For professional investors only*

Nordea ASSET MANAGEMENT

CORPORATE CREDIT – QUARTERLY NEWSLETTER

Second quarter 2018

Market Review and Outlook
Volatility is back

Main highlights

- **EU:** While European credit markets started well in January, spreads widened over the quarter due to fear of rising inflation and a potential trade war. The risk of a Euro sceptic government in Italy also increased the risk premia in the European credit market but the fact that the EU sceptic Five Star movement did not win majority led to a sigh of relief in the market.
- **US:** US credit was not immune from the surge in volatility in equity markets. We would describe this rather as a "rates-off" than "risk-off" market in US credit as higher risk issues actually generated positive returns in the face of rising rates, while lower risk issues posted negative returns.
- **EM:** EM corporate credit spreads widened from the tightest levels since the end of the global financial crisis. An increase in market volatility and concerns about the effects of protectionist trade policy from the US dampened investor risk appetite.

Europe
Investment Grade by Nordea

The 1st quarter of 2018 started relatively strongly with spread tightening through January in sync with rising equity markets. Limited activity in the new issue market further exacerbated the trend. The risk of a Euro sceptic government in Italy increased the risk premia in the European Credit market. The final outcome of the election remains to be seen, but the fact that the EU sceptic Five Star movement did not win majority led to a sigh of relief in the market. However, the calmness in the market did not last for long as March brought a cocktail of high supply on the primary market, outflows from investment funds and the risk of a trade war between the US and China, threatening to seriously dent the global growth momentum.

The covered bond market returned –0.03% in Q1 2018, as measured by the iBoxx EUR Covered Bond Index. In January, we saw a sharp selloff in rates (EUR 5Y swap yield increased by 14bps); while the spread of the iBoxx EUR covered index tightened 1bp. The spread movement was mostly driven by a 3–4bps tightening of Spanish covered bonds which were lagging the performance of the newly upgraded sovereign. With a rather neutral development of rates and spreads in February, March saw the EUR 5Y swap yield decrease by 10bps with the 2–10 yield curve flattening, and the spread of the index widening by 1bp. The financial markets in general continue to be driven by the equity markets and the volatility there has also impacted the broader credit markets negatively with wider spreads. As this is usually the case in this environment, the covered bond asset class outperformed the riskier credit segments.

High Yield by Capital Four Asset Management A/S

The European high yield spreads widened by 37bps during the 1st quarter despite a strong January month. Although it was the first negative returning quarter since Q3 2015, the European high yield market was fairly robust and exhibited less drawdown than most other asset classes.

During the quarter we saw significant volatility in European government yields to a large extent caused by uncertainty about inflation and the path of the FED. The significant increase in volatility and negative returns within equity markets had also some spill-over effects to the high yield markets although high yield held up reasonably well. Towards the latter part of the quarter concerns regarding a potential 'trade war' took the focus of markets adding to volatility.

Despite the nervousness in the market we saw decent supply in the primary market although most of the activity has been related to refinancings with modest new net issuance.

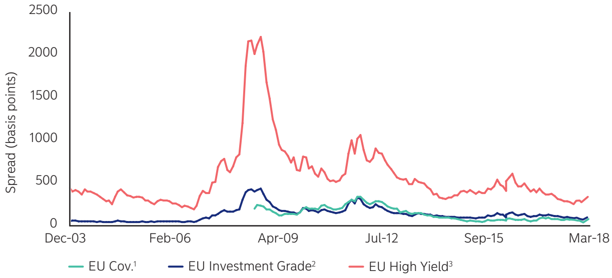
In Q1, the returns of the different benchmark rating categories were: BB –0.6%, B 0.3% and the CCC-rated bonds returned –0.02%. The best performing sectors were Consumer

*investing for their own account – according to MiFID definition

Goods, Leisure and Banking while the worst performing sectors were Telecom, Transportation and Retail.

We expect low default rates (1% to 2%) in 2018 as fundamentals within European high yield continue to look healthy with high interest rate cover ratios and leverage remaining at overall healthy levels. We are likely to see continued high level of capital market activities (new issue volumes) and we expect 2018 to be a coupon-clipping year with volatility sources likely to be rates and exogenous shocks.

