



# Fund Portrait



2021

## Nordea 1 – Emerging Market Bond Fund

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

### Highlights

- A modern EMD team with ESG integration and quantitative investment and risk budgeting techniques relying on economic fundamental and credit analysis
- A structural high beta positioning to earn the yield advantage in the EM Debt universe
- Focus on active downside protection to protect carry during times of market stress



### Asset Management at Nordea

As an active investment manager, Nordea Asset Management (NAM) 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 for the benefit of our clients.<sup>1</sup>

The first EMD strategy managed by what is now called the **Nordea Emerging Markets Debt team** was launched in 2012 and was managed within the Nordea Multi Asset team. Following NAM's decision to **expand the coverage in the Emerging Markets Debt universe, a new separate and independent team** was formed, the **Nordea Emerging Markets Debt team** ("EMD team"). In 2016, **Thede Rüst was appointed Head of the EMD team** with mission to build a modern EMD team, with full ESG integration and quantitative investment and risk budgeting techniques relying on economic fundamental and credit analysis in the Emerging Market Debt universe.

The **Nordea 1 – Emerging Market Bond Fund** is being managed by the Nordea Emerging Markets Debt team since December 2021, with Thede Rüst as the Lead Portfolio Manager. The team has fully integrated ESG activities within the investment process, complemented by the Nordea Responsible Investment team ("RI team"). This solution offers a consistent, disciplined investment process through a **positive issuer selection according ESG factors** and an **active beta management** during times of stress to **protect against downside risks**, delivering returns with responsibility by an experienced investment team.<sup>1</sup>

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. 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 & ESG assessment.

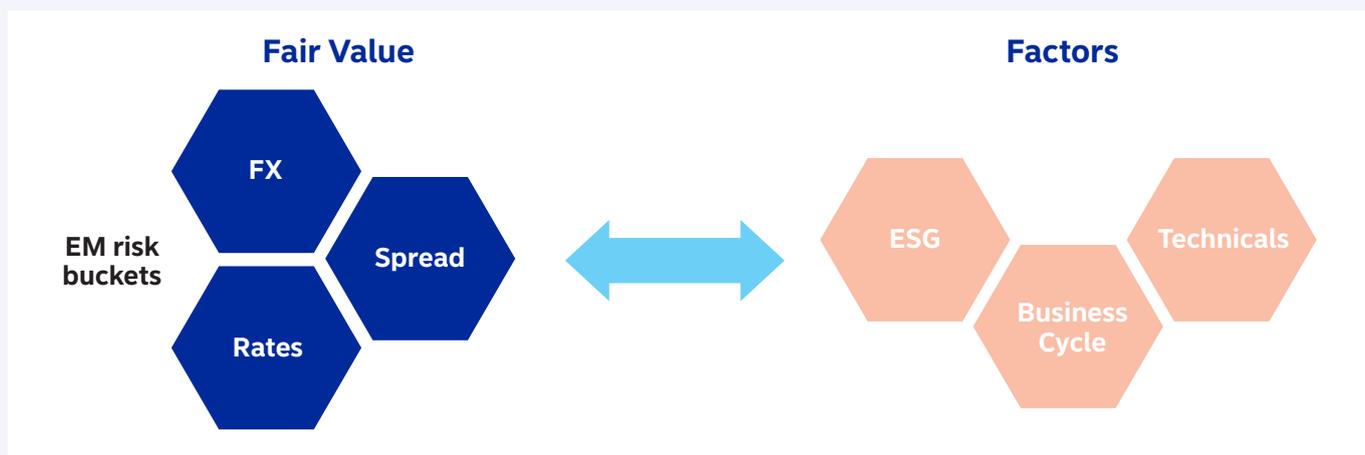
The **Nordea 1 – Emerging Market Bond Fund** has the value proposition to **outperform the benchmark** over an investment cycle<sup>1</sup> by:

- Taking advantage of the complete opportunity set in EMD for active positioning with a **target tracking error** ranging between **1% to 3%**
- The fund has a **long beta bias** to structurally earn the Emerging Markets Debt risk premia, exploiting the **yield advantage** present in Emerging Markets Debt
- Focusing on **active downside protection**, strong beta adjustment in times of market stress to protect carry

### Investment process with ESG integration

The investment process consists of a **bottom-up fundamental view with a top-down overlay**. The fundamental bottom-up investment process starts with the establishment of **fair value** across the EMD main risk buckets: **FX, Rates** and **Spreads**. We apply quantitative screenings and tools that enable us to establish if a bond or a currency is over or underpriced. After having established fair values we focus our analysis on the (i) **ESG profile** and **structural potential of a country's economy**; (ii) where an economy is situated in its **business cycle**; and (iii) **technical factors**.

