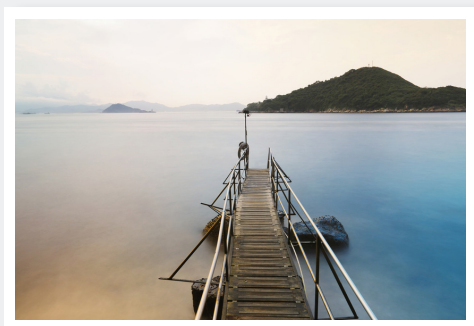


EMERGING MARKET DEBT – QUARTERLY NEWSLETTER

Second quarter 2018



Market Review and Outlook¹

Highlights for EM Debt

- Emerging Market Debt started 2018 in mixed territory negatively impacted by market volatility
- Local markets continued the outperformance vs. hard currency that started in 2017, with positive contribution from EM currencies
- Despite the tepid performance at the end of Q1, our relatively optimistic outlook for EM fixed income remains intact

The Emerging Market Debt (EMD) sector started 2018 in mixed territory as the mid-quarter volatility pushed hard currency spreads wider. Importantly, the sector has maintained its positive economic momentum, and when combined with relatively attractive valuations, these factors support our positive view on the sector going forward.

Emerging Markets Debt Performance

	Total Return (%)	Spread/Yield Change (bps)	OAS (bps)/Yield (%)
	Q1	Q1	31.03.2018
EM Hard Currency	-1.75	19	304bps
EM Local (hedged)	1.6	-14	6.01%
EM FX	2.52	17	3.71%
EM Corporates	-1.12	9	280bps

Source: J.P. Morgan as of March 31, 2018. Past performance is not a guarantee or reliable indicator of results. An investment cannot be made directly in an index.

Emerging market fixed income started the year with a very strong January, with hard currency spreads tightening from 285 bps to 265 bps and the local index returning +4.48% on the back of stable yields and appreciating currencies. This was followed by a soggy February and March as inflation fears, trade war rhetoric, spikes in volatility, and rising US rates drove

investors to the sidelines. For the quarter, the hard currency sovereign index was down -1.75%, with spreads widening 19 bps to 304 bps. Local markets continued the outperformance vs. hard currency that started in 2017, returning a positive 1.60% despite giving back approximately 1/3rd of January's gains.

Local market country returns (unhedged) were generally positive, led by South Africa (+13.29%), Mexico (+10.88%), and Colombia (+8.75%). South Africa markets were bolstered by the selection of reform-minded Ramaphosa to head the African National Congress, while Mexican assets rallied from oversold levels as investors became more comfortable with the outlook for NAFTA negotiations and the upcoming presidential elections. Most hard currency country returns were negative, with Venezuela being a surprising exception as the top performer with a return of +11.60%. Despite worsening economic conditions and falling oil production, investors bought into the belief that President Maduro would eventually be forced from office and that the restructured value of bonds would be greater than the current prices in the \$20s.

New issue supply was a large \$187.2 billion during the quarter, with about \$66 billion in sovereigns and the rest from quasi-sovereigns and corporates. The run rate of this supply is part of the reason for the spread widening during the quarter. The good news is that many countries have completed their planned issuance for the year, including Argentina, Philippines, Mexico, Ivory Coast, Egypt, and Kenya. Additionally, the greatest amount of corporate issuance came from China (~\$47 billion), where the predominant buyers are on-shore Chinese investors. Going forward, a large part of issuance is expected to come from Middle Eastern sovereigns, Chinese corporates, and Eastern European countries in EUR, which should improve the market technicals.

* investing for their own account – according to MiFID definition

1) Views from PGIM Fixed Income Emerging Markets Team. PGIM Limited is the investment sub-manager of the Nordea 1 – Emerging Market Bond Fund and Nordea 1 – Emerging Market Bond Opportunities Fund.

Offsetting this new issuance have been inflows into EM mandates of all varieties. EPFR data showed positive flows into EM retail portfolios in hard currency (+\$2.6 billion), local currency (+\$6.2 billion), and blend funds (+\$2.8 billion) during the quarter.

