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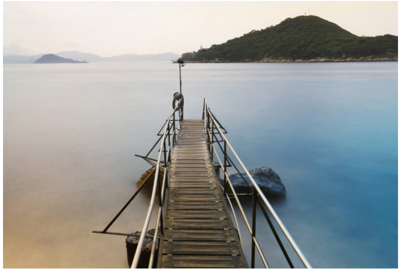
Quarterly Newsletter
Emerging Market Debt

Nordea
ASSET MANAGEMENT



Fourth quarter 2020

Market Review and Outlook[1]

Highlights for EM Debt

- After a strong rebound in Q2, EM continued to recover but at a slower pace in Q3
- We see more difficulties in the short term than in the long term, with improving credit fundamentals but surrounding political uncertainties
- Spreads will likely benefit from attractive relative valuations

Market Review

The recovery in emerging market debt continued at a slower pace in Q3 compared to the prior quarter, and hard currency and EMFX slipped on the broader risk-off tone as the quarter concluded. From a top-down perspective, global growth, supportive liquidity conditions, low developed market yields, and accommodative polices will still provide the sector with a tailwind. From a bottom-up view, the focus as we head into 2021 will also be about the sustainability of the growth rebound given the fallout from the Covid-19 shock. Our forecast for EM growth next year is 7.2%, compared with –2% this year[2].

The expected acceleration reflects the statistical rebound from the 2020 contraction and is not necessarily an "all clear" signal. The sector faces several key issues going forward: the ability for issuers to access the market, the further use of fiscal stimulus, the effect from China's recovery and EM trade flows, and the continued support from multilateral institutions. To be clear, not all of these factors will be negative for EM. Even though EM central banks may be at the end of their easing cycle, it is unlikely that a bout of policy tightening will impair the EM growth outlook. Headwinds and market volatility may emerge from policy and political uncertainty. Idiosyncratic developments pertaining to geopolitics, political cycles, various imbalances will also affect future outcomes. Performance in the short term could be bumpy in scenarios with future trade conflicts, sputtering economic growth amid rising virus cases, weaker commodity prices, and/or an acceleration in inflation across the sector. Still our base case is that EM will avoid a significant "second wave" of the virus, and the trends of spread tightening and a possibly gradually weakening dollar may resume. In that scenario, improved performance across higher-quality EMFX should support relatively solid performance across the broader sector as well.

Emerging Markets Debt Performance

	Total Return (%)		Spread (bps)/ Yield Change (%)		OAS (bps)/ Yield (%)
	Q3	YTD	Q3	YTD	30.09.20
EM Hard Currency	2.32	–0.51	–42 bps	141 bps	432 bps
EM Local (hedged)	0.23	3.75	–0.03	–0.74	4.48
EMFX	1.42	–4.00	–0.12	–1.59	1.77
EM Corporates	2.75	2.58	–35 bps	93 bps	404 bps

Source: J.P. Morgan as of September 30, 2020. **Past performance is not a guarantee or reliable indicator of results. An investment cannot be made directly in an index.**

Outlook

Longer time horizons naturally have a wider window of uncertainty; the more time, the more opportunity for foreseen and unforeseen risks to jump into the picture. However, at this juncture, our perception of time and risk is flipped. Given the fraught U.S. elections, the unpredictable path of the coronavirus, and the uncertain effects from the flood of monetary and fiscal stimulus, we see more uncertainty in the near term than we do in the long term. Longer term, we believe improving credit fundamentals and investors' ongoing search for yield will provide fruitful results.

EM Sovereign Spreads: Our base case is for continued sovereign spread compression through the end of the year. At about +200 bps, IG spreads are likely to reach and possibly break through pre-pandemic levels of just through 150 bps over the medium-term amid better than anticipated growth, ongoing

1) Views from PGIM Fixed Income. PGIM Fixed Income Operates primarily through PGIM, Inc., a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended, and a Prudential Financial, Inc. ("PFI") company. PGIM Inc. is the investment sub-manager of the Nordea 1 – Emerging Market Bond Fund and Nordea 1 – Emerging Market Bond Opportunities Fund. 2) The presented figures are estimations of PGIM Fixed Income and are based on assumptions and on information currently available. No guarantee can be given for the accuracy of the data and these estimations might not be met in the future.