<sup>1</sup>) 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.



Top-down and bottom-up analysis are **integrated** to generate the portfolio construction with a risk framework that enables the team to constantly monitor the sizing of the positions relying on proprietary risk management tools, as well as, third party provided tools.

### Integrated ESG Analysis with no sector exclusions

The starting point for the ESG analysis is our **proprietary scoring model**. Nordea's sovereign ESG scoring model is developed based on **academic research** describing the relationship between **sovereign spreads** and **ESG factors**. Prudent work has been done in this field, collectively suggesting that ESG factors have an impact on sovereign credit risk. Our strategy is to assign numerical values to individual ESG factors that have proven to have a material impact on sovereign spreads - based on ESG scores that we are able to retrieve from third party data providers. The aggregation of these scores allows us to define a proprietary ESG score on **every country within the EM Debt universe**.

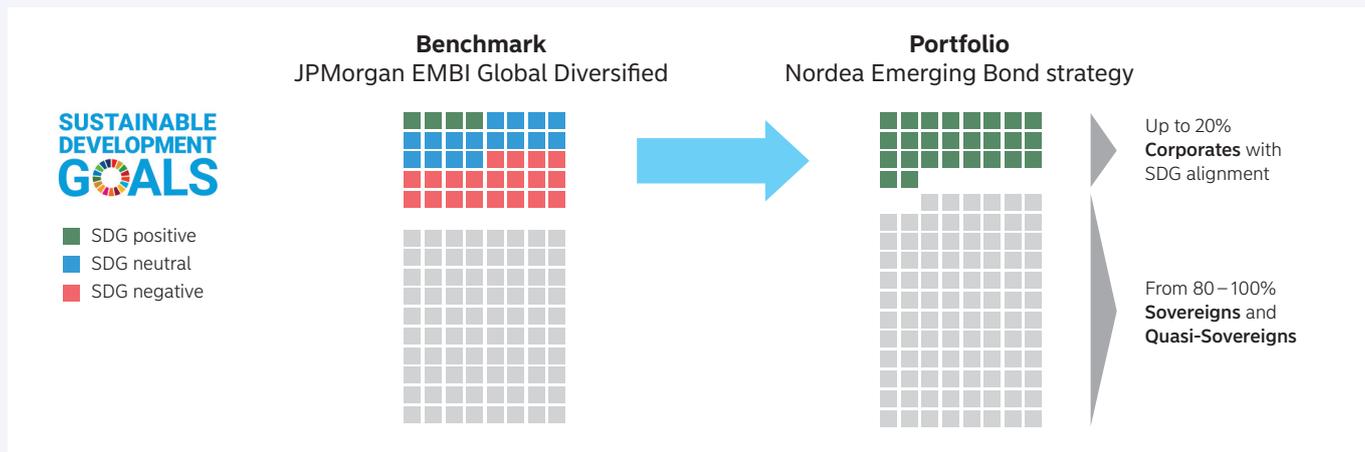
The proprietary ESG model constitutes a **solid base** for the ESG analysis and provides insights into countries exposed and **vulnerable to negative** ESG events. Especially in EM, investors should pay extra attention to ESG risks. The model builds on historical data; hence, the ranking can be interpreted to flag countries where historical ESG performance is very low. This allows to raise concerns around the **countries' abilities to deal with negative** ESG events. When analyzing a country's ESG risks, the proprietary ESG model forms a solid starting point. Furthermore, experts from Nordea's Responsible Investment team and EMD team perform a **qualitative overlay** to assess the ESG score of a country and the PMs take this analysis into account when selecting the issuers.

