



# Fund Portrait

Third quarter 2018

## 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)

### 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**
- **Two solutions** to tailor our Covered Bond strategy to your **duration risk tolerance**

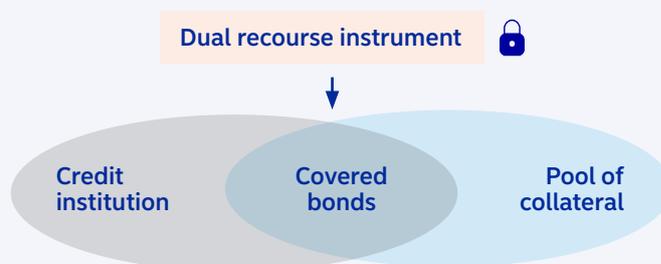
### Asset Management at Nordea

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 upwards of €39bn of assets<sup>1</sup> across Danish and European Covered Bonds strategies. Following the success of the Nordea 1 – European Covered Bond Fund, a compelling story of alpha generation since 2012, Nordea launched in October 2017 a second solution following the same strategy, yet with a limited duration risk: the Nordea 1 – Low Duration European Covered Bond Fund. Nordea firmly **believes skill, experience and active management** are required to navigate the intricacies of the €2.5trn<sup>2</sup> 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 becomes 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 senior debt and the remaining debt with a more junior position.

<sup>1</sup>) Source: Nordea Investment Management AB. Date: 30.09.2018. <sup>2</sup>) Source: ECBC. Date: 31.12.2016.

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

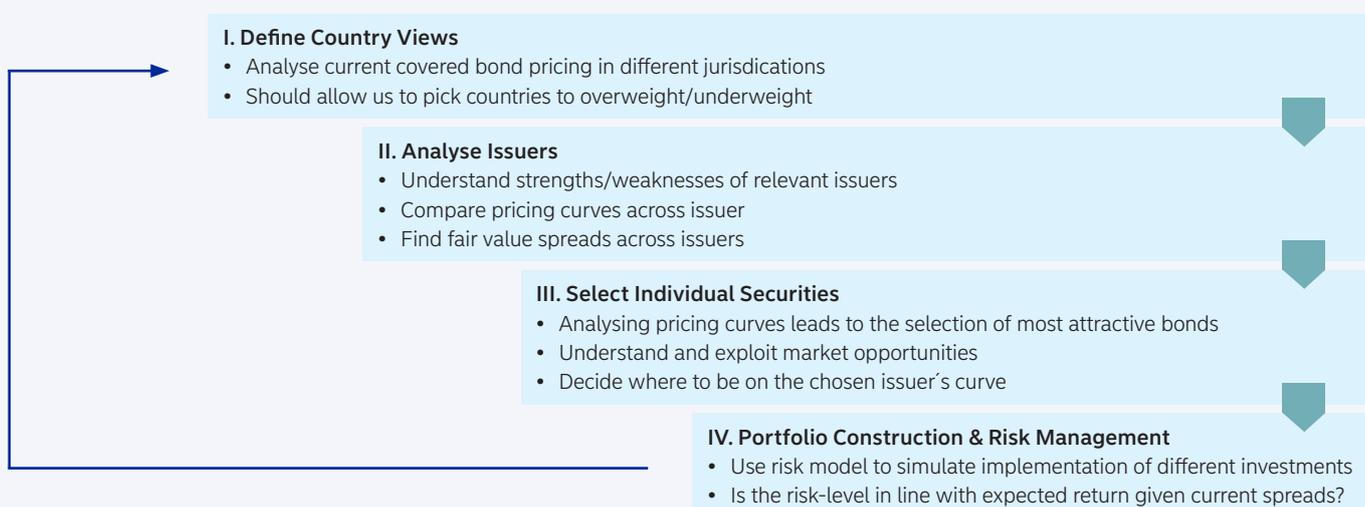
As a result, **covered bonds have not witnessed a default in more than 200 years of history.** In contrast, the “typical” safe bonds have taken investors by surprise: e.g. Greek government bonds were restructured earlier in the decade, while Greek covered bonds did not take a loss; another example would 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.<sup>3</sup>

## 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 17 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 modelling and pricing tools to deliver consistent investment results.

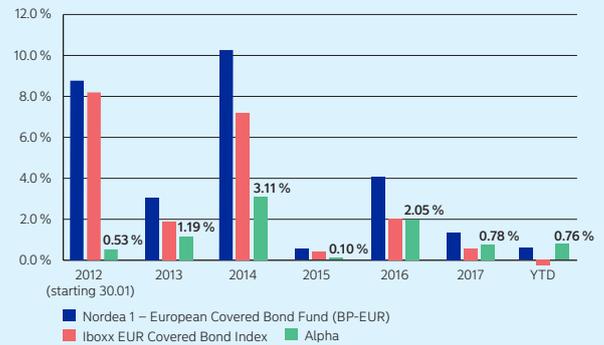
<sup>3)</sup> There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved.

## 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 gathering now more than 1.5bn of AuM, **awarded 5 star Morningstar rating<sup>4</sup>**



Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.01.2012 – 30.09.2018. 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 30.09.2018. 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.** 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 – © 2018 Morningstar, Inc. All Rights Reserved as at 31.08.2018. European Open End Funds database. Date: 31.08.2018. 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.**

## Nordea 1 – Low Duration European Covered Bond Fund

A solution to put your money to work!

