



# Fund Portrait

Third quarter 2018

## Nordea 1 – Balanced Income Fund<sup>1</sup>

ISIN: LU0634509953 (BP-EUR) / LU0637308585 (BI-EUR)

### Highlights

- A global, cautious balanced solution focusing on capital preservation
- Employs risk balancing principles to generate stable and positive returns over the market cycle
- Objectives: Return cash +3% p.a. (gross of fees) over a full investment cycle with target volatility of 3–6%<sup>2</sup>



### Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialised internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for our clients. Furthermore, we have put a lot of emphasis on launching outcome – as opposed to benchmark – oriented investment solutions whose basis, “stability investment philosophy”, is designed to meet clients' risk appetite and needs.

Harnessing its “stable approach”, Nordea's Multi Assets Team constructed this cautious balanced strategy with the dual aim of providing capital preservation and a reasonable return. Taking advantage of the highly liquid instruments and successful approach and philosophy of the Nordea 1 – Flexible Fixed Income Fund (FFIF), the investment team has launched the Nordea 1 – Balanced Income Fund (BIF) in December 2016. This product is designed for conservative investors who generally have a preference for fixed income, but now are seeing their future expected returns being challenged by the current low yield environment.

Nordea's Multi Assets Team oversees more than EUR 100 bn of assets across various asset classes<sup>3</sup> and has been managing multi-asset solutions for more than a decade with its flagship Nordea 1 – Stable Return Fund<sup>4</sup>.

### More flexibility to reach your goals

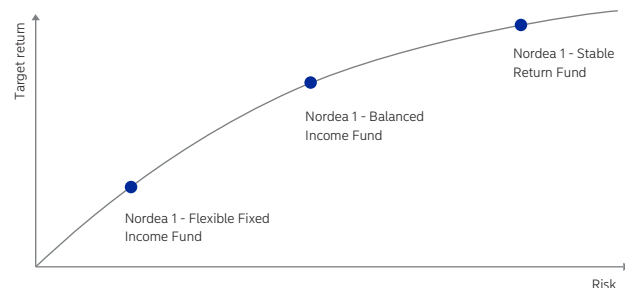
The challenges presented by the current low yield environment have increased investors' appetite for low-risk solutions able to preserve capital and generate positive and steady returns.

While targeting traditional fixed income returns, this all-weather solution aims to provide capital preservation and to generate annual returns of cash +3% (gross of fees) over a full investment cycle, with a volatility of 3 to 6% per annum<sup>2</sup>. As such, from a risk-return perspective, the BIF is positioned right between the value propositions of Nordea's two flagships funds: one notch above the Nordea 1 – Flexible Fixed Income Fund (FFIF) and one step below the Nordea 1 – Stable Return Fund (SRF).

### Our Multi Assets Total Return strategies

#### The breadth of our capabilities

For illustrative purposes only



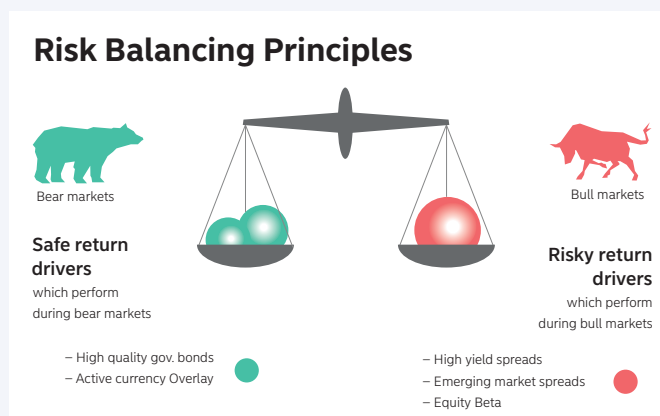
1) On December 16th, 2016 the sub-fund Nordea 1 – Global Short Duration Bond Fund was re-engineered and renamed to Nordea 1 – Flexible Fixed Income Plus Fund. With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Flexible Fixed Income Plus Fund to Nordea 1 – Balanced Income Fund and the investment policy of the sub-fund was modified. 2) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. 3) Source: Nordea Investment Management AB. Date: 30.09.2018. 4) Please note that the Nordea 1 – Stable Return Fund was soft closed between 07.09.2016 and 22.05.2018 and that the soft closure has now been lifted.

In order to achieve this, Nordea's Multi Assets Team has leveraged the successful investment process and track record of FFIF, and added an extra source of return. The resulting new strategy will invest across all fixed income asset classes (Govies, IG, HY, EM, etc.) and it also has the flexibility to have a limited exposure to equities (0 to 25%<sup>5</sup>). This extra flexibility to reach into equity space will allow the portfolio to slightly increase the fund's risk/reward profile beyond the FFIF.

## Investment philosophy

Similar to the other solutions managed by the Multi Assets Team, the BIF aims to deliver an attractive return with a **focus on capital preservation**. The cornerstone of the investment approach is the control of risk at all times rather than targeting the highest return. Risk is managed at two levels: strategic (long-term) and tactical (short-term).

Firstly, from a strategic viewpoint, the fund relies on **risk balancing principles** and diversification to ensure capital preservation and generate consistent and stable returns over time. More specifically, the portfolio managers will try to find a structural balance between the risk contributions coming from the risk on return drivers (across credit and equities) and the risk contributions coming from the risk off returns drivers (utilising bonds and currencies). The overall objective is to generate positive total returns across the investment cycle, without relying on the success of a top-down macro call.



Secondly, in order to preserve capital, the fund will combine this flexible strategic asset allocation with robust tactical asset allocation models. These tactical models aim to work as a risk management tool (i.e. to protect the portfolio not to chase returns) that could dynamically reduce duration, credit and equity risk within the portfolio.

