

In Focus

For professional investors only*

March 2018

Seize the opportunity of EM Local Debt... but don't miss the big picture!

Nordea 1 – Emerging Market Bond Opportunities Fund

ISIN: LU0772920129 (BP-USD), LU0772919204 (BI-USD)

- Benefit from the **local debt dynamics** with a broader **diversification**
- **Actively blend** local with hard currency to take advantage of their **historical divergence** and **extended universe**
- Keep the big picture with the **investment experts** you are looking for

Let the truth be told: Emerging Market Local Currency (EM LC) debt had an incredible start to the year (+4.42% YTD), after the already strong 2017 (+15.21%)¹.

This alone is enough to catch the attention of many! Still, LC debt has shown both times of strengths and weaknesses. Extending the investment universe by including both Local and Hard Currency (HC) assets offers the potential to benefit from the Local debt dynamics while also gaining access to a more diversified universe to better manage risks... and reach opportunities.

Consistent with its multi-boutique approach, Nordea has appointed PGIM Limited ("PGIM") as sub-manager of the **Nordea 1 – Emerging Market Bond Opportunities Fund** (N1-EMBOF), a solution seeking the most attractive investments within the Hard Currency and Local Currency markets by carefully analysing HC bonds, local rates and currencies.

Why keep the big picture in mind? Here are some of the reasons why you should at least think twice about your approach to EM debt investment.

Value the historical divergence between LC and HC

Different market environments provide different opportunities: there is a **strong case for active rotation** between the two asset classes.

Emerging Market Bond Opportunities Strategy in Light of Historical Returns of EM Hard and Local Currency Debt

Annual Returns (USD Terms) – Gross of fees

Year	Hard Currency EMD ²	Local Currency EMD ³	Difference	Emerging Market Bond Opportunities Strategy ³
2017	10.26	15.21	-4.95	15.71
2016	10.15	9.94	0.21	12.23
2015	1.18	-14.92	16.1	-6.37
2014	7.43	-5.72	13.15	2.09
2013	-5.25	-8.98	3.73	-6.61
2012	17.44	16.76	0.68	
2011	7.35	-1.75	9.1	
2010	12.24	15.68	-3.44	
2009	29.82	21.98	7.84	
2008	-12.03	-5.22	-6.81	
2007	6.15	18.12	-11.97	
2006	9.86	15.22	-5.36	
2005	10.25	6.27	3.98	
2004	11.62	22.97	-11.35	
2003	22.21	16.92	5.29	

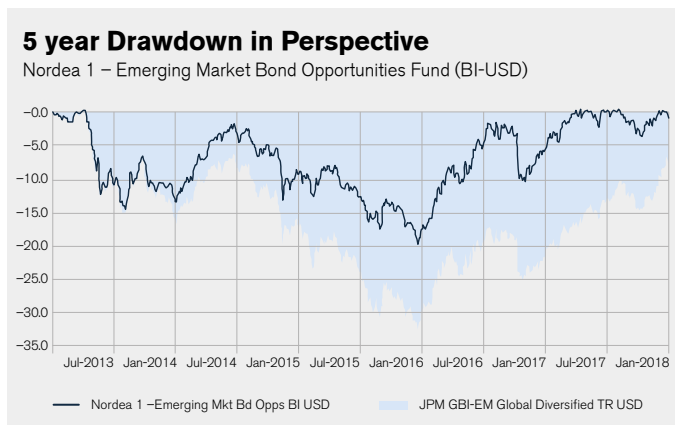
■ Hard Currency EMD Outperforms ■ Local Currency EMD Outperforms

2) As of December 31, 2017. Hard currency EMD represents the JPM EMBI Global Diversified Index. Local Currency EMD represents the JPM GBI-EM Global Diversified Index (Unhedged in USD). 3) Performance figures are in USD. Product Inception: 30.09.2012. **The performance represented is gross of fee, composite and historical; past performance is not a reliable indicator of future results. Comparisons with other financial products or reference indices are meant for informational purposes only.**

1) JP Morgan GBI Emerging Market Global Diversified. YTD as of 19.02.2018.

