



Fund Portrait



First quarter 2020

Nordea 1 – European Covered Bond Fund

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

Nordea 1 – Low Duration European Covered Bond Fund

ISIN: LU1694212348 (BP-EUR) / LU1694214633 (BI-EUR)

Nordea 1 – European Covered Bond Opportunities Fund

ISIN: LU1915690595 (BP-EUR) / LU1915690835 (BI-EUR)

Highlights

- An asset class to meet the **highest standards of safety**
- Managed by a **specialised and experienced** investment team
- An **active relative value based management** to create **alpha** in this **inefficient and complex market**
- Three portfolios with tailored duration and spread risks to best answer investors' needs

Asset Management at Nordea

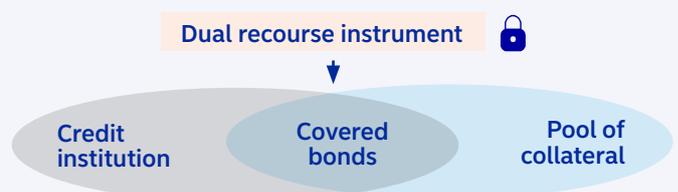
As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of 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.

Nordea Asset Management has **considerable expertise in the covered bonds space**, with a dedicated investment team managing more than €40bn of assets¹ across Danish and European Covered Bonds strategies. **Our investment strategy is the common ground of our covered bond solutions:** three portfolios that adapt the exposures of the strategy, providing **solutions with tailored duration and spread risks**. The Nordea 1 – European Covered Bond Fund has been a compelling story of alpha generation since 2012; then Nordea launched in October 2017 the Nordea 1 – Low Duration European Covered Bond Fund, a solution with a limited duration risk, and in January 2019 the Nordea 1 – European Covered Bond Opportunities Fund, a combination of low duration and extended spread exposure.

Nordea firmly **believes skill, experience and active management** are required to navigate the intricacies of the €2.6trn² European covered bond market, which even in today's markets remains a complex and inefficient universe.

Covered Bonds: a Very Low-Risk Asset Class

A covered bond is a debt instrument issued by a mortgage institution or a bank, which is backed by a cover pool of assets. Covered bond's investors benefit from a **dual protection**. The first recourse is a full claim on the issuer's assets – which means should the issuer become insolvent, covered bond investors have creditor rights on the assets. The second recourse is a preferential access to the cover pool. The cash flows of the cover pool, and on the further level of its collateral, back the covered bonds. These cash flows will be used to service the bonds in the event the issuer is insolvent, providing the timely payment of coupons and principal when the issuer can no longer afford them.



Recent EU regulatory enhancements have granted covered bonds preferential treatment: the asset class benefits from both banking and insurance regulation frameworks. In addition to being **one of the most senior debts on financial institutions' balance sheet**, an extra layer of investor protection is added by **covered bonds' exemption from the EU bail-in mechanism**. Under the Bank Recovery and Resolution Directive (BRRD), a resolution authority is allowed to intervene and restructure a bank, when one is considered in a close-to-failure situation. As covered bonds are excluded from absorbing any losses via bail-in, they cannot be written down in the process, unlike non-preferred senior debt and the remaining debt with a more junior position.

1) Source: Nordea Investment Management AB. Date: 31.03.2020. 2) Source: ECBC. Date: 31.12.2018.

Payment priority in the event of insolvency	One of the most senior debt instruments, in line with insured deposits	
	Insured deposits (< EUR 100.000)	Covered bonds
	Uninsured deposits (> EUR 100.000)	
	Senior debt	
	Lower tier 2	
	Upper tier 2	
	Innovative tier 1	
	Non-innovative tier 1	
	Equity capital	