A few words on EMFX

While our longer-term, positive view on EMFX remains, the Q2 outlook for EM currencies is uncertain due to unanswered questions pertaining to the evolution of US trade policy, particularly towards China. The US Trade Representative (USTR) investigation into China's intellectual property practices will be particularly important to watch. It is expected that the USTR investigation will make affirmative findings and remedy recommendations (tariffs, sanctions etc.) before but no later than August 2018. It is also currently uncertain whether trade friction will escalate via retaliatory actions by affected countries on which the US has imposed and may impose tariffs in the future. The potential for US protectionism to spread – and for retaliatory actions by affected countries – will risk the current favourable and solid global growth backdrop that EM currencies have benefitted from over the last two years. On the positive side, to date, the Trump Administration's trade rhetoric has been more bellicose than its actions. Our base case is for US trade policy to continue to lack material substance, at least for the better part of 2018, as the risks from escalation to economic growth and financial markets are likely too great of a concern for the Trump administration heading into the fall mid-term elections.

Should our US trade policy base case prove too optimistic, EM currencies may experience weakness. However, we believe that any selloff would likely be short lived as the big, longer-term picture for EM currencies is bright. First, investors will likely seek to continue to diversify out of the US dollar as the US (under a volatile Trump administration) becomes more isolated in the global economic and political sphere. Second, the US dollar will likely continue to be plagued by: a) the US' twin deficits (particularly the weak fiscal stance); and b) the US economy being a late cycle economy while many DM and EM economies are beginning or mid cycle. Third, EM currencies are relatively cheap (by real effective exchange rates), the US dollar is overvalued, real rates are very attractive in a number of EM economies, and EM current account positions have improved materially over the past four years and are forecast to remain at manageable levels. Investment capital will likely continue to shun the US in favour of other DM and EM economies.

Outside of trade risks, investors are also concerned about the impact rising US interest rates will have on EM currencies. However, despite the US being one of the worst performing government fixed income markets this year, many EM currencies have appreciated. We think that concerns over rising US interest rates are overblown as long as inflation remains stable and around the Fed's target, as it has been during this cycle. We acknowledge the risk of higher inflation, but it is not our base case that it will accelerate significantly enough to force the Fed to change the pace of their hiking cycle from their current one hike per quarter. Gradual Fed tightening amid a stable global growth and benign inflation backdrop has proven to be a good environment for EM currencies historically, and we think it will remain so going forward.

Going Forward

Despite the tepid performance at the end of the first quarter, our relatively optimistic outlook for EM fixed income remains intact. PGIM Fixed Income's economics group is looking through the recent softness in economic data and remains positive on the outlook for both DM and EM growth for the remainder of 2018. Global investment and trade continue to expand smartly, and loose US fiscal policy should be stimulative for the medium term (although it may cause difficulty toward the end of the cycle). We expect the rhetoric around trade wars will eventually tone down, as all sides realize that a trade war would be disastrous for all involved. EM inflation across most countries is contained, and many countries are relatively early in their growth cycles vs. the US and Europe – Brazil, Argentina, and Russia are expected to grow 2–3% in 2018 after just exiting recessions in 2017, for example. And valuations continue to be supportive; the first quarter selloff in hard currency spreads and currencies has increased what we believed were already attractive levels.

While the EMD sector could face short-term volatility from a number of uncertainties, i.e. mounting trade tensions, we continue to see opportunities across the sector as encouraging fundamentals pair with relatively attractive valuations after the volatility in Q1.

Nordea 1 – Emerging Market Bond Fund

Performance Q1 2018

Nordea 1 - Emerging Market Bond Fund (BP-USD)	-2.19%
Nordea 1 - Emerging Market Bond Fund (BI-USD)	-2.09%
Benchmark ²	-1.74%

Source: Nordea Investment Funds S.A. Period under consideration: 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. 2) JP Morgan EMBI Global Diversified.

Overweights to Venezuela, Ukraine and Iraq, along with underweights to Uruguay and Peru drove performance. Venezuela was a top performer as the continued deterioration of the economic situation, along with discontent in the military has given the markets confidence of a potential regime change. Ukraine outperformed as investors continue to view it as a repricing story ahead of a potential IMF deal. Finally, Iraq continued to outperform as oil rallied. On the contrary, Uruguay lagged as treasury-sensitive names took a hit. Overweights to Argentina and Turkey along with an underweight to Poland offset some of these gains. Argentina underperformed as the market digested \$9 billion of new supply.

Sovereign positioning in Kenya and Ecuador contributed to performance, while positioning in Hungary, Indonesia, Argentina, and Romania detracted from performance. Corporate and Quasi-sovereign positioning in Venezuela (PDVSA), Jamaica (DLLTD), India, and China detracted from performance, while positioning in Argentina, Brazil and Mexico contributed.