* investing for their own account – according to MiFID definition

The N1-EMBOF pursues a strategy that allocates actively between EM HC and LC bonds. This has allowed the fund to **escape the worst of the large drawdown experienced by LC debt in the few last years.** LC bonds were severely affected by the broad market selloff resulting from the combination of the plunge in commodity prices and the global fear of growth slowdown in China. As illustrated below, the fund has not only minimized the sharp decline but has also been able to **recover and capture the local debt rebound of the more recent years.**

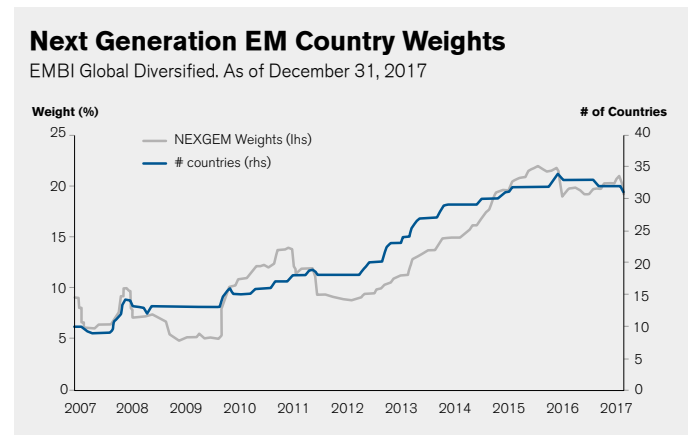


Data Source – © 2018 Morningstar, Inc. All Rights Reserved as of 31.01.2018. European Open End Funds database, Morningstar EAA OE Global Emerging Market Bond category. Period under consideration: 01.02.2013 – 31.01.2018. Performance in USD. **The performance represented is historical; past performance 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. Comparisons with other financial products or reference indices are meant for informational purposes only.**

Diversify the investment opportunities

Bringing together the LC and HC bond markets creates a more diversified field of opportunities: e.g. increasing the set of countries, extending the exposure to some regions where LC debt has few representatives, encompassing not only sovereigns bonds, but also quasi-sovereigns and corporates.

Over the years, we've seen more and more NEXGEM/ Frontier countries issuing Hard Currency bonds – a vibrant dynamic where active management finds new opportunities overlooked by many market participants.



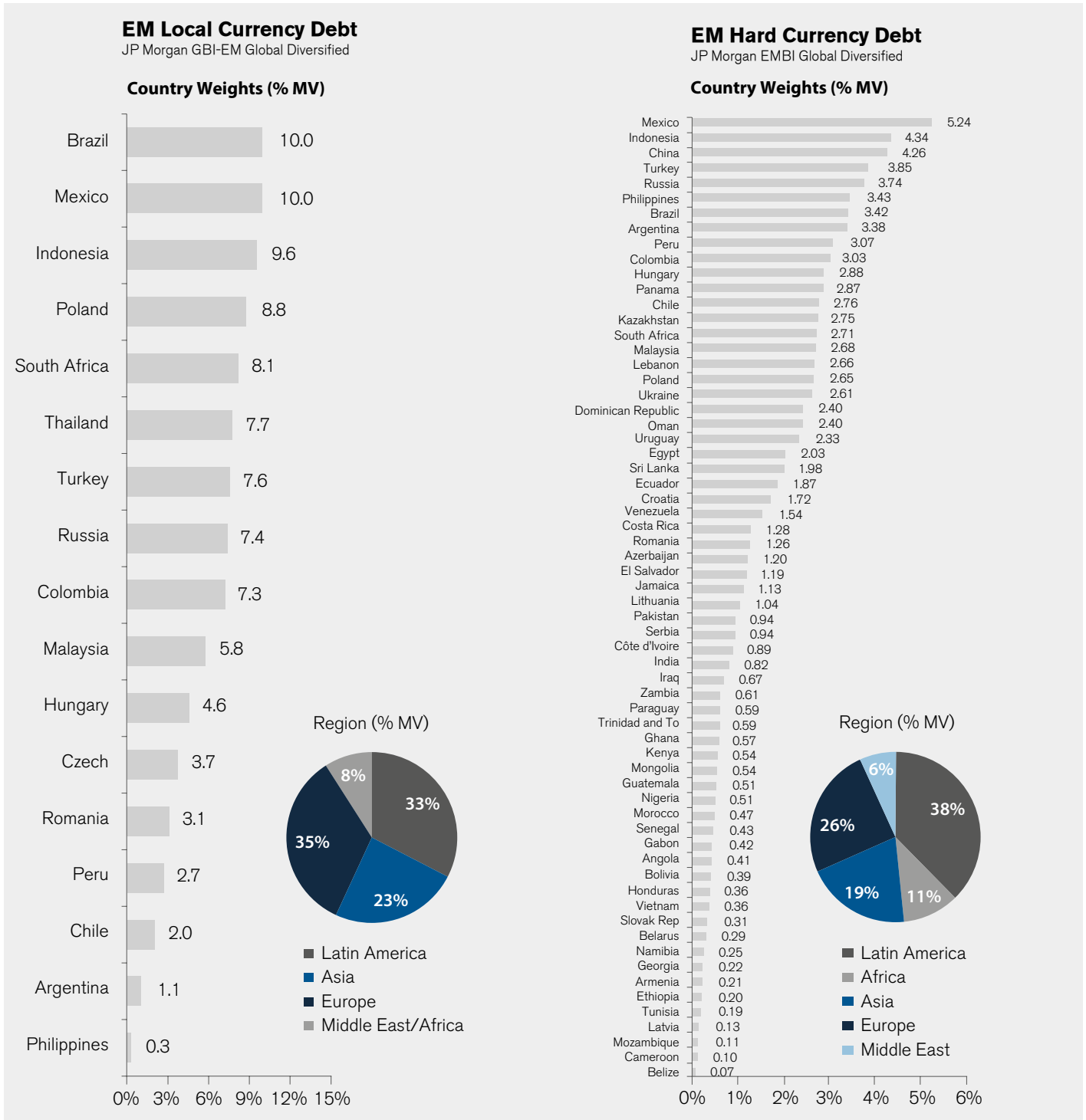
Source: JP Morgan.