## Investment process

The investment process relies on Strategic Asset Allocation (SAA) positioning based on long-term views, and a Tactical Asset Allocation (TAA) overlay based on short term models, to control the overall risk of the portfolio. It consists of four distinct steps.

### Overview of the investment process:



#### 1. Strategic Asset Allocation (monthly)

Based on internal strategic research, the Multi Assets Team analyses global fixed income, equities and currency markets and compares all segments in terms of yield (expected returns), risk (volatility), diversification (correlation) and risk behaviour in different market environments. The main objective of this first step is to assess the return drivers that perform well in risk on and risk off markets, so that they can be combined efficiently to ensure diversification in the portfolio.

#### 2. Optimisation (monthly)

The output of the strategic research will then be used as an input for the optimisation process. To build the SAA portfolio, the managers will balance the diversifying drivers' risks (mostly duration and FX) with our pro-cyclical drivers' risks (mainly credit spreads and equity beta) to deliver an optimal portfolio with an attractive and consistent risk-adjusted return taking into consideration the volatility target.

#### 3. Implementation (monthly)

Once the optimal SAA portfolio is determined, the managers will implement the allocation in the most efficient way between physical positions, synthetic replication (using derivative instruments) or a combination of both. The decision will be a trade-off between: cost, liquidity and counterparty risk, among others.

#### 4. Tactical Asset Allocation (daily)

While the SAA is used primarily to generate balanced returns over time, the TAA is used as a risk management tool to maintain or reduce the overall risk level of the SAA portfolio. As such, three tactical models will try to assess whether it is necessary over the short term to reduce the overall active duration, credit and equity beta of the portfolio.

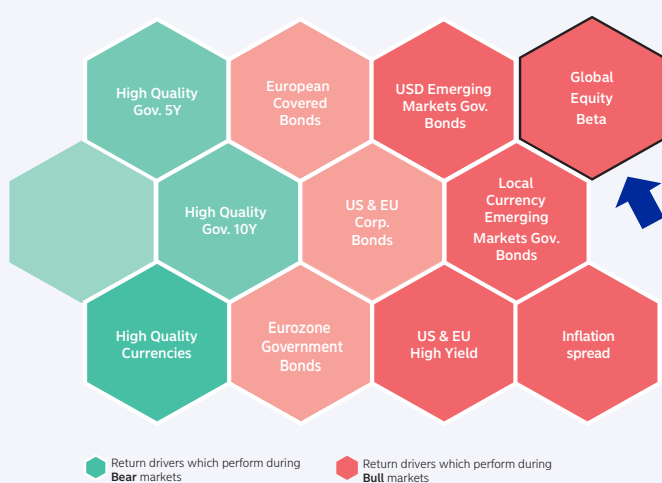
<sup>5</sup>) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved.

## Global and unconstrained

The investment universe of the fund is global with no constraints regarding quality, region or issuer type. The focus is on absolute risk and is not constrained by any benchmark. The investment universe includes Emerging Market debt, high quality government bonds, corporate investment grade and high yield bonds, global equities, high quality currencies, etc. The chart below shows a sample of assets the fund may invest in and also highlights their expected behaviour, which serves to build and apply the balance of risk principles in the portfolio.

## Investment Universe

### Selecting return drivers performing well in up or down markets



The fund may use derivatives to gain access to markets with liquidity constraints and/or where trading costs are high, and for managing the total risk of the portfolio. The fund will be mainly invested in highly liquid physical bonds and plain vanilla derivatives (such as government bond futures, CDS indices, FX forwards, etc.), which will result in a highly liquid portfolio.

## Why invest in the Nordea 1 – Balanced Income Fund?

In today's low yield environment, the need for outcome-based solutions remains high and investors are particularly focused on products that can deliver positive returns without exposing their portfolio to a large drawdown risk. Should investors reduce equities or increase high yield bonds? Is it too late to buy emerging market bonds? What about inflation-linked products? Should investors reduce duration risk? Can currencies help to diversify return? How?

The answer to all these questions is the Nordea 1 – Balanced Income Fund. A cautious balanced portfolio, with a moderate level of risk (fairly low volatility and limited drawdowns), unconstrained (allocates risk globally to the most attractive investment opportunities), focused on absolute and not relative risk, and an actively managed risk budget.

The fund will leverage Nordea's Multi Assets Team's long experience developing solutions that can meet a diverse set of different risk/return profiles with one common denominator: considering risk first and using it as a starting point within asset allocation.

## Nordea 1 – Balanced Income Fund

Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0634509953 (BP-EUR) LU0637308585 (BI-EUR) <sup>6</sup>
Annual management fees	1.20 % (BP-EUR) 0.65 % (BI-EUR) <sup>6</sup>
Base currency	EUR
Launch date	22.02.2012

### Change in investment policy

#### 16.12.2016 – Reengineering and renaming of investment strategy

On December 16, 2016 the investment policy of the sub-fund was modified and the sub-fund was renamed from Nordea 1 – Global Short Duration Bond Fund to Nordea 1 – Flexible Fixed Income Plus Fund. The NAV history prior to this date is not used for performance measurement. With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Flexible Fixed Income Plus Fund to Nordea 1 – Balanced Income Fund and the investment policy of the sub-fund was modified.

## Risks

Please be aware that there are risks associated with investing in this sub-fund. For further details, please refer to the Key Investor Information Document, which is available as described in the disclaimer at the end of this document.

### To find out more, visit our microsites:

[nordea.lu/equilibrium.always](http://nordea.lu/equilibrium.always)

[nordea.ch/equilibrium.always](http://nordea.ch/equilibrium.always)

[nordea.co.uk/equilibrium.always](http://nordea.co.uk/equilibrium.always)



\*Other share classes may be available in your jurisdiction. 6) BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

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