



# Fund Portrait

Third quarter 2018

## Nordea 1 – Stable Return Fund

ISIN: LU0227384020 (BP-EUR) / LU0351545230 (BI-EUR)

### Highlights

- The fund manager aims to deliver an attractive return while aiming to protect the capital invested over a full investment cycle
- A long only moderate balanced fund<sup>1</sup>
- Unique way of allocating assets based on risk budgeting
- Robust investment process with a strong track record<sup>2</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 created the Nordea 1 – Stable Return Fund in November 2005. The fund is managed by the same team since launch, which oversees more than EUR 100 bn of assets across various asset classes<sup>3</sup>. Hence, Nordea offers you a unique and robust multi-asset solution to build your portfolio.

### Multiple awards winning

#### Morningstar Rating ★★☆☆

Morningstar acknowledges the remarkable risk adjusted performance of the fund compared to its peer group<sup>4</sup>

### A core holding in your portfolio

The Nordea 1 – Stable Return Fund is a moderate risk long-only fund<sup>1</sup>, which successfully combines equities, bonds and money markets instruments. The fund manager targets a stable, long term return by allocating investment between uncorrelated asset classes in order to try to preserve capital. The fund is ideal for investors who prefer moderate, consistent returns and are looking for a core investment for their portfolio. This product follows a conservative approach and relies on a proven and robust investment process.

The main objective is 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 returns.

### What makes us different in asset allocation?

Usually balanced or multi-assets funds are built around a common framework which combines long term (SAA) and short term views (TAA). But the implementation can result in extremely different outcomes in terms of risk/return profile and depends very much on the fund's philosophy and objectives (e.g. maximizing return vs. minimizing risk).

Most balanced portfolios rely on top down views to determine expected returns across different asset classes and try to allocate more to the asset class with the highest return potential (which also implies higher risk). In addition, balanced portfolios are adjusted according to market cycles by determining a market's top and bottom.

1) The fund may use derivatives for investments and hedging purposes. 2) The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. 3) Source: Nordea Investment Management AB. Date: 30.09.2018. 4) Data Source – © 2018 Morningstar, Inc. All Rights Reserved as at: 05.10.2018. European Open End Funds database. Morningstar EAA OE EUR Moderate Allocation – Global category. Date: 30.09.2018. Performance in EUR for both the BI-EUR and BP-EUR share class. 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.

At Nordea, on the other hand, our investment team uses a different approach. It combines the expected return, the correlation and the volatility for each asset class to price their risk/return profile. Furthermore, instead of timing the market cycles the fund uses other features like bull-bear indicator, bonds vs. equity regime (based on risk premium).

The fund's **unique features** are summarised below:

<p><b>Asset allocation is relatively stable</b> (based on long term views): less sensitive to short term market movements</p>
<p><b>Focus on controlling absolute risk:</b> target low probability of negative returns over 3 years → Risk comes first</p>
<p><b>Asset allocation based on risk budgeting:</b> We allocate in accordance to our risk budget, not simply to return expectations</p>
<p><b>Extensive use of internal research and models</b></p>

These key differences have allowed the fund to distinguish itself from both a performance and capital preservation point of view<sup>5</sup>.

## A proven and repeatable investment process



### Step 1: Strategic Asset Allocation (SAA)

The SAA sets the framework for the fund's asset allocation between the different asset classes. It is the starting point for the asset allocation process based on its objectives and tolerance for risk. The SAA results from the team's **long term** expectations on returns, volatilities and correlations which are then combined with the defined risk parameters. The portfolio is optimised to display the best expected return at the given level of risk (optimisation and iterative process).

This process is **repeated on a monthly basis**. As it is based on long term views (up to 10 years), the SAA will tend to be relatively stable.

### Step 2: Tactical Asset Allocation (TAA)

In a second step, the portfolio will be adjusted, to a limited extent, in response to current economic or market conditions. This is called the Tactical Asset Allocation (TAA) and relies on shorter term views and signals (up to 3 years). The fund will rely on information flow, relative value and equilibrium pricing.

The TAA is **monitored daily**.

### Step 3: Finding the optimal portfolio

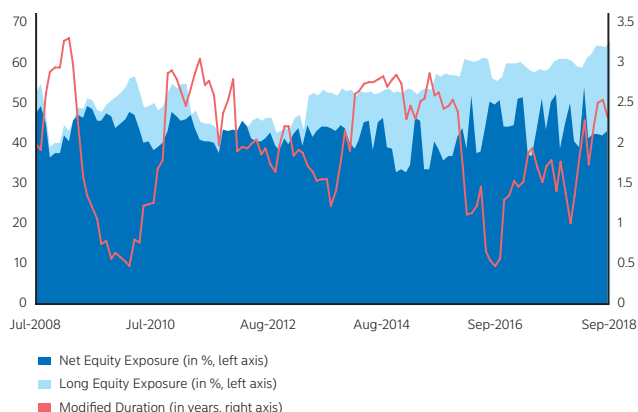
Finally we combine step 1 (SAA) and step 2 (TAA) to find the right mix of bonds and equities, which results in a dynamic asset allocation.

The final portfolio will be the one that generates the highest return given the risk constraints.

The security selection of all papers is outsourced to other Nordea teams. The fund managers focus on risk budgeting and the respective weighting of the asset classes. Therefore they can rely on the expertise and knowledge of other specialised teams, which will be better at adding value in the security selection.