Keep the big picture... with the investment partner you are looking for!

Needless to say “timing” between HC and LC is far from an easy task. In addition, having a portfolio mind-set is crucial to maintain diversification benefits. As many countries of LC markets do issue HC bonds as well, a naïve/passive allocation potentially duplicates common risk exposures. However, one does not have to take this road alone, as this approach requires **expertise and dedicated time to establish a comprehensive investment.**

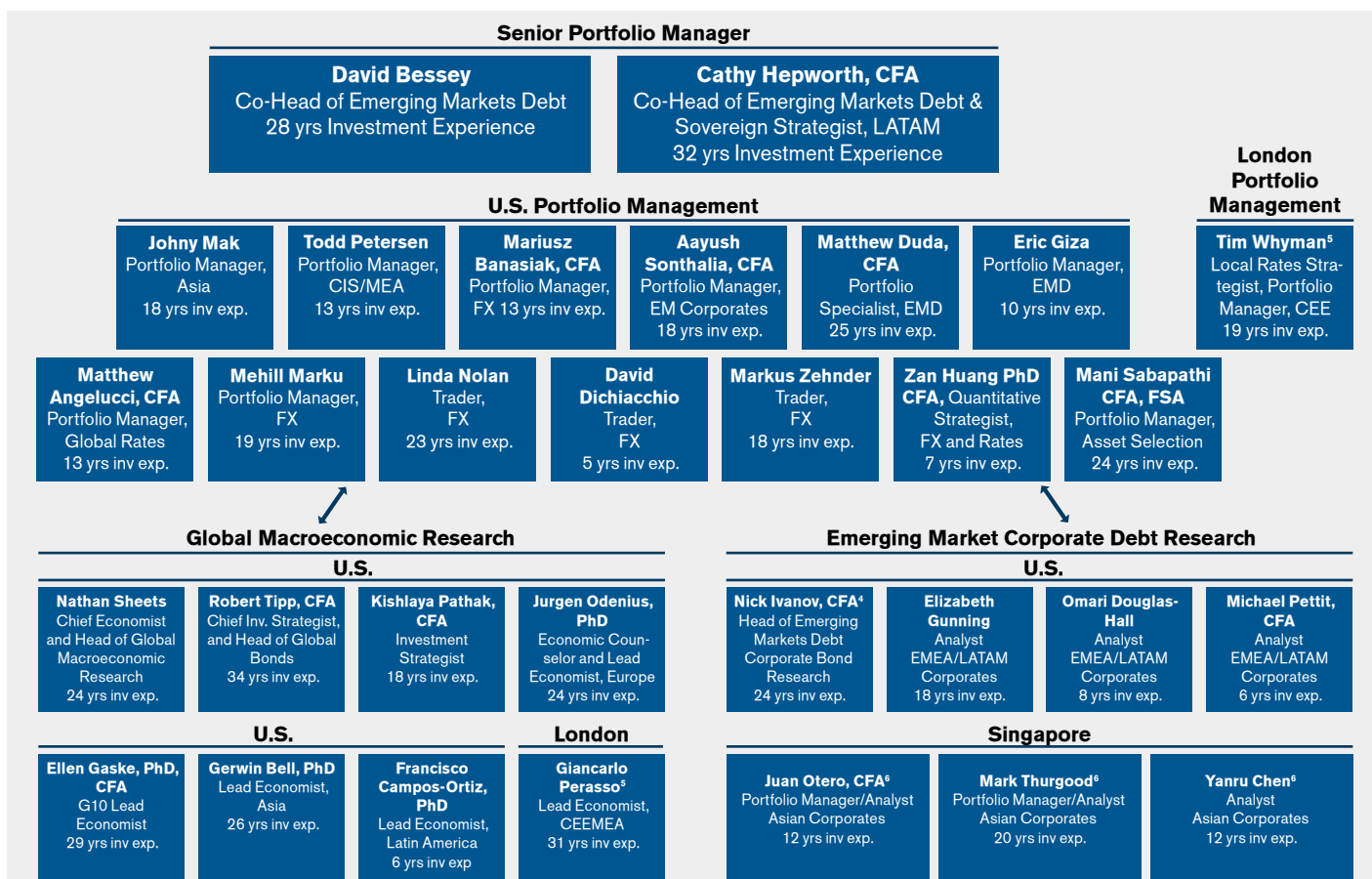
Bringing together the Local Currency and the Hard Currency markets

