

## **Nordea 1 - European Covered Bond Fund**

LU0076315455, BP-EUR / LU0539144625, BI-EUR

## **Nordea 1 - Low Duration European Covered Bond Fund**

LU1694212348, BP-EUR / LU1694214633, BI-EUR

**Henrik Stille, Portfolio Manager**

October 2018

\* Investing for their own account – according to MiFID definition



# Nordea at a glance



# Nordea

A stable bank among the largest European players

<b>Ratings:</b>	
• Standard & Poor's	AA-
• Moody's	Aa3
• Fitch	AA-
<b>Core Tier 1 capital</b>	19.9%
<b>Market capitalisation</b>	EUR 33.5 bn
<b>Total assets</b>	EUR 570.1bn
<b>AuM</b>	EUR 307 bn

- Nordea is the largest financial institution in the Nordic region with 450 branch locations serving 10 million personal customers
- The three main business lines are retail banking, wholesale banking and wealth management
- S&P has a stable outlook for Nordea's AA-rating
- Continuous growth in operating income over the last 5 years

# Nordea Asset Management

Stable partner with focus on delivering alpha and outcome

<b>AUM</b>	EUR 213.4bn
<b>Multi-boutique Approach</b>	AUM
• Internal Boutiques	90%
• External Boutiques	10%
<b>Global Distribution</b>	AUM
• Nordea group	≈ 50%
• External	≈ 50%
<b>Team</b>	752
out of which investment team	178
<b>Flat Organisation structure and Global Presence:</b> Stockholm, Copenhagen, Oslo, Helsinki, Luxembourg, Cologne, Frankfurt, Madrid, Vienna, Zurich, Paris, London, Milan, New York, São Paulo, Singapore	

## Active Manager:

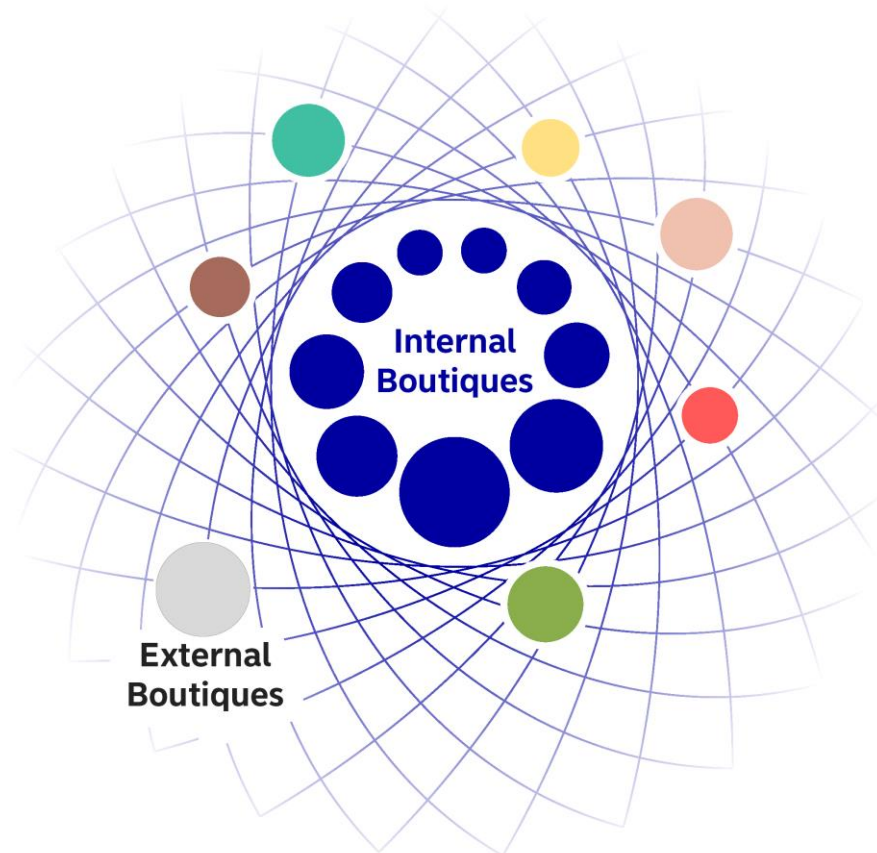
- Alpha through our multi-boutique approach combining our internal strengths with exclusive external competences
- Outcome built on stability to meet clients' risk appetite and needs

## Stable Partner:

- Stable relationship model and large product breadth: reliability and trust
- One platform, many specialists: Alpha and outcome solutions in one platform to serve clients in all weather

# Nordea multi-boutique approach

Combining internal strengths with exclusive external competences to deliver alpha and outcome to our clients



## Internal Boutiques

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Beta + Team

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Danish Fixed Income & Euro Covered Bond Team

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Credit Team

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European Small & Mid Cap Equities Team

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Fundamental Equities Team

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International Fixed Income Team

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Multi Assets Team

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Nordic, Finnish & Swedish Equities Team

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Norwegian Equity Team

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Norwegian Fixed Income Team

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Swedish Fixed Income Team

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Stable Equities Team

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## External Boutiques

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Aegon USA Investment Management LLC

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Capital Four Management A/S

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ClariVest Asset Management LLC

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Cohen & Steers Capital Management, Inc.

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CVC Credit Partners

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DoubleLine Capital L.P.

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Eagle Asset Management, Inc.

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Income Partners Asset Management (HK) Limited

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Itaú USA Asset Management Inc

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Loomis, Sayles & Company, LP

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MacKay Shields LLC

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Mensarius AG

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PGIM Fixed Income

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The London Company of Virginia LLC

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Thomson, Siegel & Walmsley LLC

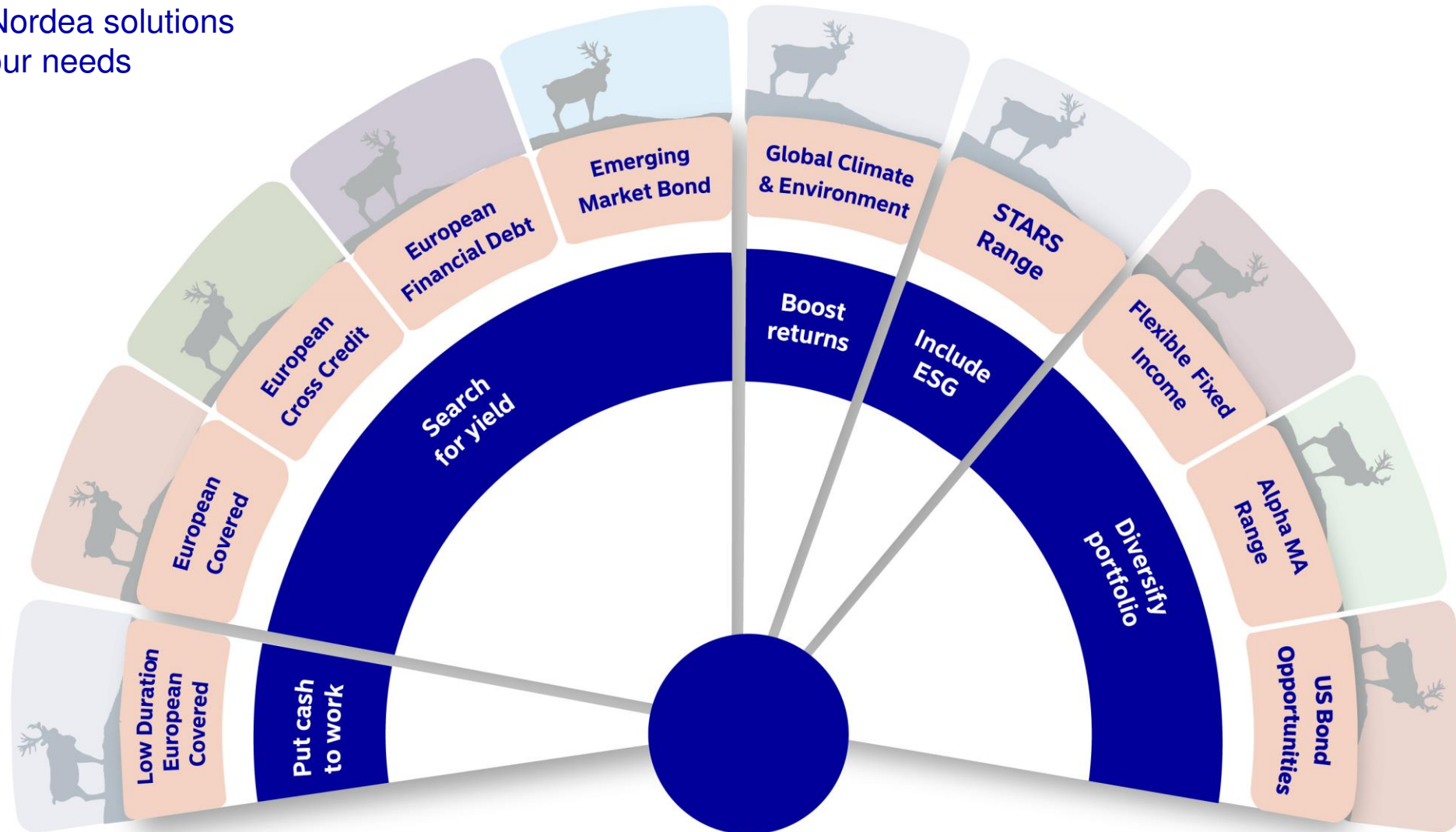
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T. Rowe Price International Ltd.

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# Nordea Asset Management

Selected Nordea solutions  
to meet your needs



Note that some of the strategies listed above are only available as a sub-fund vehicle within the Nordea 1, SICAV. The Nordea 1, SICAV consists of 77 sub-funds covering the full asset spectrum out of which 58 products have more than EUR 100m AuM and 35 products have more than EUR 250m AuM. Source: Nordea Investment Funds S.A. Date: 30.06.2018

## In the low risk spectrum, expertise is a must to achieve returns!



Nordea's value proposition is closely linked to the **added value of active management**. This is where **the expertise of the Danish Fixed Income & European Covered Bond Team** in the covered bond market plays its full role.

