



# Fund Portrait

Second quarter 2019

## Nordea 1 – Flexible Fixed Income Fund

ISIN: LU0915365364 (BP-EUR) / LU0915363070 (BI-EUR)

### Highlights

- A **global, flexible and unconstrained** fixed income solution focusing on capital preservation
- Employs **risk balancing principles** to generate stable and positive returns over time<sup>1</sup>
- **Objectives:** Cash +2% p.a. (gross of fees) over a full investment cycle with target volatility 2–5%<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 specialised 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.

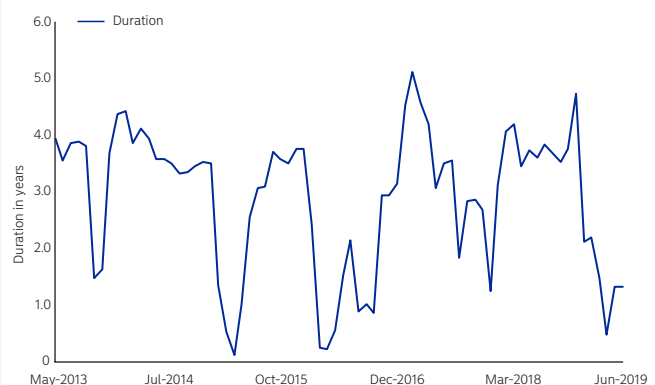
Harnessing this “stable approach”, **Nordea's Multi Assets Team** constructed a fixed income strategy with the dual aim of providing capital preservation as well as a reasonable return. After a successful track record with their multi-asset solution, the Nordea 1 – Stable Return Fund, the team applied their successful recipe and philosophy to the fixed income universe and **launched the Nordea 1 – Flexible Fixed Income Fund in the spring of 2013**. This product is designed for more conservative fixed income investors and provide a robust solution to the challenges posed by a low yield environment.

Nordea's Multi Assets Team oversees around EUR 90bn<sup>2</sup> of assets across various asset classes and has been managing multi-asset solutions for more than a decade for a broad range of investors.

### The need for a more flexible approach

Diverging monetary policies, low yield environment, search for yield, rising rates, higher downside risk due to lofty valuations are some of the challenges fixed income managers are facing. In such an environment, it is **more important than ever to flexibly navigate volatile markets and manage downside risk while still generating attractive returns**. This is exactly what the Nordea 1 – Flexible Fixed Income Fund (FFIF) offers: a highly competitive solution for cautious fixed income investors with a dynamic duration management.

### Nordea 1 – Flexible Fixed Income Fund's duration since inception



Source: Nordea Investment Management AB. Period under consideration: 31.05.2013 – 30.06.2019.

<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. <sup>2)</sup> Source: Nordea Investment Management AB. Date: 30.06.2019.

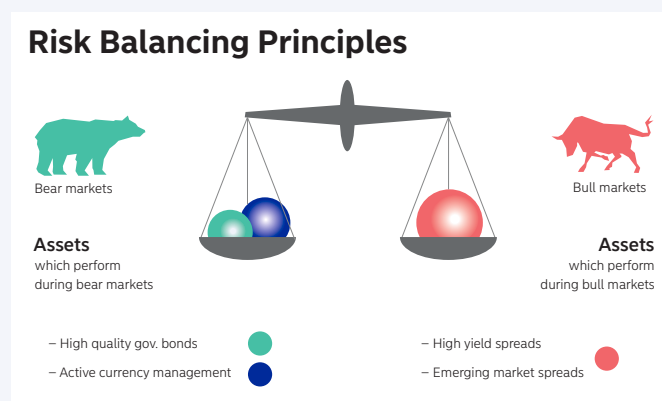
Many other fixed income products also manage their duration and credit exposure actively, but often reshuffle their portfolios according to top down views: trying to anticipate and interpret central banks' announcements or macroeconomic data. This proves to be a delicate and difficult exercise in the long run, often leading to inconsistent returns and higher risk. Instead the Multi Assets Team works with two distinctive concepts: Valuation and Diversification, which are the basis of our "risk balancing" philosophy and helps us to generate more consistent returns over time.

## Our focus: risk management

Similar to the other solutions managed by the Multi Assets Team, the fund aims to deliver an attractive return with **a focus on capital preservation**. The cornerstone of the investment process is based on controlling 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 combine risky (credit) with safe (duration) fixed income instruments instead of allocating assets according to short term macro views.

To mitigate the risk of a situation where spreads are widening and government bonds are not providing the protection typically expected in such a situation, the fund will **also exploit opportunities in currencies, to strengthen the balance of risks**.



