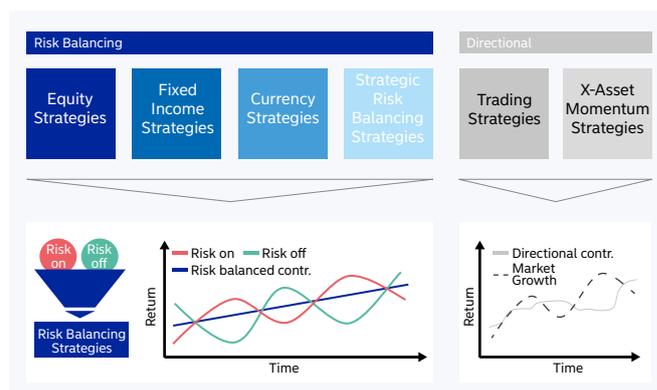
Source: Nordea Investment Management AB. Period under consideration: 01.01.2015 – 31.03.2020. Performance represents a composite, gross of management fees. Figures are based on calculations using monthly performance intervals since inception. The mean monthly performance returns represents a geometric 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

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Nordea 1 – Alpha 10 MA Fund

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Nordea 1 – Alpha 15 MA Fund

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Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 1.01.2020 – 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. The sub-funds mentioned in this document are part of Nordea 1, SICAV, a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009, registered in the Netherlands in the register kept by the AFM, and as such is allowed to offer its shares in the Netherlands. The AFM register can be consulted via www.afm.nl/register. This document is advertising material and does not disclose all relevant information concerning the presented sub-funds. Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without 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. Investments in derivative and foreign exchange transactions may be subject to significant fluctuations which may affect the value of an investment. **Investments in Emerging Markets involve a higher element of risk. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured.** Investments in equity and debt instruments issued by banks could bear the risk of being subject to the bail-in mechanism (meaning that equity and debt instruments could be written down in order to ensure that most unsecured creditors of an institution bear appropriate losses) as foreseen in EU Directive 2014/59/EU. For further details of investment risks associated with these sub-funds, please refer to the relevant Key Investor Information Document (KIID), available as described above. Nordea Investment Funds S.A. has decided to bear the cost for research, i.e. such cost is covered by existing fee arrangements (Management- / Administration-Fee). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same but is included for the purpose of illustration.