### **Martin Hagelskjær Nielsen**

Head of Danish Fixed Income & European Covered Bonds  
24 years of experience

#### **PORTFOLIO MANAGEMENT**

##### **Flemming Thestrup, FRM**

Portfolio Manager  
21 years of experience

##### **Henrik Stille**

Portfolio Manager  
13 years of experience

##### **Per Bisgaard Jensen**

Portfolio Manager  
27 years of experience

##### **Christian Birkehøj, CFA**

Portfolio Manager  
12 years of experience

##### **Johan Kjær Nielsen**

Risk Analyst  
8 years of experience

##### **Niels Platz Bertelsen**

Covered Bond Analyst  
3 years of experience

#### **PRODUCT MANAGER**

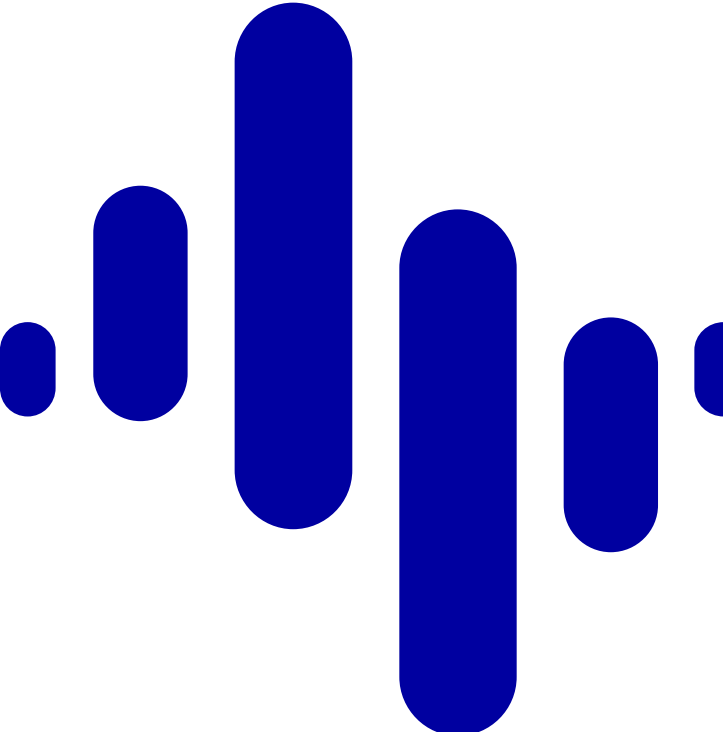
##### **Poul Callesen**

30 years of experience

- Nordea has a dedicated team specialised in managing Danish and European covered bonds, with more than **EUR 39bn of assets under management\***
- An average of **17 years of experience**, with a stable team of portfolio managers, **working together for more than 10 years**
- The team operates in a complex and inefficient market, a field where informed investors can grasp opportunities by **being active** outside the benchmark

There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. \*Source: Nordea Investment Management AB. As of 30.06.2018

**European covered bonds – a very safe asset class**





# What is a covered bond?



## Definition

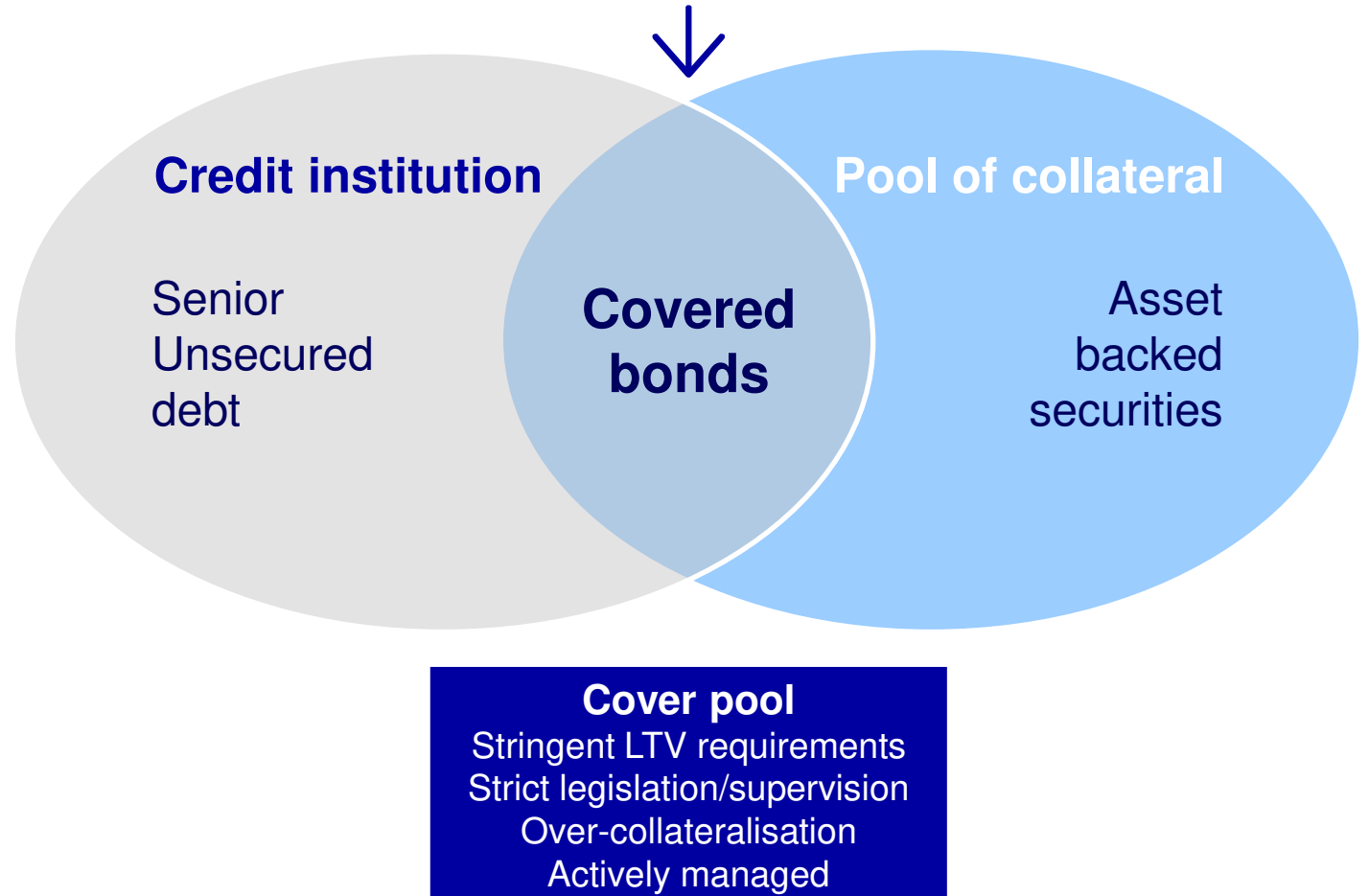
Covered bonds are debt instruments **secured** by a cover pool of mortgage loans (property as collateral) or public-sector debt to which investors have a preferential claim in the event of default.



## Market Size

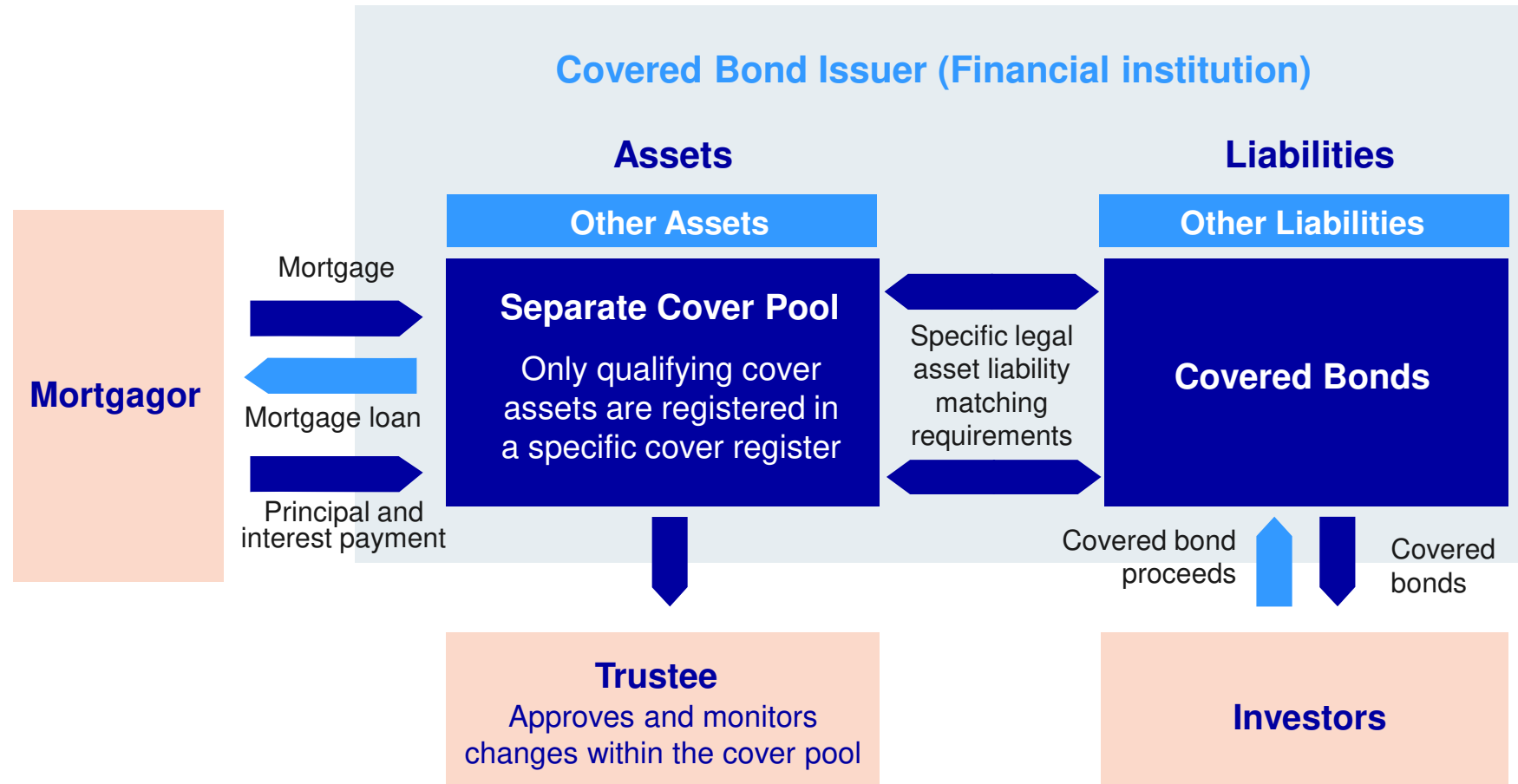
The covered bond market is very large: as of 2016, the volume outstanding was about **EUR 2.5 trillion**. The largest country issuers are Denmark, Germany, France, Spain, and Sweden.

Dual recourse instrument



Source: EMF-ECBC, As of end of 2016

# Typical Structure of Covered Bonds



Source: Sabine Winkler: "The US Covered bond market : A long way from infancy to maturity". The Pfandbrief Facts and Figures about Europe's Covered Bond Benchmark 2007/2008, Verband Deutscher Pfandbriefbanken. Original Source: Merrill Lynch.

## European covered bonds - a very low-risk asset class ...

### Two layers of guarantee

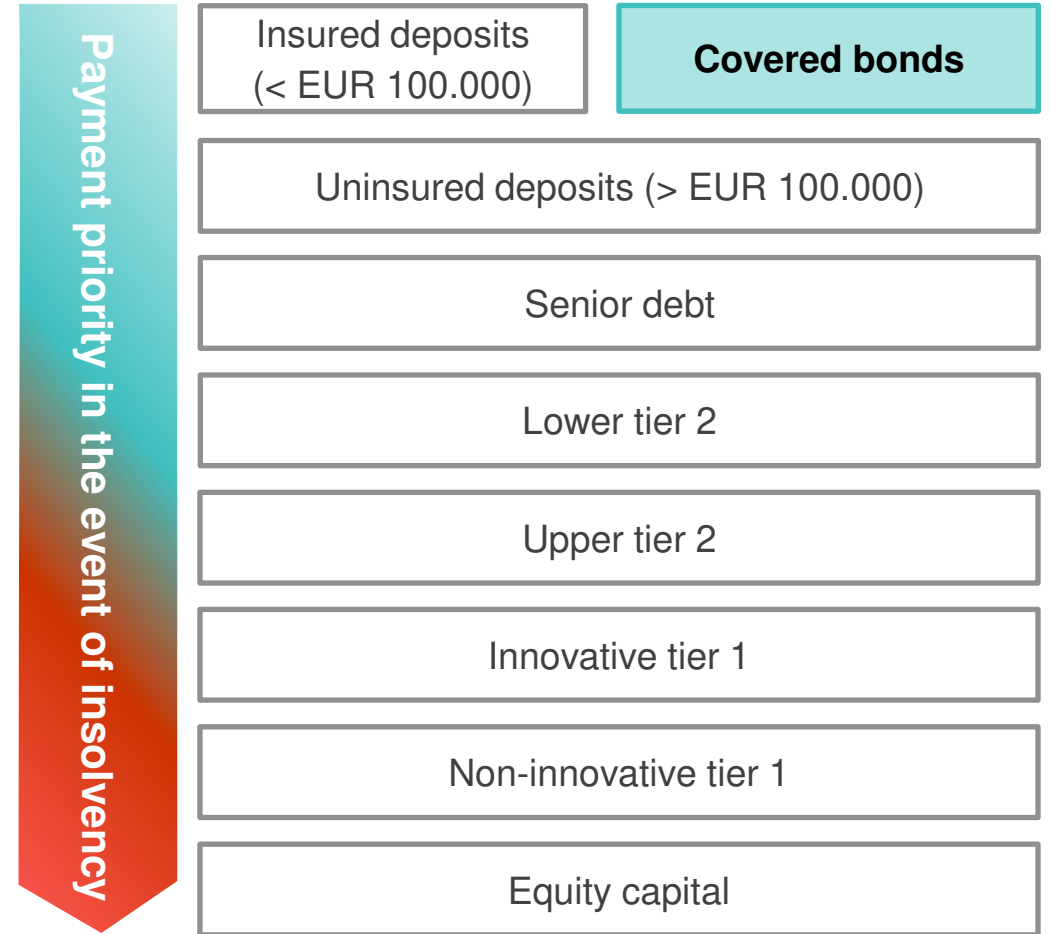
- Issuer
- Pool of assets (cover pool)