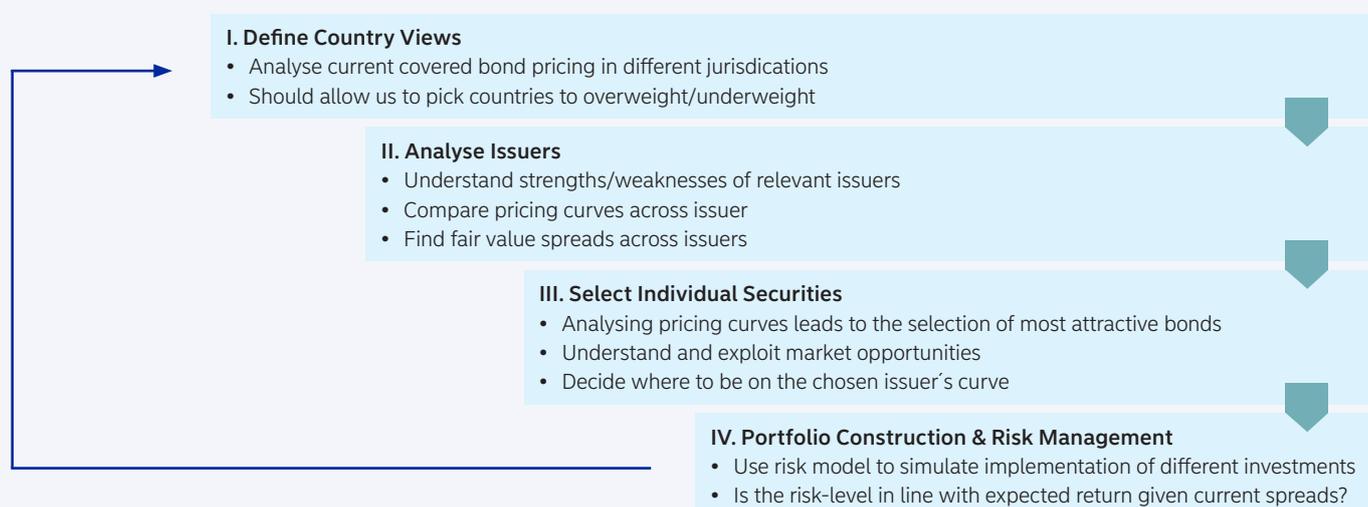
As a result, **covered bonds have not witnessed a default in more than 200 years of history.** In contrast, the “typical” safe bonds have taken investors by surprise: e.g. Greek government bonds were restructured earlier in the decade, while Greek covered bonds did not take a loss; another example would be Banco Espírito Santo’s senior debt creditors who suffered sharp losses in 2016 as part of the bail-in mechanism of the bank.

Finding an **attractive low-risk home** for investors in today’s market environment is a difficult proposition. Nordea offers you both the asset class and the expertise: a very **high quality** investment delivering **the attractive returns that only an active and experienced manager** can bring to your portfolio.³

Creating alpha in a complex and inefficient market

Nordea’s value proposition is closely linked to the added value of active management. This is where **the expertise of the Danish Fixed Income & European Covered Bond Team in the**

Investment Process



covered bond market plays its full role. With an average of 20 years of experience, the team consist of a stable team of portfolio managers, who have worked together for more than 10 years.

As covered bonds are very secure and highly regulated investments, many consider the asset class rather “boring” generally turning to passive allocation or buy-and-hold strategies. Although investing in covered bonds looks rather straightforward at first sight, this is a huge fallacy. **The covered bond market is inefficient in many ways:** from new issuers that pay a premium to attract investors, to the effect of rating methodologies that do not fully capture the business model of certain issuers. The inefficiencies and complexities of the market offer a wide range of opportunities to our investment team, who are truly active and dynamic in their allocation: e.g. their flexibility to invest outside of the EUR-denominated universe (with no currency risk as the portfolio is hedged to EUR), to leverage on their expertise in the Nordic markets, or to take advantage of ratings inefficiencies and market players’ constraints.



We create alpha by identifying relative value opportunities across the investment universe, with strong focus on optimising portfolio risk.



Portfolio Manager, Henrik Stille

The actively managed portfolio **identifies relative value opportunities by a risk based approach** focusing on quantitative research. We seek to invest in covered bonds that offer attractive relative value compared to investment alternatives with similar risk characteristics. The fast decision-making process in place ensures the **ability of the team to take advantage of opportunities as soon as they arise in the market.** Finally, the investment team has developed state-of-the-art risk modeling and pricing tools to deliver consistent investment results.

