

Fund Update – Special Edition

February 2020

European Covered Bonds

The month of February has highlighted the globality of our world and how quickly an issue in one country can jeopardize business in other areas. Governments around the globe underestimated the transmission of the Covid 19 and were slow to react appropriately. After several months of positive returns in equities, the reality of the situation - and its uncertainty - have caught up financial markets, leading to a chaotic month for many investments. With credit spreads widening, the hunt for safety has pushed rates into the abyss. Yield levels decreasing again, with in mind the recent Fed intervention and following expectations of the ECB to intervene, the asset allocation dilemma is further amplified: to which extent are we ready to take on risk to achieve returns?

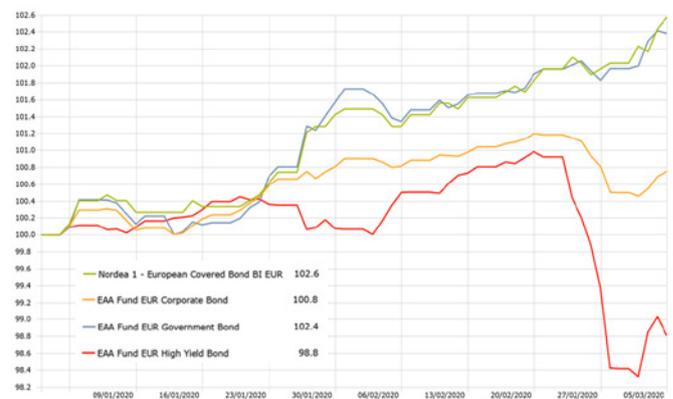
How did covered bonds react in the market distress?

Covered bonds offered protection during the market selloff. When EUR high yield and investment grade credit widened by appx. 75bps and 25bps respectively, the overall covered bond market widened by only 2bps over February. Peripheral covered bonds underperformed, especially the weaker names of this segment. Yet this remained limited to an overall 3-5bps widening.

How did Nordea's covered bond solutions perform?

Our covered bond solutions provided the resilience we value strongly in these disrupted times. Our portfolio with long duration, the Nordea 1 – European Covered Bond Fund, benefited from the downward development in rates to a larger extent than its low duration alternatives, the Nordea 1 – Low Duration European Covered Bond Fund and the Nordea 1 – European Covered Bond Opportunities Fund. In relative terms, our strategy preserved its strong alpha generation thanks to our diversified allocation: while peripheral countries detracted, we benefited from our safer overweights, especially the large holdings in Danish DKK- denominated covered bonds.

Resilient performance of the Nordea 1 - European Covered Bond Fund (BI-EUR) YTD



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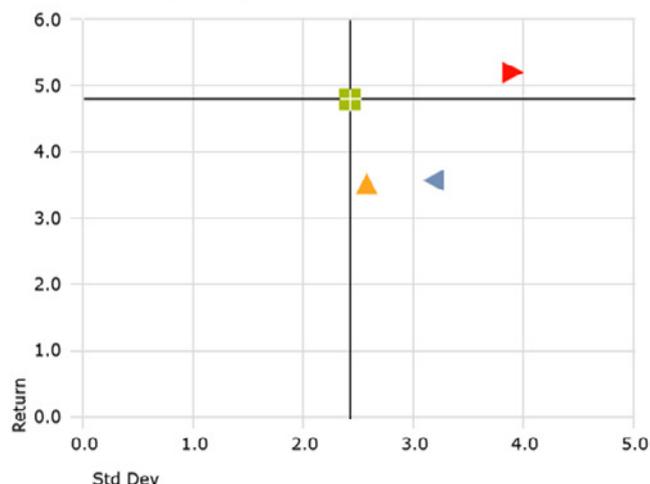
And what now...?

At the beginning of the year, the struggle to find yield in the fixed income market was already a major concern for investors. With market uncertainty, bringing in parallel a renewed downward pressure on rates, lowering the quality of the allocation to achieve higher return is a difficult bet to take. Staying true to our safe investment offering, we do not believe investors should turn away from safe assets. While yields are depressed on an absolute basis, relative value opportunities are just as present in this market as in a market with higher yields: and this represents a significant share of the performance we deliver in our covered bond strategies!

Covered bonds may very well be one of your safest investments, and our active approach has provided on the long run a compelling risk-return profile for our investors. Looking for protection when markets go sour? Our strategy is not only resilient, but also offers an interesting diversification to EUR high yield and investment grade credit – the last weeks are only a taste of the long-term benefits of a structural allocation to covered bonds.

Time Period: 01/02/2012 to 29/02/2020

Source Data: Total, Monthly Return



	Return	Std Dev	Sharpe Ratio (geo)
■ Nordea 1 - European Covered Bond BI EUR	4.79	2.43	1.97
▲ EAA Fund EUR Corporate Bond	3.53	2.58	1.38
▢ EAA Fund EUR Government Bond	3.56	3.19	1.12
▴ EAA Fund EUR High Yield Bond	5.20	3.90	1.34

Correlation Matrix

Time Period: 05/02/2012 to 29/02/2020

Currency: EUR Source Data: Total, Weekly Return

	1	2	3	4
1 Nordea 1 – European Covered Bond BI EUR	1.00	-	-	-
2 EAA Fund EUR Corporate Bond	0.66	1.00	-	-
3 EAA Fund EUR Government Bond	0.80	0.69	1.00	-
4 EAA Fund EUR High Yield Bond	0.10	0.68	0.20	1.00

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Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.01.2012 – 05.03.2020. 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 06.03.2020. 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. 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Our investment strategy is the common ground of our covered bond solutions: three portfolios that adapt the exposures of the strategy, providing solutions with tailored duration and spread risks. Managing covered bonds in a very active and dynamic way is our expertise, and this is an added value to a safe allocation that we offer to our clients.

Cumulative Performances (%)	YTD	February	1 year	Since Inception
Nordea 1 – European Covered Bond Fund (BI-EUR) ¹	2.57	0.53	6.92	46.99
Benchmark ¹	1.77	0.45	3.98	27.83
Alpha¹	0.80	0.08	2.94	19.16
Nordea 1 - Low Duration European Covered Bond Fund (BI-EUR) ²	0.65	-0.15	2.67	2.73
Nordea 1 - European Covered Bond Opportunities Fund (BI-EUR) ³	1.45	-0.25	6.00	6.48

Source: Nordea Investment Funds S.A. As of 05.03.2020. Benchmark: Iboxx EUR Covered Bond Index. Inception dates refers to: 1) 30-01-2012 2) 24-10-2017 3) 29-01-2019. 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.