### Cover Pool

- Strict local legislation and supervision
- Stringent LTV Requirements (Loan To Value)
- Over-collateralized
- Actively managed to ensure a continuous over-collateralization

### Favourable Treatment in EU Regulation

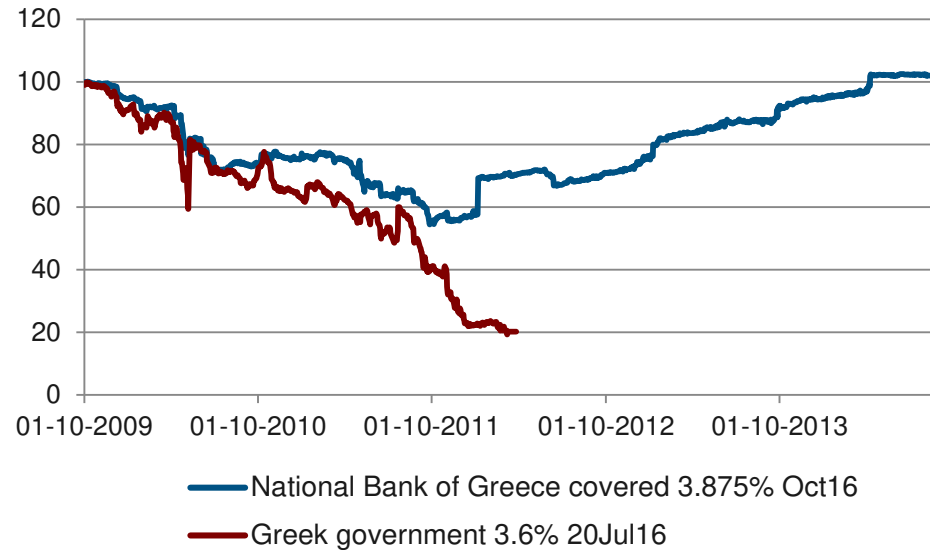
- Under the **Bank Recovery and Resolution Directive (BRRD)**, covered bonds are **exempted from bail-in** (unlike e.g. senior bonds)
- Also treated favourable under **Liquidity Coverage Ratio (LCR)**, **Capital Requirement Regulation (CRR)**, and **Solvency II**.



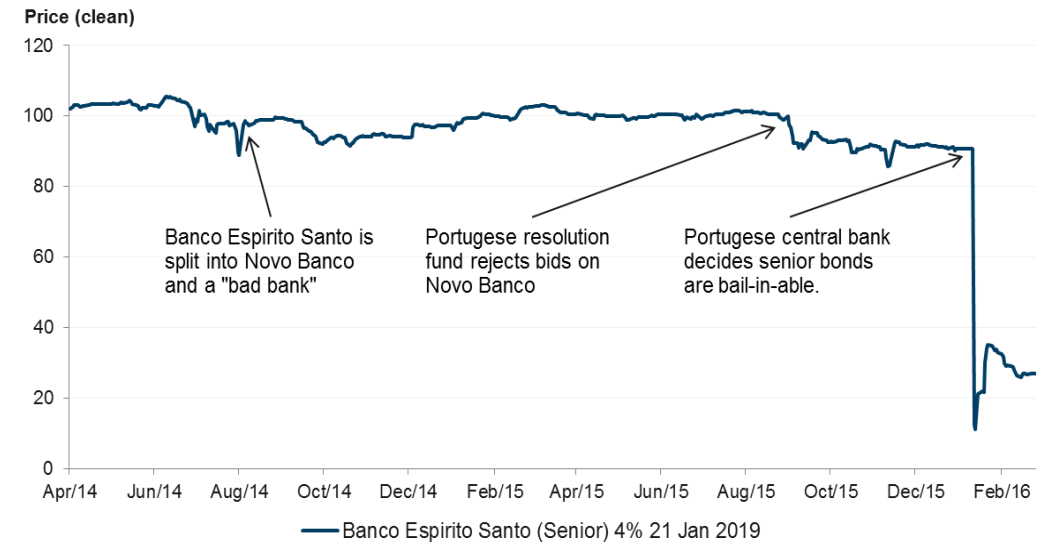
**No covered bond has defaulted in over 200 years**

## ... Even safer than government and senior bonds

### Government bond-holders have taken losses...



### ... and so have senior bond-holders



- When Greek bond-holders had to **take part in the debt restructuring...**
- ...**covered bond-holders saw a full recovery** of their investment.

- **Covered bonds are exempted from bail-in...**
- ... a protection more relevant than ever, as we saw last year Banco Espirito Santo **senior debt's creditors taking large losses.**

Left chart: Source: Bloomberg. September 2014. Right chart: Source: Nordea Analytics and Nordea Investment Management AB, October 31, 2016

## Issuers have defaulted... ...But covered bonds investors have not taken a loss

Issuer	Date of default	Subordinated Debt	Senior Unsecured	Deposits > EUR 100,000	Covered Bonds
Bank of Cyprus public company Ltd	Mar-13	Yes	Yes	Yes	No
Cyprus Popular Bank Public Co Ltd	Jun-12	Yes	No	No	No
Cyprus Popular Bank Public Co Ltd	Mar-13	Yes	Yes	Yes	No
Glitnir Banki hf	Oct-08	Yes	Yes	Yes	No
Kaupthing Bank hf	Oct-08	Yes	Yes	Yes	No
Allied Irish Banks Plc	Jan-11	Yes	No	No	No
Bank of Ireland	Dec-10	Yes	No	No	No
EBS Ltd	Feb-11	Yes	No	No	No
Irish Bank Resolution Corporation Ltd	Nov-10	Yes	Yes	No	No
SNS Bank N.V.	Feb-13	Yes	No	No	No
Banco Espirito Santo	Aug-14	Yes	No	No	No
Banco CEISS	May-13	Yes	No	No	No
Banco de Valencia	Mar-13	Yes	No	No	No
Catalunya Banc SA	Jul-13	Yes	No	No	No
Ibercaja Banco SA	Nov-12	Yes	No	No	No
Liberbank	May-13	Yes	No	No	No
NCG Banco S.A.	Jul-13	Yes	No	No	No
Bradford Bingley Plc	Feb-09	Yes	No	No	No
Chelsea Building Society	Apr-10	Yes	No	No	No
Co-Operative Bank Plc	Dec-13	Yes	No	No	No
Washington Mutual Bank	Sep-08	Yes	Yes	No	No

Source: BBV and Moody's. Defaults as per Moody's definition.

Issuer	Date of default	Subordinated Debt	Senior Unsecured	Deposits > EUR 100,000	Covered Bonds
HETA Asset Resolution AG	expected	Yes	Yes	?	No

Source: Nordea Investment Management AB

# Investment strategy

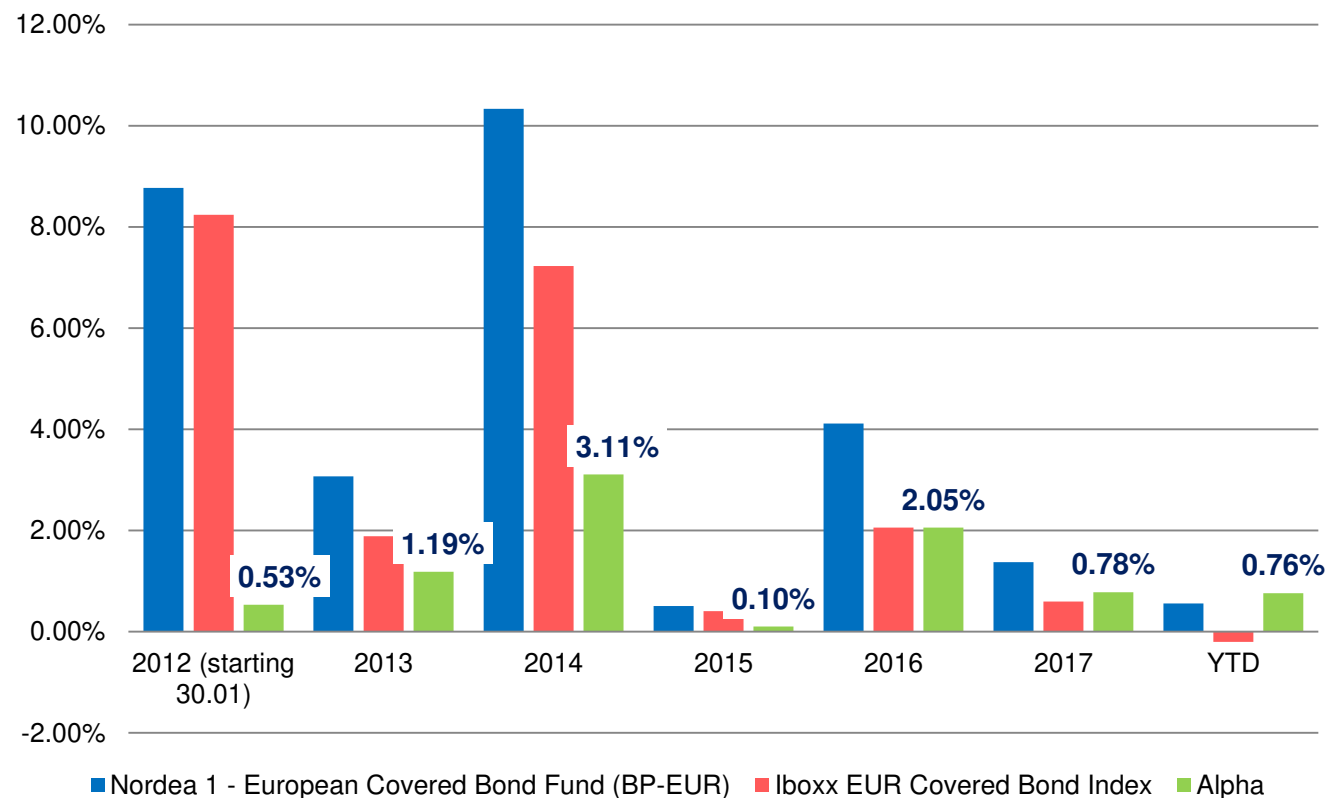


# Nordea 1 – European Covered Bond Fund

Active management at play!

Duration  
~ 5 years

- A history of alpha generation in one of the safest asset classes, consistently outperforming its benchmark without added risk.
- Specialisation: a must to identify attractive opportunities for a solution where credit selection has been the main driver of alpha



Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30/01/2012 - 28/09/2018. 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 28/09/2018. 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.** 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.

