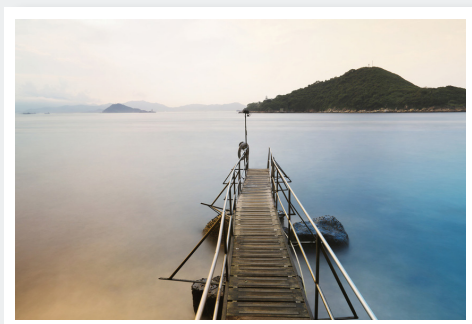


EMERGING MARKET DEBT – QUARTERLY NEWSLETTER

Third quarter 2017



Q3 2017 Market Review and Outlook¹

Highlights for EM Debt

- With all segments posting healthy returns, the emerging market debt sector continued its solid performance over Q3 2017
- In the hard currency space, the higher-yielding issuers reported the highest returns; whereas local bonds that posted the strongest returns were in markets where the central banks are cutting rates
- Emerging market flows have been consistently positive after the initial outflows following last year’s US elections, amid concerns over developed market central banks tapering

The emerging market debt sector continued its solid performance in Q3, with all segments posting healthy returns. In the hard currency sovereign space, the higher-yielding issuers reported the highest returns, particularly El Salvador (+9.7%), Belize (+7.9%), and Suriname (+7.1%). Additionally, a number of countries returned more than 5%, including Argentina, Egypt, Ethiopia, Ghana, Iraq and Mozambique. The common themes noted throughout the quarter included a rebound in commodity prices, a reach for yield, and improved idiosyncratic factors (e.g. political outlook).

The big underperformer in Q3 was Venezuela, which returned -10.6% amid the sanctions imposed by the US and the heightened economic and political crisis. Of note, the sanctions do not prevent investors from trading outstanding bonds of the sovereign debt or PDVSA in the secondary market. Despite Venezuela’s general underperformance, its bonds that are scheduled to mature or amortize this year have significantly outperformed.

Emerging Markets Debt Performance

	Total Return (%)		Spread/Yield Change (bps)		OAS (bps)/Yield (%)
	Q3	YTD	Q3	YTD	30.09.17
EM Hard Currency	2.63	8.99	-23	-55	287
EM Local (hedged)	1.23	4.60	-16	-81	5.99
EM FX	2.00	9.35	-29	-60	3.96
EM Corporates	2.11	7.23	-14	-37	277

Source: J.P. Morgan as of September 30, 2017. Past performance is not a guarantee or reliable indicator of results. An investment cannot be made directly in an index.

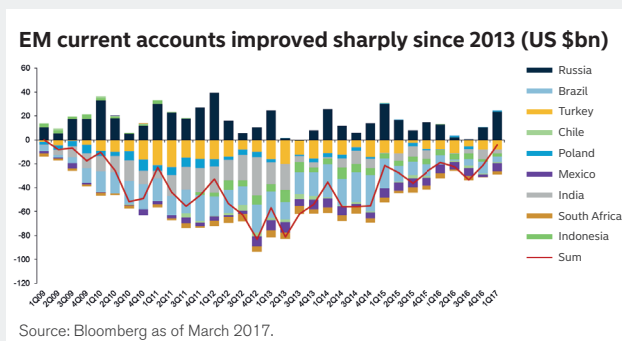
In spread terms, the hard currency index is at +287 bps, more than +50 bps wide from the tightness reached within the past five years. Spreads have shown an ability to tighten past current levels, and they have been particularly resilient amid the most recent repricing of US Treasuries. Despite lagging sovereigns, EM corporates have generally performed steadily – with select outliers – and still present some attractive opportunities.

On a year-to-date basis, the top performing EMD assets were EMFX with a return of more than 9% and unhedged local bonds with return of more than 10%. This performance reflects the sector’s attractive valuations and the improved growth prospects for EM, which have been supported by a healthy balance of payment flows. In fact, there has been a notable improvement in current account balances since the commodity fallout in 2013, as observed in the following chart. In EMFX, this has contributed to outperformance in commodity-sensitive currencies,