Duration  
~ 1 year

An innovative investment solution with limited interest rate risk:

- An asset class to meet the **highest standards of safety**
- Managed by a **specialised and experienced investment team**
- With the **full access to its historical alpha capabilities**

### A strong alternative to low risk assets

12 months	Yield (%)	+ Potential Alpha (%)	Credit quality
Nordea 1 – Low Duration Covered Bond Fund (1Y)	0.55 <sup>1</sup>	+1.30 <sup>2</sup>	AA-
Bund (1Y)	-0.60	N.D.	AAA
US Treasury (1Y) hedged to EUR <sup>5</sup>	-0.48	N.D.	AA

<sup>1</sup> Based on portfolio composition, if the market remains flat – meaning no movements in rates and spreads – the portfolio would generate a gross performance of +0.55% over the next 12 months<sup>6</sup>.

<sup>2</sup> The product could benefit from alpha capabilities demonstrated by the team, which are not included in the expected return based on portfolio composition. Looking back at the track record of the European Covered Bond Strategy, the historical average alpha is +1.3%<sup>7</sup>.



In case of widening covered bond spreads in combination with a lack of delivering alpha, investors will lose money with this fund. Hence this solution is not considered as a replacement for cash, but a low risk option to put your money to work.

Source (unless otherwise specified): Nordea Investment Funds S.A. and Datastream. The figures reported for government bonds refer to bid yield. Data as of 30.09.2018. For illustrative purposes only. 5) Considering a cost of hedging equal to -3.0% (differential between the 1Y EUR Swap Rate and the 1Y US Swap Rate). 6) Source: Nordea Investment Management AB. Estimated yield over the next twelve months, based on current model portfolio and market conditions, assuming no change in portfolio holdings and no movement in interest rates and spreads. 7) Calculation based on the European Covered Bond Strategy and its benchmark the IBOXX Covered: 50% Germany, 40% France, 10% Spain. Performance in EUR, Gross of fees. Period under consideration: 31.12.2009 – 31.12.2017. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

## Nordea 1 – European Covered Bond Fund

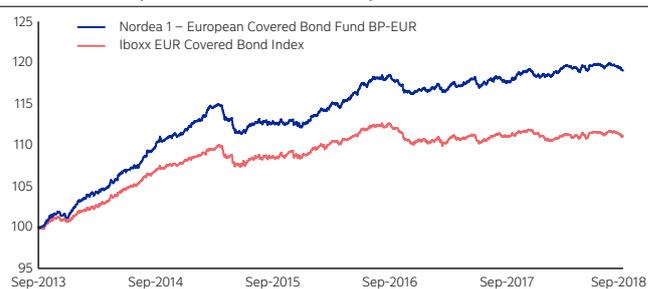
Cumulative returns in % (30.09.2018)	Fund <sup>8</sup>	Index <sup>9</sup>
YTD	0.56	-0.20
1 month	-0.55	-0.49
3 months	-0.63	-0.39
6 months	-0.47	-0.17
1 year	1.12	0.08
3 years	5.69	2.41
5 years	19.02	11.10

Calendar year returns in %	Fund <sup>8</sup>	Index <sup>9</sup>
2017	1.37	0.59
2016	4.11	2.06
2015	0.51	0.41

Nordea 1 – European Covered Bond Fund	
Fund manager	Danish Fixed Income & Euro Covered Bond Team
Fund domicile	Luxembourg
ISIN codes	LU0076315455 (BP-EUR) LU0539144625 (BI-EUR) <sup>10</sup>
Annual management fees	0.60 % (BP-EUR) 0.30 % (BI-EUR) <sup>10</sup>
Base currency	EUR
Fund size in millions	1,832.68
No. of holdings	115
Reference index	Iboxx EUR Covered Bond Index
Launch date	05.07.1996 (BP-EUR) <sup>11</sup> 09.12.2011 (BI-EUR) <sup>10</sup>

### Performance (30.09.2013 – 30.09.2018)



### Key Figures

Annualised return in % <sup>12</sup>	1.86
Volatility in % <sup>12</sup>	1.78
Average maturity	7.15
Effective Duration	5.33
Yield to Maturity in %	0.94
12m horizon yield <sup>13</sup>	1.27
Correlation <sup>12</sup>	0.92
Information ratio <sup>12</sup>	1.50
Tracking error in % <sup>12</sup>	0.71

## Nordea 1 – Low Duration European Covered Bond Fund

Nordea 1 – Low Duration European Covered Bond Fund	
Fund manager	Danish Fixed Income & Euro Covered Bond Team
Fund domicile	Luxembourg
ISIN codes	LU1694212348 (BP-EUR) LU1694214633 (BI-EUR) <sup>10</sup>
Annual management fees	0.50 % (BP-EUR) 0.25 % (BI-EUR) <sup>10</sup>
Base currency	EUR
Fund size in millions	1,275.15
No. of holdings	105
Launch date	24.10.2017

### Key Figures

Average maturity	5.52
Effective Duration	1.65
12m horizon yield <sup>13</sup>	0.55

### To find out more, visit our local microsite:

[nordea.lu/StartTheJourney](http://nordea.lu/StartTheJourney)  
[nordea.ch/StartTheJourney](http://nordea.ch/StartTheJourney)  
[nordea.co.uk/StartTheJourney](http://nordea.co.uk/StartTheJourney)



<sup>8</sup>Other share classes may be available in your jurisdiction. <sup>9</sup> BP-EUR share class. <sup>10</sup> Iboxx EUR Covered Bond Index. <sup>11</sup> BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent). <sup>12</sup> 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. <sup>13</sup> Annualized 3 year data. <sup>14</sup> Source: Nordea Investment Management AB. Estimated yield over the next twelve months, based on current model portfolio and market conditions, assuming no change in portfolio holdings and no movement in interest rates and spreads.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 05.07.1996 – 30.09.2018. 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 30.09.2018. 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.** 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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