# Investment Strategy

## Investment Philosophy

**“We create alpha by identifying relative value opportunities across the investment universe, with strong focus on optimising portfolio risk”**

## Investment Objective

- Excess return target of 35 bps\*
- Ex-ante tracking error: 0.5% – 1% per annum
- Benchmark: iBoxx Euro Covered Bond Index

There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved. \*Gross of fees



# Alpha Sources

<b>Relative pricing versus local government bonds</b>	Spreads of covered bonds often lag spread changes in local government markets
<b>Relative pricing versus senior debt</b>	Different types of investors buy senior bonds and covered bonds. Many examples of attractive buying opportunities in covered bonds trading flat to similar senior debt
<b>New issue premiums</b>	Possible to select issuers that offer attractive new issue premiums
<b>Changes in supply/demand patterns of different covered bond jurisdiction</b>	Supply is driven by need for long secure funding and possible other funding alternatives, whereas demand is driven by relative pricing of covered bonds versus other fixed income asset classes
<b>Legal differences and potential price impact</b>	Non CRD (Capital Requirement Directive) compliant covered bonds are 20% Risk Weights' for banks and offers a discount. But core credit quality can be as strong or even stronger than similar 10% Risk weighted covered bonds
<b>Rating migration</b>	Many covered bond investors have rating restrictions. Rating changes can lead to clear buying opportunities when other investors are forced sellers
<b>New markets often priced with a discount</b>	In the build-up phase new markets typically offer attractive discounts
<b>Fallen angels – a potential buying opportunity</b>	Covered bond investors tend to avoid issuers that have been through rough times - Despite significant improvement in fundamental credit quality

# Investment Process

## I. Investment Universe

- Benchmark is the starting point for risk budget assessment

## II. Define Country Views

- Analyse current covered bond pricing in different jurisdictions
- Should allow us to pick countries to overweight/underweight

## III. Analyse Issuers

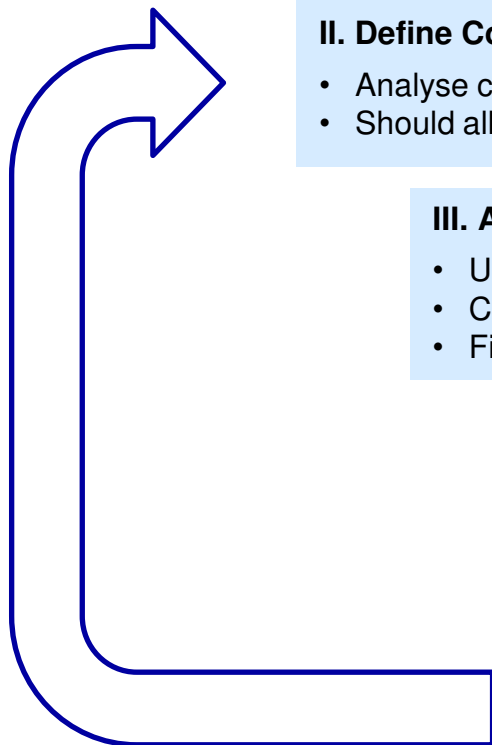
- Understand strengths/weaknesses of relevant issuers
- Compare pricing curves across issuer
- Find fair value spreads across issuers

## IV. Select Individual Securities

- Analysing pricing curves leads to the selection of most attractive bonds
- Understand and exploit market opportunities
- Decide where to be on the chosen issuer's curve

## V. Portfolio Construction & Risk Management

- Use risk model to simulate implementation of different investments
- Is the risk-level in line with expected return given current spreads?



## I. Investment Universe

**The selected reference index is the iBoxx Euro Covered Bond**

- It reflects the risk of the portfolio
- We manage portfolios with and without exposure to weaker countries
- We manage customised Euro Covered Bond portfolios that include Danish Callable to add additional alpha sources

**”Our individual positions are driven by the conviction  
of the relative value case,  
with overlay by our risk management framework”**

## II. Define Country Views

Relative value considerations drives country views

**Pricing of covered bonds  
versus local government**

- Analyse spread development and current pricing curves

**Structural changes in supply/demand  
of covered bonds per country**

- Understand what drives issuance in each jurisdiction. Meetings with issuers are very important

**Country strength of  
covered bond issuers**

- CDS spreads of leading banks is an important tool to get a picture of the strength of banking sector

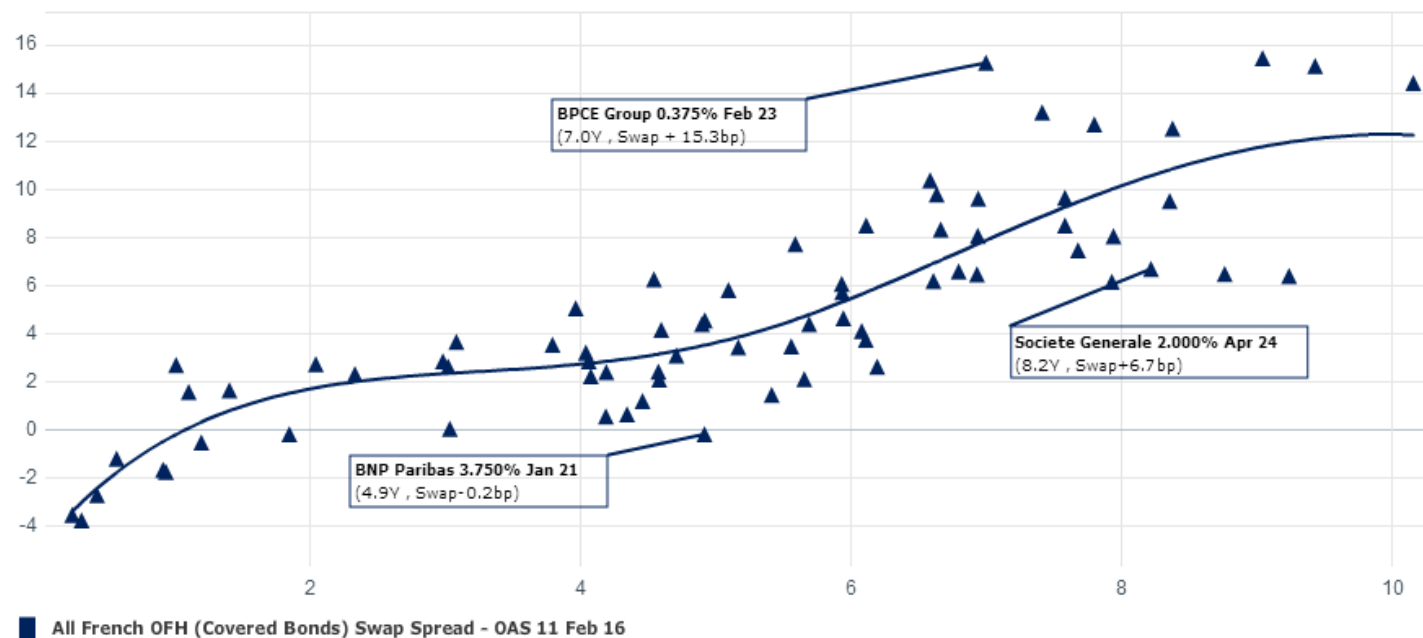
**Country strength of cover pools**

- Rating agencies "Cover Pool Losses" is useful data to screen market
- Analyse and understand strength/weaknesses of relevant issuers
- Analyse development in different housing markets

**"It's important to understand strengths and weaknesses in particular areas affecting the countries' covered bond credit quality such as unemployment, housing market data etc."**

### III. Analyse issuers

- **Understanding strengths/weaknesses** of relevant issuers
- **Comparing issuers** across the universe
- Finding **fair value spreads** across issuers
- Issuers' curves (example France)



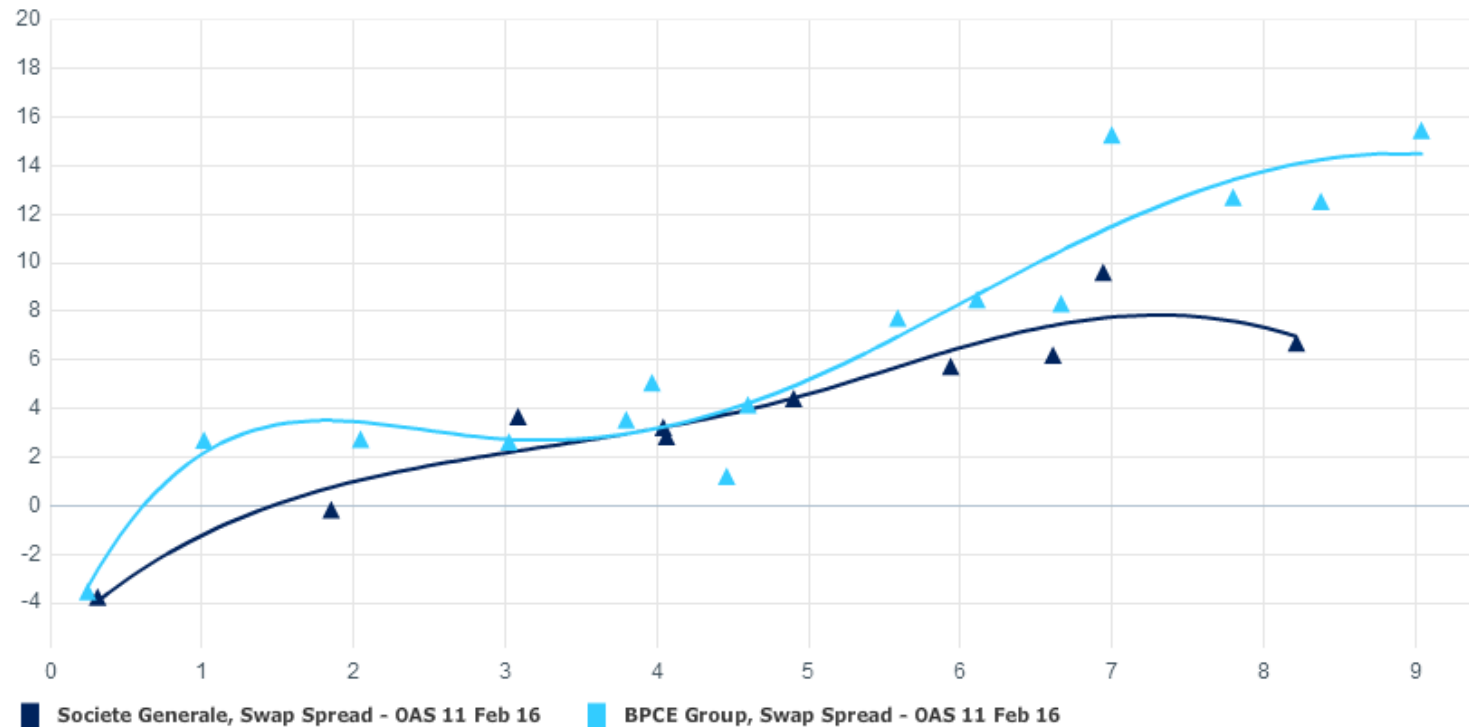
“Our fair value model makes it possible to compare covered bonds across issuers, starting with the unsecured credit quality of the bank adjusting for cover pool credit quality”

## IV. Select individual issues

**Relative pricing of French covered bonds:** Société Générale relative BPCE Group

Société Générale offers best relative value for 3-5y maturities. BPCE offers best relative for 7-9y maturities.