Secondly, an active **Tactical Asset Allocation overlay** is also used for **risk management purposes only** (not to chase returns) **to strengthen the fund's capital preservation features**. The aim is to actively reduce the duration and credit risk in the portfolio (if necessary as risks are building up in markets) and results in a flexible allocation.

The objective of the fund is to achieve 2% p.a. (gross of fees) in excess of cash over a full investment cycle, with a volatility target between 2 and 5%<sup>3</sup>.

## Investment process – consistency and simplicity

The investment process focuses on the two following aspects: a **Strategic Asset Allocation (SAA)**, based on long term views, and a **Tactical Asset Allocation (TAA)** overlay, based on short term views, to control the overall risk of the portfolio. It consists of four distinct steps.

### 1. Strategic Asset Allocation (monthly)

Based on internal strategic research, the Multi Assets Team screens the global fixed income and currency universe and compares all segments in terms of yield (expected returns), risk (volatility), diversification (correlation) and risk behaviour in different market environments. The **main objective in this first step is to identify assets that perform well in up or down markets**, so that they can be combined efficiently to ensure diversification in the portfolio.

### 2. Optimisation (monthly)

The outcome from the strategic research will then be used as an input for the optimisation process. To build the SAA portfolio, the managers will balance duration risk (mostly existing in high quality government bonds) with credit risk (high yield and emerging market debt) **to deliver an optimal portfolio with an attractive and consistent risk-adjusted return given the volatility target<sup>3</sup>**.

### 3. Implementation (monthly)

Once the optimal SAA portfolio is determined, the managers will implement the allocation in the most efficient way, and the decision will be a trade-off between: cost, liquidity, counterparty risk, etc.

### 4. Tactical Asset Allocation (daily)

While the SAA is used mostly to generate returns over time in a balanced way, the **TAA** is used as a risk management tool that can only maintain or reduce the overall risk level of the SAA portfolio, through **active duration, credit and currency management**.

### Overview of the investment process:



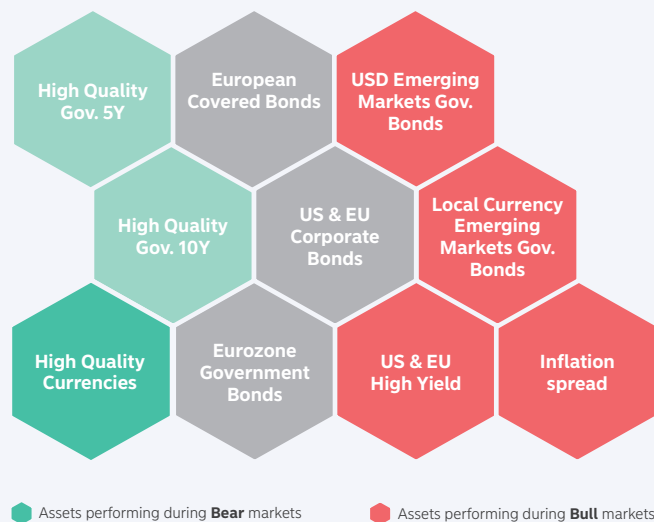
<sup>3</sup>) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

## Global and unconstrained

The investment universe of the fund is global with no constraints by quality, region or issuer type. The team will seek opportunities globally, depending on risk, valuation and diversification aspects. Also the focus is on absolute risk and is **not constrained by any benchmark**. The investment universe entails for instance: Emerging Market debt, High Quality Government Bonds, Corporate High Yield, etc. The below chart 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

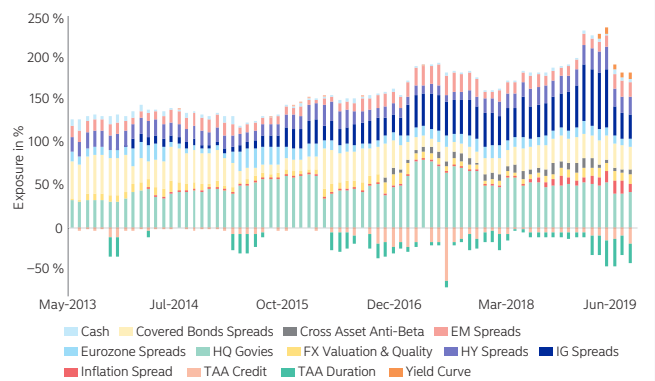
Selected assets performing well in up or down markets



The fund is **net long duration** and it 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 invested in highly liquid physical bonds and most commonly used plain vanilla derivatives, which will result in a **highly liquid portfolio**.

