



# Fund Flash

## Nordea 1 - Low Duration European Covered Bond Fund

ISIN: LU1694212348 (BP-EUR) / LU1694214633 (BI-EUR)

The fund's objective is to provide an attractive low risk option by mainly investing in European covered bonds with a targeted duration of around 1 year<sup>1</sup>.

### Portfolio comment as of 31/08/2019

In August, the anticipation of a significant rate cut by Draghi the 12th of September, more dovish forward guidance and a potential restart of the QE program, have pulled interest rates deeper in negative territories, to a higher extent in the long end.

August was – and historically is – a slow month in the covered bond space. We have only seen two new issues, from Berlin Hyp and Muenchen Hyp, and with a 3Y and 4Y maturity respectively. They both attracted surprisingly well demand, with bank treasuries still very much present in the asset class.

The iBoxx EUR covered bond index tightened 0.3bps against swaps in August. UK, Canada and the Scandinavian countries underperformed over the month. Italy, together with the other peripheral countries, has outperformed the rest of the market, and Italy is now more than 45bps tighter YTD.

In this context, the fund delivered a monthly return equal to 0.23%, bringing YTD performance to 2.56% (BP-EUR).

We are monitoring the market and the deals that we expect to hit the primary market after Draghi's speech in September. We think the longer end of the curve looks a bit expensive, given the flattening of the curve we have seen over the last month.

In the AAA-rated space, we prefer Norwegian covered bonds. They come with a pickup to the other Scandinavians, and 6-7bps to Germany. Also New Zealand and Australia look interesting, with around 15bps pickup versus core European covered bonds. We are still overweighted Italy and Greece, which have been a positive contribution in the portfolio all year. In Italy we like the Tier 2 issuers, as they pay 50+bps pickup to core covered bonds. DKK covered bonds are still attractive compared to other AAA EUR covered bonds in the short end of the curve, and we are comfortable with our relatively large allocation into these.

Portfolio Positioning	31/07/2019	31/08/2019
Effective Duration*	1.27 years	1.16 years
12m horizon return**	-0.11%	-0.08%

Cumulative Performance	1M	YTD	3 Years
Fund (BP-EUR)	0.23%	2.56%	NA

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\* investing in their own account - according to MIFID definition

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31/07/2019 to 31/08/2019. 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 31/08/2019.

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