



Fund Portrait

Nordea 1 – Unconstrained Bond Fund – USD Hedged

ISIN: LU0975281527 (BP-USD) / LU0975281360 (BI-USD)

Highlights

- **Barbell approach** combining high yielding credit opportunities and more defensive assets including non-credit sectors
- Leveraging MacKay's **macro expertise** led by a seasoned economist, Dan Roberts
- Ability to **shorten the duration** with the use of Treasury Futures
- **Objective:** Cash +3% to 5% over a full investment cycle with target volatility 4–8%¹

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.

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 **MacKay Shields LLC** ("MacKay") as investment sub-manager for the Nordea 1 – Unconstrained Bond Fund – USD Hedged launched on November 5, 2013.

The case for an unconstrained approach

After decades of falling interest rates and the past several years of unprecedented global monetary intervention, investors in conventional bond strategies are becoming increasingly concerned about potential losses if interest rates rise. Indeed, **investors have to look beyond interest rate exposure** for their returns.

Traditional benchmarks generally have a high duration which is likely to underperform when interest rates rise. It is therefore prudent for investors to actively manage duration, hence a more unconstrained approach.

History has shown that **no single fixed income sector performs well in every environment**. For example, if the economy is moving into an expansion phase, credit-risk driven securities such as high yield corporate bonds have historically tended to outperform Treasuries. Conversely, if the economy is heading into a slump or risk appetite is falling, managers might choose to reduce their credit exposure and take on more duration. An unconstrained strategy can identify the prevailing risks and return opportunities, whatever the stage of the economic and market cycles, so as to maximize risk-adjusted returns.

The Nordea 1 – Unconstrained Bond Fund – USD Hedged is a flexible bond portfolio that **manages duration and credit risk actively** – not constrained by any benchmark. The investment philosophy is to **avoid exposure to uncompensated risks** in the belief that bond markets do not reward for inappropriately high levels of risk. The fund leverages the asset allocation expertise of MacKay Shields' Global Fixed Income team who combine a proven top-down analytical framework with a rigorous bottom-up process into one solution.

The objective of the fund is to achieve 3% to 5% p.a. in excess of cash over a full investment cycle, with a volatility target between 4% and 8%¹.

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.

Macro-economic expertise

The Global Fixed Income team has 7 senior members in its Investment Policy Committee. Dan Roberts, PhD, a **seasoned economist** and Chief Investment Officer of the team, spearheads the macro-economic research and leads the top-down process. In addition to more than 25 years of investment experience, Dan previously served in the Reagan administration as a member of staff to the President's Council of Economic Advisors and as Chief of Staff of the US Congress' Joint Economic Committee.

The team recognizes that **monetary policy**, as dictated by central bank actions, is the single largest contributor to credit creation and an **important driver of the inflection points in the market cycle**. By understanding monetary policy, they are able to identify credit excesses and cross sector developments more clearly. This allows them to position the portfolio during these turning points in the cycle. The macro analysis gives a better understanding of where we are in the business cycle and provides strong guidance on:

