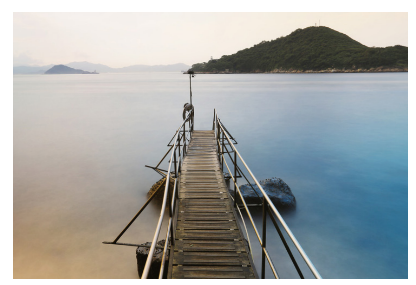
For professional investors only*

Quarterly Newsletter
Emerging Market Debt



First quarter 2020

Market Review and Outlook[1]

Highlights for EM Debt

- While 2020 might not bring a similar degree of performance as 2019, there are indeed reasons to consider why the bond market – as well as the global economy – may remain on a positive, albeit slightly lower, trajectory this year
- Emerging markets are broadly expected to continue growing at a moderate pace while idiosyncratic developments will impact different countries in different ways

Emerging Market Debt Outlook

We expect the global economy to provide a favorable backdrop for markets in the year ahead. Growth is poised to plod along at a modestly below trend pace. This should be sufficient to support risk-taking and sentiment while still not stoking the imbalances and vulnerabilities that plague the end of a cycle. Given that the global expansion is now in its eleventh year – the longest of the post-war period – this lukewarm outcome seems ideally suited to maximize the likelihood that the expansion continues.

The positive outlook for emerging market debt in 2020 is largely dependent on the continued easing of trade tensions between the U.S. and China and the potential for a rebound in global growth. It's a feasible scenario where China's growth reaches the high end of estimates (i.e. slightly less than 6.0%) and developed market central banks generally remain accommodative. Supply and demand dynamics could also provide the sector with some momentum in 2020. Indeed, gross sovereign issuance is expected to decline from $166 billion to $142 billion, and net issuance is expected decline by more than 50% from $55 billion to $21 billion. Gross EM corporate issuance is estimated to decline from $485 billion to $432 billion, while net issuance is expected to plummet from $96 billion in 2019 to only $4 billion in 2020. On the demand side, retail and strategic flows will likely slow from 2019's pace of about $65 billion, but they should remain positive in 2020 and roughly balanced between hard and local currency assets. China's inclusion into local bond indices should also support flows into local markets, and many investors already reduced local bond allocations after 2019's strong performance.

What does it mean for EM Debt?

Emerging markets are broadly expected to continue growing at a moderate pace as well. As usual, idiosyncratic developments, such as the actions of the new Argentinian government or the apparent rapprochement between Russia and Ukraine, will impact different countries in different ways. One crucial development to follow, though, will be whether the spontaneous popular protests that have erupted in many countries (e.g. Ecuador, Lebanon, Iraq, and Chile) with very different economic situations will continue in 2020 and whether this will bring more expansionary fiscal policies. While a stabilization in growth may support fundamentals, this wave of social protests demonstrated that pressures remain. Such episodes are difficult to predict, and they pose short-term risks of disrupting economic activity, further straining fiscal balances, and repricing credit spreads. In most cases, the protests will not lead to credit events, and each country's response to the protests will determine the long-term effects. As this process unfolds, investors will likely have an opportunity to differentiate between the affected countries.

Emerging Markets Debt Performance

	Total Return (%)		Spread (bps)/ Yield Change (%)		OAS (bps)/ Yield (%)
	Q4	2019	Q4	YTD	31.12.19
EM Hard Currency	1.81	15.04	−47 bps	−125 bps	291 bps
EM Local (hedged)	0.92	9.14	0.01%	−1.24%	5.22%
EMFX	3.73	5.20	−2.34%	−1.94%	3.36%
EM Corporates	2.21	13.09	−36 bps	−60 bps	311 bps

Source: J.P. Morgan as of December 31, 2019. **Past performance is not a guarantee or reliable indicator of results. An investment cannot be made directly in an index.**

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.