<sup>5</sup> 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 – Stable Return Fund: Historical allocation



Source: Nordea Investment Management AB. Period under consideration: 31.07.2008 – 30.09.2018

## Security selection

### Stable/Low Risk Equities<sup>6</sup>:

In a balanced portfolio, equities are the most important source of risk. That is why the equity portion will be allocated to “Stable/Low Risk Equities”, which include **stocks that offer similar return compared to average global equities over time with a lower risk**. Security selection will be done by the Nordea Multi Assets Team (including around 40 sophisticated and experienced investment professionals).

### Fixed income and money market securities:

Our fixed income process is “purely” an asset allocation process, where the fund managers define the target duration and credit exposure (such as investment grade, high yield etc.). The paper selection itself is done by Nordea’s fixed income organisation.

## Risk management, the bedrock of the investment process

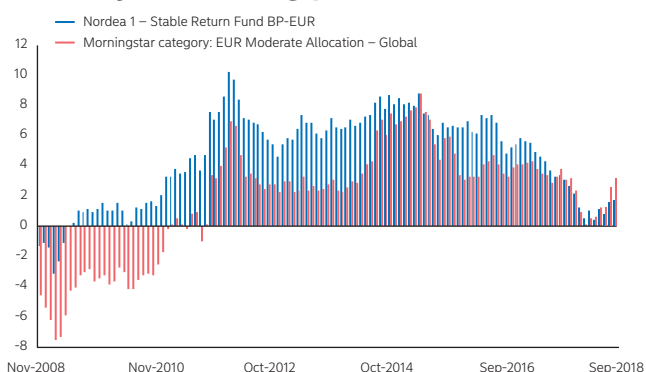
The risk management underpins the fund’s investment process and intervenes at every step of the way. The fund’s risk budgeting is built around the following constraint: **“Low probability of losing money over a three year period”**. That means each asset class individually contributes to the overall portfolio’s total risk. This is achieved by using a Value at Risk approach. Constraining the asset allocation to a risk budget has allowed the fund to better preserve capital compared to the peer average.

## A strong track record

The management team has been working together since 2004 and has been running this fund since its inception. Thanks to their strong analytical skills and investment process, the fund has been able to outperform competitors and fulfil its objectives.

Comparing the three years rolling performance of the fund to its peers the returns prove to be higher and less affected by market downturns.

## Three years rolling performance in %



Each point of the graph shows the average performance of the Nordea 1 – Stable Return Fund when its investor held the fund for three years. The rolling performance is not necessarily based on calendar years but is calculated on month end a NAV is computed and takes into account the past three years, the first time being calculated for the period beginning from 30.11.2005 until 30.11.2008. Initial and exit charges could affect the value of the performance. Data Source – © 2018 Morningstar, Inc. All Rights Reserved as at: 09.10.2018. European Open End Funds database. Morningstar EAA OE EUR Moderate Allocation – Global category. Performance in EUR and net of fees. Period under consideration: 30.11.2005 – 30.09.2018. **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 is not guaranteed.**

6) For more information on Stable/Low Risk Equities’ investment process and philosophy, you can also refer to our Nordea 1 – Global Stable Equity Fund.

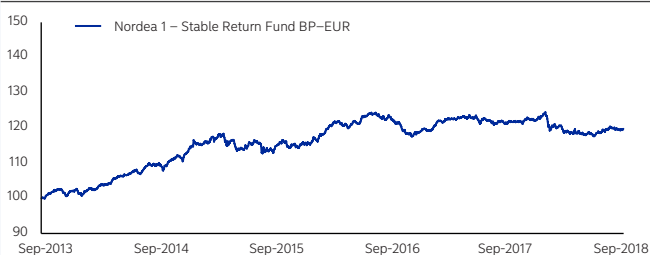
Cumulative returns in % (30.09.2018)	Fund <sup>7</sup>
YTD	-2.03
1 month	-0.30
3 months	1.54
6 months	0.49
1 year	-1.20
3 years	5.38
5 years	19.74
Since launch (02.11.2005)	64.40

Calendar year returns in %	Fund <sup>7</sup>
2017	2.63
2016	2.96
2015	2.58

Asset Allocation in % (30.09.2018)	Fund <sup>8</sup>
Equities	64.77
Mortgage Bonds	16.66
Government Bonds	8.45
Corporate Bonds	7.33
Net Liquid Assets	2.78

Nordea 1 – Stable Return Fund	
Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0227384020 (BP-EUR) LU0351545230 (BI-EUR) <sup>9</sup>
Annual management fees	1.50% p.a. (BP-EUR) 0.85% p.a. (BI-EUR) <sup>9</sup>
Base currency	EUR
Fund size in millions	12,719.77
No. of holdings	471
Launch dates	02.11.2005 (BP-EUR) 01.04.2008 (BI-EUR) <sup>9</sup>

## Performance (30.09.2013 – 30.09.2018)



Holdings (top 10) in % (30.09.2018) <sup>8</sup>	
United States Treasury Note/ 2% 15-02-2025	2.58
United States Treasury Note/ 2.75% 15-02-2028	1.35
Oracle	1.27
CVS Health	1.26
Johnson & Johnson	1.20
Amgen	1.19
Cognizant Technology Solutions	1.18
Walgreens Boots Alliance	1.18
Cisco Systems	1.13
Medtronic	1.13

## 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/stability.always](http://nordea.lu/stability.always)  
[nordea.ch/stability.always](http://nordea.ch/stability.always)



\*Other share classes may be available in your jurisdiction. 7) BP-EUR share class. 8) Based only on physical positions. 9) 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): 02.11.2005 – 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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