



# Fund Portrait

Fourth quarter 2020

## Nordea 1 – Balanced Income Fund<sup>1</sup>

ISIN: LU0634509953 (BP-EUR) / LU0637308585 (BI-EUR)

**Don't take any unnecessary risks.**

Lower risk ← Higher risk  
Typically lower rewards      Typically higher rewards

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risk indicator

**Read the Key Investor Information Document.**

THIS IS A MANDATORY ANNOUNCEMENT

### Highlights

- A global, cautious balanced solution to deal with the low yield environment
- **Diversified and flexible exposure** across the fixed income universe, with a limited exposure to equity
- Objectives: Return cash +3% p.a. (gross of fees) over a full investment cycle with target volatility of 3–6%<sup>2</sup>



### Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable approach that delivers alpha in a stable way for our clients<sup>2</sup>. Furthermore, we have put a lot of emphasis on launching outcome oriented rather than benchmark driven investment solutions whose basis, "stability investment philosophy", is designed to meet clients' risk appetite and needs.

The Nordea 1 – Balanced income fund is our response to negative yields. Nordea's Multi Assets Team has constructed this cautious balanced strategy with the dual aim of providing capital preservation and a reasonable return. Taking advantage of the highly liquid instruments and successful approach and philosophy of the Nordea 1 – Flexible Fixed Income Fund (FFIF), the investment team has launched the Nordea 1 – Balanced Income Fund (BIF) in December 2016. This product is designed for conservative investors who generally have a preference for fixed income, but now are seeing their future expected returns being challenged by the current low and even negative yields.

Nordea's Multi Assets Team oversees more than EUR 100bn<sup>3</sup> of assets across various asset classes and has been managing multi-asset solutions for more than a decade.

### More flexibility to reach your goals

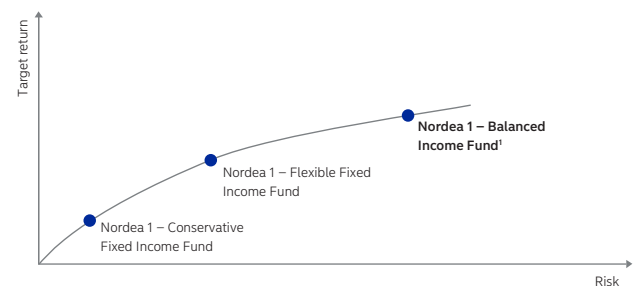
The challenges presented by the current low to negative yields have increased investors' appetite for low-risk solutions that can preserve capital while generating positive and steady returns.

Targeting traditional fixed income returns, this all-weather solution aims to provide capital preservation and to generate annual returns of cash +3% (gross of fees) over a full investment cycle, with a volatility of 3 to 6% per annum<sup>2</sup>. As such, from a risk-return perspective, the BIF is positioned one notch above the Nordea 1 – Flexible Fixed Income Fund (FFIF).

### Nordea's Multi Assets Low Risk strategies

#### The breadth of our experience

For illustrative purposes only



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. 1) On December 16th, 2016 the sub-fund Nordea 1 – Global Short Duration Bond Fund was re-engineered and renamed to Nordea 1 – Flexible Fixed Income Plus Fund. With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Flexible Fixed Income Plus Fund to Nordea 1 – Balanced Income Fund and the investment policy of the sub-fund was modified.

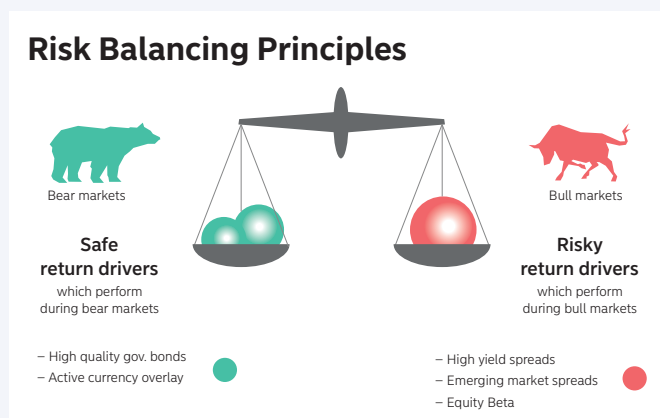
1) On December 16th, 2016 the sub-fund Nordea 1 – Global Short Duration Bond Fund was re-engineered and renamed to Nordea 1 – Flexible Fixed Income Plus Fund. With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Flexible Fixed Income Plus Fund to Nordea 1 – Balanced Income Fund and the investment policy of the sub-fund was modified. 2) 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. 3) Source: As of 31.12.2020.

In order to achieve this, Nordea's Multi Assets Team has leveraged the successful investment process and track record of FFIF, and added an extra source of return. The resulting new strategy will invest across all fixed income asset classes (Govies, IG, HY, EM, etc.) and it also has the flexibility to have a limited exposure to equities (0 to 25%). This extra flexibility to reach into equity space will allow the portfolio to slightly increase the fund's risk/reward profile beyond the FFIF.

