Nordea
ASSET MANAGEMENT

Fund Portrait

Nordea 1 – Global Long Short Equity Fund – USD Hedged

ISIN: LU1002957253 (BP-USD) / LU1002957766 (BI-USD)

Highlights

- **A liquid alternative** whose roots are deeply anchored in **behavioural finance**
- **Bottom-up** selection to generate returns **on both the long and short leg**
- **Return objective:** cash +5 – 8 %[1] p.a. gross of fees over a full market cycle
- **Volatility target:** 5 % – 8 % p.a.
- A global diversified equity portfolio, close to **beta neutral** with a **low net exposure**

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've 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.

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 **ClariVest Asset Management LLC** (ClariVest) as investment sub-manager for the Nordea 1 – Global Long Short Equity Fund – USD Hedged (N1-GLSEF-UH) launched on September 27, 2016.

ClariVest, based in San Diego, California (USA), is an affiliate of Eagle Asset Management, which, in turn, is a wholly owned subsidiary of Raymond James Financial, Inc. The investment company is owned in majority by its employees and employs fourteen investment professionals with more than 20 years of investment experience.

The need for liquid alternative solutions

For many investors, equity markets represent a significant expected driver of long-term growth potential. Over the past years, investors have had to navigate an increasingly uncertain world where equity markets have not always delivered positive returns and have been subject to elevated volatility.

This translates into investors needing to look for alternative investment solutions that can help improve diversification and deliver returns while controlling risk in their portfolios.

Combining principles of behavioural theory with conventional economic and financial analysis, the N1-GLSEF-UH seeks to build a portfolio of select global companies in order to:

- **provide diversification** to the equity allocation of your portfolio (market neutral over the long term)
- generate **attractive returns without exposing the portfolio to the typical risks** of this asset class

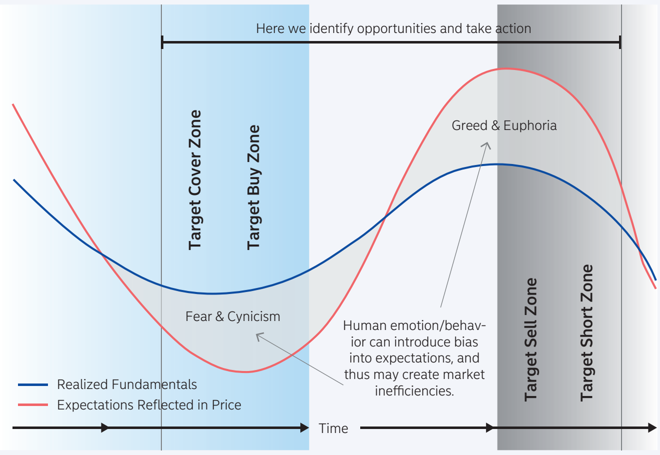
Investment philosophy

The fund's investment philosophy is largely anchored in the academic findings of **behavioural finance.** The management team aims to take advantage of the various price anomalies that occur in stock markets as a consequence of investor bias generally related to feelings such as fear or greed.

> **Fundamentals matter, but it is the interaction with investor behaviour that creates opportunities.**

1) 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.

*investing for their own account – according to MiFID definition



As such, the team will focus on identifying companies that are experiencing change, positive or negative, that is not priced in by the market. One of the anomalies that the team tries to capture is at inflection points where investors react inefficiently to information.

Philosophically, the team will invest long in securities around the globe experiencing under-appreciated earnings growth, and conversely will short companies experiencing under-appreciated earnings contractions.

Investment Process

The fund follows a **fundamentally based, bottom-up 2-step investment process** that seeks to minimize uncompensated risk.

Step 1: Screen for ideas

Screen for ideas

Is it Attractive?
Score the likelihood that expectations will change

Does it fit?
Score the marginal contribution to risk

Develop ideas

Identify
Identify & investigate drivers of attractiveness

Synthesize
Tie together the drivers into a cohesive investment case

Contextualize
Understand risk & reward within the broader market/economy

The investment team begins the stock selection process by profiling every stock in the investable universe (~ 10'000 companies) using several criteria. A robust proprietary quantitative model has been developed to winnow the universe down to a manageable size and to create a foundation for decision-making.

Every day, the team scores each stock in the universe (held or not) on:

a. Relative attractiveness: likelihood that expectations will rise/fall more than peers over the next 6 to 24 months.

Broadly speaking, the relative attractiveness of a stock is studied to evaluate each company's potential for future fundamental innovation, technical leadership, and cycle persistence. In order to do so, current attributes such as earnings growth, valuation, cash generation, management behaviour, market feedback, and competitive environment are examined.

b. Portfolio fit: marginal contribution to risk within the existing portfolio.

Assessing a stock's portfolio fit allows the team to match the specific dimensions of the fund's investment philosophy. Fit improves /deteriorates with the degree of diversification provided by a stock.