EM Hard Currency Sovereigns: Hard currency spreads remain attractive from a historical and relative-value perspective. When new entrants and Venezuela are excluded from the benchmark index, spreads trade roughly in line with the five-year average. Furthermore, the difference between emerging market high yield and U.S. high yield credit spreads is at the wider end of the 10-year range. EM corporate bonds generally trade wide of sovereigns and could benefit from increased inflows as investors seek to diversify hard currency allocations. Moreover, supportive market conditions have allowed companies to extend maturities, and our base case is that the prices for many commodities have found a floor. Both factors should contribute to a relatively benign EM corporate default forecast of 2.5% in 2020. While recent corporate defaults in China have generated headlines, they reflect the government's emphasis on market efficiency and are not indicative of generally rising defaults.

Local Rates: In general, an attractive differential between emerging market and developed market yields remains, and positions in Mexico, Russia, and China – three markets where central banks are explicitly easing policy and real rates remain attractive – comprise our key duration overweights. We will look for yield-curve opportunities in Brazil and in South Africa where rate hikes are priced in. Our underweights are in countries that could face fiscal pressures, such as Colombia and Chile, or with challenging fundamentals and unorthodox policies, such as Turkey. In terms of curve positioning, we're focusing on steep yield curves with 5- to 7-year maturities while avoiding the diminished risk premia at the back end.

FX: EM currencies may find some momentum in 2020 if the Phase 1 trade deal between the U.S. and China doesn't unravel and global growth firms. Conversely, if 2020 brings headwinds, relative-value opportunities in EMFX will likely remain, reflecting better growth stories and stronger balance of payments flows.

What we are watching...

In terms of positioning, as part of our barbell approach, we continue to favor select shorter-maturity B-rated sovereign issuers – including Ecuador, Ukraine, Egypt, the Ivory Coast and a mix of sub-Saharan issuers – that are implementing reforms and have proven market access and/or support from the International Monetary Fund. There are also some CCC-rated issuers that are trading at distressed levels, including Argentina and Lebanon, where recent developments are already priced in. For instance, if a restructuring on Argentina's sovereign dollar bonds emerges that is more market friendly than indicated by current prices, then Argentina assets could perform well. In Lebanon, a political resolution, combined with international funding support, could contribute to higher bond prices going forward. At the other end of the barbell, we favor high-quality, longer-maturity issues. Those include bonds from select Gulf Cooperation Council counties that trade wide of their credit ratings and quasi-sovereign names that trade wide of the sovereign, such as PEMEX, or feature improving credit quality, such as Petrobras. In EM corporates, we like the debt from Mexican and Brazilian banks, high-quality property names in China, renewable power generators in India, and mobile tower companies in Africa.

At this point, we remain focused on relative value in EMFX. We favor currencies with high carry profiles, attractive real yields, and limited exposure to global trade, including Russia, Mexico, Ukraine, and Egypt. We're maintaining underweight allocations to low-growth, underperforming economies, such as Hungary and other Central and Eastern European markets, and to countries that may be vulnerable to local outflows, such as Brazil. In Asia, we favor higher-quality currencies with current account surpluses, such as Taiwan and Singapore, that stand to benefit from the upturn in the technology cycle. We are also constructive on China amid the potential for further trade developments, which could contribute to a currency below 7 against the U.S. dollar. In general, our currency exposures will likely increase with signs of sustainable dollar weakness. A scenario where FX outperforms hard currency assets could emerge as the emerging markets' surprise of 2020.

In summary, our outlook is positive. In a supportive global backdrop with attractive valuations, we favor a barbell position comprised of lower-quality, front-end corporates and sovereigns – possibly in distressed names as well – and higher-quality, longer-dated issues. We are more measured in EM local bonds and are cognizant that our relative value focus in EMFX can become more directional if the U.S. dollar weakens more broadly.

Nordea 1 – Emerging Market Bond Fund

Performance Q4 2019	
Nordea 1 – Emerging Market Bond Fund (BP-USD)	2.22%
Nordea 1 – Emerging Market Bond Fund (BI-USD)	2.35%
Benchmark[2]	1.80%

Source: Nordea Investment Funds S.A. Period under consideration: 30.09.2019 – 31.12.2019. **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.

