



# Fund Portrait

Fourth quarter 2019

## Nordea 1 – Emerging Market Bond Fund

ISIN: LU0772926670 (BP-USD) / LU0772925789 (BI-USD)

### Highlights

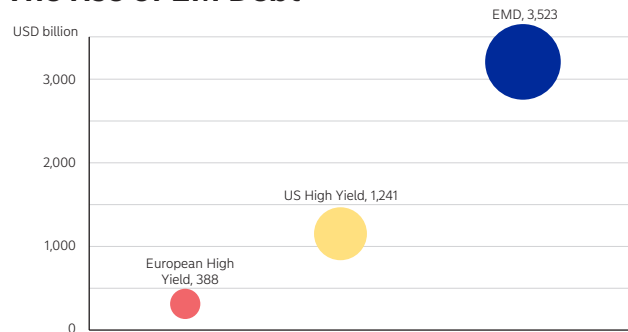
- **People:** a highly experienced & stable team managing EM Debt for more than 20 years
- **Process:** an unrivalled collaborative approach between PMs and a global network of senior in-house economists
- **Performance:** unparalleled alpha generation from a pure allocation to hard currency bonds<sup>1</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 specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients.

Consistent with Nordea's multi-boutique approach of identifying, managing and securing the services of the best fund managers in the industry, Nordea has appointed **PGIM Limited** ("PGIM") as investment sub-manager for the Nordea 1 – Emerging Market Bond Fund launched on May 30, 2012. PGIM is the European branch of Prudential Financial Inc. which is headquartered in Newark, USA. PGIM is a leading asset manager with a vast breadth of resources and experience, not least in Emerging Markets (EM) Debt.

### The rise of EM Debt



Sources: Bloomberg, JP Morgan. Date: 31.12.2019. Reference to European High Yield: BofA Merrill Lynch European Currency High Yield Constrained Index; Reference to US High Yield: BofA Merrill Lynch US High Yield Index. Reference to EM Debt: Combination of JPM EMBI Global Index and JPM GBI EM Global Index and JPM CEMBI Broad Index.

The EM Debt asset class has come a long way. Over the last three decades, it has matured and today it is part of the asset allocation of many investors. As shown in the graph above, **EM Debt represents more than the combined market value of European and US High Yield, with USD 3 trillion.**

Having said this, the **diversity** of EM Debt – +60 countries – comes with an **extra layer of challenges**. While investors are used to manage a limited amount of financial variables – such as yield, maturity, rating, etc. – when going into more traditional fixed income asset classes, **investing in EMD requires a more comprehensive set of skills**. Successful EMD investors need to combine those quantitative financial variables with a **more qualitative – often political assessment**.

### The right partner to tap into EM Debt

The Nordea 1 – Emerging Market Bond Fund, which focuses on EMD issued in hard currency (HC), profits from the unique set-up that the PGIM EM Debt team offers:

#### Portfolio Management team

David Bessey, Head of the EMD Team, and Cathy Hepworth, Sovereign Strategist, **started together PGIM's EM efforts – back in 1995** – when they were managing money for the insurance branch of Prudential. As the Portfolio Managers (PM) responsible for this strategy, they have **successfully navigated the shockwaves suffered by EM over the last 20 years** – such as the external liquidity shock Asian "Tigers" suffered in 1997, the fiscal crisis Russia experienced back in 1998 and the 2001 Argentinian default, just to mention a few.

The **longevity and tenure** of the PM team – 17 professionals averaging 17 years of experience – brings **stability** to the team. This ensures that the same core successful philosophy in place over the years is maintained while improvements are introduced based on shared experience.

#### Global Macroeconomic research team

A team of 9 Economists – with diverse backgrounds and 24 years of average experience – works in close collaboration with the PM team. They analyse all countries and issuers – including the smaller NEXGEM markets – where traditional coverage is often lacking. The expertise of our **economists provides a clear edge** when it comes to country selection as the PM team **does**

<sup>1</sup>) Period under consideration: 30.05.2012 – 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.