EU Covered vs. Investment Grade vs. High Yield market



As of 31.03.2018	EU Cov.[1]	EU IG[2]	EU HY[3]
Q1 2018 performance in %	**−0.03**	**−0.35**	**−0.45**
Credit spreads (bps)	61	97	329
Yield to worst in %	0.51	0.90	3.28
Duration in years	4.68	5.32	4.00

1) iBoxx EUR Covered Bond Index. Source: Analytics. Date: 31.03.2018. 2) Merrill Lynch EMU Corporate Bonds Index. Source: Bloomberg (ER00 ticker). Date: 31.03.2018. 3) Merrill Lynch European Currency High Yield Constrained – Total Return Index (100% EUR Hedged). Source: Bloomberg (HPC0 ticker). Date: 31.03.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

US

Investment Grade & High Yield by MacKay Shields LLC

Volatile equity markets, ETF outflows, potential trade wars and tariffs, increased Federal borrowing needs (due to the passed tax bill and proposed infrastructure program) weighed on initially bullish "risk markets". While January witnessed solid credit market returns, the last two months of the quarter were weak for asset prices.

Trump's announcement of 25% tariffs on $60 billion of Chinese imports was not well-received by global equity markets nor the People's Republic which retaliated with a variety of potential trade sanctions against US exports primarily produced in states that supported Trump in the election. Gary Cohn resigned as the president's top economic advisor. Both the US Senate and House of Representatives passed a $1.3 trillion spending bill, and the Federal Reserve under its new chair, Jay Powell, hiked the Fed funds rate to 1.75 %. Accentuated by a late March rally in the long-end, the US Treasury yield curve flattened with rates rising appreciably for all maturities for the entire quarter.

The US economy, however, continued to do well. Domestic employment remains strong (unemployment rate of 4.1% is at a 17 year low) and represents "full employment" in our view. Global economies also continued to chug along although inflation in the US is creeping up.

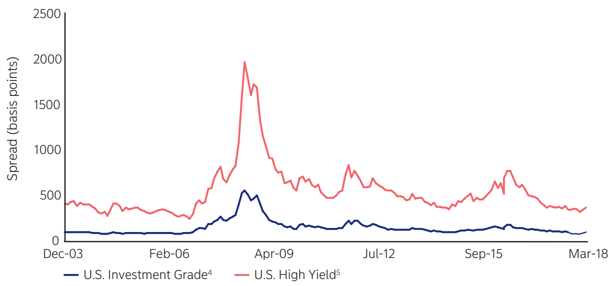
US investment grade corporate spreads widened 16 bps with the bulk of it occurring in March, according to Barclays. Higher rated AA/A rated paper fared slightly worse than BBBs, and the 5–10 year part of the curve, also referred to as the "belly" of the curve, lagged the wings (shorter and longer maturities). Financials, which proved to be the best performing sector in 2017, was hit hardest relative to most industrials.

Investment grade corporate issuance slowed during the quarter, down approximately 12% from the same period a year ago, according to Credit Suisse. Companies were generally reticent to borrow in a volatile market and investors required concessions to be lured into the primary market. Much of the volatility could be attributed to a shift in market sentiment driven by inflationary fears, higher rates and deficit spending, to name a few.

Although CCC and lower names posted significant positive returns, overall US high yield returns were negative during the period. Global capital markets experienced significant volatility during the first quarter of 2018, and high yield bonds (HY) were not immune from that vol. Given that the equity market sell-off has been broadly described as a "risk-off" event, many have assumed that must be the case for US high yield as well. However, our analysis indicates that the recent performance of US high yield is more nuanced – and more aptly described as "rates-off" than "risk-off". The reaction of US high yield markets differed from that of the Treasury and equity markets in a number of subtle yet important ways. Higher risk issues actually generated positive returns in the face of rising rates, while lower risk issues posted negative returns.

While the recent trade war rhetoric by the US administration (primarily targeting China) is likely to create pockets of near-term volatility and uncertainty for the markets, we do not believe these bi-lateral threats will derail the US economic recovery. US export activity to China, for example, was $130 billion in 2017 or less than 1% of US GDP (0.67 % according to estimates sourced by the Wall Street Journal and Bloomberg). By contrast, Chinese goods exported to the US represent over 4% of Chinese GDP at over $500 billion. Although these situations can create ancillary effects, the impact to China's economy is far greater than to the US.

US Investment Grade vs. High Yield market



As of 31.03.2018	U.S. IG[4]	U.S. HY[5]
Q1 2018 performance in %	**–2.13**	**–0.92**
Credit spreads (bps)	103	372
Yield to worst in %	3.68	6.35
Duration in years	7.22	4.22

4) Bloomberg Barclays Capital US Credit Index. Source: © 2018 Barclays Bank PLC. All rights reserved. Member SIPC. Date 31.03.2018. 5) Merrill Lynch US High Yield Master II – Total Return Index. Source: Bloomberg (H0A0 ticker). Date: 31.03.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

Emerging Markets

Emerging Corporates by T. Rowe Price International Ltd.