- Buy 3-5y Société Générale, Buy 7-9y BPCE



Source: Barclays Live - Chart, February 11, 2016

## V. Portfolio Construction & Risk Management

Risk Model is key in portfolio construction

- Optimization of risk budget
- Assessment of the current risk premium of various covered bond segments to define an adequate level of risk (ex-ante tracking error).
- Daily risk assessments are prepared for the portfolio, benchmark and our active positions respectively for the interest rate risk, curve risk, credit spread risk, volatility risk and the overall risk.
- Monthly risk meetings with the Investment Team, the Portfolio Analysis Team and the Head of Fixed Income DK are held to evaluate the overall risk profile and the individual active positions.
- Main risk indicators at the portfolio level are reported monthly in the client report.
- Analysis of risk premiums in stress scenarios.
- As a part of the ongoing portfolio optimization, the portfolio manager can simulate the effect of individual transaction on the portfolio risk in advance.
- Liquidity Management: Anticipatory identification of less liquid positions and implementation of market-friendly trading strategies.

# Investment Cases & Examples



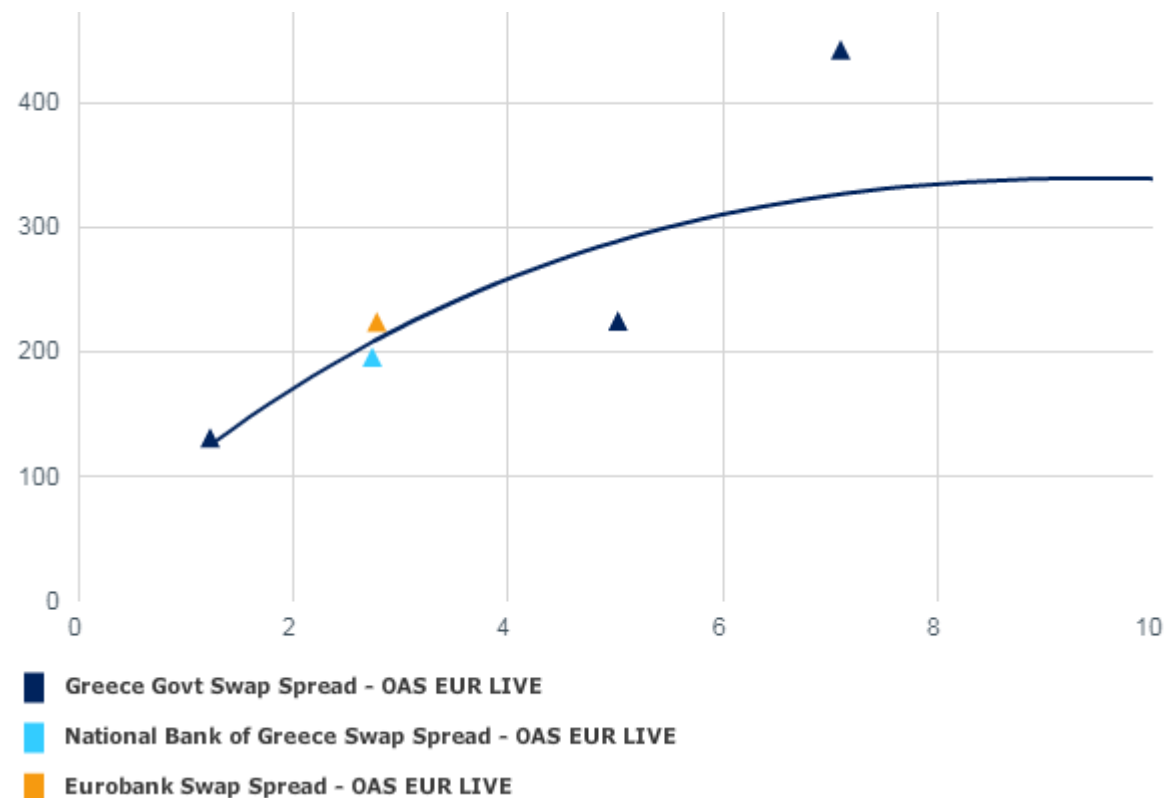


## Case: Greek Covered Bonds

- One of the only debt instruments that survived the crisis in Greece during the last decade. Last covered bond was fully paid back in October 2016.
- New 3y bonds issued close to swap+300bp. Have performed massively, but are still cheap compared to Greek government bonds.
- National Bank of Greece, Eurobank, Alpha Bank
- Technically low rating of B3 due to country ceiling.

### Cover pool (NBG)

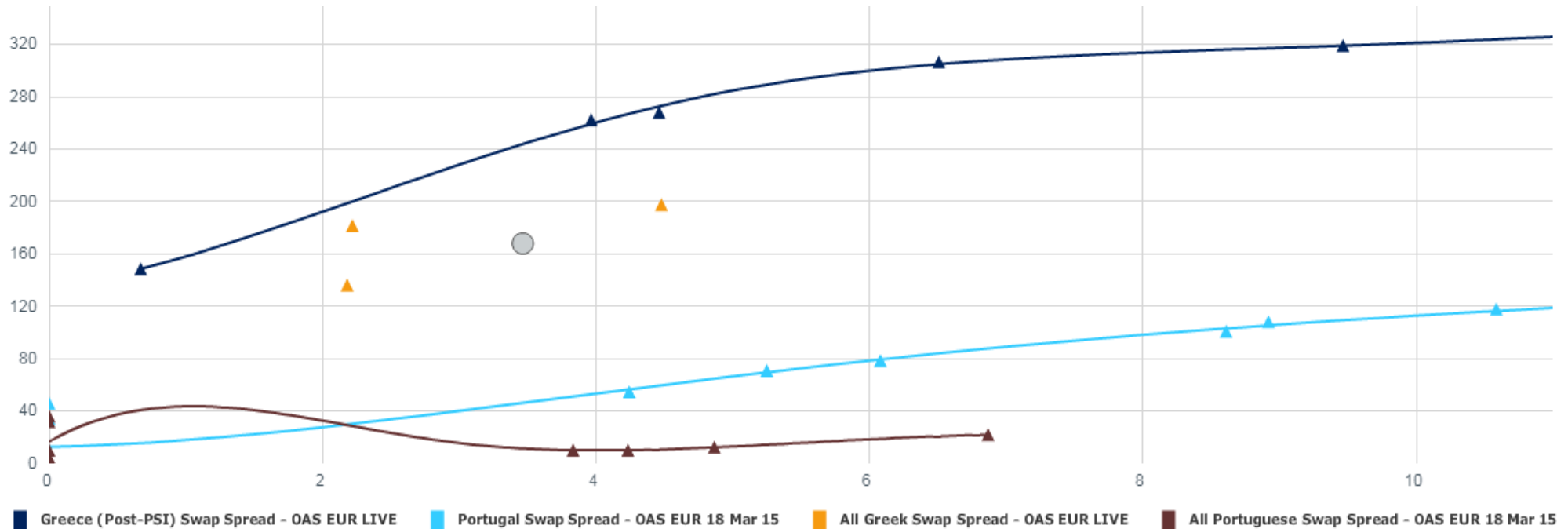
- 100% residential mortgage loans
- Contractual minimum OC level of 25 pct.
- WA unindexed LTV 54.8 pct. (Indexed 44.8 pct.)
- W. A. Seasoning: 10,25yrs (No restructured loans)



Source: Barclays Live, 23. jan. 2018. For illustrative purpose only.

## Update on Greece

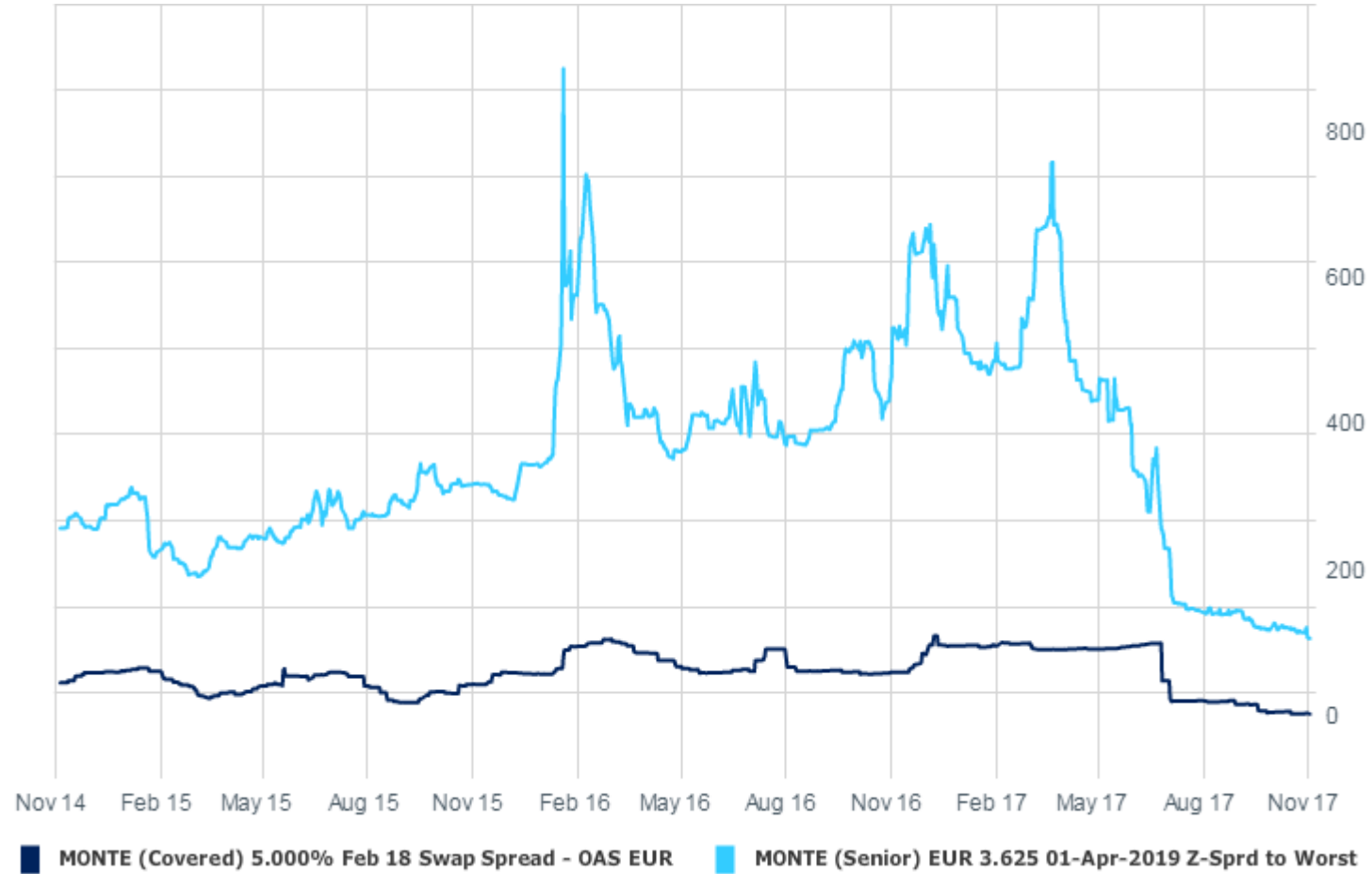
- 2 notches upgrade on the sovereign from Fitch to BB-
- ETEGA covered bonds now BBB- from S&P and ALPHA/ETEGA covered bonds on track for BBB- from Fitch
- Both ETEGA and ALPHA would be ECB repo eligible. ALPHA could potentially be QE eligible