## A Disciplined Approach

### 1 Global Backdrop

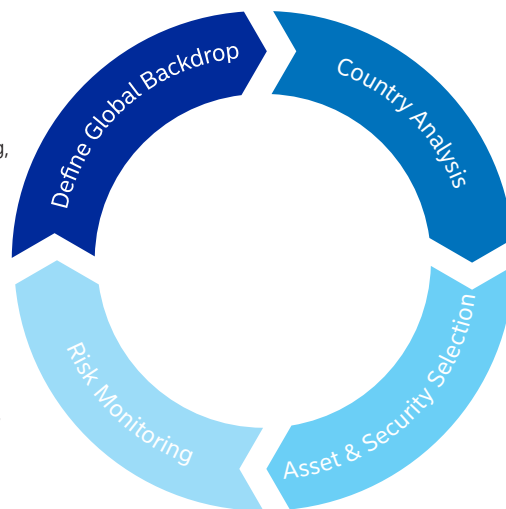
Senior Portfolio Manager

- Assess global risk appetite to determine portfolio risk profile and refine portfolio positioning, leveraging firm's resources

### 4 Risk Monitoring

Senior Portfolio Manager/  
Risk Manager

- Employ a rigorous process to tightly monitor risk at all levels
- Use proprietary tools to verify performance achieved is appropriate for risk taken



### 2 Country Analysis

Regional Economists

- Evaluate each country from quantitative and qualitative perspective and assign internal ratings

### 3 Asset & Security Selection

Regional Portfolio Managers/  
Economists/Analysts

- Seek to determine best risk/reward opportunities across markets
- Use proprietary tools to highlight relative value opportunities within markets

**not rely on major rating agencies**, but instead, bases its decisions on **internal ratings**.

The economists are able to truly understand both the **ability** and the **willingness** of each country **to repay** its debt and give the Portfolio Managers valuable input to judge if the yield is attractive enough, taking into account the risks the country is facing.

## EM Corporate Debt research team

A significant contributor to the rise of EM Debt has been the growth of the **quasi-sovereign market**. These are bonds issued by corporates that have strong ties to their government – such as Petrobras (Brazil) and Pemex (Mexico). Therefore, we have 7 corporate analysts that support the Portfolio Management team to analyse quasi-sovereigns – which are a large share of the investment universe – and corporates. They examine the fundamentals of a quasi-sovereign as if it is a standalone corporate but also evaluate the links to the government such as the legal strength of the linkage and the sovereign willingness to support the company.

A **culture of collaboration and challenge** is very much present in the investment approach. All professionals involved bring with them a unique set of **backgrounds and networks – including global & local policy makers from the IMF and central banks** – that give PGIM's EM Debt team a clear competitive advantage.

## A disciplined investment process

PGIM's EM Debt team follows a four-step decision-making process to build and manage the portfolio:

### 1) Global backdrop & portfolio strategy

On a weekly basis, the Portfolio Management team sits with the macroeconomic team to form a comprehensive global backdrop assessment, based on global macroeconomic analysis, interest rate views and the risk appetite of investors.

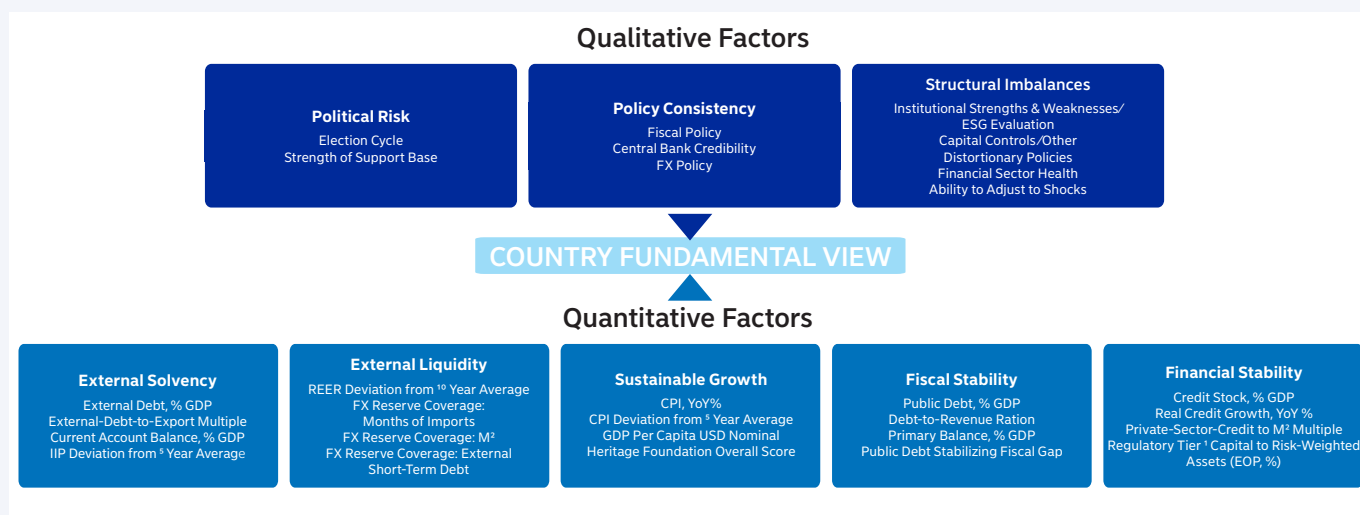
This step helps the team to develop the investment strategy and **determine the tracking error in terms of interest rate risk, spread risk and FX risk** that is most appropriate for the portfolio. The tracking error is reduced when there are low risk-adjusted return opportunities and increased in anticipating high risk-adjusted return opportunities. Typically, the ex-ante tracking error ranges between 150 and 285 basis points.