Overweights to Argentina, Ukraine, Angola, Russia, Gabon, and Turkey along with underweights to Philippines, Chile, UAE, and Saudi Arabia drove performance. Argentina continued to rebound after its drop in Q3 following continued efforts by the Argentine government to pay off its external debt. Overweight positioning in Ecuador and Suriname and underweight positioning in Oman offset some of these gains. Ecuador underperformed after the government had to reverse a reduction in fuel subsidies after protests. Sovereign positioning in Argentina, Mexico, Lebanon, Oman, and Russia drove performance, while positioning in South Africa, Romania, and Nigeria offset some of these gains. Corporate and Quasi-sovereign positioning in Mexico (PEMEX) and Russia (GAZPRU) while positioning in Venezuela (PDVSA) and China (SINOPE).

The fund's largest hard currency overweights are Mexico, Brazil, and Romania and the largest underweights are Chile, Philippines, and Panama. The biggest changes over the quarter were adding to Mozambique and Azerbaijan, while reducing Ecuador, Turkey, and Ukraine.

Nordea 1 – Emerging Market Bond Fund: Top 10 Positions

	Portfolio (%)	Benchmark[3] (%)	Difference (%)
Mexico	5.71	4.74	0.97
Indonesia	4.90	4.34	0.56
Brazil	4.65	2.92	1.72
Turkey	4.35	3.41	0.94
Russia	4.09	3.34	0.74
Ukraine	3.98	2.47	1.51
South Africa	3.55	2.48	1.07
Argentina	3.44	1.53	1.91
Sri Lanka	2.95	2.08	0.87
Egypt	2.81	2.48	0.33

Source: PGIM Ltd. as of December 31, 2019. 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 Q4 2019

Nordea 1 – Emerging Market Bond Opportunities Fund (BP-USD)	3.47 %
Nordea 1 – Emerging Market Bond Opportunities Fund (BI-USD)	3.61 %
Benchmark[4]	3.38 %

Source: Nordea Investment Funds S.A. Period under consideration: 30.09.2019 – 31.12.2019. **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.

In hard currency, overweights to Argentina, Ukraine, Turkey, Gabon and Pakistan drove performance. Argentina outperformed after the government began reallocating resources to help pay coupons on external bonds. An overweight to Ecuador along with an underweight to Oman offset some of these gains. Ecuador underperformed after Congress rejected a reform bill presented by President Lenin Moreno as part of a $4.2 bn financing agreement with the IMF. Hedged local rates returned +0.92 % in Q4 2019. Underweights to Czech Republic, Colombia, Thailand, Poland and Chile contributed to performance. An overweight to Brazil along with underweights to Russia and Turkey detracted from performance. Russia outperformed after the country's central bank cut rates 50 bps to 6.5 %, the steepest reduction in two years. The central bank said further rate cuts could be on the horizon if inflation does not pick up. In hard currency, an overweight to the 2038s of Argentina along with positioning out the curve in Oman contributed to performance, while positioning in EUR-denominated Romania paper detracted. Corporate and quasi-sovereign positioning in Mexico (PEMEX) and Russia (GAZPRU) contributed to performance, while positioning in Venezuela (PDVSA) detracted. In local rates, sovereign positioning in the belly of Mexico along with an overweight to the 2023s of Brazil contributed to performance, while positioning in Turkey detracted. Emerging market currencies were stronger during the quarter, posting a total return of +3.73 % measured by the JP Morgan ELMI+ Index. Short positioning to the Brazilian real and South African rand detracted from performance. BRL was supported by the passage of the long-awaited pension reform bill. Long positioning in the Mexican peso and Polish zloty contributed to performance.

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 China and Colombia, while reducing Mexico and Thailand. In FX, the fund added to SGD and CLP, and reduced INR and COP.

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

	Portfolio (%)	Benchmark[5] (%)	Difference (%)
Indonesia	8.74	7.17	1.57
Mexico	8.43	7.37	1.06
Brazil	8.08	6.46	1.61
South Africa	6.44	5.98	0.46
Turkey	4.49	3.59	0.90
Poland	3.65	5.31	–1.66
Malaysia	3.56	4.07	–0.51
Thailand	3.47	4.72	–1.25
Colombia	3.05	4.53	–1.48
Peru	2.88	3.02	–0.13

Source: PGIM Ltd. as of December 31, 2019. 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): 30.09.2019 – 31.12.2019. 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 31.12.2019. 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. 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