Source: Barclays Live, as of 14.08.2018

# Case: Distressed Banks

Monte dei Paschi



Source: Barclays Live - Chart, November 6, 2017

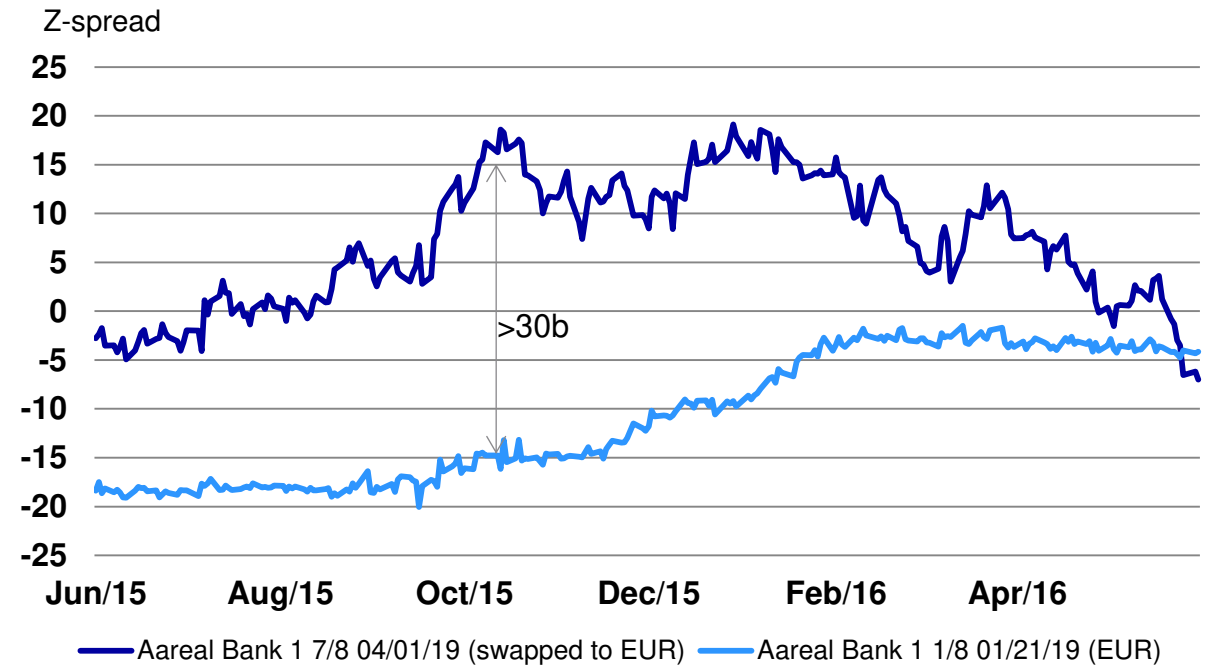
# Case: Covered bonds in different currencies

Aareal Bank Pfandbrief

- One bond issued in USD another issued in EUR
- Same bank, same cover pool, similar maturity
- Bonds in different currencies create investment opportunities

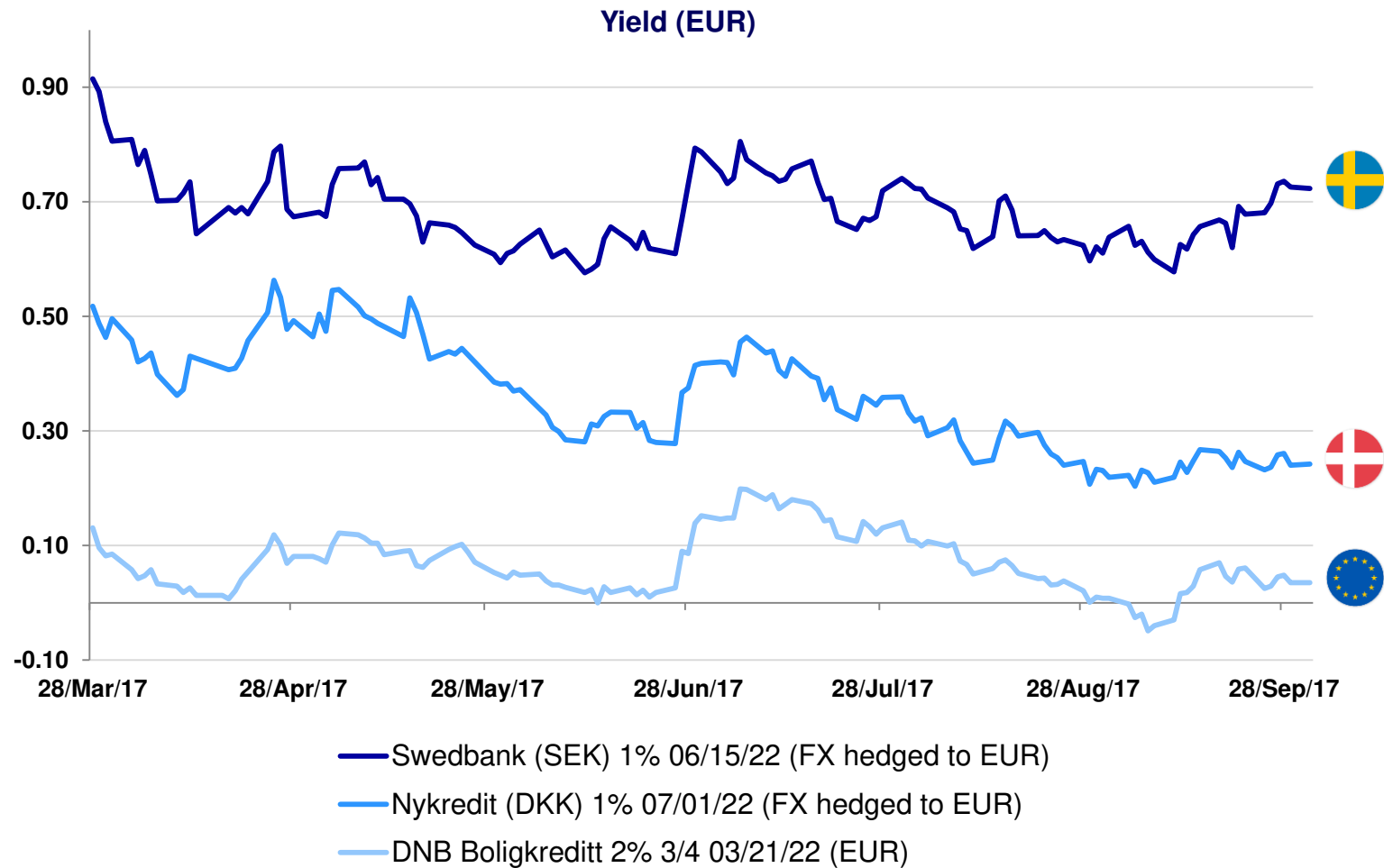


## Comparison of spread adjusted for EURUSD basis:



## Case: Nordic market in local currency

After currency hedging, Swedish & Danish covered are yielding more than peers




Source: Bloomberg, 02.10.2017

## Case: Rating inefficiencies

Example with Spanish Multi Cédulas

### IM CEDULAS 5, 3.50 % 06/2020

- Rated **BB+** (S&P) back in 2015 
- The multi cédula is backed by six banks all with highly rated covered bonds
- Why was a covered bond backed by these bank only rated BB+?
- Was eventually upgraded to investment grade and the position had a strong performance

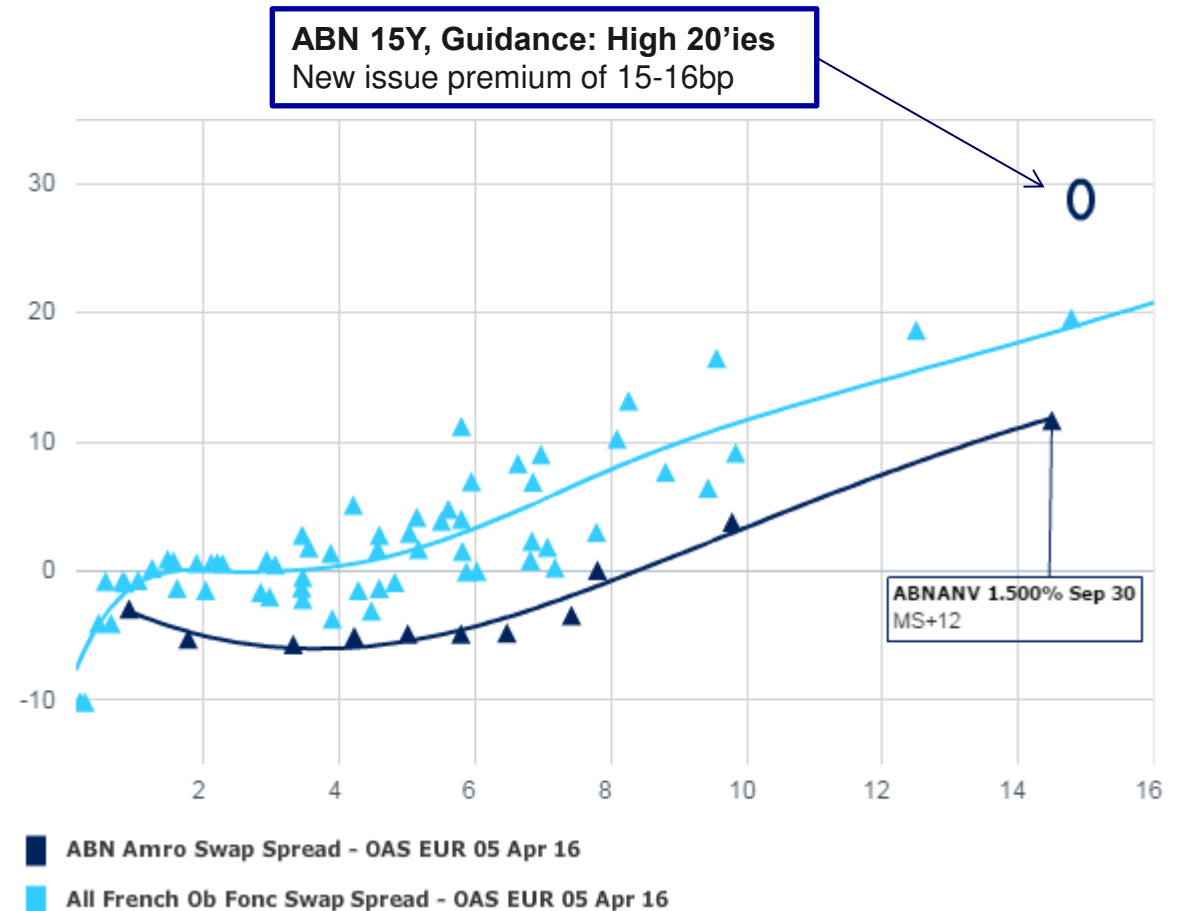
Bank	Share	Rating	
		S&P	Moody's
Caja Laboral	40 %	-	Ba1 (Senior)
Banca March	20 %	-	Aa2 (Covered)
Caixabank	12 %	A+ (Covered)	Aa2 (Covered)
Unicaja	12 %	-	A1 (Covered)
Banco Mare Nostrum	8 %	Fitch: BBB+ (Covered)	
BBVA	8 %		Aa2 (Covered)

## Case: New issue premiums (1/2)

... Can be an attractive alpha source

### ABN Amro 15Y deal (April 2016)

- Attractive pick up to existing ABN-curve
- ABN covered bonds were trading tighter than France, except new ABN-bond