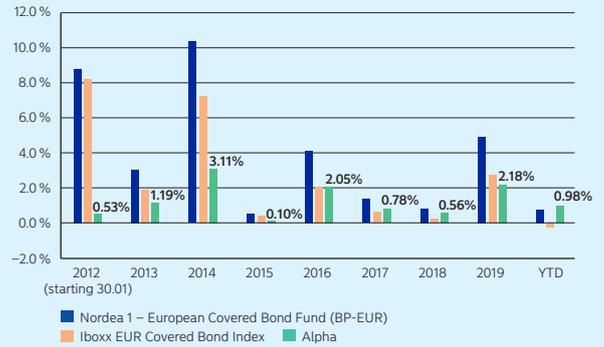
³⁾ There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

Nordea 1 – European Covered Bond Fund

Active management at play!

Duration
~ 5 years

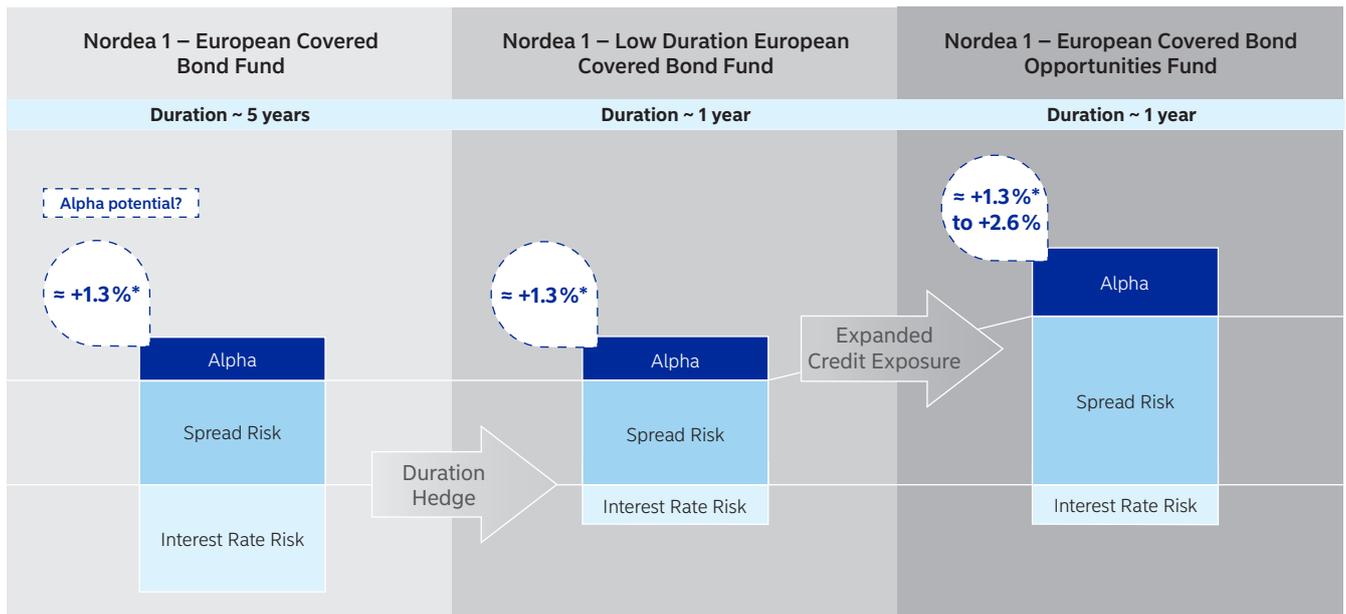
- A **history of alpha generation in one of the safest asset classes**, consistently outperforming its benchmark without added risk
- Specialisation: **a must to identify attractive opportunities** for a solution where **credit selection has been the main driver** of alpha
- A successful solution **awarded 5 star Morningstar rating**⁴



Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.01.2012 – 31.03.2020. 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 31.03.2020. Initial and exit charges could affect the value of the performance. **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 value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.** If the currency of the respective share differs from the currency of the country where the investor resides the represented performance might vary due to currency fluctuations.

4) For the Nordea 1 – European Covered Bond Fund BI-EUR. Data Source – © 2020 Morningstar, Inc. All Rights Reserved as at 31.03.2020. European Open End Funds database. Date: 31.03.2020. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. **A high rating alone is insufficient basis for an investment decision. Past performance is no guarantee of future results.**

Risk/return exposure of our solutions



There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money. For illustrative purpose only.

