



# Fund Flash

## Nordea 1 - Norwegian Bond Fund

ISIN: LU0087209911 (BP-NOK) / LU0500137822 (BI-NOK)

The fund aims to provide a rate of return which exceeds the return of the reference index without taking on excessive risk levels.<sup>1</sup>

### Portfolio comment as of 31/12/2018

Norwegian housing prices have slowed down somewhat lately, but seasonally adjusted housing prices gained 0.7% in December after falling 0.5% in November. House prices are now about 2.7% higher than one year ago. We still expect an increased supply of new homes, combined with further rate hikes from Norges Bank in 2019 and muted population growth to constrain house price growth going forward.

The labor market has been improving since the beginning of 2016, and unemployment stands at 2.3% in December, unchanged since November. The trend is still solidly down. DNB PMI has also been volatile over the last months, but the index for December indicates that there is still solid activity in the manufacturing sector, falling slightly back to 55.9. Market indicators suggest there is still some more spare capacity in the economy and indicate further activity growth going forward.

The general positive outlook for the Norwegian economy as we are entering 2019 has led Norges Bank to move its interest rate path significantly during 2018. Norges Bank increased the policy rate by 25bp to 0.75% in September. This was the first rate-hike in more than seven years, and we believe we are likely to see one or two more hikes in 2019, the first probably coming in March.

In this context, the fund delivered a monthly return equal to 0.39%, bringing YTD performance to 0.66% (BP-NOK).

Both government and swap rates tightened in December, still on the back of the global risk selloff. Government rates tightened less than swap rates in December, causing swap spreads to tighten 2-3 bps across the curve.

The money market rate measured by the 3 month NIBOR averaged around 1.27 % during the month, while the 3 year NOK swap rate tightened, starting at 1.66% and ending at 1.63%. The 5 year NOK swap rate also tightened, starting at 1.87% and ending the month at 1.80%.

In sum, the fund saw positive absolute and relative performance in December.

Portfolio Positioning	30/11/2018	31/12/2018	Cumulative Performance	1M	YTD	3 Years
Effective Duration	4.44 years	4.44 years	Fund (BP-NOK)	0.39%	0.66%	4.31%
YTM	2.61%	2.58%	Benchmark	0.28%	0.80%	3.31%
Average Rating <sup>2</sup>	AA-	AA-	Alpha	0.11%	-0.14%	1.00%

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 official benchmark of the fund is the 3 Month NIBOR - Total Return Index. 1) There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved. 2) Source : Nordea Investment Management A.B. A specificity of the Norwegian Fixed Income market is that many NOK bonds and bond issuers do not have an official rating from S&P, Moody's or Fitch. The main reason for this is that there are many smaller issuers (and issues) in the market, and small issuers usually don't have an official rating. This is why the fund's management team thoroughly carry out a credit analysis and place an internal rating on all issuers without an official rating. All issuers, both those with and those without an official rating will be subject to a credit analysis by the fund's management team credit analyst. Please note that investments can take place in both certificates and bonds, subject to the prevailing credit lines available to the fund management team, as well as their proprietary analysis of high quality bonds. The proprietary analysis is conducted on a quantitative and qualitative basis, but does not contain any statistics regarding the probabilities of default. The ratings shown above are calculated as an average of officially rated issuers and issuers rated by Nordea Investment Management.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30/11/2018 to 31/12/2018. 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 31/12/2018.

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