Advertising material for professional investors only*

Quarterly Newsletter
Emerging Market Debt

Nordea
ASSET MANAGEMENT

Second quarter 2020

Market Review and Outlook[1]

Highlights for EM Debt

- Negative performance in the first quarter of 2020 is a reflection of the dramatic global liquidity shock resulting from the growth, oil price and confidence shock from the global spread of coronavirus
- Market volatility, led by uncertainty and the freezing of liquidity in the face of unrelenting demand for dollars as the global economy shut-down, caused an indiscriminate sell-off across EMD assets

Market Review

While the Q1 performance of emerging market debt reflected the dramatic global liquidity and confidence shocks related to the spread of COVID-19 and the decline in oil prices, the speed and intensity of selloff exacerbated the underperformance. Although the policy measures implemented by fiscal authorities, the Fed, and other developed market central banks in late Q1 provided necessary liquidity and support to EM, we believe more meaningful measures from the IMF and G-20 are needed to ensure that the liquidity shortfalls impacting EM do not cascade to broader solvency issues. Additionally, access to additional direct Fed swap lines to markets, such as China, Indonesia, India, and South Africa, could also lead to additional stabilization within EM and should help address the severe dislocations and growth shocks within EM countries.

The intensity of the EM selloff was characterized by the severe dislocations from retail outflows, particularly out of passive EM ETFs. Quoted bid/offer spreads widened to 4 times normal levels in the hard currency and local bond markets. In reality, actual executed trades were occurring outside of these uncharacteristically wide spreads. Many B-rated issuers dropped to prices in the $40 – $50 range, well below fundamental value, notwithstanding the more challenging macroeconomic scenario. Some of this reflected crowded overweight positioning or oil-sensitivity. Liquidity in EM has been worse than in 2008, not only due to AUM and issuance growth, but also because there is an imbalance between the "buy-side" and "sell-side." To date, capital outflows from non-resident portfolios have been large, which has increased the need for support measures from the multilaterals and G-20 to limit the negative impact to EM moving forward.

Emerging Markets Debt Performance

	Total Return (%)	Spread (bps)/ Yield Change (%)	OAS (bps)/ Yield (%)
	Q1	Q1	31.03.20
EM Hard Currency	–13.39	335 bps	626 bps
EM Local (hedged)	–1.43	0.14%	5.36%
EMFX	–8.48	0.10%	3.46%
EM Corporates	–10.17	288 bps	599 bps

Source: J.P. Morgan as of March 31, 2020. **Past performance is not a guarantee or reliable indicator of results. An investment cannot be made directly in an index.**

Outlook

The growth shock to EM is likely to be significant. Our 2020 EM growth forecast began the year at 4.6%, but it's now possible that EM could be in a recession all year. EM growth forecasts are highly susceptible to downside revisions as many countries, such as Turkey, South Africa, Brazil, and India to name a few, are just beginning economic shutdowns. The approaches and willingness by EM countries to shut down their economies will differ, and those that react quickly, such as South Korea, Singapore, and other Asian economies, will likely bounce back quicker. The growth shock to Latin America and to commodity sensitive countries in Sub-Saharan Africa is likely to be larger. While a significant rise in defaults/restructurings is not our base case, we acknowledge that comprehensive support measures need to be considered.

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

EM Hard Currency Sovereigns and Corporates: We believe that distinguishing between technical dislocations and medium-term fundamental changes, along with careful security selection, is the best way to uncover value within hard currency sovereigns. In our view, select BBB- and BB-rated sovereigns, specifically those that have seen their spreads more than double, are attractive. Longer-dated bonds within the same ratings buckets also offer value. While we're maintaining a focus on the higher-rated segments of the hard currency market, we will likely look to the new issue market to gain exposure to these issuers given the challenges of trading in the current market context. We expect relatively insulated sovereigns to remain active in the primary market in the near term.

