



Fund Flash

Nordea 1 - European Covered Bond Fund

ISIN: LU0076315455 (BP-EUR)

The fund's objective is to outperform the benchmark (Iboxx EUR Covered Bond Index) by mainly investing in European covered bonds.¹

Nordea 1 - Low Duration European Covered Bond Fund

ISIN: LU1694212348 (BP-EUR)

The fund's objective is to provide an attractive low risk option by mainly investing in European covered bonds with a targeted duration of around 1 year.¹

Portfolio Comment as of 31/10/2018

In October we saw new issuances of EUR11.1bn in Covered Bonds from 16 deals. We also saw two USD deals from two Canadian issuers amounting to USD3.7bn. With relatively low redemptions in 2018, we have seen net supply of EUR benchmark Covered Bonds of EUR47.8 in 2018 YTD while we saw a reduction of the EUR Covered Bond market of EUR14.1bn in the same period last year and EUR20.7bn in the same period 2016. The relatively large net supply in 2018 have – in our view – been supportive of the general widening of the Covered Bond market with more issuances than anticipated.

The iBoxx EUR Covered Bond benchmark widened around 2bps in October, with widening in more or less all jurisdictions. The Nordea 1 – European Covered Bond Fund was flat to the iBoxx EUR Covered bond benchmark in October.

In this context, the Nordea 1 - European Covered Bond Fund delivered a positive return of +0.08% over the month and it now accumulates a performance of +0.64% YTD (BP-EUR).

Regarding the portfolio positioning:

- We still find Italian Covered Bonds expensive versus BTPs, and with the BTP curve steepening and the 10-year spot widened more than 30bps in October, this view hasn't changed.
- We have increased our exposure towards SEK Covered Bonds quite a lot last month, since we find them attractive after a general widening of the curve. After FX hedge we see a lot of value in that market.
- In general, we see core Covered Bonds trading with a lot larger spread against Government Bonds than we find reasonable at the moment.
- South Korea launched their first ever EUR Covered Bond. Korean Housing Finance Corporation (KHFC) issued a EUR500m deal at mid swap +40bps. In our view this was a very attractive price given that the issue is backed by a specific legal framework with a strong cover pool. We participated in the deal and have included this bond in the fund.

Nordea 1 - European Covered Bond Fund

| Portfolio Positioning | 30/09/2018 | 31/10/2018 |
|-------------------------|------------|------------|
| Effective Duration* | 5.33 years | 5.14 years |
| 12m horizon return** | 1.08% | 0.97% |
| Average weighted rating | A+ | AA- |

| Cumulative Performance ² | 1M | YTD | 3 years |
|-------------------------------------|--------|--------|---------|
| Fund ³ | 0.08% | 0.64% | 5.59% |
| Benchmark ⁴ | 0.16% | -0.03% | 2.36% |
| Alpha | -0.08% | 0.67% | 3.23% |

Nordea 1 - Low Duration European Covered Bond Fund

| Portfolio Positioning | 30/09/2018 | 31/10/2018 |
|-------------------------|------------|------------|
| Effective Duration* | 1.65 years | 1.87 years |
| 12m horizon return** | 0.65% | 0.45% |
| Average weighted rating | AA- | AA- |

| Cumulative Performance ² | 1M | YTD | Sine launch |
|-------------------------------------|--------|--------|-------------|
| Fund ⁵ | -0.04% | -0.15% | -0.84% |

1) There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved. *Based on model portfolio. **Estimated yield over the next twelve months, based on current model portfolio and market conditions, assuming no change in portfolio holdings and no movement in interest rates and spreads. 2) The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. 3) Nordea 1 - European Covered Bond Fund (BP-EUR) 4) The Nordea 1 - European Covered Bond Fund's official benchmark is the Iboxx EUR Covered Bond Index. 5) Nordea 1 - Low Duration European Covered Bond Fund (BP-EUR)

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30/09/2018 to 31/10/2018. 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 31/10/2018.

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