



Quarterly Report

Third quarter 2018

Nordea 1 – Danish Mortgage Bond Fund

ISIN: LU0076315968 (BP-DKK)

Overview

- In Q3 2018, the fund yielded an absolute performance of -0.07% ¹, whereas the iBoxx Euro Covered Index, which consists of Euro denominated European covered bonds, posted a return of -0.39% ² in EUR terms, and the German government bond index returned -0.47% in DKK terms
- Danish mortgage bonds over the period yielded a decent excess return versus Danish government bonds, due to higher current returns and the spread narrowing. The callable segment was supported by low volatility and a further decline in implied volatility
- Despite the historically favourable opportunities for refinancing into lower coupons, prepayments for the October payment date only summed up to DKK 36.1bn, with around DKK 8bn from mandatory refinancing of subsidised loans

1) Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2018 – 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. 2) Source: Bloomberg. Date: 30.09.2018. Performance in EUR terms. 3) Source: Bloomberg. Date: 30.09.2018. Performance in DKK terms. The fund has no official reference index. For illustration purposes, we have shown the iBoxx Euro Covered Index (IYGB Index) which is an index which consists of European covered bonds, and the German government bond performance index (REXP Index).

Investment strategy

The fund invests a minimum of two-thirds of its net assets in fixed-income and floating rate mortgage bonds issued by private borrowers and public authorities domiciled in Denmark. Investments are made primarily in callable Danish mortgage backed bonds listed on the Copenhagen Stock Exchange. The holdings of Danish mortgage backed bonds in the sub-fund will typically have high coupons in comparison with the general yield level of bonds with similar durations. Investments in Danish government bonds listed on the Copenhagen Stock Exchange are also permitted.

Fund data

Share class	BP-DKK
Fund category	Accumulating
NAV in DKK	235.92
Base Currency	DKK
Fund AUM Million (DKK)	5,875.32
Front end fee in %	Up to 3.00
Annual management fee in %	0.60
Launch date	21.02.1997
ISIN	LU0076315968
Sedol	5206847
WKN	986766
Bloomberg ticker	FRODMBF LX
No. of holdings	89

Data as of 30.09.2018.

Portfolio Managers

Nordea Danish Fixed Income Team



Henrik Stille
Portfolio Manager

Quarterly commentary Q3 2018

Danish government bond yields were stable and kept close to yearly lows for a majority of the quarter. In September yields trended higher and over the period rose 5-10bp for maturities beyond the 2-year point. The yield spread between Danish and German government bonds narrowed by around 6bp for short and intermediate maturities, and by around 2bp at the long end. At the end of September Danish government bonds traded at large at the same yields as their German equivalents, except for 4.5% DGB 2039 which traded 6bp lower. The positive performance of the Danish government bond market was driven by low issuance requirements.

We are expecting good demand until towards the end of November, as index rebalancing, reinvestments of coupons and matured bonds should further support pricing.

Danish mortgage bonds over the period yielded a decent excess return versus Danish government bonds, due to higher current returns and the spread narrowing. The callable segment was supported by low volatility and a further decline in implied volatility.

The yield spread between ARM-backed and Danish government bonds narrowed 3bp in the 5-year segment and 1bp in the 3-year segment. The spread for the shorter maturities remained largely unchanged. As a result, 5-year ARM-backed yielded an excess return of around 30bp versus equivalent Danish government bonds. Fixed-rate callables did even better, with an average excess return of around 60bp versus comparable Danish government bonds. The low interest rate level provided a good opportunity for borrowers to refinance their fixed-rate callable loans into lower coupons ahead of the redemption deadline at end-July.

For longer maturities the 2% 2050 bonds traded close to par and the 1.5% 2050 bonds traded close to 96 until 20th of July, later prices were driven slightly lower by rising yields and increased issuance activity.

Despite the historically favourable opportunities for refinancing into lower coupons, prepayments for the October payment date only summed up to DKK 36.1bn, with around DKK 8bn from mandatory refinancing of subsidised loans. Prepayments summed up to around 10% for 3% 2047 bonds and 5% for 2.5% 2047 bonds, which was slightly higher than the levels seen at previous payment dates. On the other hand, prepayments of subsidised loans led to very high prepayment rates in selected issues. For the 3% 2044 series, for example, prepayments totalled 25% at Nykredit, 32% at RD and 64% at BRF.

