



Fund Update – Special Edition

March 2020

Staying the course in the storm!

Nordea 1 – Flexible Fixed Income Fund

ISIN: LU0915365364, BP-EUR / LU0915363070, BI-EUR



- **Strong resilience**, both compared to peers and to the broader market¹
- **Risk-balanced investment** approach to navigate different market environments
- **Flexibility**, allowing to strengthen capital preservation when risks rise in the markets
- **Proprietary defensive return drivers** represent a **competitive edge** compared to peers and can offer **protection and diversification**
- **Highly liquid portfolio** which can be manoeuvred in all market conditions

The outbreak of the coronavirus triggered a **sharp reduction of risk appetite**, driving yields to historic lows and leading risky assets and volatility to levels not seen since 2008. In this environment, we witnessed strong negative returns in the credit space, while the traditional safer asset classes were not able to protect, leading many portfolios to suffer significant losses.

How did the Nordea 1 – Flexible Fixed Income Fund (FFIF) perform in this environment?

In March the fund protected investors very well, posting a performance equal to $-1.06\%^1$ (BI-EUR) and $-1.11\%^1$ (BP-EUR), continuing what it has been able to deliver since the beginning of the Coronavirus sell-off on February 20th.

Risk Premia Contribution (as per 31.03.2020)

Flexible Fixed Income Strategy	March	20.02.2020 – 31.03.2020
EM Spreads	-2.07%	-2.83%
HY Spreads	-1.92%	-2.80%
Inflation spread	-0.67%	-0.96%
Covered Bonds Spreads	-0.25%	-0.34%
Eurozone Spreads	-0.13%	-0.26%
IG Spreads	-0.06%	-0.41%
FX Valuation & Quality	0.57%	1.14%
HQ Govies	0.40%	1.34%
Cross Assets Anti-Beta	0.19%	0.37%
YC Strategy	0.00%	0.02%
TAA Credit	2.62%	3.61%
TAA Duration	-0.15%	-0.72%
Total (gross of fees)	-1.48%	-1.85%

Source: Nordea Investment Management AB. Period under consideration: 20.02.2020 – 31.03.2020. Data shown is preliminary and for the Nordea Flexible Fixed Income Strategy (gross of fees). The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.

¹ Source (unless otherwise stated): © 2020 Morningstar, Inc. All Rights Reserved as of 06.04.2020. Period under consideration (unless otherwise stated): 20.02.2020 – 31.03.2020. 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.
² EAA Fund Global Flexible Bond Euro Hedged. Comparison with other financial products or benchmarks is only meant for indicative purposes.

Main contributors and detractors in March:

Positive: almost all of our **defensive risk premia strategies** (coloured in green) performed positively, e.g. our **defensive Currencies** (mostly long JPY and USD vs. short commodity-driven FX), our long exposure to **High Quality Government Bonds** and our **Cross Assets Anti-Beta** strategy (short term positions across G10 currencies and high quality government futures). Moreover, important positive contributions posted our short tactical allocation (TAA) to credit which, implemented to reduce the credit risk in the fund, offered protection when markets sold off and credit spreads widened.

Negative: as expected, the aggressive returns drivers suffered in a clear risk-off environment, with the long credit exposure which has been the largest detractor.

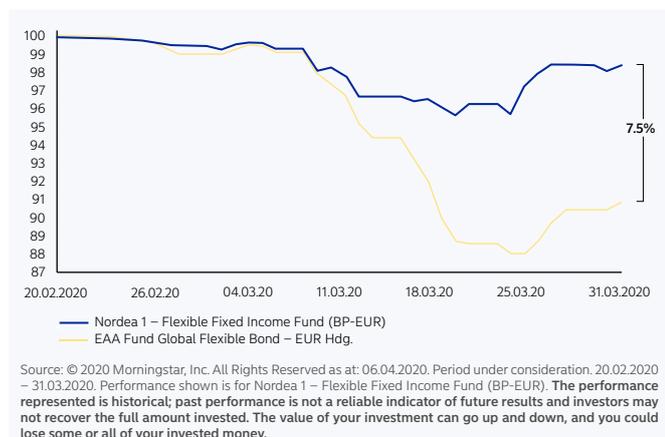
It's important to highlight that thanks to our **defensive risk premia**, we showed a **very resilient performance** despite the fund's low duration (around 1.4 years). Indeed, in this **low/negative yield environment**, where duration cannot play its diversifying role anymore, it's important to have **other proprietary defensive return drivers** inside the portfolio that can fill this gap. Among them, the fund's FX Valuation & Quality strategy, the Yield Curve strategy – which aims to exploit the difference in yield curves' steepness through long/short positions, and in doing so is less dependent on the absolute yields' level – and the Cross Assets Anti-Beta strategy.

Comparing performance vs. competitors

Our risk balancing approach also worked very well when comparing it to our Morningstar peer group as well as to the broader market (please see chart on the next page).