market access, and momentum from developed market spread compression. It is unlikely high yield sovereign issuers will reach the sub +500 bps level from earlier this year, but at about +750 bps (in from wides of +1200), there is scope for some tightening, which appears very compelling, particularly in comparison to U.S. high yield if risk appetite returns. Thus far in 2020, the most dire forecasts for sovereign defaults have not materialized. While Lebanon, Argentina, and Ecuador defaulted, the latter two countries restructured, and their performance will be a function of country specific policies and technical factors. The recovery values were higher than expected, and given the debt rollover trajectory, do not necessarily pose a risk of a repeat credit event in the near term. Argentina's post-restructuring performance has particularly underwhelmed, likely due to a combination of technicals and policy missteps. While other select frontier countries are vulnerable to commodity price volatility, or politics/ policy measures that may lack compatibility with IMF funding availability, we don't see many near-term triggers for a wave of market negative credit events. We will continue to keep our eye on countries where policy measures have stretched confidence and foreign exchange metrics in some markets, i.e. Turkey, and in countries impacted by geopolitics, i.e. Belarus/Ukraine/China/ Russia/Turkey.

The credit rating trajectory for EM sovereigns is still biased to downgrades, as recent actions have shown (Angola and Sri Lanka to CCC and Turkey's downgrades), but this is probability reflected in spreads and unlikely to add to default totals. YTD flows into EM hard currency ended Q3 in positive territory, and this trend will likely continue as investors see the value in EM in a post-pandemic context. Flows tend to follow performance, and inflows typically increase in September through November.

Local Rates: With local rate yields only 15 bps higher than their all-time lows of 4.35%, further gains from an outright overweight to local rates duration seems limited. In most EM countries, disinflation is bottoming out and central banks' rate cuts are coming to an end. With many EM curves pricing in small hikes over the next two years, front end positions represent carry and rolldown trades, while the belly and long end of the curves may be highly correlated with the performance of EM currencies.

Our biggest active position is in China, which has lagged its peers, and index inclusion flows should provide newfound support in the quarters ahead. We also favor select high-yielding markets, such as Mexico, Russia, South Africa and Brazil, amid attractive hedged yields and steep two- to 10-year curves. While EM local flows are still negative year-to-date, recent inflows, along with a more constructive outlook for EMFX, should support the case for blend strategies going forward. Risks to EM local rate performance going forward includes the unwinding of U.S. dollar short positions and the re-coupling of the correlation between FX and local rates.

EMFX: Barring an EM economic relapse into a Covid-induced recession, the U.S. dollar may gradually weaken going forward. The Federal Reserve's flexible average inflation targeting regime is significant — at this point, the Fed is the only major central bank explicitly signaling that it will not hike rates for three-plus years. As a result, financial conditions should remain loose as the Fed may be more apt to increase, rather than decrease, QE. Within EM, China is leading the global recovery, and its strong fiscal and credit stimulus is expected to continue into 2021. Additional support may come from improving fund flows into local currency bonds and EM equities. However, G10 currencies are likely to outperform EMFX as the latter is more differentiated with some currencies offering notably better risk/ return profiles than others.

In summary, EM performance may bounce in Q4, though there may be bumps given the political uncertainties looming in the developed markets. Spreads will benefit from attractive relative valuations, and we favor spreads relative to local rates and FX. We continue to like higher-quality names and select higher-risk credits with additional room to perform. EM local bonds still have scope to do well, but we are focused on our overweight positions. EMFX has momentum if dollar weakness resumes, and positioning remains very selective.

Nordea 1 – Emerging Market Bond Fund

Performance Q3 2020	
Nordea 1 – Emerging Market Bond Fund (BP-USD)	2.35%
Nordea 1 – Emerging Market Bond Fund (BI-USD)	2.46%
Benchmark[2]	2.32%

Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2020 – 30.09.2020. **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.

During the quarter, the **Nordea 1 – Emerging Market Bond Fund** slightly outperformed (net of fees) its benchmark. Long spread duration in Romania, Hungary, Brazil, and Mexico contributed to performance. Brazil had much stronger retail sales and inflation data than originally forecasted providing the latest evidence that the economy is rebounding fast. Long spread duration in Argentina, Ukraine, Cote D'Ivoire, and Zambia along with short spread duration in Chile, Uruguay, Colombia, and Panama offset some of these gains. Sovereign positioning in Argentina, Ecuador, Israel and Chile contributed. Positioning in Romania, Russia, and Oman detracted. Corporate and quasi-sovereign positioning in Malaysia (OGIMK), Brazil (PETBRA), Ukraine (NAFTO) and Switzerland (SYNNVX) contributed to performance. Positioning in Russia (GAZPRU) and Kazakhstan (KZOKZ) detracted.

