



# Fund Update

May 2018

## Nordea 1 – Stable Return Fund

ISIN: LU0227384020 (BP-EUR)

### Fund commentary

During May, global equities delivered overall positive returns, as investors were focused on growth after a buoyant reporting season and steady macroeconomics in the US, such as historically low unemployment rate. This environment was only partially disrupted towards the end of the month following political concerns coming from Italy and Spain, as well as from the harsh negotiations on US proposed tariffs, including EU and NAFTA. Within the fixed income space, yields decreased and curves flattened on both side of the Atlantic. Conversely, spreads widened across the board in May as credit suffered from rising risks on some European sovereign bonds, as populists managed to form government in Italy.

In this context, the fund delivered a negative performance of -1.28%<sup>1</sup> in May. The return was essentially driven by negative contributions from our equity holdings, while the rest of the strategies had almost no impact over the month.

Our long equity exposure to developed markets (DM) and emerging markets (EM), implemented through our 'Global & EM Stable/Low Risk Equities', delivered negative contributions. Compared to the broad market, both our DM and EM Stable Low/Risk Equities underperformed their respective indices on a risk adjusted basis even if their performance was considerably different before and after the Italian driven market jitters seen over the last week of May. Investors continued favouring high growth / high valuation type of stocks during the market rally that characterized the first three weeks of the month. However, low risk equities drove a short but significant outperformance after May 22nd. Our short equity positions (through various indices replicating the MSCI World), implemented to reduce the fund's beta, had a negative impact on performance, as DM equities managed to close the month in positive territory. The momentum strategy also detracted from performance as it was activated during most of the period.

Within the fixed income space, US and German yields were generally lower and both curves flattened as the reduction was more pronounced on the mid to long end of the curves. Moreover, the reduction in yields was considerably more

pronounced in Europe, as the Italian and Spanish market jitters are a source of greater macro concerns on this side of the Atlantic. Consequently, the strategy's short European duration positions detracted from performance but this was more than compensated by the positive contributions of both our long US Treasuries positions and our allocation to European covered bonds and Scandinavian mortgage bonds. In addition, the strategy's tactical HY credit positions had a marginally negative impact on performance this month.

Open currencies' positions in our FX Valuation strategy were marginally positive from a performance contribution perspective. The FX exposure continues to consist of a diversified portfolio of currencies that is dynamically adjusted according to valuation measures. The FX strategies are generally expected to provide diversification over time and generate a positive return primarily in weak equity market environments. Meanwhile, our Cross Assets Anti-Beta strategy, which combines fixed income and currency futures to offer downside protection in weak equity markets, had also a negligible negative impact on performance.

### Strategy and outlook

According to Barra, the annual ex-ante volatility of the fund closed May lower at approximately 3.5%. At the same time, both the duration and the net equity exposure of the portfolio were reduced to 1.7 years and 41%, respectively.

Strategically speaking, there were no significant changes to the portfolio during the month. From a tactical point of view (as opposed to our Strategic Asset Allocation), going into June, we switched from 'positive' to 'neutral' on equities, while we maintained our 'positive' views on duration and credit.

Currency-wise, the fund hedge to EUR lightly increased at 91%, while the overall exposure to our active currency strategies was slightly lower at around 15%. The main month-end trades in the FX Valuation strategy included long JPY position paired with short NZD position. As for the Cross Assets Anti-Beta strategy was overall slightly long duration as of the end of May.

Please note that the Nordea 1 – Stable Return Fund was soft closed between 07.09.2016 and 22.05.2018 and that the soft closure has now been lifted.

1) Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.04.2018 – 31.05.2018. 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 31.05.2018. 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.

The decision to leave some of our currency exposure unhedged is on one hand relying on valuation metrics as a part of our FX Valuation strategy, and on the other hand, on short-term correlation patterns between currencies and riskier assets in our Cross Assets Anti-Beta strategy. Both strategies are primarily expected to provide diversification and positive returns in weak equity markets.

The fund's cautious investment approach and positioning is fairly unchanged given the economic market environment and outlook. Granted the composition of the equity allocation, it is still expected that the fund will continue to benefit from a relatively smaller exposure to future downside risk compared to the broader market in case of continued uncertainty and volatility in financial markets.

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