The small subset of highly rated stocks that make it through the initial profiling are then evaluated for "fit" within the disciplined and rigorous portfolio construction process. In this stage, the idea of risk is introduced into the investment decision. The portfolio managers evaluate company risk both in terms of risk specific to that security and risk it may have in common with other stocks they currently hold or that are within the pool of potential purchases. The goal of this process is a proposed portfolio that 1) maximizes the exposure to companies that reflect the investment philosophy, while 2) controlling at manageable level the bet that is made on such companies and minimizing uncompensated risks that can make their way into the portfolio.

Step 2: Develop ideas

Quantitative models are powerful tools for addressing the challenges associated with "breadth" i.e. lots of data and lots of stocks. They are objective, disciplined, repeatable and efficient. Despite these benefits, quantitative models are however both superficial and backward looking. Stocks are priced looking at the future and not the past. Models do not inherently point to a forward looking investment case; they simply suggest where to look. Developing ideas takes up the second part of the investment process.

In this step, the team works to discover and develop the investment case behind each profile generated in step 1. This portion of the process is inherently subjective and is designed as a second opinion and to identify aspects that are not captured by the quantitative models.

As such, the team will review each investment case to ensure that the return drivers have been identified and understood and to qualitatively assess valuation to ensure avoiding "cheap for a reason". The idea is to tie together the drivers into a cohesive investment case and to contextualise it within the broader market/economy.

Portfolio construction and risk management

The input to the portfolio construction comes from the best ideas (long and short) from various sub-strategies (Global, US, China, Emerging Markets, Canada, Large Cap, Small Cap) managed by the five senior portfolio managers working at ClariVest. All man-

agers are responsible for their respective sub-sleeves with Todd Wolter, lead PM of the N1-GLSEF-UH, constructing and optimising the portfolio around these sleeves. The goal is for each decision maker to deliver unfettered access to their highest conviction ideas within their area of expertise.

By investing long in securities around the globe experiencing under-appreciated earnings growth, and conversely short selling companies around the globe experiencing under-appreciated earnings contractions, the team expects **to add value on both the long and short sides via stock selection**.

Risk management is also examined at portfolio level as allocation exposures are strategically adjusted to ensure desired return and volatility targets.

The team uses a highly sophisticated risk management framework and the firm is focused on understanding what kind of risks are taken at a portfolio level. Risk management is implemented at a very early stage in the process and indeed plays a very significant part in the process. The fund aims to be beta neutral (i.e. beta around zero) with a low net equity exposure to create a product that is uncorrelated with underlying markets.

The portfolio will be diversified across a number of names, sectors and countries between the long and the short leg, with no unintentional bets being taken in the portfolio. Portfolio positioning is determined by level of conviction as well as from a risk perspective. This in turn is not only determined by the risk/reward-ratio, but also by the diversification impact on the whole portfolio. The multi-manager approach ensures a higher level of style-diversification in the combined portfolio than would otherwise have been the case in a single manager approach.

Main financial instruments used:

- Long leg: cash equities
- Short leg: single total return swaps
- Currency hedging: all non-USD denominated exposure is hedged to USD via FX forwards

Key characteristics:
Gross exposure: 100 % – 200 %
Net exposure: –20 % – +20 %
Beta: +/– 0.1

Why invest in Nordea's Global Long Short Equity Fund?

The fund offers investors a very attractive investment proposition:

- A **liquid alternative** solution that seeks to deliver a consistent absolute return that has low correlation with the returns of the underlying equity markets, and therefore, little dependence on overall market direction.
- **Return objective: cash +5 – 8 %**[2] **p.a.** gross of fees over a full market cycle
- **Volatility target: 5 % – 8 % p.a.**
- A global diversified portfolio which is **close to beta neutral with a low net exposure**

2) 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 – Global Long Short Equity Fund – USD Hedged	
Fund manager	ClariVest Asset Management LLC
Fund domicile	Luxembourg
ISIN codes*	LU1002957253 (BP-USD) LU1002957766 (BI-USD)[3]
Annual management fees	1.50 % p.a. (BP-USD) 1.00 % p.a. (BI-USD)[3]
Performance fees	10 % p.a. (BP-USD, BI-USD)[4]
Base currency	USD
Launch date	27.09.2016

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. 3) BI-USD share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent). 4) Performance Fee will be calculated as follows: at the end of the calendar year for which Performance Fee is to be calculated, the Performance Fee for each Share will be equal to maximum 10 % of the appreciation of the Net Asset Value per Share (net of Performance Fee) as at the end of such calendar year (when the Net Asset Value exceeds the all-time highest end of year Net Asset Value per Share ("High Watermark")), after deduction of Libor USD 3 Month ("Hurdle Rate"). The Net Asset Value per Share at the beginning of the calculation period may be lower than the High Watermark of the respective Share Class.