

September 2016

Nordea 1 – Flexible Fixed Income Fund

ISIN: LU0915365364 (BP-EUR)

Fund commentary

In September, markets were mostly focused on the Fed's decision to leave rates unchanged and on what the continuous flow of moderately strong macroeconomic data represents to the odds of a December hike. A somehow more hawkish tone from Mrs. Yellen pushed long-end government bond yields upward. Credit spreads continued to tighten in September, supported by somehow more positive expectations around oil prices, still relaxed credit conditions and the overall hunt for yield environment.

In this context, the fund had a negative performance of -0.19%¹ in September. The return was the result of marginally negative contributions from our FX, credit and duration return drivers (-0.05%, -0.09% and -0.04%, respectively).

In the credit space, spreads tightened moderately across the board mainly supported by investors' appetite for higher yielding assets. Following this, the fund had a positive performance contribution from our SAA credit return drivers; the largest positive impacts came from the exposure to EM, HY and IG, while wider spreads in European Covered bonds and Eurozone bonds detracted from performance.

Our strategic allocation to highly rated government bonds (duration), mainly split between 5YR and 10YR U.S. Treasuries, generated marginally positive contributions on slightly lower yields in the mid to short end of the curve.

Over the same period, our FX Valuation strategy (based on general valuations aspects) had a slightly negative contribution on strong commodity-sensitive currencies (where the portfolio concentrates most of its short positions).

As for the contribution to the return from the fund's tactical overlay: the short credit positions were the biggest single detractor, while the short duration exposure generated a moderate negative contribution.

Strategy and outlook

As at the end of September, the duration of the portfolio and the average credit rating remained at around 1 year and AA-, respectively. Meanwhile, the YTM moved down to 0.86%. The majority of the contribution to duration remains concentrated around 5 year positions mostly in the U.S.

Strategically, there were no changes in the portfolio. From a tactical, short-term point of view, compared to our strategic asset allocation, we maintain our "neutral" stance on duration and credit going into October. Thus, we keep on reducing the fund's interest rate and credit spreads sensitivities, as we did last month.

Currency-wise, the overall weight of the broader FX Valuation strategy is now accounting for around 12% of total assets. By the end of September, examples of pair trades in our currency portfolio include long positions in SEK and EUR in combination with short positions in AUD and NZD. The decision to leave some of our currency exposure unhedged relies on valuation metrics as a part of our proprietary FX Valuation strategy, which is primarily expected to perform well and offer risk absorption during bear markets.

The figures mentioned in this text, unless specified otherwise, are referring to the time period from 31.08.2016 to 30.09.2016. ¹ Past performance is not necessarily a guide to the future and investors may not recover the full amount invested.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.08.2016 to 30.09.2016. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income and dividends reinvested, in the base currency of the respective sub-fund, excluding initial and exit charges as per 30.09.2016. 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.** If the base currency of the respective sub-fund differs from the currency of the country where the investor resides the represented performance might vary due to currency fluctuations.

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A hard copy of the above-mentioned fund documentation is also available from here. **Additional information for investors in Austria:** Sub-paying Agent and Representative in Austria is Erste Bank der Österreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna. **Additional information for investors in the Netherlands:** Nordea 1, SICAV is a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS) 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. **Additional information for investors in France:** With the authorisation of the AMF the shares of the sub-funds of Nordea 1, SICAV may be distributed in France. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, 75013 Paris. 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