- Sector emphasis
- Duration management
- Yield curve positioning

Rigorous bottom-up component

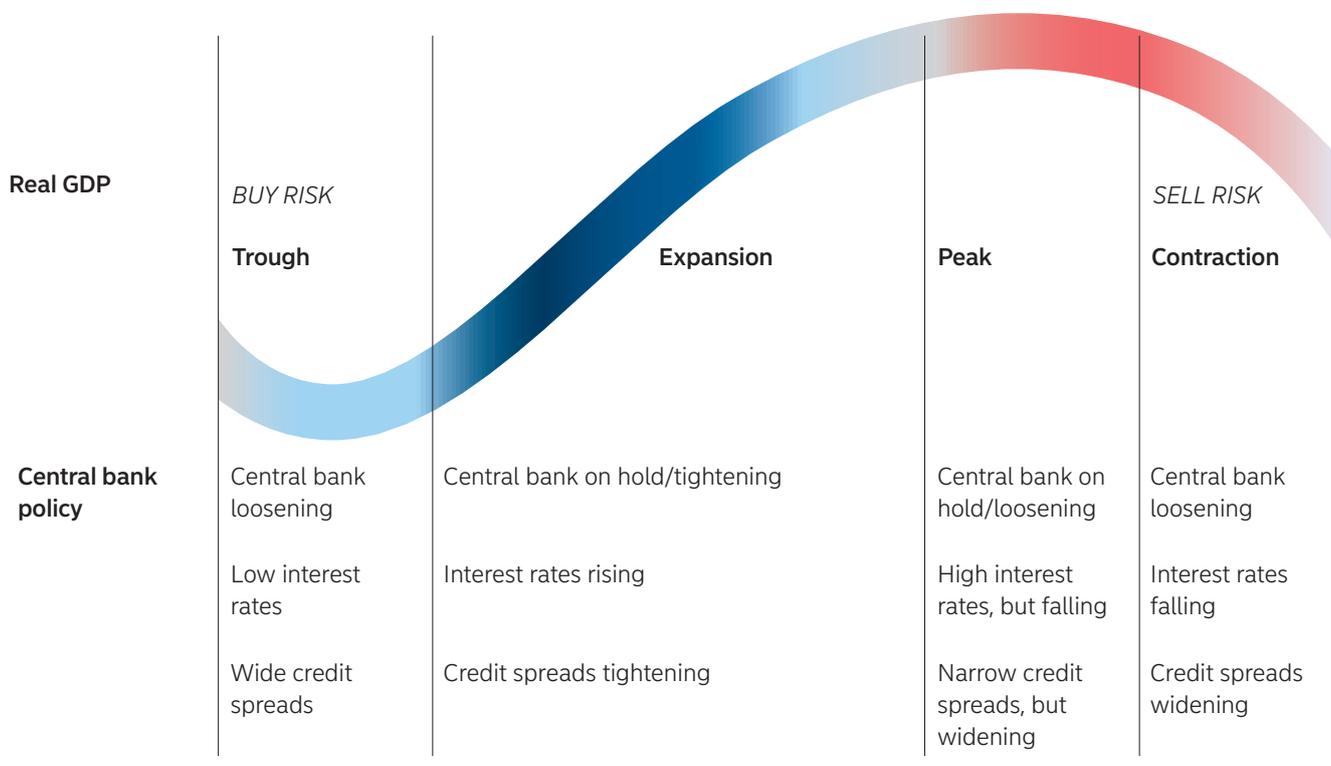
The rigorous bottom-up component of the investment process continuously feeds into the macro analysis to help identify significant changes in financial market conditions, real economic developments and areas of credit excess.

Individual **credits** are run through a **32-factor screen of both quantitative and qualitative characteristics**, seeking to identify gross indicators of inappropriate or uncompensated risk. These risks include basic financial and liquidity risk, political risk, regulatory risk, litigation or liability risk, technology risk and other risks that can be identified and measured. An integrated team of **industry specific analysts** will provide a deeper investigation of the bonds that make it through the initial screen to identify companies with high creditworthiness, improving fundamentals, positive outlook, good liquidity, etc.

During more defensive periods, the fund can allocate to **non-credit sectors** such as treasuries and securitized assets. In the case of securitized assets such as MBS, the team will use prepayment analysis and risk modelling to understand the structure risk.

Thus, the **primary sources of added value and overall portfolio performance are asset allocation across credit sectors, and security selection within those sectors.**

Central bank policy and stages of the economic cycle



The advantages of our approach

As the name suggests, unconstrained is a “go anywhere” approach that gives the portfolio the flexibility to allocate capital more efficiently, taking the risks that offer the best compensation at different stages in the economic cycle. The fund applies a **barbell approach by combining high yielding credit opportunities** – such as high yield and emerging markets corporates – **and more defensive assets** – such as investment grade securities including non-credit sectors. The fund is able to invest in a **broad global opportunity set** to maximize risk-adjusted returns. This includes having some insurance in place against “tail events” – those rare but extreme market shocks that result in outsized losses, as happened in 2008/09.

In addition to the flexible asset allocation across sectors, the portfolio managers further **employ active duration management**, predominantly focusing on downside protection. The fund has a duration bandwidth of 0 to 7 years. The duration

target is achieved by combining longer duration bonds with **shorts in US Treasury Futures**. This approach is effective to gain exposure to sectors that have the strongest risk/reward opportunities while protecting the portfolio from interest rate risk, specifically for those maturities where rates are expected to increase the most.

In a nutshell, the Nordea 1 – Unconstrained Bond Fund – USD Hedged offers the following advantages:

- *Global asset allocation between credit sectors and extensive expertise within credit sectors*
- *Ability to allocate to non-credit sectors during defensive periods*
- *Duration management focused on downside protection*
- *Long-term focus, not a short-term trading strategy*

Nordea 1 – Unconstrained Bond Fund – USD Hedged

Fund manager	MacKay Shields LLC
Fund domicile	Luxembourg
ISIN codes*	LU0975281527 (BP-USD) LU0975281360 (BI-USD) ²
Annual management fees	1.10 % p.a. (BP-USD) 0.65 % p.a. (BI-USD) ²
Base currency	USD
Launch date	05.11.2013

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. 2) BI-USD share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

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