



Quarterly Report

First quarter 2018

Nordea 1 – Danish Mortgage Bond Fund

ISIN: LU0076315968 (BP-DKK)

Overview

- In Q1 2018, the fund yielded an absolute performance of +0.04%¹, whereas the iBoxx Euro Covered Index, which consists of European covered bonds, posted a return of -0.03%² in EUR terms, and the German government bond index returned -0.02%³ in DKK terms
- The year 2018 started on a volatile note. Yields surged up to 8th February, and this was then largely offset by a decline towards the end of the quarter
- While ARM-backed covered bonds yielded a return close to that of government bonds, fixed-rate callables returned slightly more than comparable-duration government bonds. Fixed-rate callables recorded the largest excess returns in 30-year maturities, and some of the shorter maturities yielded lower returns than comparable government bonds

1) Source: Nordea Investment Funds S.A. Period under consideration: 31.12.2017 – 31.03.2018. 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 31.03.2018. 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 31.03.2018. Performance in EUR terms. 3) Source: Bloomberg. Date: 31.03.2018. Performance in DKK terms. The fund has no official reference index. For illustration purposes, we have shown the iBoxx Euro Covered Index (YGB 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	235.18
Base Currency	DKK
Fund AUM Million (DKK)	5,658.37
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	88

Data as of 31.03.2018.

Portfolio Managers

Nordea Danish Fixed Income Team



Henrik Stille
Portfolio Manager

Quarterly commentary Q1 2018

The year 2018 started on a volatile note. Yields surged up to 8th February, and this was then largely offset by a decline towards the end of the quarter. During the period, Danish 10-year government yields climbed 6bp to 0.53% and Danish 20-year equivalents rose 1bp to 1.00%. Short-dated government bond yields dropped a few basis points with the curve steepening from the 2- to the 10-year point and flattening from the 10- to the 20-year point. The yield spread between Danish and German government bonds narrowed slightly at the short end, and widened slightly at the long end. The 4.5% 2039 DGB underperformed with the spread widening 7bp. This should be viewed against the relatively expensive valuation of Danish 20-year government bonds at the beginning of the period.

While ARM-backed covered bonds yielded a return close to that of government bonds, fixed-rate callables returned slightly more than comparable-duration government bonds. Fixed-rate callables recorded the largest excess returns in 30-year maturities, and some of the shorter maturities yielded lower returns than comparable government bonds. The modest differences in returns between mortgage bonds and government bonds mask large swings during the period.

Mortgage bonds got off to a good start to the year with reinvestment of coupons and prepayments supporting prices. However, underperformance was significant during the period until towards mid-February when higher yields and increased issuance were instrumental in putting pressure notably on fixed-rate callable bonds. The uptick in yields posed a problem for the most negatively convex bonds, which experienced a sharp increase in duration, and especially 2½% and 3% coupons lost heavily during the period. This trend was intensified by the refinancing auctions for the April

payment date, held from 5 to 9 February. Unfortunately, they coincided with financial market unrest and high volatility, resulting in waning interest at the auctions. ARM-backed bonds were sold at significantly higher yield spreads to government bonds than prior to the auctions, and 1-, 3- and 5-year maturities were sold at yields of around -0.4%, +0.1% and +0.5%, respectively. However, with lower yields and fairly strong demand, spreads narrowed fairly significantly towards the end of the quarter, when reinvestment of coupons and prepayments for the April payment date helped to underpin prices. The option-adjusted spread between 2% 2050 bonds and government bonds widened 2bp to 54bp during the period. In early January, the spread stood at 44bp, peaking at 73bp on 12 February. In comparison, the spread between ARM-backed and government bonds widened around 4bp in Q1, with the 5-year spread ending at 38bp after reaching 28bp at end-January.

With rising yields and spread widening, mortgage lenders briefly opened for issuance in the 2.5% coupons. However, when yields moved lower towards the end of the month, only 2% coupons were open for issuance in the 30-year segment. At end-March, 2% 2050 and 2% 2050 IOs traded at 99.40 and 97.85, respectively. If the prices rise further, the 1.5% 2050 bond could come into play again as a refinancing alternative to the 3% and 3.5% loans. But with higher yields at the beginning of the quarter, refinancing into 1.5% 2050 bonds for the April payment date was never really an option. Overall, prepayments of fixed-rate callables totalled DKK 32.5bn, only slightly exceeding the amounts of previous payment dates. The prepayment rate was around 5% for 2.5% 2047 bonds and with somewhat bigger variations for 3% 2047 bonds. The prepayment rates here were around 12% for Nykredit and Nordea Kredit and 15.8% and 19.5% for RD and BRF.

Cumulative returns as of 31.03.2018 in %

Time frame	Fund ³
Year to date	0.04
1 month	1.50
3 months	0.04
6 months	0.44
1 year	2.03
3 years	4.14
5 years	11.49
Since launch	135.18

Calendar year returns in %

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

Performance (5 year performance)



3) ISIN Code LU0076315968. Inception date: 21.02.1997. Sources: Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.03.2013–31.03.2018. 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 31.03.2018 in %

Company	ISIN Code	Weight	Rating	Fund ⁵
Nordea Kredit 2% 10-01-2047SDRO 2	DK0002032978	16.47	AAA	87.15
Realkredit Danmark 2% 10-01-2047 SDRO S	DK0009297194	12.60	AA	3.75
Nykredit Realkredit 2% 10-01-2047 SDO E	DK0009504169	9.94	A	3.34
Nykredit Realkredit 2.5% 10-01-2047 SDO E	DK0009798803	4.34	BBB	0.00
Realkredit Danmark 1% 04-01-2022 SDRO A T	DK0009294928	4.03	BB	0.00
Stadshypotek AB 4.5% 21-09-2022	SE0003174838	3.75	B	0.00
Realkredit Danmark 2% 10-01-2050 SDRO S	DK0004606134	3.49	CCC	0.00
Nykredit Realkredit 2% 10-01-2050 SDO E	DK0009513582	3.49	< CCC	0.00
Skandinaviska Enskilda Banke 1.5% 15-12-2021	SE0008103477	3.34	NR	0.19
Swedbank Hypotek AB 1% 15-06-2022	SE0007525654	3.07	Net liquid assets	5.58

Source: Nordea Investment Funds S.A. Date: 31.03.2018.

5) ISIN Code LU0076315968. Inception date: 21.02.1997. Source: Nordea Investment Funds S.A. Date: 31.03.2018.

Asset allocation as of 31.03.2018 in %



Source: Nordea Investment Funds S.A. Date 31.03.2018.

Maturity breakdown as of 31.12.2017 in %

Years	Fund ⁵
0-1	0.00
1-3	2.99
3-5	21.45
5-7	0.00
7-10	3.09
10-15	0.07
> 15	66.82
Net liquid assets	5.58

5) ISIN Code LU0076315968. Inception date: 21.02.1997. Source: Nordea Investment Funds S.A. Date: 31.03.2018.

Risk figures as of 31.03.2018

	Fund ⁵
Effective Duration ⁴	4.16
Average Weighted Rating	AAA
Average Weighted Coupon	1.98%
Running Yield	1.91%
Yield to Maturity	1.46%

4) Estimate based on the model portfolio. 5) ISIN Code LU0076315968. Inception date: 21.02.1997. Source: Nordea Investment Funds S.A. Date: 31.03.2018.

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