The combination of global recession, depressed commodity prices, and the selloff within EMFX has created significant headwinds for EM corporates fundamentals. We expect the high yield corporate default rate to increase to 6 – 8% for 2020 vs. our forecast of 2% at the start of the year (for context, the default rate in 2009 was 9.6%). However, we believe valuations are attractive and spreads of around 600 bps adequately compensate investors for the risks. In terms of positioning, we prefer higher-quality high yield names and are underweight sub-scale oil & gas and commodity producers.

Local Rates: Within hedged local rates, overall EM duration offers value amid DM central banks' unconventional policies and the historically high interest rate differential between EM and DM. We see attractive opportunities in the five- to 10-year part of local curves. The short end of local EM curves rallied in response to emergency cuts by central banks, while the long end has suffered amid widening fiscal deficits and portfolio outflows. We are constructive on local bonds, particularly countries with high real yields, such as Mexico and Russia. We also like the three- to five-year part of the swap curve in South Africa, Brazil, Israel, and China where the differences between the policy rate and the belly of the swap curve is extreme and offers attractive carry and rolldown opportunities.

However, as the capital outflows in EM accelerate and currencies depreciate further, we could see countries replicate Hungary's recent de-facto rate hike. Turkey is a potential candidate that might implement capital controls as the market has started questioning its net reserves position. These countries were the biggest beneficiaries of global liquidity for past two years and ran policies inconsistent with their macro fundamentals. We are looking to underweight both Turkey and Hungary in the three- to five-year segment of the curve.

Given current rate levels, we're biased to reduce local exposure on further tightening. We are also at the end of an emergency rate cutting cycle in EM and may be entering an unpredictable phase of "quantitative easing" and potential capital controls by EM central banks.

FX: Despite the pronounced weakness in currencies, we do not see the necessary conditions for a sustained turnaround within EMFX, and we're maintaining a long USD bias. In our view, the Fed has substantially reduced the risk of a destructive, disorderly, and swift USD appreciation with the re-introduction of unlimited swap lines to major central banks and the quick expansion of limited swap lines to additional DM and select EM central banks. We'd note that these stabilizing measures are not likely to prompt a trend change. The worst of the selloff within EMFX is likely over, but we wouldn't expect EMFX to bounce back before late Q2 amid some signs of growth stabilization.

In summary, our outlook is long-term constructive. With spreads and yields at significantly wider levels and expectations for developed market rates to remain low for an extended period, we expect EM assets to maintain their longer-term value. We prefer hard currency sovereigns and select corporates, followed by select local rates. EMFX may take longer to rebound, with more episodes of volatility, than prior crises. We'd expect any recovery to precede a bounce in economic data, with higher-quality issuers recovering first, followed by lower-rated issuers.

How are we strategically positioned?

In assessing the damage, and uncovering value in EM hard currency sovereigns and quasi-sovereigns, we need to distinguish between technical dislocations and fundamental, medium-term changes. We are opting to high conviction, "up in quality" trades, adding long duration Investment Grade EM issuers with market access and substantial room for spread compression and selling "mid quality" and select "frontier" names where prices do not reflect anticipated re-rating and re-pricing.

Overall EM duration offers value due to DM central banks' unconventional policies and historically high interest rate differential between EM and DM. EM rates have outperformed as EM Central Bank's have been aggressive in cutting rates. Going forward, the rates market will further differentiate. We prefer markets where real rates are high and where Central Bank's have been "reluctant" rate cutters as there is more scope for cuts.

Given the very weak outlook for EM growth over the next few quarters, it will be difficult for EMFX to recover in general. We are long dollar vs EMFX given this low and challenging growth outlook for EM countries, and lower carry compared to past crisis periods. This dollar long position helps diversify long spread and rates positions. We are also long select EM currencies where rates are higher and growth prospects are relatively more promising.