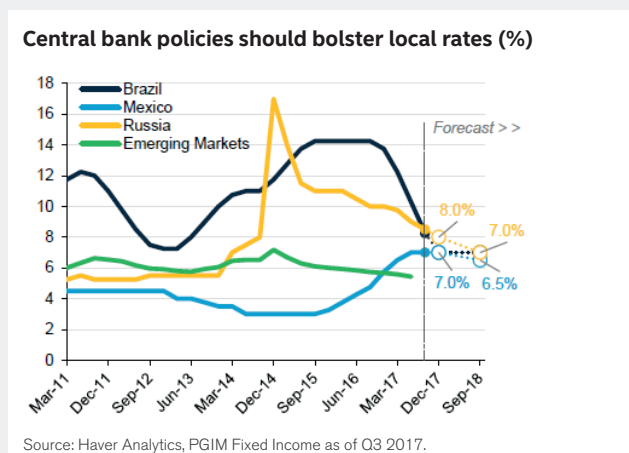
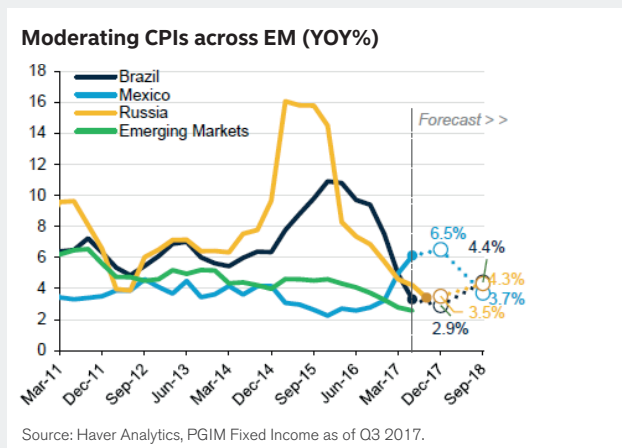
* investing for their own account – according to MiFID definition

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.

such as those in Brazil (BRL), Chile (CLP), Colombia (COP), and Russia (RUB). Elsewhere, the Mexican peso continues to rebound from oversold levels.



Another Q3 theme was the strong returns in euro-related Central and Eastern European currencies as the euro outperformed the US dollar on uncertainty regarding US policy. Local bonds that posted the strongest returns were in markets where the central banks are cutting rates – Brazil, Peru, Indonesia, and Hungary. Conditions in a number of local bond markets could support performance going forward, including those where policymakers are likely to cut rates over the next year or sooner, such as Mexico, or where tight monetary policy presents very high nominal yield, such as in Turkey. The case for local bond allocations is supported by both the positive outlook for EMFX and by the dramatic decline in EM inflation, as indicated in the following chart. The case for EMFX going into the end of the year is supported by synchronized global growth, low inflation, and high EM real yields.



Nordea 1 – Emerging Market Bond Fund

During the 3rd quarter of 2017, the Nordea 1 – Emerging Market Bond Fund returned +3.33% (BP-USD), which outperformed the benchmark return of +2.63% (JP Morgan EMBI Global Diversified)².

Overweights to Argentina, Ukraine, El Salvador and Iraq along with an underweight to Poland drove performance. An overweight to Venezuela offset some of these relative gains. Argentina was up on the back of primary election results that provided the current government much anticipated local victories with the hope that it can continue with its reform agenda. El Salvador outperformed as lawmakers approved pension system reform and improved sentiment. Additionally, Ukraine outperformed as investors readied themselves for a potential rating upgrade and buy back of shorter-dated bonds. Venezuela was the big underperformer of the quarter amid sanctions imposed by the U.S. and the heightened economic and political crisis. Sovereign security selection in Russia, Hungary, Argentina, and Indonesia contributed to performance, while positioning in El Salvador detracted from performance. Corporate and Quasi-sovereign security selection in Venezuela (Front-end, shorter dated PDVSA bonds significantly outperformed those that were longer dated), Brazil (PETBRA), and Mexico (PEMEX) contributed to performance, while positioning in Argentina detracted from performance.

As of end of September 2017, the fund's largest hard overweights are Argentina, Brazil, and Ukraine, and the largest underweights are Poland, Philippines, and China. The largest positioning changes during the quarter were South Africa (+0.71%), Russia (+0.69%), Serbia (-0.47%), and Croatia (-0.41%).

2) Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2017 - 29.09.2017 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 29.09.2017. 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.

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

	Portfolio (%)	Benchmark ³ (%)	Difference (%)
Mexico	6.33	5.24	1.09
Argentina	6.06	3.38	2.68
Brazil	5.45	3.42	2.03
Turkey	4.81	3.86	0.95
Russian Federation	4.53	3.72	0.81
Indonesia	4.51	4.34	0.18
Ukraine	4.49	2.61	1.88
South Africa	3.36	2.71	0.65
Lebanon	3.08	2.66	0.43
Kazakhstan	2.77	2.75	0.02

Source: PGIM Ltd. as of September 30, 2017. Note: Figures based on the strategy allocation and can deviate from official fund data. 3) JP Morgan EMBI Global Diversified

Nordea 1 – Emerging Market Bond Opportunities Fund

During the 3rd quarter of 2017, the Nordea 1 - Emerging Market Bond Opportunities Fund returned +3.65% (BP-USD), which outperformed the benchmark return of +3.10% (50% JP Morgan EMBI Global Diversified and 50% JP Morgan GBI-EM Global Diversified)².

