

April 2021

Looking for Quality in Value: Stable Equities

Nordea 1 – Global Stable Equity Fund

ISIN: LU0112467450 (BP-EUR) / LU0097890064 (BI-EUR)

Highlights

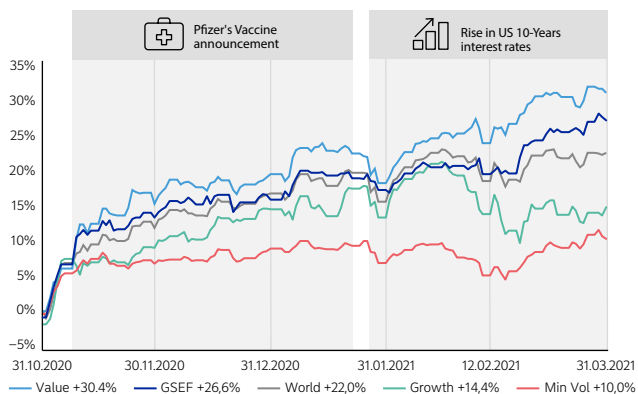
- Vaccines have brought a **strong cure to Value style**, which benefitted from the current massive rotation...
- ...but, Value style could come with **side effects**...
- ...which could be treated by **diversification with Quality and Low Volatility**
- So, in a portfolio context, our Global Stable Equities' **sustainable strong and cheaper fundamentals with lower sensitivity to interest rates** could be a good vaccine!

The most significant rotation in decades...

Value is back!

After 4 years of historically outstanding Growth style outperformance, which was magnified by the Covid-19 crisis's supply shock, the first **vaccines' releases sparked** one of the **strongest style rotations** in decades as market's anticipated the reopening of the main economies. This led to Value's sturdiest relative quarterly return, after Growth's extraordinary 35% relative outperformance in 2020.

Style rotation since first vaccine announcement



...but beware of value traps!

Value stocks were shored indiscriminately up by the hope of a fast and strong macroeconomy's recovery, as investors moved away from the few growth mega caps (e.g. Tesla) that pulled indices to new records and historically stretched valuations. However, from long-term investors' perspective, equity investing is not a binary choice. Indeed, **beyond value, there is more** to consider to enhance portfolios' risk-reward profiles. This is illustrated by investors' difficulty in timing markets' tilts towards growth or value, which empirically proves to be hard.

In addition, even if you manage to be well positioned when value rallies, value investing remains risky due the so-called **value traps** (deep value companies with poor fundamentals). Thus, in the long-run, investors should consider to have another string to their bow.

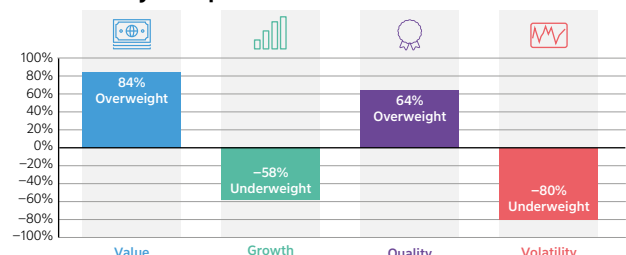
So, diversify your style...

Combining Value with Quality and Low Volatility.

Value stocks can be cheap for reasons, that is why **minimizing** that risk by moving up the quality scale can protect portfolio value in the long run. It can also make the difference in the short term when it comes to **downside risks** (fragile economic recovery with many companies on the brink of bankruptcy).

Overall, Value combined with Quality and Low Volatility is a **much better approach** for capital preservation and long-term return. Here is where investment solutions that integrate a valuation overlay paired with a fundamental stability such as our Stable Equities are better equipped than the broad market to face market uncertainties (please see chart below):

Portfolio style exposure



Source: Style Analytics. Data as at: 31.03.2021. Period under consideration: 31.03.2011 – 31.03.2021. Tilt Scores display Global Stable Equity Strategy's style sensitivity to MSCI World Index factors (measured in EUR).