### 2) Country analysis

Generating **alpha in EM Debt is increasingly dictated by evaluating individual country policy** decisions and assessing the degree to which structural reforms will shape country-specific investment opportunities.

As such, PGIM's team of economists employs a comprehensive approach to country analysis, which results in **proprietary Sovereign Ratings based on both quantitative and qualitative factors**, as illustrated in more details in the following chart. With a **heavy emphasis on qualitative aspects**, the analysis of political risk, policy consistency, and the degree of structural imbalances shapes an **internal Sovereign Matrix – a comprehensive grid detailing each sovereign issuer followed**, as well as the key risk factors that the economists believe could cause a particular sovereign to outperform or underperform. These risk determinants help identify potential shifts in investor sentiment, which can be a significant driver of both performance and volatility among emerging markets sovereigns.

Using the **proprietary developed ratings** allows PGIM to assess the **attractiveness of each country vis-a-vis what markets/major rating agencies are pricing, but also relative to each other**. This step of the investment process is not intended to generate trade ideas per se, but instead provides the fundamental foundation upon which country and issue allocation decisions can be made by the PM team.



### 3) Asset & security selection

The Portfolio Management team attempts to determine the most effective and efficient way to implement the convictions on countries and risk taking in terms of interest rate risk, spread risk and FX risk.

A **barbell approach** is employed to have positions in riskier, higher yielding countries in short maturities, combined with positions in long maturities in countries which are solidly investment grade and/or improving credits. This approach has many benefits:

- There is greater clarity in credit quality of lower rated credits in shorter maturities.
- The longer maturity high quality positions take advantage of the steep yield curves.

This approach – which enables the portfolio to **“out-yield” the benchmark without exposing it to excessive volatility** – requires strong systematic risk management skills and an in-depth knowledge of the underlying idiosyncratic cases.

### 4) Risk monitoring

Importantly, risk is fully integrated in the investment process. A **dynamic risk budget controls active systematic (market) and idiosyncratic (tail) risks**. This parallel risk management approach has considerable benefits for investors:

A systematic risk budget allows PGIM’s EM Debt team to ensure that the portfolio is getting most of its risk from the variables that the PMs and the economists have identified as the most attractive and where the **best risk adjusted opportunities are considered to be**: rates risk, spread risk, currency risk, etc.

EM Debt offers a unique set of idiosyncratic risks (single country, quasi-sovereign, liquidity, sector, credit rating, etc.). As such, it also **requires a different and more detailed approach to assess and limit the individual impact in the portfolio of a single tail risk**. The idiosyncratic risk budget is an essential tool to ensure the portfolio can offer attractive yields to investors while also showing robustness when most needed.

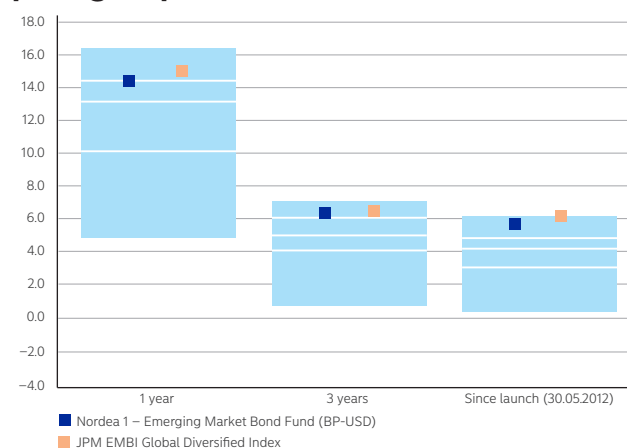
The overall aim is to make sure that the portfolio is tilted towards the systematic risks that offer investors the most attractive rewards, while also trying to ensure that tail risk events do not take a toll on the portfolio. **The use of stress tests models measures the impact of the “next big EM crisis” is very extensive**. This extremely robust risk management set-up adds to the resilience of the portfolio.