In hard currency, overweights to Argentina, Ukraine, El Salvador, Iraq and Brazil drove performance. An overweight to Venezuela offset some of these gains. Hedged local rates returned +1.23% in Q3 2017. An overweight to Brazil along with underweights to Czech Republic, Colombia, Chile and Poland contributed to performance. An overweight to Mexico along with an underweight to Russia detracted from performance. Sovereign positioning in Venezuela, Russia and Indonesia added to performance, while positioning in El Salvador detracted. Corporate and quasi-sovereign positioning in Argentina detracted from performance, while positioning in Venezuela (PDVSA), Brazil (JBS) and Mexico (PEMEX) contributed. Local rates positioning in Brazil, Hungary and Indonesia added to performance, while positioning in Mexico and Turkey detracted from performance. Emerging market currencies were stronger during

the quarter, posting a total return of +2.00% measured by the JP Morgan ELM+ Index. Exposure to the Polish zloty along with exposure to the Thai baht and Colombian peso detracted from performance. Exposure to the Russian ruble, Czech koruna and Mexican peso contributed to performance.

As of end of September 2017, the fund's largest hard currency over/underweights and changes throughout the quarter were similar to the ones seen in the hard currency portfolio (see above). In local rates positioning changes, the fund initiated underweights in Russia (-0.28 years), reduced its overweight to Argentina (-0.13 years), and reduced its underweight to the Philippines (+0.11 years). In FX, the fund reduced underweights to the Thai baht and South African rand, and reduced its overweight to the Argentine peso and Hungarian forint, while adding to the Russian ruble and Brazilian real. It also reduced its euro funding in favor of the US dollar.

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

	Portfolio (%)	Benchmark ⁴ (%)	Difference (%)
Brazil	9.65	6.71	2.94
Mexico	8.99	6.62	1.37
Indonesia	8.34	6.94	1.40
Turkey	6.68	5.71	0.96
South Africa	6.35	5.42	0.94
Argentina	4.36	2.23	2.13
Malaysia	4.10	4.23	-0.13
Colombia	3.74	5.14	-1.40
Poland	3.59	5.72	-2.13
Ukraine	3.18	1.30	1.88

Source: PGIM Ltd. as of September 30, 2017. Note: Figures based on the strategy allocation and can deviate from official fund data. 4) 50% JP Morgan EMBI Global Diversified and 50% JP Morgan GBI-EM Global Diversified

Outlook

As mentioned earlier, the case for local bond allocations is supported by both the positive outlook for EMFX and by the dramatic decline in EM inflation. The case for EMFX is supported by synchronized

2) Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2017 - 29.09.2017 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 29.09.2017. 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.

global growth, low inflation, and high EM real yields. We will monitor attempts by central banks to limit currency appreciation and the effect that balance sheet normalization in the developed markets – and any consequent market repricing – have on overall sentiment and risk appetite.

Not to be overlooked, the positive backdrop for EM assets is also supported by a constructive growth outlook for China over the near term and prospects that President Xi's influence will consolidate after the Party Congress in mid-October. Attempts to address financial instability and continued efforts to deal with imbalances remain a risk, but also appear manageable from our vantage point.

Within EM hard currency assets, there is still room for spreads to tighten in sovereigns, quasi-sovereigns, and corporates. For example, value remains in select quasi-sovereigns that trade at attractive spreads relative to the sovereign, such as Pemex, Petrobras, and Eskom. These issuers trade at levels that range from +130 bps to +170 bps relative to similar-maturity sovereign bonds. Likewise, a number of EM countries continue to reprice in anticipation of rating upgrades, including Argentina, Ukraine, and Russia. EM corporates also present opportunities for asset managers capable of conducting thorough credit analysis.

Emerging market flows have been consistently positive after the initial outflows following last year's US elections. EM fixed income retail flows have reached

about \$56 billion, with more than half going into hard currency investments. Institutional inflows are estimated to be over \$100 billion. These inflows have come amid concerns over developed market central banks tapering their QE programs in addition to geopolitical uncertainty in North Korea and other global hotspots. Potential idiosyncratic selloffs in EM assets related to the political calendar in Q4 (China's Party Congress as well as developments in South Africa and Argentina) and next year (Mexico, Brazil, and Russia) are likely to present opportunities to take advantage of mispriced assets. The market's appetite for new issues – totaling over \$300 billion reflects the increased appetite to add to EM allocations. Even a default and restructuring in the Venezuela/ PDVSA complex is unlikely to spread contagion within the broader EM sector as the idiosyncratic nature of the issues have been well telegraphed and priced into the relevant assets.

The relatively healthy fundamental backdrop in EM – supported by rebounding growth, inflows, and attractive valuations – will likely help assets end the year with strong returns. Selloffs are likely to be buying opportunities in lower-rated, hard currency assets, EMFX, and local bonds.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.06.2017 – 30.09.2017. 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 30.09.2017. 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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