## Investment philosophy

The fund aims to deliver an attractive return with a **focus on capital preservation**<sup>4</sup>. The cornerstone of the investment approach is the control of risk at all times rather than targeting the highest return. Risk is managed at two levels: strategic (long-term) and tactical (short-term).

Firstly, from a strategic viewpoint, the fund relies on strategies with low correlation. The diversification benefit coupled with an active tactical overlay ensures capital preservation and generates consistent and stable returns over time<sup>4</sup>. More specifically, the portfolio managers will try to find a structural balance between the risk contributions coming from the risky instruments that work well in expansionary markets (across credit and equities) and safe instruments that work on downturns (utilising bonds and currencies). The overall objective is to generate positive total returns across the investment cycle, without relying on the success of top-down macro calls<sup>4</sup>.



Secondly, in order to strengthen its capital preservation features, the fund will combine this flexible strategic asset allocation with robust tactical asset allocation models. These tactical models aim to work as a risk management tool (i.e. to protect the portfolio not to chase returns) that could dynamically reduce duration, credit and equity risk within the portfolio.

## Investment process

The investment process relies on Strategic Asset Allocation (SAA) positioning based on long-term views, and a Tactical Asset Allocation (TAA) overlay based on short term models, to control the risk of the portfolio. It consists of four distinct steps.

### Overview of the investment process:



#### 1. Strategic Asset Allocation (monthly)

Based on internal strategic research, the Multi Assets Team analyses global fixed income, equities and currency markets and compares all segments in terms of yield (expected returns), risk (volatility), diversification (correlation) and risk behaviour in different market environments. The main objective of this first step is to assess the return drivers that perform well in up and down markets, so that they can be combined efficiently to ensure diversification in the portfolio.

#### 2. Optimisation (monthly)

The output of the strategic research will then be used as an input for the optimisation process. To build the SAA portfolio, the managers will balance the safe instruments like those relying on duration and currencies with pro-cyclical drivers' risks (mainly credit spreads and equity beta) to deliver an optimal portfolio with an attractive and consistent risk-adjusted return taking into consideration the volatility target.

#### 3. Implementation (monthly)

Once the optimal SAA portfolio is determined, the managers will implement the allocation in the most efficient way between physical positions, synthetic replication (using derivative instruments) or a combination of both. The decision will be a trade-off between cost, liquidity and counterparty risk, among others.

#### 4. Tactical Asset Allocation (daily)

While the SAA is used primarily to generate balanced returns over time in a balanced way, the TAA is used as a risk management tool to maintain or reduce the risk level of the SAA portfolio. As such, three tactical models will assess whether it is necessary over the short term to reduce the overall active duration, credit and equity beta of the portfolio.

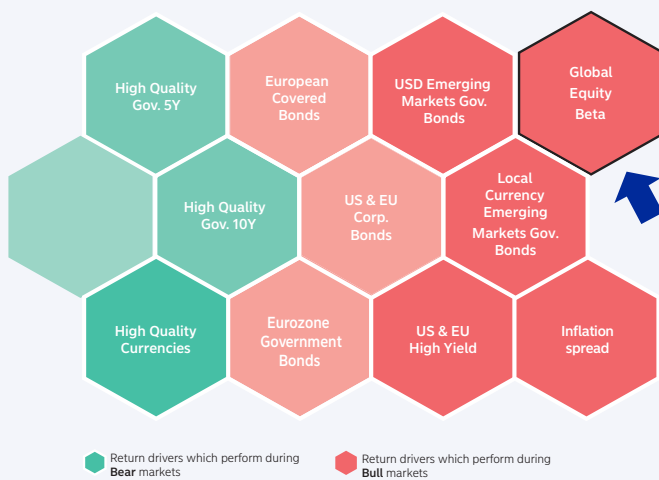
<sup>4</sup> There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

## Global and unconstrained

The investment universe of the fund is global with no constraints regarding quality, region or issuer type. The focus is on absolute risk and the asset allocation is not constrained by any benchmark. The investment universe includes high quality government bonds, corporate investment grade and high yield bonds, emerging market debt, global equities, high quality currencies, etc. The chart below shows a sample of assets the fund may invest in and also highlights their expected behaviour, which serves to build and apply the balance of risk principles in the portfolio.

## Investment Universe

### Selecting return drivers performing well in up or down markets



The fund will be mainly invested in highly liquid physical bonds and plain vanilla derivatives (such as government bond futures, CDS indices, FX forwards and equity futures), used to optimize liquidity and trading costs, which will result in a highly liquid portfolio.