### Strong and consistent track record

The culture of collaboration and the high level of integration within the EM Debt team, together with the broad resources available at PGIM, are at the main reasons behind the strong alpha generated over more than two decades.

European investors have been able to benefit from this unique approach and set of expertise since 2012, when the Nordea 1 – Emerging Market Bond Fund was launched. The fund has been indeed positioning itself among the best performing EMD solutions within the Global Emerging Markets Bond Morningstar category since inception.

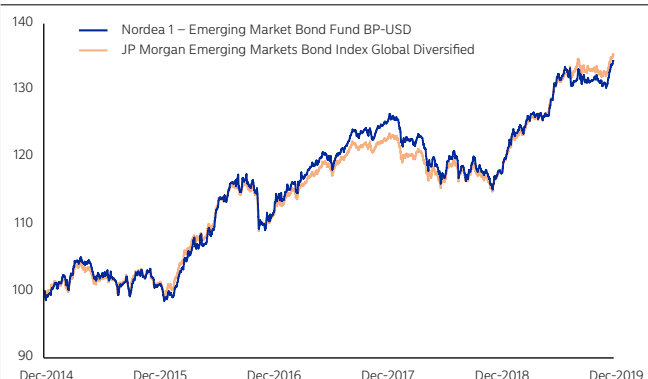
#### Annualized Performance vs Morningstar peer group



Data Source – © 2019 Morningstar, Inc. All Rights Reserved as of 31.12.2019. European Open End Funds database, Morningstar EAA OE Global Emerging Market Bond category. Period under consideration: 30.05.2012 – 31.12.2019. Total, Monthly Return. Performance in USD. The Morningstar categories are used for comparison purposes only. 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 % (31.12.2019)	Fund <sup>2</sup>	Index <sup>3</sup>
YTD	14.35	14.96
1 month	2.60	2.00
3 months	2.22	1.80
6 months	2.49	3.34
1 year	14.35	14.96
3 years	20.29	21.42
5 years	34.45	35.33
Since launch (30.05.2012)	52.08	56.09
Calendar year returns in %	Fund <sup>2</sup>	Index <sup>3</sup>
2018	-6.19	-4.21
2017	12.13	10.26
2016	10.69	10.15
Rating breakdown in % (31.12.2019)		
AA		2.47
A		4.50
BBB		24.45
BB		20.95
B		33.04
CCC		4.64
<CCC		3.00
NR		2.55
Net Liquid Assets		4.40
<b>Nordea 1 – Emerging Market Bond Fund</b>		
Fund manager	PGIM Limited	
Fund domicile	Luxembourg	
ISIN codes*	LU0772926670 (BP-USD) LU0772925789 (BI-USD) <sup>4</sup>	
Annual management fees	1.00 % p.a. (BP-USD) 0.65 % p.a. (BI-USD) <sup>4</sup>	
Base currency	USD	
Fund size in millions	2,577.8	
Reference index	JP Morgan Emerging Markets Bond Index Global Diversified	
No. of holdings	490	
Launch date	30.05.2012	

## Performance (31.12.2014 – 31.12.2019)



## Country breakdown (top 10) in % (31.12.2019)

Mexico	5.58
Indonesia	4.80
Brazil	4.38
Turkey	4.24
Russian Federation	3.87
Ukraine	3.86
South Africa	3.46
Argentina	3.30
Sri Lanka	2.88
Egypt	2.71

Fund characteristics (31.12.2019)	Fund
Modified Duration to Worst	7.69
Average Rating <sup>5</sup>	BB
Effective yield in %	5.32

## 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.

\*Other share classes may be available in your jurisdiction. 2) BP-USD share class. 3) JP Morgan Emerging Markets Bond Index Global Diversified. 4) BI-USD share class; only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent). 5) For physical positions only.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.05.2012 – 31.12.2019. 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 31.12.2019. 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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