Nordea ASSET MANAGEMENT

For professional investors only*

# Fund Update

**April 2018**

## Nordea 1 – Stable Return Fund

ISIN: LU0227384020 (BP-EUR)

### Fund commentary

During April, global equities delivered overall positive returns, as investors were reassured by the still synchronized global growth story, despite some leading macro indicators have moved slightly lower or shown slower expansion's pace. In addition, the reporting season in the US has started on a sturdy and supportive tone, which dampened the recent concerns regarding possible trade war and higher inflation expectations that triggered a selloff in February. Within the fixed income space, yields increased on both side of the Atlantic, but with diverging patterns as US and Europe flattened and steepened a bit respectively. Conversely, spreads lightly tightened in April as credit benefited from this more supportive risk appetite. On a side note, volatility – as reflected by the US VIX – was significantly calmer than the last couple of months, but still in the higher range of the recent years.

In this context, the fund delivered a positive performance of +0.43%[1] in April. The return was essentially driven by positive contributions from our equity holdings. On the negative side, our Fixed Income had negative contributions, together with small negative outcomes from our Currencies and Cross Asset's strategies.

Our long equity exposure to developed markets (DM) and emerging markets (EM), implemented through our 'Global & EM Stable/Low Risk Equities', delivered positive contributions. Compared to the broad market, both our DM and EM Stable Low/Risk Equities outperformed their respective markets on a risk adjusted basis. The recent sentiment driven sell-off and investors' concerns regarding increasing political risks and possible trade war were relatively positive for them, given their more sturdy fundamentals and attractive valuation levels. This was consistent with both supportive microeconomics' publications as well as the overall steady macro outcomes. Our short equity positions (through various indices replicating the MSCI World), implemented to reduce the fund's beta, had a negative impact on performance, partly offsetting the gains generated by our long positions. The momentum strategy also detracted from performance as it was activated over the first part of the month.

Within the fixed income space, US and German yields were generally higher, but displayed different patterns in the short and long end of the curves, as US and European curves flattened and steepened a bit respectively. Consequently, the strategy's long US and short European duration positions detracted from performance. Furthermore, the exposure to European covered bonds, as well as our Danish and Swedish mortgage bonds had a slightly negative performance impact. In addition, both the strategy's tactical credit and duration positions had a marginally positive impact on performance this month.

Open currencies' positions in our FX Valuation strategy had a negative performance, mainly driven by our long position in SEK VS a similarly short position in AUD. The FX exposure continues to consist of a diversified portfolio of currencies that is dynamically adjusted according to valuation measures. The FX strategies are generally expected to provide diversification over time and generate a positive return primarily in weak equity market environments. Meanwhile, our Cross Assets Anti-Beta strategy, which combines fixed income and currency futures to offer downside protection in weak equity markets, had a small negative performance contribution. This outcome is quite consistent with what could be expected in this kind of environment.

### Strategy and outlook

According to Barra, the annual ex-ante volatility of the fund closed April at approximately 4.6%. At the same time, the duration of the portfolio was increased to 2.2 years, while the net equity exposure was significantly increased to 53% over the month.

Strategically speaking, there were no significant changes to the portfolio during the month. From a tactical point of view (as opposed to our Strategic Asset Allocation), we switched from 'neutral' to 'positive' on duration, while we maintained our 'slightly positive' view on credit and our 'neutral' stance on equities going into May.

**Please note that the Nordea 1 – Stable Return Fund was soft closed between 07.09.2016 and 22.05.2018 and that the soft closure has now been lifted.**

1) Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.03.2018 – 30.04.2018. 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 30.04.2018. 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.**

* investing for their own account - according to MiFID definition

Currency-wise, the fund hedge to EUR lightly decreased at 89%, while the overall exposure to our active currency strategies remained around 18%. The main month-end trades in the FX Valuation strategy included long SEK position paired with short AUD position. As for the Cross Assets Anti-Beta strategy was overall long duration as of the end of April.

The decision to leave some of our currency exposure unhedged is on one hand relying on valuation metrics as a part of our FX Valuation strategy, and on the other hand, on short-term correlation patterns between currencies and riskier assets in our Cross Assets Anti-Beta strategy. Both strategies are primarily expected to provide diversification and positive returns in weak equity markets.

The fund's cautious investment approach and positioning is fairly unchanged given the economic market environment and outlook. Granted the composition of the equity allocation, it is still expected that the fund will continue to benefit from a relatively smaller exposure to future downside risk compared to the broader market in case of continued uncertainty and volatility in financial markets.

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