Emerging markets corporate debt produced negative total returns of –1.12% in the 1st quarter, as measured by the J.P. Morgan CEMBI Broad Diversified Index. Underlying corporate and macro fundamentals remained supportive. Market technicals were largely balanced throughout the quarter, with periods of modest outflows being met with reduced new supply.

Corporate credit spreads widened from the tightest levels since the end of the global financial crisis. An increase in market volatility and concerns about the effects of protectionist trade policy from the US dampened investor risk appetite. On average, high yield issues outperformed investment-grade securities, though both were negative. Nearly all corporate sectors were negative for the quarter, led by losses in technology, media, and telecommunications and metals and mining sectors. Asian and Latin American corporates produced the weakest returns, with all regions declining.

Emerging markets corporate bond gross issuance for the quarter was around $125 billion. Asian issuers accounted for the majority of new quarterly supply. New issues from investment-grade companies continue to outpace those from high yield.

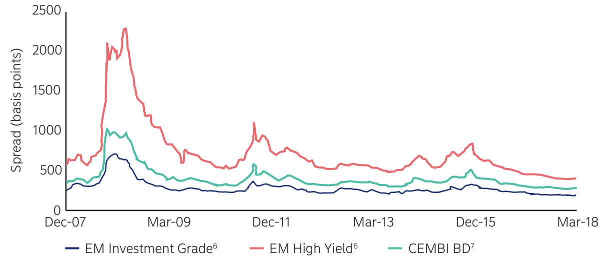
In its World Economic Outlook, the IMF raised global growth forecasts for 2018 and 2019, reflecting a broad-based pickup in growth, increasing market expectations for central banks in developed countries to reduce their accommodative monetary policy. China lifted short-term interest rates slightly to discourage capital outflows. While strong global growth is supportive to EM economies, unexpected rate increases in developed markets could bring volatility.

A Brazilian appeals court unanimously upheld former President Lula da Silva's corruption conviction, reducing expectations that he would be eligible to run in the upcoming presidential election. Credit ratings agencies S&P and Fitch each lowered Brazil's credit rating due to uncertainty around this year's election and the country's ability to reform its bloated pension system. Brazil's central bank cut rates twice to an historic low, as inflation continued to fall.

South African President Jacob Zuma resigned as president ahead of a no-confidence vote in parliament. Cyril Ramaphosa was sworn in as president and quickly appointed new cabinet members in key positions. The central bank cut rates to spur growth after the new government's reform initiatives helped the country avoid a credit rating downgrade to sub-investment grade.

The long-term outlook for emerging markets corporate debt is supported by secular tailwinds that include strong underlying economic growth, rising middle class wealth, improved fiscal budgets, stronger current account balances, political reforms in key markets, and reduced contingent liabilities in the private sector. Also, the emerging market corporate default rate is in its cyclical low as the broad commodity complex is supportive and companies have been able to extend bond maturities and buffer balance sheets.

EM IG, HY and CEMBI



As of 31.03.2018	JPM CEMBI[7]
Q1 2018 performance in %	**–1.12**
Credit spreads (bps)	280
Yield to worst in %	5.05%
Duration in years	5.37

6) Source: J.P. Morgan. Date: 31.03.2018. 7) JPM Corporate Emerging Markets Bond Index Broad Diversified in USD. Date: 31.03.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

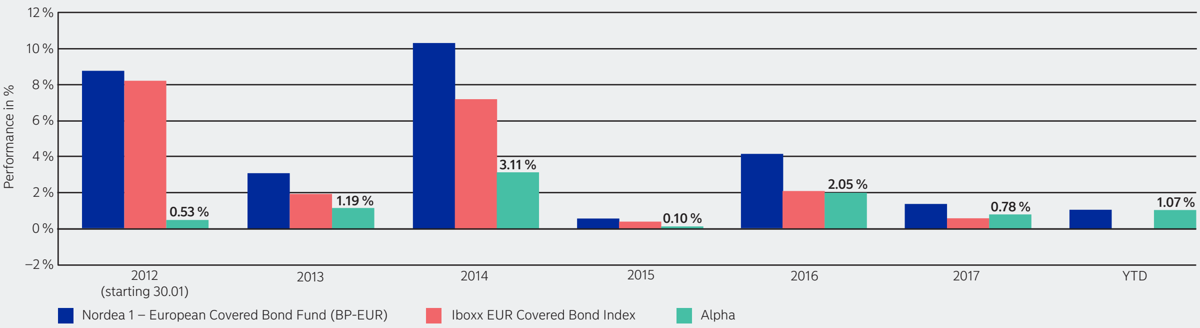
In Focus

Nordea 1 – European Covered Bond Fund
Nordea 1 – Low Duration European Covered Bond Fund

Uncertainty about inflation and the path of the Fed and trade war rhetoric brought volatility back into play in bond markets. While fixed income investors are looking for safe solutions, government bond yields remain extremely low, especially in Europe. An answer to this struggle may be found in the €2.5trn European covered bond market. Covered bonds are high-quality debt instruments issued by mortgage institutions or banks, backed by a pool of assets. With a dual recourse on the collateral pool and the issuer, covered bonds are furthermore exempted from the EU bail-in mechanism.