The 1.5% 2050 bonds were 1-2 points away from becoming an obvious candidate for refinancing into lower coupons. The option-adjusted yield spreads widened towards the middle of August, while modest issuance activity and a major reinvestment requirement at the October payment date caused the spreads to narrow in the subsequent period.

At the end of August refinancing auctions were held, with DKK 48.2bn of ARM-backed bonds and DKK 8.0bn of floaters being offered. The volume of ARM-backed bonds offered was low considering that bonds totalling DKK 81.9bn will mature at the October. One of the reasons is subsidised loans for DKK 10.8bn being switched to government guaranteed mortgage loans. Only DKK 3.3bn of 5Y ARM-backed bonds was offered, and there was generally good demand at the auctions.

Cumulative returns as of 30.09.2018 in %

Time frame	Fund ³
Year to date	0.35
1 month	-0.13
3 months	-0.07
6 months	0.31
1 year	0.76
3 years	8.59
5 years	12.99
Since launch	135.92

Calendar year returns in %

Time frame	Fund ³
2017	2.94
2016	4.78
2015	-2.31
2014	6.13
2013	-0.30

Performance (last 5 years)



3) ISIN Code LU0076315968. Inception date: 21.02.1997. Sources: Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.09.2013 – 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.

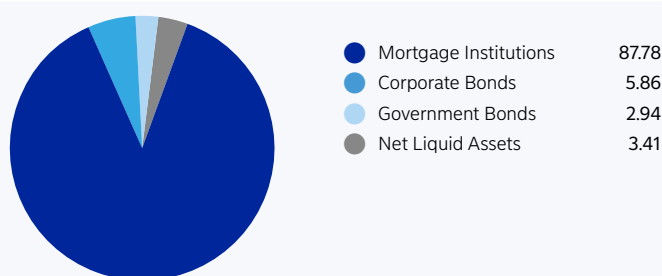
Top ten holdings as of 30.09.2018 in %

Company	ISIN Code	Weight	Rating	Fund ⁵	
Nordea Kredit 2%	10-01-2047 SDRO 2	DK0002032978	15.27	AAA	91.59
Realkredit Danmark 2%	10-01-2047 SDRO S	DK0009297194	11.77	AA	3.56
Nykredit Realkredit 2%	10-01-2047 SDO E	DK0009504169	9.25	A	1.28
Realkredit Danmark 2%	10-01-2050 SDRO S	DK0004606134	6.71	BBB	0.00
Nykredit Realkredit 2%	10-01-2050 SDO E	DK0009513582	5.03	BB	0.00
Realkredit Danmark 1%	04-01-2022 SDRO A T	DK0009294928	3.87	B	0.00
Nykredit Realkredit 2.5%	10-01-2047 SDO E	DK0009798803	3.68	CCC	0.00
Stadshypotek AB 4.5%	21-09-2022	SE0003174838	3.56	< CCC	0.00
Swedbank Hypotek AB 1%	15-06-2022	SE0007525654	2.95	NR	0.16
Danish Government 1.75%	11-15-2025	DK0009923138	2.94	Net liquid assets	3.41

Source: Nordea Investment Funds S.A. Date: 30.09.2018.

5) ISIN Code LU0076315968. Inception date: 21.02.1997. Source: Nordea Investment Funds S.A.. Date: 30.09.2018.

Asset allocation as of 30.09.2018 in %



Source: Nordea Investment Funds S.A. Date 30.09.2018.

Risk figures as of 30.09.2018

	Fund ⁵
Effective Duration ⁴	4.61
Average Weighted Rating	AAA
Average Weighted Coupon	1.98
Running Yield	1.91
Yield to Maturity	1.47%

4) Estimate based on the model portfolio. 5) ISIN Code LU0076315968. Inception date: 21.02.1997. Source: Nordea Investment Funds S.A. Date: 30.09.2018.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.06.2018 – 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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