The fund managed to **protect capital better** than its Morningstar peer group² (**outperformance of +7.5%¹ for the BP-EUR** share class and **+7.6%¹ for the BI-EUR**). Indeed, in a more complex environment, many unconstrained fixed income managers, who in previous years chased yields and thus tilted their portfolios to HY and, or EMD, suffered as markets struggled.

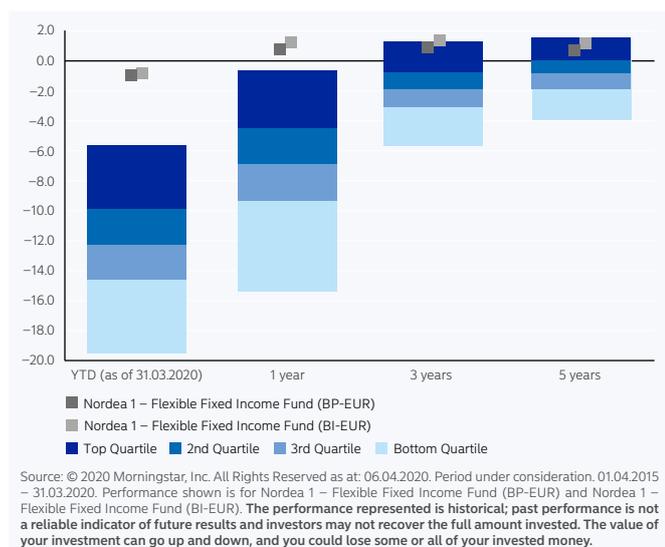
Coronavirus Sell-off performances



This was not the case for the Nordea 1 – Flexible Fixed Income Fund (FFIF), which consistently remains true to its philosophy of risk balance and does not take excessive risk in the search for yields and thus is less exposed to downside risk in fixed income markets.

Indeed, the fund relies on a **risk-balanced investment approach** to achieve **true diversification**. By doing this it logically “lagged” in years like 2017, which was dominated by growth and strong risk appetite. Still, staying true to its philosophy and approach, it managed to navigate much better volatile periods. This resulted in a clear outperformance compared to its Morningstar peers, not only over the last few weeks but also looking at the long term picture (please see below). As such, the FFIF is a top solution in the Fixed Income Multi Asset universe.

Performance relative to peer group³



Why invest now in the Nordea 1 – Flexible Fixed Income?

We are in an extreme **low/negative yield environment** and this is likely to persist for longer. This means that **duration** is

much less attractive and cannot provide the diversification benefits investors are desperately seeking. Secondly, the coronavirus outbreak will most likely have a profoundly **negative effect on expected defaults, leading to an environment characterized by high volatility**.

In this difficult environment for fixed income investors, active risk management and true diversification are keys to protect portfolios against drawdown, without compromising expected returns.

Therefore, we believe there are **four good reasons why now** is a good time for investors to invest into the Flexible Fixed Income Fund (FFIF) or to top-up already existing positions.

1. FFIF’s alternative defensive return drivers

With duration that, as already demonstrated during the last sell-off, is unable to sufficiently protect, having **additional defensive return drivers** in the portfolio to achieve diversification has become vital. This is exactly what the FFIF can offer to its investors: the fund employs a diversified set of **proprietary defensive return drivers** which show an **attractive asymmetric return behaviour**, i.e. protection when needed while still enabling the fund to participate in up-markets, like the fund demonstrated last year!

2. Risk Focused

The **FFIF’s long term balanced value proposition** – amid safe and risky assets – **allowed the portfolio to be significantly more resilient during drawdowns** than the ones that, in order to chase return, got too tilted towards EMD or HY, which put investors’ capital at risk.

3. Flexibility

The more defensive funds, which performed well when markets sold off, are also now more exposed to market’s rebounds and rising yields.

The FFIF’s flexible approach allows to adjust the portfolio’s exposure to manage downside risk and exploit opportunities, while still keeping the portfolio balanced.

4. Highly liquid portfolio

Markets have experienced liquidity issues in recent weeks and offered a strong reminder for many investors that liquidity is not to be neglected. In sharp contrast, **liquidity has always been of paramount importance** for our Multi Assets Team. The fund does not have any exposure to credit bonds, which were the most affected by liquidity issues, but rather accesses the corporate High Yield and Invest Grade markets through highly liquid plain vanilla derivative instruments. This leads to a portfolio with the required high level of liquidity the Portfolio Management team is looking for **to constantly be able to manoeuvre during all market conditions and face redemptions if needed**.

³ EAA Fund Global Flexible Bond Euro Hedged. Comparison with other financial products or benchmarks is only meant for indicative purposes.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 20.02.2020 – 31.03.2020. 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 31.03.2020. 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. 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, from 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 of 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.