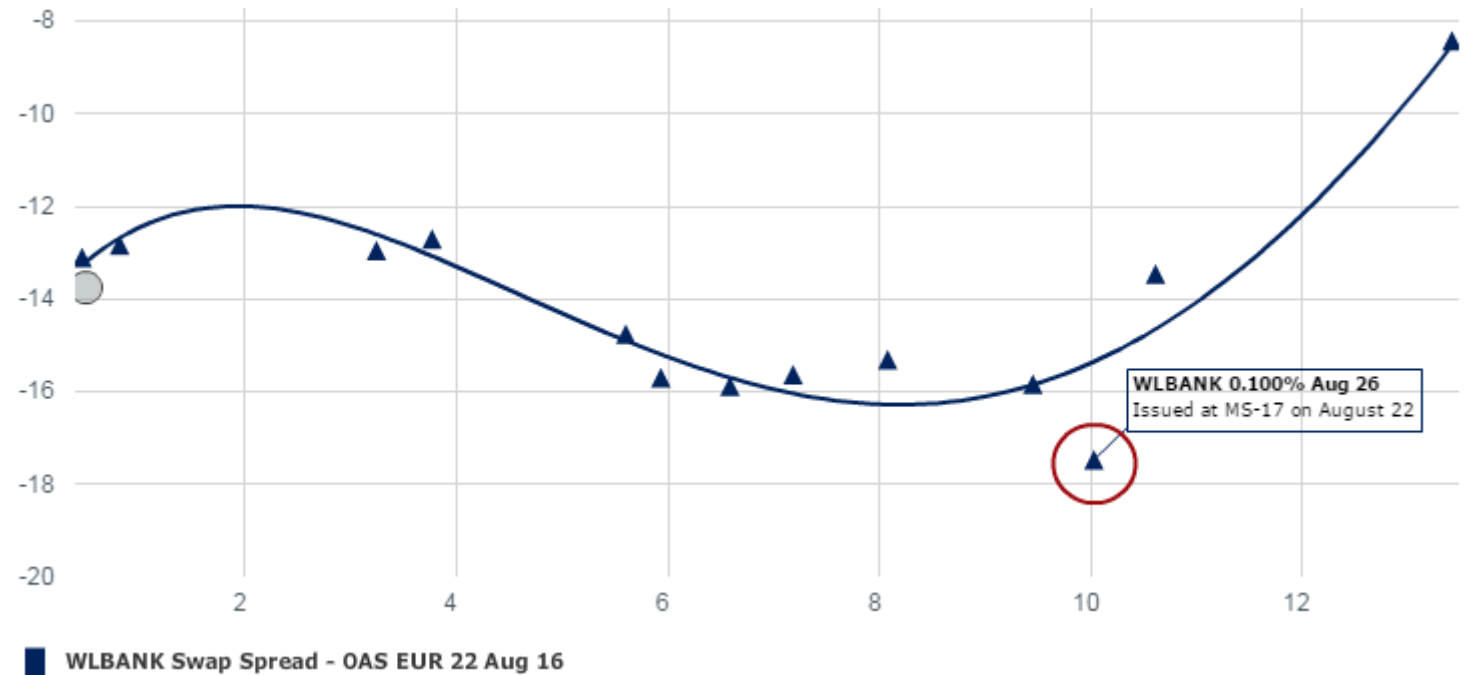
Source: Barclays Live, 5/4/2016

## Case: New issue premiums (2/2)

... Avoid expensive new issuances

### WLBANK, Pfandbrief (August 2016)

- Tightest bond on the curve – negative new issue premium
- Active management necessary navigate through new issuances



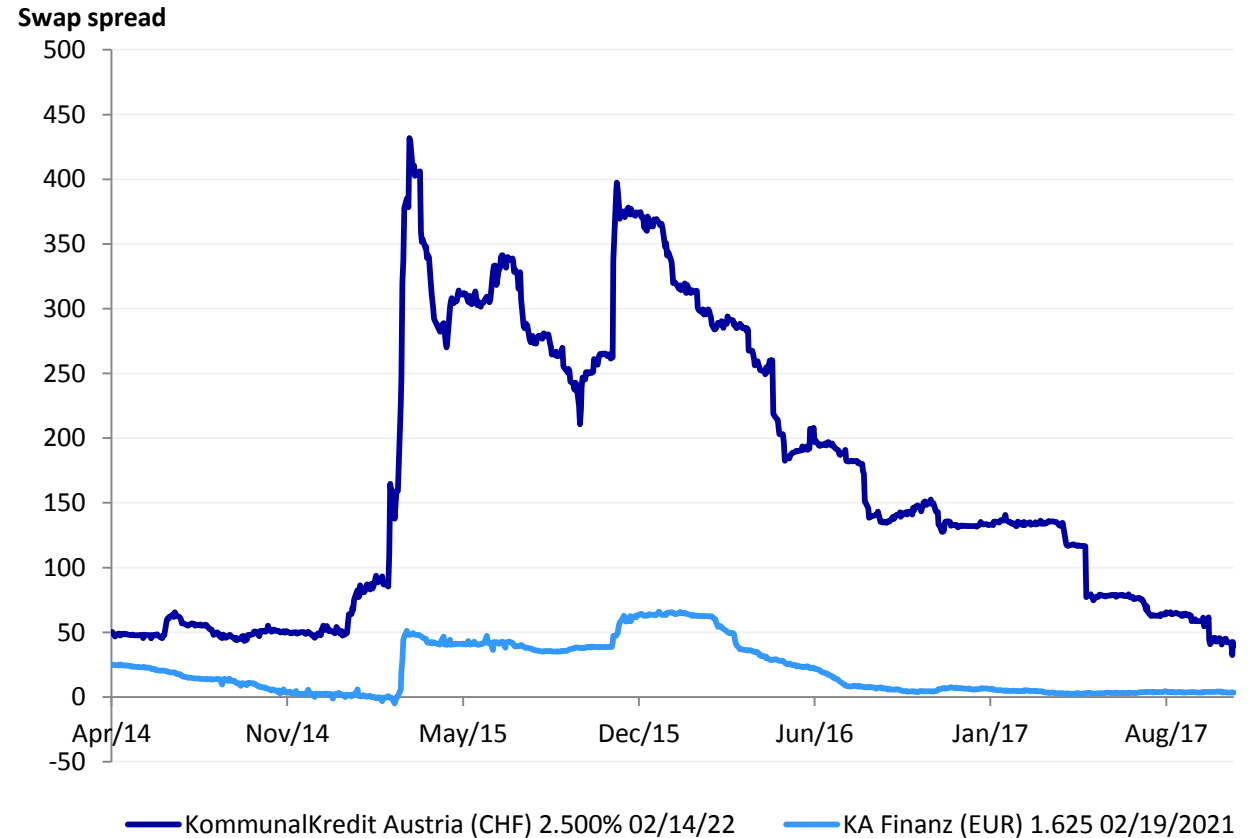
Source: Barclays Live, August 2016



## Case: Cover pool split

KommunalKredit Austria split into KA New and KA Finanz

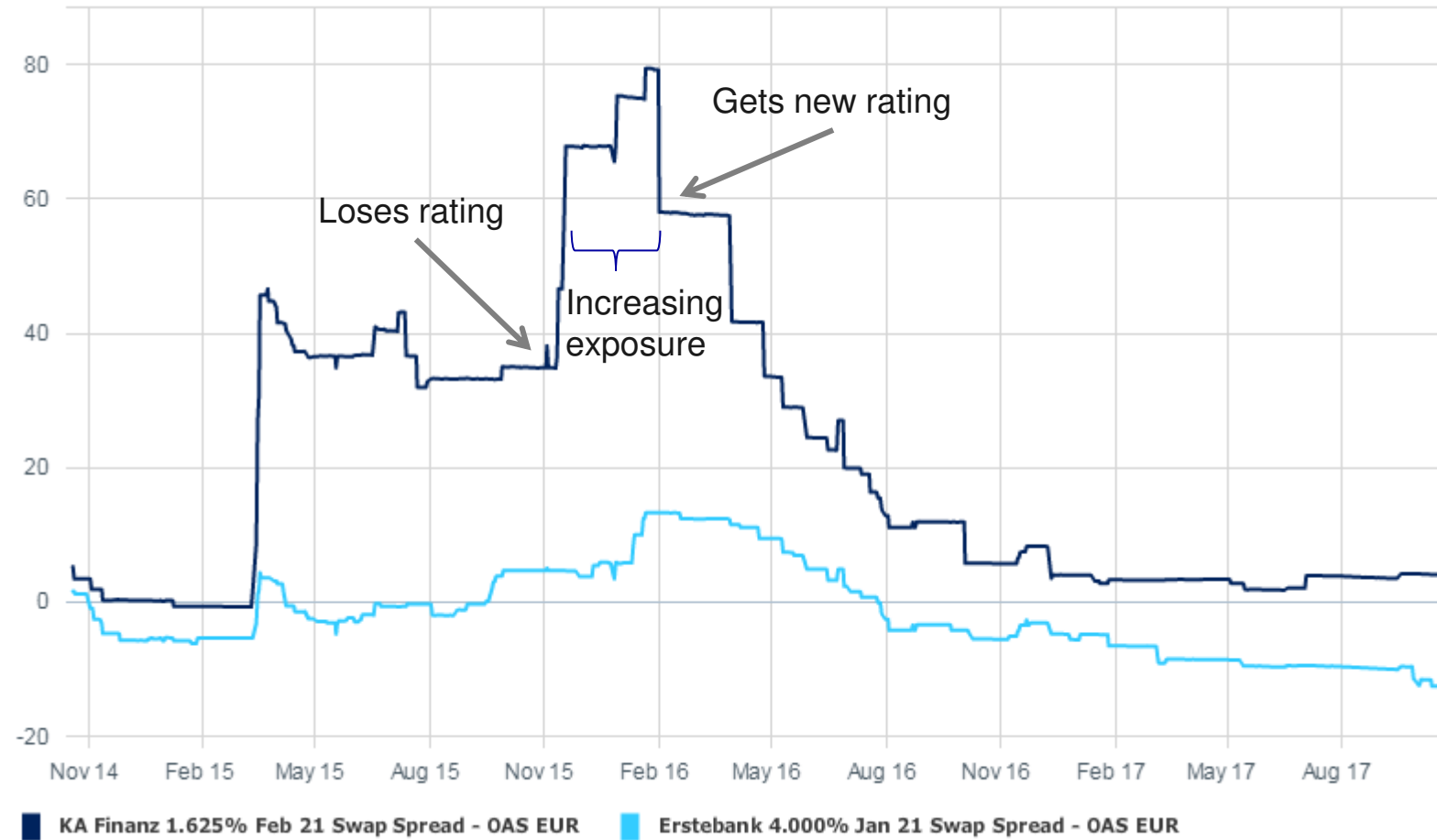
- Bank ran into troubles in 2008
- Taking over by the government conditional on future privatization
- Split of cover pool creates uncertainty – but both pools are strong
- Some investors cannot buy CHF
- Fear of losing the rating on KA New