E	S	G
<ul style="list-style-type: none"> <li>• Transitioning Economy</li> <li>• Climate Change Exposure</li> <li>• Environment</li> </ul>	<ul style="list-style-type: none"> <li>• Education</li> <li>• Health</li> <li>• Innovation and Productivity</li> <li>• Digital Inclusion</li> </ul>	<ul style="list-style-type: none"> <li>• Democratic Governance</li> <li>• Government Stability</li> <li>• Judicial Independence</li> <li>• Judicial Effectiveness</li> <li>• Corruption</li> <li>• Ease of Doing Business</li> </ul>

As some sectors, such as energy, have a significantly relevance when it comes to opportunities and diversification within the emerging markets spectrum of investments, the **Nordea 1 – Emerging Market Bond Fund** takes an approach of not excluding any type of investment sectors and prioritizing a **positive selection of issuers** using the using the NAM proprietary model as input.

### Quasi sovereigns and corporate alignment with SDGs

Quasi sovereigns, bonds issued by **fully state-owned companies**, account for a substantial slice of the emerging markets (EM) fixed income market. The largest issuers have tens of billions of dollars of debt and these companies represents approximately 20% of the benchmark. J.P. Morgan EMBI Global Diversified, the remaining part which is around 80% of the benchmark is composed by sovereign bonds.



In the EM universe, they are an attractive way to enjoy a level of safety similar to that of sovereign bonds, but with a higher yield. Given the high importance of these fully state-owned companies in the market and representativeness in benchmark. J.P. Morgan EMBI Global Diversified, the **Nordea 1 – Emerging Market Bond Fund** maintains only benchmark names in these type of companies but also invests in individual corporate issuers that fulfill our ESG criteria following business models that **contribute positively to the UN's SDGs** or at minimum, do not obstruct them.



## Investments in the whole EM universe with ESG integration

The **Nordea 1 – Emerging Market Bond Fund** takes the advantage to invest in the **complete opportunity set** in EMD while at the same time **integrates ESG** in the investment process by **positive selecting** the Sovereign issuers with no sector exclusion in the Quasi-Sovereign and Corporate universe. This approach allows the strategy to **exploit the yield advantage** present in Emerging Markets Debt while keeping a **structural high beta** and actively adjusting it in times of market stress to **protect carry**. The expert ESG knowledge within the invest-

ment team is complemented by Nordea's RI team. We offer a consistent, disciplined ESG integrated investment process, delivering returns with responsibility by an experienced investment team with asset class and regional EM focus<sup>2</sup>:

- Specialists in portfolio management, economics, EM country and corporate credit research analysts provide ability to nimbly **extract alpha** from numerous sources, including focus on ESG integration
- The fund incorporates **qualitative and quantitative investment techniques** into the investment process because the combination of the two has been a better indicator for future performance than either qualitative or quantitative alone
- A **well-resourced investment team** that was purposefully set-up to manage ESG-integrated and UN SDG-aligned investment solutions; ESG is not an add-on to existing processes or products but in the DNA of the investment team
- The investment team closely co-operates with one of the largest and most accomplished **responsible investment teams** in the world
- The investment team is directly involved in various ESG and sustainable related organisations, including but not limited to the United Nations Principles for Responsible Investment ("PRI"), Emerging Markets Investor Alliance and SDGs initiative

<sup>2</sup>) 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 – Emerging Market Bond Fund	
Fund manager	PGIM Inc.
Fund domicile	Luxembourg
ISIN codes*	LU0772926670 (BP-USD) LU0772925789 (BI-USD) <sup>3</sup>
Annual management fees	1.00% p.a. (BP-USD) 0.50% p.a. (BI-USD) <sup>3</sup>
Base currency	USD
Reference index	JP Morgan Emerging Markets Bond Index Global Diversified
Launch date	30.05.2012 (BP-USD, BI-USD)

## Risks

Please be aware that there are risks associated with investing in this sub-fund, amongst others in: **ABS/MBS, Credit, Derivatives, Emerging and frontier markets, Liquidity, Prepayment and extension, Securities handling, Taxation.** 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.

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