EM Debt Benchmarks Comparison



As of September 30, 2017. Source: PGIM Fixed Income, J.P. Morgan. For illustrative purposes only. Not intended as recommendations or a complete listing. An investment can not be made directly in an index. Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2018, J.P. Morgan Chase & Co. All rights reserved.

Emerging Markets Debt Investment Team



Source: PGIM Fixed Income. Staffing as of December 31, 2017. Staff years as of December 31, 2017. 4) Member of PGIM Fixed Income's credit research group. 5) European Team members are employees of an indirect subsidiary of PGIM, Inc., who have been providing services to PGIM Limited, a UK subsidiary that is authorized and regulated by the Financial Conduct Authority. 6) Employee of a wholly-owned subsidiary of PGIM, Inc., PGIM (Singapore) Pte. Ltd.

The N1-EMBOF is the result of PGIM's EM Debt team **robust set-up and EM markets' experience**: it relies on the collaboration between the economists and portfolio management team, with dedicated specialists by regions and security types (local rates, FX, corporates).

The fund allocation is **an outcome of the team cohesion and strong research**:

- **Top down assessment** defines the active risk relative to the benchmark, allocating between rate risk, currency risk and spread risk, given the global backdrop
- **Country analysis** comprises the proprietary Sovereign Rating as well as forecasts of inflation, central bank policy, output gap, debt metrics, and other key economic parameters found in the economic team's Central Bank Monitor
- **Security analysis** compares directly the issuances in HC and LC, leaving these positions hedged or unhedged, to find the most attractive risk/return opportunities

Looking at HC, LC and FX as specific investments allows PGIM to be very flexible in separating the risk – and potential returns – to which they want to get an exposure. The decision to allocate between hard and local bonds **is not a singular top-down allocation decision**, but rather the **result of a country by country assessment of securities that are available whereby the team decides to own those that offer the best**

risk reward characteristics. The ultimate positioning will be guided by the types of risk the team would like to take in the current environment, and is governed by its risk budget.

Overall, EM local markets can be volatile and are susceptible to periods of USD strength. Mixing a local allocation with HC bonds in a blended portfolio should mitigate some of the volatility, while allowing investors exposure to the potential returns from LC debt. **Cutting across the complexities of EM debt markets is a task for experts: the N1-EMBOF comes with the set-up and expertise you are looking for!**

Portfolio Characteristics ⁷	N1-EMBOF
Effective Duration (yrs)	6.23
Effective Yield (%)	5.79
Average Rating (S&P)	BB+

7) Source of portfolio data: PGIM Fixed Income. Please note the positioning is on the model portfolios' level and might therefore deviate from the funds' figures.

Cumulative performance N1 – EMBOF	BP-USD	BI-USD	Cumulative Benchmark ⁸
1 year	14.37%	14.94%	13.14%
3 years	17.74%	19.66%	17.13%
Since launch (03.09.2012)	14.82%	18.06%	16.38%

8) 50% JP EMBI GD and 50% JP GBI-EM GD. **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.**

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 03.09.2012–31.01.2018. 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 31.01.2018. 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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