Nordea Asset Management has considerable expertise in the covered bonds space, managing more than €39bn of assets, with a dedicated investment team focused on alpha generation. Nordea firmly believes skill, experience and active management are required to navigate the intricacies of this inefficient market. Our investment strategy has proven itself well: the Nordea 1 – European Covered Bond Fund has not only offered an impressive performance in Q1 2018, but more importantly has track record of striking alpha generation since its inception.

Performance per calendar year since inception:



Source: Nordea Investment Funds S.A. Period under consideration: 30.01.2012 – 31.03.2018. 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 31.03.2018. 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.** 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. In the prospectus dated 30 January 2012 the Nordea 1 – Euro Bond Fund was renamed to Nordea 1 - European Covered Bond Fund, the investment policy of the sub-fund was modified and the NAV history prior to this date is not used for performance measurement.

For investors who prefer less interest rate risk, Nordea has extended its covered bond offer by launching the Nordea 1 – Low Duration European Covered Bond Fund in October 2017. The fund captures the compelling characteristics of the covered bond asset class, benefitting from the expertise and alpha capabilities of the investment team, while limiting interest rate risk, as the portfolio hedges the duration to approx. 1 year.

Nordea Fixed Income offering

The overview of our corporate credit offering ranked by performance

Nordea 1, SICAV	ISIN	Share class	Average weighted rating	Performance in Q1 2018 (in %)	Modified duration (years)	YTM (in %)
European Covered Bond Fund	LU0076315455	BP-EUR	A+	1.03	5.10[A]	1.18
Flexible Fixed Income Fund	LU0915365364	BP-EUR	A+	0.12	4.04	1.53
Low Duration US High Yield Bond Fund	LU0602537069	BP-USD	BB	−0.33	1.74[B]	4.58
European Corporate Bond Fund Plus	LU0533593298	BI-EUR	A–	−0.65	5.00[C]	1.32
European Cross Credit Fund	LU0733673288	BP-EUR	BB+	−0.78	3.55[D]	2.77
European High Yield Bond Fund	LU0141799501	BP-EUR	BB–	−0.87	3.35[A]	3.98
International High Yield Bond Fund – USD Hedged	LU0826393653	BP-USD	BB–	−0.91	4.80	6.49
Unconstrained Bond Fund – USD Hedged	LU0975281527	BP-USD	BBB	−0.91	1.07[B]	3.88
North American High Yield Bond Fund	LU0826399429	BP-USD	B+	−0.94	4.68	6.80
Renminbi High Yield Bond Fund	LU1221952010	BP-CNH	BB-[E]	−1.09	3.30[F]	7.80[G]
European Financial Debt Fund	LU0772944145	BP-EUR	BBB–	−1.16	3.21[A]	2.31
Global High Yield Bond Fund	LU0476539324	BP-USD	BB–	−1.57	4.72[B]	5.52
Emerging Market Corporate Bond Fund	LU0634509870	BP-USD	BB+	−1.71	5.81	5.53
US High Yield Bond Fund	LU0278531610	BP-USD	BB–	−2.20	4.68[B]	5.84
US Corporate Bond Fund	LU0458979746	BP-USD	BBB+	−2.77	6.94[B]	3.97
Low Duration European Covered Bond Fund	LU1694212348	BP-EUR	A+	–[H]	1.41[A]	0.63

A) Effective Duration. B) Effective Duration. Source: MacKay Shields LLC. C) Modified Duration to Worst. D) Duration to Worst. E) Source: Income Partners F) Effective Duration. Source: Income Partners. G) Yield to Worst. Source: Income Partners. H) Due to local regulatory restrictions, we are not allowed to show performance on share classes less than 1 year old.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.12.2017 – 31.03.2018. 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 31.03.2018. 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.** 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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The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at State Street Bank International GmbH – Succursale Italia, branches (located in the main towns of each region), BNP Paribas Securities Services - Succursale di Milano, Banca Sella Holding S.p.A, Banca Monte dei Paschi di Siena S.p.A., Allfunds Bank S.A. Succursale di Milano, Société Générale Securities Services S.p.A. and on the website www.nordea.it. Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus and the KIID carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. **The prospectus and KIID for the sub-funds have been published with Consob. 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