The fund's largest hard currency overweights are Ukraine, Argentina, and Brazil and the largest underweights are Chile, China, and Philippines. The biggest changes over the quarter were adding to Israel and Cote D'Ivoire, and reducing Romania, Ghana, and Turkey.

Nordea 1 – Emerging Market Bond Fund: Top 10 Positions			
	Portfolio (%)	Benchmark[3] (%)	Difference (%)
Mexico	5.69	4.59	1.10
Indonesia	4.71	4.75	–0.04
Ukraine	4.70	3.04	1.66
Brazil	4.22	2.33	1.89
Russian Federation	3.90	3.52	0.38
South Africa	3.21	1.34	1.88
Argentina	3.06	3.71	–0.65
Qatar	3.00	2.47	0.53
Turkey	2.94	2.39	0.55
Saudi Arabia	2.88	3.60	–0.71

Source: PGIM Ltd. as of September 30, 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 Q3 2020	
Nordea 1 – Emerging Market Bond Opportunities Fund (BP-USD)	1.39%
Nordea 1 – Emerging Market Bond Opportunities Fund (BI-USD)	1.52%
Benchmark[4]	1.48%

Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2020 – 30.09.2020. **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.

During the quarter, the **Nordea 1 – Emerging Market Bond Opportunities Fund** had a performance (net of fees) roughly in line with its benchmark. Long spread duration in Sri Lanka, Brazil, Mexico, Hungary and Romania drove positive performance. Sri Lanka's parliamentary election results pave the way for President Gotabaya to push through new constitutional changes to restore executive power. Long spread duration in Argentina, Ivory Coast and Ukraine along with short spread duration in Chile offset some of these gains. While Argentina's recovery was around mid-50's, it has since fallen due to technical headwinds given the size of the deal and negative economic developments. Sovereign positioning in the 2038's of Argentina along with off-benchmark positioning in Israel contributed to performance. Positioning in Romania and Oman detracted. Corporate and quasi-sovereign positioning in Brazil (PETBRA), Ukraine (NAFTO) and Malaysia (OGIMK) contributed to performance. Positioning in Russia (RURAIL) detracted. Long positioning in Indonesia and South Africa drove positive performance. Indonesia's central bank decided to cut its benchmark interest rates by 25 bps to 4.25% in July, after keeping rates on hold for the past three months, citing low inflation as the rationale. Long duration in China and Brazil along with short duration in Russia offset some of these gains. China's bond yields rose in the third quarter as the Central Bank began to halt easing and came to market with additional issuance. Local rates positioning in the 5-year part of the Colombia curve contributed to performance, while positioning in the long-end of South Africa and the 10-year part of the Indonesia curve detracted. Long positioning in the Euro, Chinese yuan and Korean won along with short positioning in the Turkish lira drove positive performance. Short positioning in the South African rand and Chilean peso along with long positioning in the Russian ruble and Indonesian rupiah offset some of these gains. The ZAR rallied after the SARB left interest rates unchanged and signalled an end to its rate cutting cycle.

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 increased exposure in South Africa, Colombia, and Mexico and reduced Poland and Thailand. In FX, the fund added to EUR and IDR and reduced USD and ZAR.

Nordea 1 – Emerging Market Bond Opportunities Fund: Top 10 Currency Positions			
	Portfolio (%)	Benchmark[5] (%)	Difference (%)
Indonesia	7.95	7.11	0.84
Mexico	7.61	7.06	0.55
Brazil	6.98	5.86	1.12
South Africa	6.05	4.81	1.25
Malaysia	4.60	5.07	–0.47
Poland	3.78	5.65	–1.87
Thailand	3.69	4.44	–0.75
Colombia	3.63	4.30	–0.67
Ukraine	3.09	4.83	–1.74
China	3.04	1.16	1.88

Source: PGIM Ltd. as of September 30, 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): 30.06.2020 – 30.09.2020. 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 30.09.2020. 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. 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