## Why invest in the Nordea 1 – Balanced Income Fund?

In today's low yield environment, the need for outcome-based solutions remains high and investors are particularly focused on products that can deliver positive returns without exposing their portfolio to a large drawdown risk. Should investors reduce equities or increase high yield bonds? Is it too late to increase equity exposure? What about inflation-linked products? Should investors reduce duration risk? Can currencies help to diversify return? How?

The answer to all these questions is the Nordea 1 – Balanced Income Fund. A cautious balanced portfolio, with a moderate level of risk (fairly low volatility and limited drawdowns), as well as a flexible and unconstrained approach (allocates risk globally to the most attractive investment opportunities), focused on absolute and not relative risk, and an actively managed risk budget.

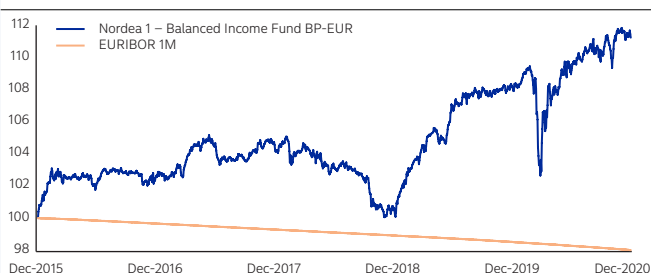
The fund will leverage Nordea's Multi Assets Team's long experience developing solutions that meet a diverse set of different risk/return profiles with one common denominator: considering risk first and using it as a starting point within asset allocation.

Cumulative returns in % (31.12.2020)	Fund <sup>5</sup>	Index <sup>6</sup>
YTD	3.06	-0.50
1 month	-0.34	-0.05
3 months	0.80	-0.14
6 months	1.85	-0.27
1 year	3.06	-0.50
3 years	6.79	-1.27
5 years	11.14	-1.97
Since launch	15.34	-1.57

Calendar year returns in %	Fund <sup>5</sup>	Index <sup>6</sup>
2019	7.46	-0.41
2018	-3.57	-0.37
2017	1.18	-0.37

Nordea 1 – Balanced Income Fund	
Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0634509953 (BP-EUR) LU0637308585 (BI-EUR) <sup>7</sup>
Annual management fees	1.20 % (BP-EUR) 0.65 % (BI-EUR) <sup>7</sup>
Base currency	EUR
Fund size in millions	552.84
Reference index	EURIBOR 1M
No. of holdings	240
Launch date	22.02.2012

#### Performance (31.12.2015 – 31.12.2020)



#### Risks

Please be aware that there are risks associated with investing in this sub-fund, amongst others in: **ABS/MBS, Convertible securities, Covered bond, Credit, Depository receipt, Derivatives, Emerging and frontier markets, Hedging, Prepayment and extension, Securities handling, Taxation.** For further details, please refer to the Key Investor Information Document, which is available as described in the disclaimer at the end of this document.

#### Change in investment policy

##### 16.12.2016 – Reengineering and renaming of investment strategy

On December 16, 2016 the investment policy of the sub-fund was modified and the sub-fund was renamed from Nordea 1 – Global Short Duration Bond Fund to Nordea 1 – Flexible Fixed Income Plus Fund. With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Flexible Fixed Income Plus Fund to Nordea 1 – Balanced Income Fund and the investment policy of the sub-fund was modified.

To find out more, visit our microsite:  
[nordea.nl/Evenwicht.Altijd](http://nordea.nl/Evenwicht.Altijd)



\*Other share classes may be available in your jurisdiction. 5) BP-EUR share class. 6) With effect from 14.12.2020, the official reference index of the fund is EURIBOR 1M. Prior to this date, the fund did not have an official reference index. The performance of the reference index before this date is provided for convenience purposes. 7) BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 22.02.2012 – 31.12.2020. 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 31.12.2020. 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. The sub-funds mentioned in this document are part of Nordea 1, SICAV, a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009, registered in the Netherlands in the register kept by the AFM, and as such is allowed to offer its shares in the Netherlands. The AFM register can be consulted via [www.afm.nl/register](http://www.afm.nl/register). This document is advertising material and does not disclose all relevant information concerning the presented sub-funds. Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without charge upon request from Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, or the local representatives or information agents, or from our distributors. Investments in derivative and foreign exchange transactions may be subject to significant fluctuations which may affect the value of an investment. **Investments in Emerging Markets involve a higher element of risk. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured.** Investments in equity and debt instruments issued by banks could bear the risk of being subject to the bail-in mechanism (meaning that equity and debt instruments could be written down in order to ensure that most unsecured creditors of an institution bear appropriate losses) as foreseen in EU Directive 2014/59/EU. For further details on investment risks associated with these sub-funds, please refer to the relevant Key Investor Information Document (KIID), available as described above. Nordea Investment Funds S.A. has decided to bear the cost for research, i.e. such cost is covered by existing fee arrangements (Management-/Administration-Fee). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same but is included for the purpose of illustration. The level of tax benefits and liabilities will depend on individual circumstances and may be subject to change in the future.