Nordea ASSET MANAGEMENT

Q&A

Nordea's European Covered Bond Funds: Conference call with Portfolio Manager Henrik Stille

Nordea 1 – European Covered Bond Fund (BP-EUR: LU0076315455 / BI-EUR: LU0539144625)

Nordea 1 – Low Duration European Covered Bond Fund (BP-EUR: LU1694212348 / BI-EUR: LU1694214633)

Nordea 1 – European Covered Bond Opportunities Fund (BP-EUR: LU1915690595 / BI-EUR: LU1915690835)

This call took place on 4th June, 2020. All market commentary and information refers to the period before then.

Question 1: How did the covered bond market behave in May?

Covered bonds continued to recover in May, helped by both supply and demand dynamics. Supply was below expectations, because banks were able to meet much of their liquidity requirement from the Central Banks; we only really saw covered bond issuance at the long end (e.g. 10 yrs), since Central Bank money was not available there. Demand, on the other hand, continued at normal levels with the ECB buying through its QE/ PSPP programmes and private buyers buying because covered bonds remain attractive compared to credit or government bonds.

Question 2: How do covered bonds look compared to government and corporate bonds?

They still look attractive, at least in the shorter and mid-range areas. Compared to government bonds, core covered bonds still offer good pick up at 3-5 yrs but they are nearly flat at the 10y end in some countries. When this is the case on this segment, we are minimising exposure and in fact sometimes switching into government bonds. At this point we see on a more general level more issuance coming in the government space than covered bonds while demand is steady for both, thus the dynamics favour further tightening of covered spreads. We also think covered bonds are more attractive than corporates at the moment. Spreads for both asset classes offer scope to tighten, compared to historic levels, but while we this covered bond tightening is justified and likely, we see the risks for corporate bonds as considerably higher than they were before the pandemic and thus do not consider the same level of tightening to be justified.

Question 3: What has driven performance in May?

The positive performance we've seen in May has largely come from alpha generation. From our three covered bond funds (Nordea 1 – European Covered Bond Fund, Nordea 1 – Low Duration European Covered Bond Fund and Nordea 1 – European Covered Bond Opportunities Fund) we saw the best performance from the Nordea 1 – European Covered Bond Opportunities Fund. This is because this fund has a higher implementation of our spread positions: when spreads tighten, this fund is always expected to perform the best of the three. [1]

Question 4: How are you positioned and what is your outlook?

We haven't made many changes in the portfolio very recently. The increased exposure to Canada that we made early in the crisis is still looking attractive, especially when we compare it to French covered bonds. Similarly we are looking at lower tier Italian covered

[1] Source: Nordea Investment Management AB as at 01.06.2020. **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.**

bonds, which offer considerable uplift against their higher tier peers. After a period of spread widening, the first tightening occurs in stronger countries and higher tier issues. At this stage the lower tier issuers in the weaker economies are definitely lagging so we see potential here while still remaining very conscious of our risk levels.

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