Coordinated international support for EM needs to happen

During past global and systemic crises, emerging markets have benefitted from internationally coordinated support. The global scope of the current shock is also beyond what EM can insure against or offset by pro-active policy. While many countries have increased their foreign currency reserves, the uncertain length and severity of the forthcoming growth shock limits their immediate use, lest they be exhausted at a time of even greater need. Moreover, the traditional first line of defense – flexible exchange rates – also has limits. Clearly the first order of business must be preventing liquidity stress from morphing into solvency problems, which would be more likely the longer liquidity stress drags on and global growth weakens. In line with the 2008 playbook, advanced-country central banks have begun to roll out swap lines with EM, though with limited counterparties and size. On the other hand, the IMF has been slow to act thus far, relying mostly on mobilization of its so-called "rapid lending instruments," which disburse limited funds without lengthy conditionality negotiations. Moreover, its lending capacity has not yet been scaled up, and relying on its existing "Arrangements to Borrow" from members would be a lengthy process with uncertain success and requires the use of traditional conditionality programs for disbursement. A better approach would be to introduce another special SDR allocation – some $1 trillion, which would channel $500 billion to EMs for quick liquidity. A complement or substitute measure could be the extension of advanced-country swap lines with more EM central banks, especially in the fast growing and large Asian economies, which are essential for supporting global demand and growth. The ECB already has experience with swaps with the People's Bank of China, and if other countries were to follow this lead with larger lines, it could significantly boost the confidence in EM. In contrast, approaches that seek to apply instruments from low-income debt restructuring would appear less promising and insufficient.

Nordea 1 – Emerging Market Bond Fund

Performance Q1 2020	
Nordea 1 – Emerging Market Bond Fund (BP-USD)	–19.50%
Nordea 1 – Emerging Market Bond Fund (BI-USD)	–19.41%
Benchmark[2]	–13.37%

Source: Nordea Investment Funds S.A. Period under consideration: 31.12.2019 – 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.** 2) JP Morgan EMBI Global Diversified.

Long spread duration in Argentina, Angola, Sri Lanka, and Mexico drove negative performance. Short spread duration in Chile, Philippines, Lebanon, and Panama offset some of these losses. Positioning in energy sensitive oil-exporting countries detracted after the OPEC+ alliance broke down, causing Brent crude prices to plunge. The negative performance this quarter came primarily from an overweight in lower quality assets and was exacerbated by the lack of liquidity in the market, as ETF outflows pushed prices lower. Sovereign positioning in Lebanon, Ecuador, Mexico, and Angola drove negative performance, while positioning in Argentina, Oman, Romania, and Ivory Coast offset some of these losses. Corporate and quasi-sovereign positioning in South Africa (ESKOM, SASOL), Mexico (PEMEX), Brazil (PETBRA) and Peru (NEXA) detracted.

The fund's largest hard currency overweights are Ukraine, Brazil, and Argentina and the largest underweights are Philippines, Poland, and Chile. The biggest changes over the quarter were adding to Hungary, Romania, and Ukraine and reducing Russia, Turkey, and Argentina.

Nordea 1 – Emerging Market Bond Fund: Top 10 Positions

	Portfolio (%)	Benchmark[3](%)	Difference (%)
Mexico	5.39	4.46	0.93
Indonesia	4.96	4.62	0.33
Brazil	4.80	3.22	1.58
Ukraine	4.23	2.43	1.80
Turkey	3.89	3.48	0.41
Russia	3.85	3.72	0.12
South Africa	3.19	2.33	0.86
China	3.08	4.66	–1.58
Saudi Arabia	2.79	3.86	–1.07
Egypt	2.74	2.35	0.40

Source: PGIM Ltd. as of March 31, 2020. 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 2020	
Nordea 1 – Emerging Market Bond Opportunities Fund (BP-USD)	–20.01%
Nordea 1 – Emerging Market Bond Opportunities Fund (BI-USD)	–19.94%
Benchmark[4]	–14.11%

Source: Nordea Investment Funds S.A. Period under consideration: 31.12.2019 – 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.** 4) 50% JP Morgan EMBI Global Diversified and 50% JP Morgan GBI-EM Global Diversified.