In practice, the historical Asset Allocation of the fund is illustrated hereafter.

## Historical asset allocation



Source: Nordea Investment Management AB. Period under consideration: 31.05.2013 – 30.06.2019.

## Why invest in Nordea's Flexible Fixed Income Fund?

In today's low yield market environment and fast changing macroeconomic environment, the **need for active management is greater than ever**. When should an investor take on duration risk? When should an investor bring down credit risk? Should the investor favour government bonds over investment grade bonds? What about currency risks? The proper solution to these questions is FFIF. The fund has a **moderate level of risk** (low volatility and limited drawdowns), is **unconstrained** (allocates risk globally to the most attractive investment opportunities), **focuses on absolute and not relative risk and actively manages the risk budget** (the possibility to adjust duration and credit risk when yields and/or spreads are expected to rise).

### Investors' needs/challenges

Rising interest rates

Low yields

Dislocated monetary policies

High correlations between assets

Changing macro environment

### FFIF's solutions

Flexible duration (long only)

Flexible credit allocation (IG, HY, EM, etc)

Global reach

Active currency overlay

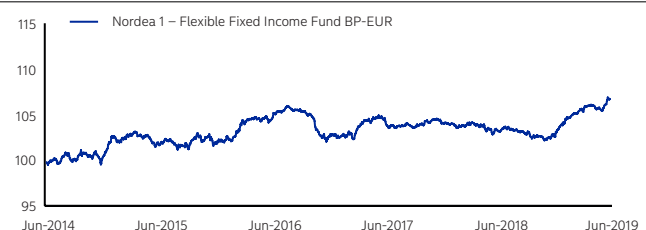
Bottom-up driven risk balanced portfolio

## Nordea 1 – Flexible Fixed Income Fund:

An all-in-one solution to face today markets' and fixed investors' challenges

Cumulative returns in % (30.06.2019)	Fund <sup>4</sup>
YTD	4.07
1 month	1.20
3 months	1.10
6 months	4.07
1 year	3.48
3 years	1.81
5 years	6.98
Since launch (02.05.2013)	9.08
Calendar year returns in %	Fund <sup>4</sup>
2018	-1.38
2017	1.10
2016	0.95
Country breakdown (top 10) in % (30.06.2019) <sup>5</sup>	Fund <sup>4</sup>
North America	17.91
Europe	12.66
Denmark	12.36
France	8.92
United States	7.02
Ireland	6.66
Emerging Markets	5.15
Australia	4.12
Norway	2.59
Italy	2.00
<b>Nordea 1 – Flexible Fixed Income Fund</b>	
Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0915365364 (BP-EUR) LU0915363070 (BI-EUR) <sup>6</sup>
Annual management fees	0.80 % p.a. (BP-EUR) 0.40 % p.a. (BI-EUR) <sup>6</sup>
Base currency	EUR
Fund size in millions	3,297.07
No. of holdings	234
Launch date	02.05.2013

## Performance (30.06.2014 – 30.06.2019)



## Fund characteristics (30.06.2019)<sup>5</sup>

Modified Duration to Worst	1.00
Average Rating in %	AA
Effective Yield in %	0.73

## Holdings (top 10) in % (30.06.2019)

Bundesschatzanweisungen 0.000000 % 11-09-2020	5.14
United States Treasury Note/ 2.375 % 30-04-2026	5.08
United States Treasury Note/ 2.625 % 31-01-2026	5.05
Realkredit Danmark 1 % 04-01-2020 SDRO AR T	4.86
United States Treasury Infla 0.5 % 15-01-2028	4.75
United States Treasury Infla 0.875 % 15-01-2029	4.60
Nykredit Realkredit 1 % 04-01-2020 SDO AR H	4.06
Bundesschatzanweisungen 0.000000 % 12-03-2021	3.69
ISHARES EM LOCAL GOV BND UCITS ETF	3.57
United States Treasury Note/ 2 % 15-08-2025	3.29

## 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 local microsite:

[nordea.lu/Flexibility.Always](http://nordea.lu/Flexibility.Always)

[nordea.ch/Flexibility.Always](http://nordea.ch/Flexibility.Always)

[nordea.co.uk/Flexibility.Always](http://nordea.co.uk/Flexibility.Always)



\*Other share classes may be available in your jurisdiction. 4) BP-EUR share class. 5) Based only on physical positions. 6) BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 02.05.2013 – 30.06.2019. 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 30.06.2019. 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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