

September 2016

Nordea 1 – Stable Return Fund

ISIN: LU0227384020 (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, while equities ended the month slightly negative in DM and moderately positive in Emerging Markets (EM). Credit spreads continued to tighten in September, especially in the HY space and in EM, supported by the strong oil price performance, still relaxed credit conditions and the overall hunt for yield environment.

In this context, the fund had a negative performance of -0.36%¹ in September. The return was comprised by marginally negative contributions from equities, fixed income and currencies (-0.18%, -0.18% and -0.06%, respectively) while cross assets anti-beta strategies had a slightly positive impact (+0.06%) during the month.

Our long equity exposure to DM, implemented through our "Global Stable/Low Risk Equities", delivered a negative contribution over the period (-0.43%) as the sector rotation trend (cyclicals outperforming defensives) seen in August continued towards the end of September. Higher expectations on a hike during the Fed's December meeting also weighed on low risk equities. Our long equity exposure to EM, implemented through our "EM Stable/Low Risk Equities" had a marginal positive impact in the portfolio (+0.02%) in what was an overall positive month for the asset class. Our short equity exposure (through various indices replicating the MSCI World), implemented to reduce the fund's beta, had a positive impact on performance (+0.23%) as the position was bigger while equity markets were going down and smaller when markets rebounded (thanks to a switch in the Momentum strategy and in our TAA equity model).

Within the fixed income space, long-end rates moved higher in the U.S., while staying or moving slightly lower in the mid-short end in both U.S. and Europe. As a result, the fund had a negative performance contribution mainly from its negative exposure to 5 year German Bobls (-0.19%). On the credit side, fund's allocation to European Covered Bonds and Danish Mortgage Bonds had a smaller positive contribution (+0.03%, combined), while our long tactical positions in European/U.S. HY had a more or less neutral impact over the month (-0.01%).

Open currencies' positions in our FX Valuation strategy contributed marginally negative (-0.06%) during September. On the other hand, our new Cross Assets Anti-beta strategy, which combines fixed income and currency futures to offer downside protection in weak equity markets, had a slightly positive contribution (+0.06%).

Strategy and outlook

According to Barra, the annual ex-ante volatility of the fund decreased to 4.9% as of the end of September. Meanwhile, the portfolio duration was reduced to approx. 0.4 years, while the net equity exposure remained at around 49%.

Strategically speaking, there were no changes in September. From a tactical point of view, compared to our Strategic Asset Allocation, we remain "positive" on equities and "neutral" on credit and duration.

Currency-wise, the fund continues to be hedged to EUR, now at 91%, while the overall exposure to our FX PPP strategy is still at around 14%. Some of the positions include long SEK/short NZD, long SEK/short AUD and long JPY/short NZD. As for the Cross Assets Anti-beta strategy, it was including bets in the form of long JPY/short CAD at quarter-end.

The decision to leave some of our currency exposure unhedged is on one hand relying on valuation metrics as

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.



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 are primarily expected to provide diversification and positive returns in weak equity markets.

Following the strong inflows witnessed over the first 8 months of the year, which resulted in the fund doubling its size, the Nordea 1 – Stable Return Fund was soft closed to all new investors on September 7th 2016 in order to protect existing investors interests and to ensure the portfolio management team is still able continue to manage the portfolio following its recognized investment approach.

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.

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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