



Fund Flash

Nordea 1 - Swedish Short-Term Bond Fund

ISIN: LU0064321663 (BP-SEK) / LU0772963442 (BI-SEK)

This fund aims to provide attractive risk-adjusted returns by investing in investment grade SEK denominated (e.g. floating rates notes, commercial papers and covered bonds) with low duration risk.¹

Portfolio comment as of 31/12/2018

The world economy, which has grown rapidly in recent years, is now starting to enter a phase of subdued GDP growth. However, uncertainty regarding the direction of the global economy is still high, not least in terms of the effects of Brexit and the trade war between the US and a number of other countries. The Swedish economy remains strong, albeit with weaker-than-expected GDP growth and inflation. The employment rate is historically high, companies are reporting a great labour shortage, and cost pressure is rising. At its meeting on 19 December, the Riksbank decided to increase the repo rate from -0.50% to -0.25%. The repo rate forecast indicates that the next hike will probably occur in the second half of 2019.

The fixed-income market was relatively stable in December. Swedish government bond yields rose by around 5 bps on short maturities (around 2 years), while yields on long maturities (5 years and longer) were relatively unchanged. Yields on mortgage bonds moved in a similar way, and also the spread between government and mortgage bonds narrowed somewhat. However, credit risk premiums on Swedish corporate bonds increased. The largest movement in December, however, was that 3m Stibor rose approx. 25 bps. This prompts a rise in the fund's expected return, as a substantial part of the fund is invested in FRN bonds, which have a higher yield when Stibor rises.

In this context, the fund delivered a monthly return equal to -0.10%, bringing YTD performance to -0.26% (BP-SEK).

The fund had a somewhat negative return, the reason being rising credit risk premiums in the past month. However, this, combined with a rise in 3-month Stibor, caused an increase in the expected return of the fund. A lot of the fund is invested in FRN bonds, which have a higher yield when Stibor rises.

We sold FRN bonds in Volkswagen and Scania both maturing in 2019, while we bought a FRN bond in AAK maturing in 2021. Through these investments we have increased the credit duration.

We still find that Swedish mortgage and corporate bonds offer sound risk-adjusted return. We also expect the low-rate environment to persist for some time yet, which ought to benefit the fund return.

Portfolio Positioning	30/11/2018	31/12/2018
Modified Duration	0.70 year	0.69 year
YTM	0.23%	0.38%
Average Weighted Rating	BBB+	BBB+

Cumulative Performance	1M	YTD	3 Years
Fund (BP-SEK)	-0.10%	-0.26%	0.19%

With effect as of November 19th, 2018 the sub-fund is renamed from Nordea 1 – Swedish Kroner Reserve to Nordea 1 – Swedish Short-Term Bond Fund and the investment policy of the sub-fund was modified. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the whole amount invested. 1) There is no guarantee that investment objectives will actually be achieved in the future.**

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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