Long spread duration in Argentina, Ukraine, Mexico and Sub-Saharan Africa drove negative performance. Oil-sensitive names, such as Angola, Mexico, Ghana and Nigeria underperformed in March as the OPEC+ alliance broke down, causing Brent crude to plunge. Short spread duration in Chile, Philippines, Uruguay, and UAE offset some of these losses. Short spread duration positioning contributed, even in higher-quality

names, due to the indiscriminate blowout in spreads. Sovereign positioning in longer-maturities of Ivory Coast, Oman and Egypt contributed to performance, while positioning in the front-end of higher-risk countries detracted. Quasi-sovereign positioning in Mexico (PEMEX), Brazil (PETBRA) and South Africa (ESKOM) detracted from performance. Short duration in Turkey and Poland along with long duration in Indonesia and South Africa detracted from performance. South Africa and Indonesia sold off as higher-Beta EM rates sold off significantly due to investor outflows and weakened currencies. Short duration in Russia along with long positioning in China offset some of these losses. Long positioning in the Indonesian rupiah, Russian ruble and Mexican peso drove negative performance. Underweight positioning in the Brazilian real, Colombian peso, South African rand and Chilean peso offset some of these losses. The impacts of the coronavirus weighed on riskier currencies. In this environment, DM currencies such as the US dollar outperformed EMFX. Commodity currencies also lagged.

The fund's largest hard currency overweights and biggest changes over the month are the same ones described above for the Nordea 1 – Emerging Market Bond Fund. In local rates, the fund added Thailand and Poland and reduced Romania. In FX, the fund added to USD and IDR and reduced SGD.

Nordea 1 – Emerging Market Bond Opportunities Fund: Top 10 Currency Positions

	Portfolio (%)	Benchmark[5] (%)	Difference (%)
Indonesia	8.81	7.31	1.50
Mexico	8.47	7.23	1.24
Brazil	7.78	6.61	1.17
South Africa	5.42	4.83	0.59
Poland	4.46	5.68	–1.22
Thailand	4.26	4.89	–0.62
Malaysia	4.11	4.61	–0.50
Turkey	3.82	3.45	0.37
Colombia	3.26	4.29	–1.03
Peru	3.02	3.37	–0.35