* Average outperformance of the Nordea 1 – European Covered Bond Fund BP-EUR over the Iboxx EUR Covered Bond Index, calendar year basis. Source: Nordea Investment Funds S.A. 30.01.2012 – 31.12.2019. **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 value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.**

Cumulative returns in % (31.03.2020)	ECVBF ⁵	Index ⁶
YTD	0.75	-0.23
1 month	-1.11	-1.76
3 months	0.75	-0.23
6 months	-0.89	-1.70
1 year	3.47	0.94
3 years	7.80	3.38
5 years	10.11	4.49
Since launch (05.07.1996)	162.23	191.90

Calendar year returns in %	Fund ⁵	Index ⁶
2019	4.97	2.79
2018	0.80	0.24
2017	1.37	0.59

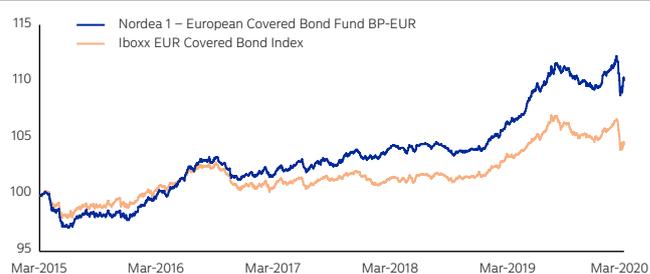
Nordea 1 – European Covered Bond Fund (ECVBF)		
Fund manager	Danish Fixed Income & Euro Covered Bond Team	
Fund domicile	Luxembourg	
ISIN codes*	LU0076315455 (BP-EUR) LU0539144625 (BI-EUR) ⁷	
Annual management fees	0.60% (BP-EUR) 0.30% (BI-EUR) ⁷	
Base currency	EUR	
Fund size in millions	5,696.86	
No. of holdings	207	
Reference index	Iboxx EUR Covered Bond Index	
Launch date	05.07.1996 (BP-EUR) ⁸ 09.12.2011 (BI-EUR) ⁷	

Nordea 1 – Low Duration European Covered Bond Fund (LDECVBF)		
Fund manager	Danish Fixed Income & Euro Covered Bond Team	
Fund domicile	Luxembourg	
ISIN codes	LU1694212348 (BP-EUR) LU1694214633 (BI-EUR) ⁷	
Annual management fees	0.50% (BP-EUR) 0.25% (BI-EUR) ⁷	
Base currency	EUR	
Fund size in millions	2,752.26	
No. of holdings	165	
Launch date	24.10.2017	

Risks

Please be aware that there are risks associated with investing in this sub-funds, amongst others in: **Covered bond, Credit, Derivatives, Hedging, Prepayment and extension.** 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.

Performance (31.03.2015 – 31.03.2020)



Cumulative returns in % (31.03.2020)	ECVBOF	LDECVBF
YTD	-0.94	-0.10
1 month	-1.70	-0.34
3 months	-0.94	-0.10
6 months	-1.34	-0.46
1 year	2.47	1.30
Since launch (29.01.2019)	3.55	1.11

Nordea 1 – European Covered Bond Opportunities Fund (ECVBOF)		
Fund manager	Danish Fixed Income & Euro Covered Bond Team	
Fund domicile	Luxembourg	
ISIN codes	LU1915690595 (BP-EUR) LU1915690835 (BI-EUR)	
Annual management fees	0.70% (BP-EUR) 0.35% (BI-EUR)	
Base currency	EUR	
Fund size in millions	159.26	
No. of holdings	65	
Launch date	29.01.2019	

To find out more, visit our local microsite:

nordea.lu/StartTheJourney
nordea.ch/StartTheJourney
nordea.co.uk/StartTheJourney



*Other share classes may be available in your jurisdiction. 5) BP-EUR share class. 6) Iboxx EUR Covered Bond Index. 7) BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent). 8) With effect as of 30.01.2012 the investment policy of the sub-fund was modified. The performance figures shown prior to that date were achieved under circumstances that no longer apply.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 05.07.1996 – 31.03.2020. 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 31.03.2020. Initial and exit charges could affect the value of the performance. **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 value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.** If the currency of the respective share class differs from the currency of the country where the investor resides the represented performance might vary due to currency fluctuations. 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