



Fund Flash

Nordea 1 - European Covered Bond Fund

ISIN: LU0076315455 (BP-EUR) / LU0539144625 (BI-EUR)

The fund's objective is to outperform the benchmark (Iboxx EUR Covered Bond Index) by mainly investing in European covered bonds¹.

Portfolio comment as of 31/07/2019

The EUR swap yields kept tightening in July. Draghi's speech after the ECB meeting indicated a rate cut at the next meeting in September, and Draghi made sure that they are ready to use any tools from the toolbox if needed, including a restart of the QE programme.

July was also a relatively busy month in the primary market for covered bonds. We saw interesting deals with issues from Spain, Portugal and Italy which came in the positive yield territories. The EUR covered bond benchmark supply is still up almost 7% YTD compared to last year.

The index tightened 1.5bps in July and is almost back at the level we saw before the steep widening of the end of 2018. UK, Canada and the Scandinavian countries underperformed in July. Italy (again) massively outperformed the rest. The peripheral sovereign (especially the Greek bonds) performed very well. We still see peripheral covered bonds outperform the rest of the market YTD, with Italy in front.

In this context, the fund delivered a monthly return equal to 0.60%, bringing YTD performance to 5.52% (BP-EUR).

We are still looking to add German exposure, as they have potential to tighten further – especially in the shorter end of the curve – and is also trading with a buffer, should the sentiment in the market become more negative. Also Singapore could be of interest, should they decide to come the market (we haven't seen any issues from Singapore so far this year). Finally, DKK covered bonds are still attractive compared to other AAA-rated EUR covered bonds, and we are comfortable with our relatively large allocation into this segment.

Portfolio Positioning	30/06/2019	31/07/2019
Effective Duration*	5.15 years	5.42 years
12m horizon return**	0.18%	0.05%

Cumulative Performance	1M	YTD	3 Years
Fund (BP-EUR)	0.60%	5.52%	6.87%
Benchmark	0.67%	3.80%	3.18%
Alpha	-0.07%	1.73%	3.69%

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* investing in their own account - according to MIFID definition

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30/06/2019 to 31/07/2019. 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 31/07/2019.

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