Source: PGIM Ltd. as of March 31, 2020. 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): 31.12.2019 – 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 31.03.2020. 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 are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d'Investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009. **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. **Please note that all sub funds and share classes might not be available in your country of jurisdiction. Additional information for investors in Switzerland:** The Swiss Representative and Paying Agent is BNP Paribas Securities Services, Paris, Succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland. **Additional information for investors in Germany:** The Information Agent in Germany is Société Générale S.A. Frankfurt Branch, Neue Mainzer Straße 46-50, DE-60311 Frankfurt am Main, Germany. A hard copy of the above-mentioned fund documentation is also available here. **Additional information for investors in Austria:** The Information and Paying Agent in Austria is Erste Bank der österreichischen Sparkassen AG, Am Belvedere 1, AT-1100 Vienna, Austria. **Additional information for investors in the Netherlands:** Nordea 1, SICAV is a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS) 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. **Additional information for investors in France:** With the authorisation of the AMF the shares of the sub-funds of Nordea 1, SICAV may be distributed in France. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, FR-75206 Paris cedex 13, France. **Investors are advised to conduct thorough research before making any investment decision. Additional information for investors in Belgium:** The Financial Service Agent in Belgium is BNP Paribas Securities Services S.C.A., Brussels Branch, Rue de Loxum, 25, BE-1000-Brussels, Belgium. A hard copy of the above-mentioned fund documentation is available upon demand free of charge. **Additional information for investors in Spain:** Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. The Depositary of the SICAV's assets is, J.P. Morgan Bank Luxembourg S.A. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription. The Representative Agent is Allfunds Bank S.A.U., C/ de los Padres Dominicos, 7, ES-28050 Madrid, Spain. A complete list of the authorised distributors is available in the CNMV's webpage (www.cnmv.es). **Additional information for investors in Portugal:** The Management Company of the SICAV, Nordea Investment Funds S.A., and the Depositary of the SICAV's assets, J.P. Morgan Bank Luxembourg S.A., are validly formed and existing in accordance with the laws of Luxembourg and authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Our distributor in Portugal is BEST – Banco Electrónico de Serviço Total, S.A., duly incorporated under the laws of Portugal and registered with the CMVM as a financial intermediary. **Additional information for investors in Italy:** Fund documentation as listed above is also available in Italy from the distributors and on the website www.nordea.it. The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves or from the Paying Agents: State Street Bank International GmbH – Succursale Italia, BNP Paribas Securities Services – Succursale di Milano, Allfunds Bank S.A.U. Succursale di Milano, Société Générale Securities Services S.p.A., Banca Sella Holding S.p.A, Banca Monte dei Paschi di Siena S.p.A., CACEIS Bank S.A – Succursale Italia 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.** For the risk profile of the mentioned sub-funds, please refer to the fund prospectus. **Additional information for investors in the United Kingdom:** The Facilities Agent is Financial Express Limited 2nd Floor, Golden House 30 Great Pulteney Street W1F 9NN, London, United Kingdom. **Additional information for investors in Ireland:** The Facilities Agent is Maples Fund Services (Ireland) Limited, 32 Molesworth Street, D02 Y512 Dublin 2, Ireland. **Additional information for investors in Sweden:** The Paying Agent is Nordea Bank Abp, Swedish Branch, Smålandsgatan 17, SE-105 71 Stockholm, Sweden. **Additional information for investors in Denmark:** The Representative and Sub-Paying Agent is Nordea Bank Abp, Danish Branch, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark. A hard copy of the above-mentioned fund documentation is available here. **Additional information for investors in Norway:** The Paying Agent is Nordea Bank Abp, Norwegian Branch, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo, Norway. The Representative Agent is Nordea Funds Ltd, Norwegian Branch, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo, Norway. **Additional information for investors in Finland:** The Paying Agent is Nordea Bank Abp, Satamaradankatu 5, FI-00020, Helsinki, Finland. The Representative Agent is Nordea Funds Ltd, Satamaradankatu 5, FI-00020, Helsinki, Finland. **Additional information for investors in Latvia:** The Representative Agent is Luminor Bank AS, 62 Skanstes iela 12, LV-1013 Riga, Latvia. **Additional information for investors in Estonia:** The Representative Agent in Estonia is Luminor Bank AS, Liivalaia 45, EE-10145 Tallinn, Estonia. **Additional information for investors in Lithuania:** The Representative Agent in Lithuania is Luminor Bank AB, Konstitucijos pr. 21 A, LT-03601 Vilnius, Lithuania. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. **Information for investors in Brazil:** This is a strictly privileged and confidential document for the purposes of a potential investment in foreign securities on a one-on-one basis with potential investors with a pre-existing relationship with Nordea Investment Funds S.A. This document contains information addressed only to a specific individual and is not intended for distribution to, or use by, any other person. This document (i) is provided for informational purposes only, (ii) should not be construed in any manner as any solicitation or offer to buy or sell any securities or any related financial instruments, (iii) should not be construed in any manner as a public offer of any securities or any related financial instruments, and (iv) and will be addressed to a potential investor with restrict access of information. Nordea 1, SICAV have not been, and will not be, registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários – CVM), and must not be offered or sold in Brazil except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. Any public offering, placement or distribution, as defined under Brazilian laws and regulations, of securities in Brazil, is not legal without prior registration under Law No. 6,385 of December 7, 1976, as amended. Documents relating to the offering of the Nordea 1, SICAV, as well as information contained therein, must not be supplied to the general public in Brazil (as the offering of the Nordea 1, SICAV is not a public offering of securities in Brazil) or used in connection with any offer for subscription or sale of the Nordea 1, SICAV to the general public in Brazil. Investors within Brazil should consult with their own counsel as to the applicability of these laws and regulations or any exemption there from. 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.