The fund's largest overweights are Argentina, Brazil, and Ukraine, and the largest underweights Poland, China, and Chile. The largest positioning changes during the quarter were Kazakhstan (-0.62%), Egypt (-0.52%), and Oman (+0.44%).

Nordea 1 - Emerging Market Bond Fund: Top 10 Country Exposure

	Portfolio (%)	Benchmark ³ (%)	Difference (%)
Argentina	6.31	3.33	2.98
Mexico	5.70	5.14	0.56
Brazil	5.45	3.30	2.14
Turkey	4.85	3.64	1.21
Indonesia	4.58	4.22	0.37
Ukraine	4.38	2.68	1.70
South Africa	3.85	2.76	1.09
Russia	3.85	3.56	0.29
Ecuador	3.32	2.69	0.62
Lebanon	3.14	2.61	0.53

Source: PGIM Ltd. as of March 31, 2018. Note: Figures based on the model portfolio allocation and can deviate from official fund data. 3) JP Morgan EMBI Global Diversified.

Nordea 1 – Emerging Market Bond Opportunities Fund

Performance Q1 2018

Nordea 1 - Emerging Market Bond Opportunities Fund (BP-USD)	1.04%
Nordea 1 - Emerging Market Bond Opportunities Fund (BI-USD)	1.17%
Benchmark ⁴	1.30%

Source: Nordea Investment Funds S.A. Period under consideration: 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. 4) 50% JP Morgan EMBI Global Diversified and 50% JP Morgan GBI-EM Global Diversified.

In hard currency, overweights to Argentina, Turkey, Ecuador, Brazil and Indonesia drove negative performance. Geopolitical and economic uncertainty took a toll on Turkish assets. Underweights to Philippines, Chile, Peru, Uruguay and Panama offset some of these losses. In local rates, overweights to Brazil and Indonesia contributed to performance. An underweight to Russia detracted from performance.

Sovereign positioning in Ecuador and Kenya added to performance, while positioning in Indonesia and Hungary, Indonesia, Argentina, and Colombia detracted. Corporate and quasi-sovereign positioning in Brazil, Mexico (PEMEX), Argentina (BUENOS), and Malaysia (OGIMK) added to performance, while positioning in China and Jamaica (DLLTD) detracted.

Local rates positioning in Brazil, Mexico, South Africa and Poland added to performance, while positioning in Turkey, Indonesia, Thailand and Hungary detracted from performance.

Emerging market currencies were stronger during the year posting a total return of +2.52% measured by the JP Morgan ELM+ Index. EMFX was resilient in the face of heightened global market volatility, as the market has viewed trade tensions to be centered around rhetoric rather than action. Strong global growth fundamentals and consistent flows into EM equity and local currency bond funds continue to provide a positive backdrop for EMFX. Exposure to the Mexican peso, Russian ruble and Colombian peso contributed to performance. Mexican assets rallied from oversold levels as investors became more comfortable with the outlook for NAFTA negotiations and the upcoming presidential elections. Exposure to the South African rand, Brazilian real and Indian rupee detracted from performance.

The fund's largest hard currency over/underweights and changes throughout the quarter were similar to the ones seen in the Nordea 1 – Emerging Market Bond Fund (as described on page 3). In local rates positioning changes, the fund reduced Indonesia (–0.07 years), and South Africa (–0.04 years) while adding to Chile (+0.05 years). In FX, the fund increased exposure to the South African rand, Mexican peso, and Colombian peso while reducing exposure to the Turkish lira. The fund also increased its dollar funding.

Nordea 1 - Emerging Market Bond Opportunities Fund: Top 10 Country Exposure

	Portfolio (%)	Benchmark ⁵ (%)	Difference (%)
Brazil	9.43	6.65	2.78
Mexico	8.58	7.57	1.01
Indonesia	7.30	6.74	0.56
South Africa	6.57	5.82	0.75
Turkey	5.78	5.10	0.67
Malaysia	5.36	4.19	1.17
Colombia	3.93	5.01	–1.09
Argentina	3.83	2.07	1.77
Poland	3.65	5.73	–2.08
Ukraine	2.86	1.34	1.51

Source: PGM Ltd. as of March 31, 2018. Note: Figures based on the model portfolio allocation and can deviate from official fund data. 5) 50% JP Morgan EMBI Global Diversified and 50% JP Morgan GBI-EM Global Diversified.

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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