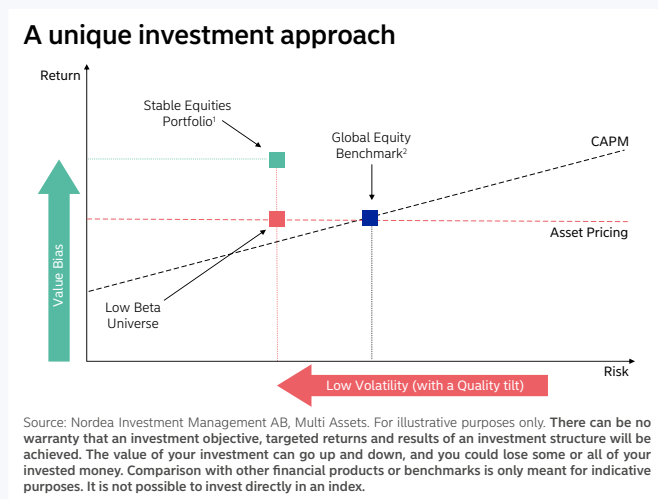
This **diversification of portfolio style** generally leads to **lower volatility** and **quality features** that are key to face different financial market environments.

...with our Global Stable Equities¹

This combination of value and quality, paired with lower volatility is what our Stable Equities are offering, with a proven process developed more than 15 years ago. This is based on **both academic** (Fama and French) and **empirical research**, which found that, in the long-run, low volatility stocks with sustainable fundamentals tend to offer better risk-adjusted returns than the broad market. This was a turning point for equity investing compared to the Capital Asset Pricing Model (CAPM), which linked higher return to higher risk.

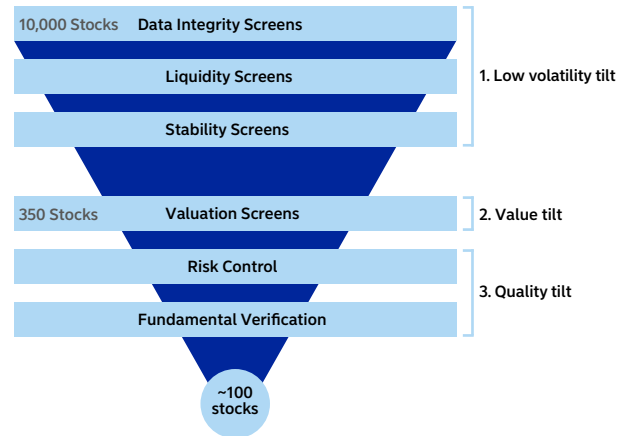
Our **Global Stable Equities**¹ investment process is designed not only to benefit from these low risk stocks but also to add value through superior stock selection to enhance returns.

The following simplified chart illustrates this philosophy:



This process relies on three distinct steps, starting with identifying lower risk companies, then isolating the ones with reasonable valuation metrics, and then including a fundamental verification to select **quality and resilient stocks**.

A robust investment process



This robust and sound investment process leads to a **high degree of portfolio diversification**, with typically around 100 stocks.

Why now?

Our **Global Stable Equities**¹ are well equipped for the new environment and embrace the current strong style rotation from expensive growth to more value style.

- **Good participation** in the Value style's comeback with the added protection of higher quality
- Higher **expected return** (absolute and relative to markets) paired with higher earnings yield³
- Improved **capital preservation** if entering a **recessionary** environment³
- **Stronger fundamentals** and **lower inflation sensitivity** better handled the current **reflationary** environment

The recent reflationary scenario witnessed during Q1 2021 has clearly been a catalyst for the strategy to start outperforming and unlock some of the value that has accumulated within the fund over the last years.⁴ All in all, **staying true to our philosophy** will remain key as it has been since launch.

1) Source: Global Stable Equities refers to Global Stable Equity Strategy. 2) Global Equity Benchmark refers to MSCI World Index. 3) 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. 4) 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 your investment can go up and down, and you could lose some or all of your invested money.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.10.2020 – 31.03.2021. 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 16.04.2021. 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, you could lose some or all of your invested money.** 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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