Source: Bloomberg October 19, 2017

## Case: Rating changes

KA Finanz temporarily loses rating when changing from Moody's to S&P



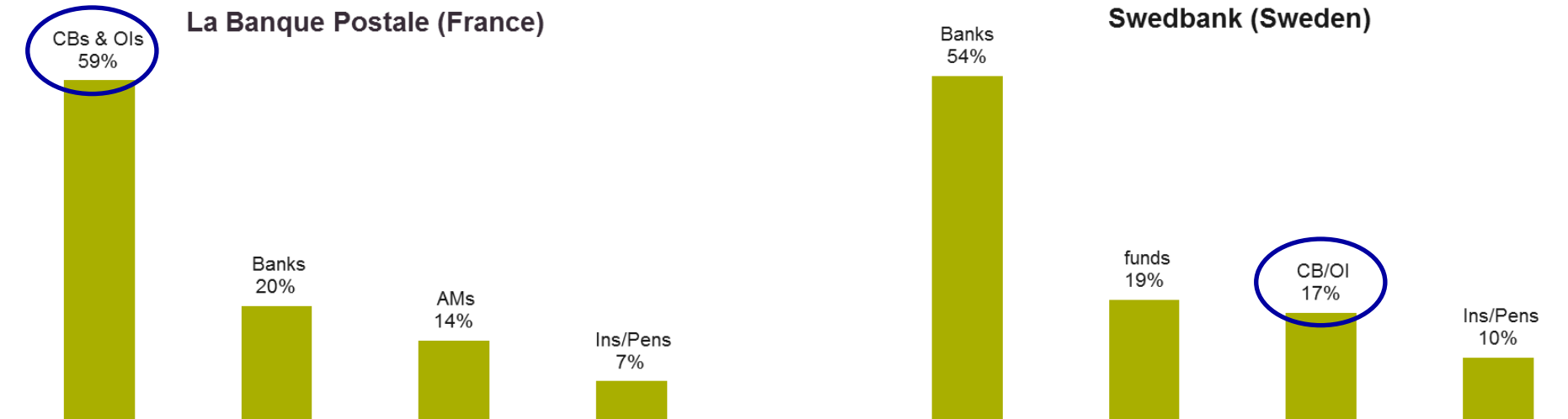
Source: Barclays Live, October 19, 2017

# Market impact of ECB's purchasing programme

## Two EUR-deals from 2016:

- 7Y La Banque Postale på MS+5, 30 orders (within CBPP3)
- 5Y Swedbank på MS+14, 130 orders (outside CBPP3)

**”Real money”-investors are priced out by the ECB.**



Source: The Cover, Nordea Investment Management AB

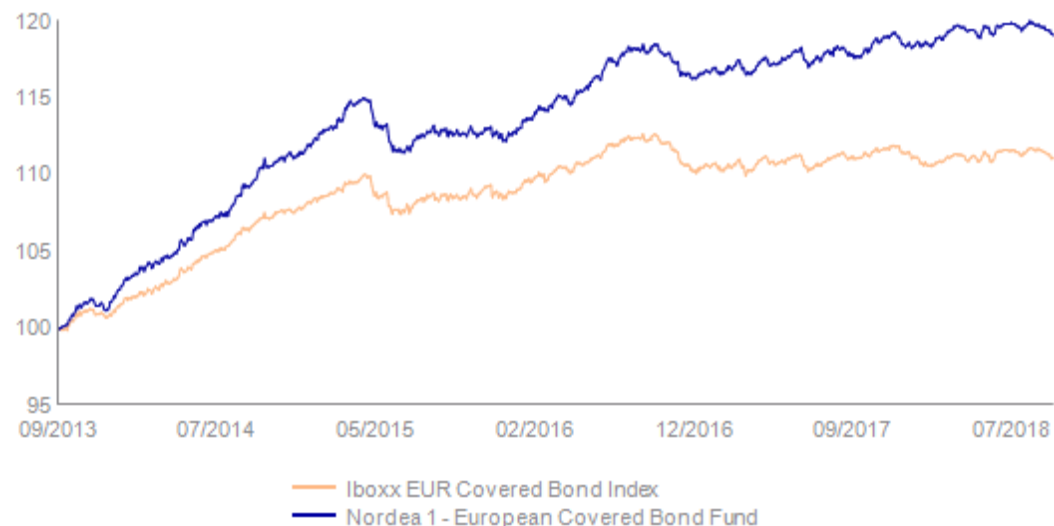
# Performance & portfolio positioning



# Nordea 1 – European Covered Bond Fund

Performance of the BP-EUR share class

Duration  
~ 5 years



Source (unless otherwise stated): Nordea Investment Funds S.A.  
 Period under consideration (unless otherwise stated): 30/09/2013 - 28/09/2018.  
 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 28/09/2018. 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.**

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.

In the prospectus dated 30 January 2012 the Nordea 1 - Euro Bond Fund was renamed to Nordea 1 - European Covered Bond Fund, the investment policy of the sub-fund was modified and the NAV history prior to this date is not used for performance measurement.

Calendar Year Returns in %	Fund	Reference index
2013	3.07 %	1.88 %
2014	10.34 %	7.23 %
2015	0.51 %	0.41 %
2016	4.11 %	2.06 %
2017	1.37 %	0.59 %
YTD	0.56 %	-0.20 %

Cumulative Returns in %	Fund	Reference index
YTD	0.56 %	-0.20 %
1 month	-0.55 %	-0.49 %
3 months	-0.63 %	-0.39 %
6 months	-0.47 %	-0.17 %
1 year	1.12 %	0.08 %
3 years	5.69 %	2.41 %
5 years	19.02 %	11.10 %

# Nordea 1 – European Covered Bond Fund

## Top Ten Holdings and Country Breakdown

Top Ten in %		
Realkredit Danmark 1% 04-01-2021 SDRO A T	DK0009294845	4.90
Italy Buoni Poliennali Del T 0.35% 15-06-2020	IT0005250946	4.57
National Bank of Greece SA 2.75% 19-10-2020	XS1698932925	3.93
Cie de Financement Foncier S 0.225% 14-09-2026	FR0013201449	2.80
Kreditanstalt fuer Wiederauf 2.75% 15-07-2020	US500769HV97	2.21
Stadshypotek AB 4.5% 21-09-2022	SE0003174838	2.16
Kingdom of Belgium Governmen 1.6% 22-06-2047	BE0000338476	2.03
PITCH1 5.125% 20-07-2022	ES0334699008	1.92
Westpac Banking Corp 0.5% 16-01-2025	XS1748436190	1.92
Eurobank Ergasias SA 2.75% 02-11-2020	XS1709545641	1.91
<b>Total</b>		<b>28.35</b>

Country Breakdown in %	
<b>France</b>	14.31
<b>Denmark</b>	11.69
<b>Greece</b>	10.08
<b>Italy</b>	9.71
<b>Spain</b>	8.16
<b>Austria</b>	7.13
<b>Germany</b>	6.21
<b>Belgium</b>	4.14
<b>Other</b>	27.12
<b>Net Liquid Assets</b>	1.44
<b>Total</b>	<b>100.00</b>

Source (unless otherwise stated): Nordea Investment Funds S.A. Date: 28.09.2018

# Nordea 1 – European Covered Bond Fund

## Key Fund Figures and Data (BP-EUR)

Key Figures	
Annualised return in %*	2.02
Volatility in %*	1.74
Average maturity	6.27
Effective Duration	5.23
Yield to maturity in %	0.75
Correlation*	0.91
Information ratio*	1.39
Tracking error in %*	0.73

\* Annualized 3 year data

Sub-fund's name	Nordea 1 - European Covered Bond Fund
Fund Manager	Danish Fixed Income & Euro Covered Bond Team
Fund Domicile	562, rue de Neudorf, 2220 Luxembourg, Luxembourg
Share class	BP-EUR
Annual Man. Fee	0.600 %
Security number (ISIN)	LU0076315455
Security number (WKN)	986135
Fund Size in millions	1,519.05
Currency	EUR
Reference index	Iboxx EUR Covered Bond Index
No. of holdings	102
Launch date	05/07/1996
Minimum investment (EUR)	0

Source (unless otherwise stated): Nordea Investment Funds S.A. Date: 31.08.2018

**The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

In the prospectus dated 30 January 2012 the Nordea 1 - Euro Bond Fund was renamed to Nordea 1 - European Covered Bond Fund, the investment policy of the sub-fund was modified and the NAV history prior to this date is not used for performance measurement.

## Nordea's value proposition

Duration  
~ 1 year

### Nordea 1 - Low Duration European Covered Bond Fund

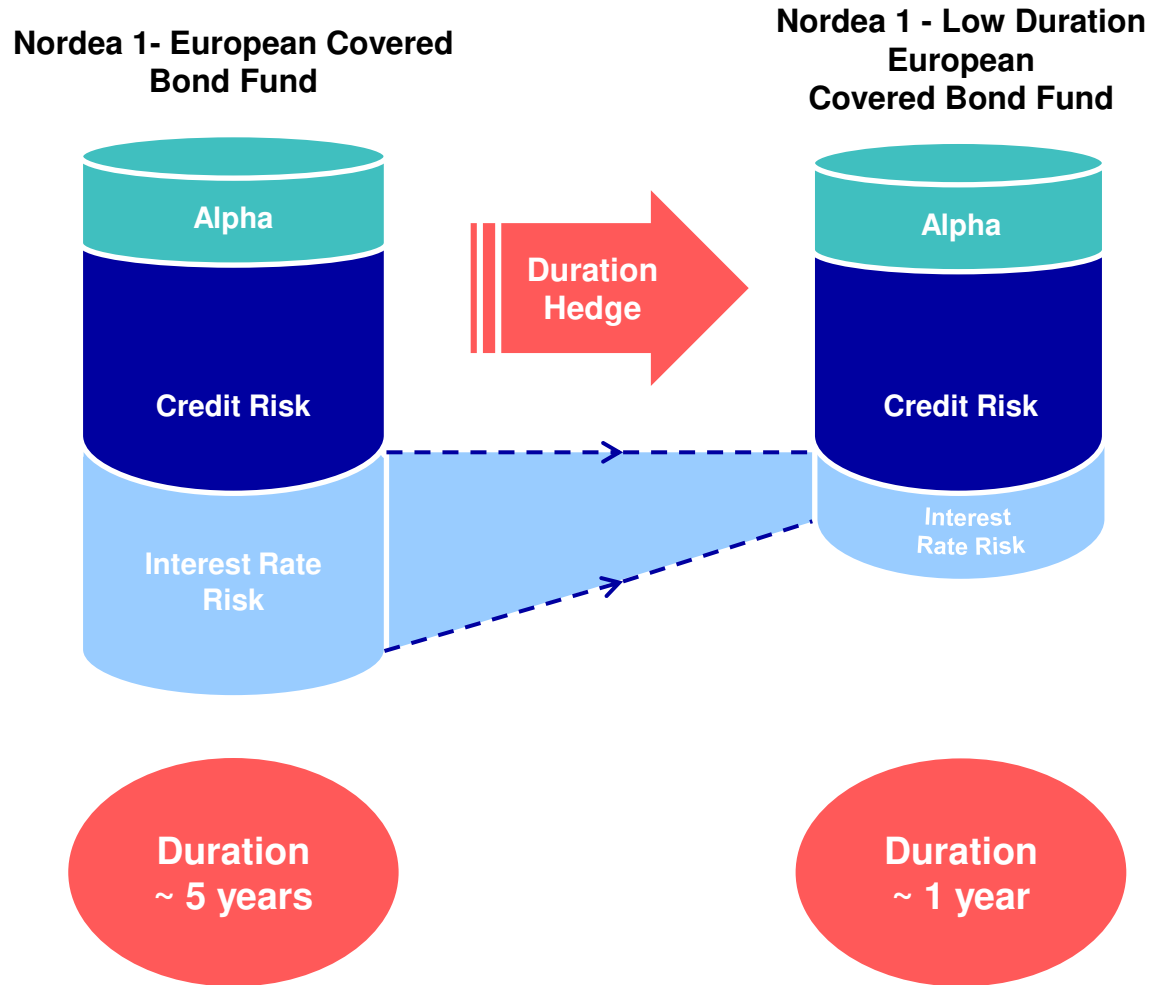
An innovative investment solution with **limited interest rate risk**:

- An asset class to meet **the highest standards of safety**
- Managed by a **specialised and experienced** investment team
- With the full access to its **historical alpha capabilities**

**Protection from inflation and low risk option to put your money to work!**



# Reducing duration risk does not alter the alpha capability, neither in theory...



## New and innovative solution for clients

- ✓ We keep the same alpha level
- ✓ We keep the same credit risk premium
- ✓ We reduce the interest rate risk (duration)

There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved. For illustrative purpose only.

## ... nor in practice!

### Attribution analysis of the alpha generation in the Nordea 1 – European Covered Bond Portfolio

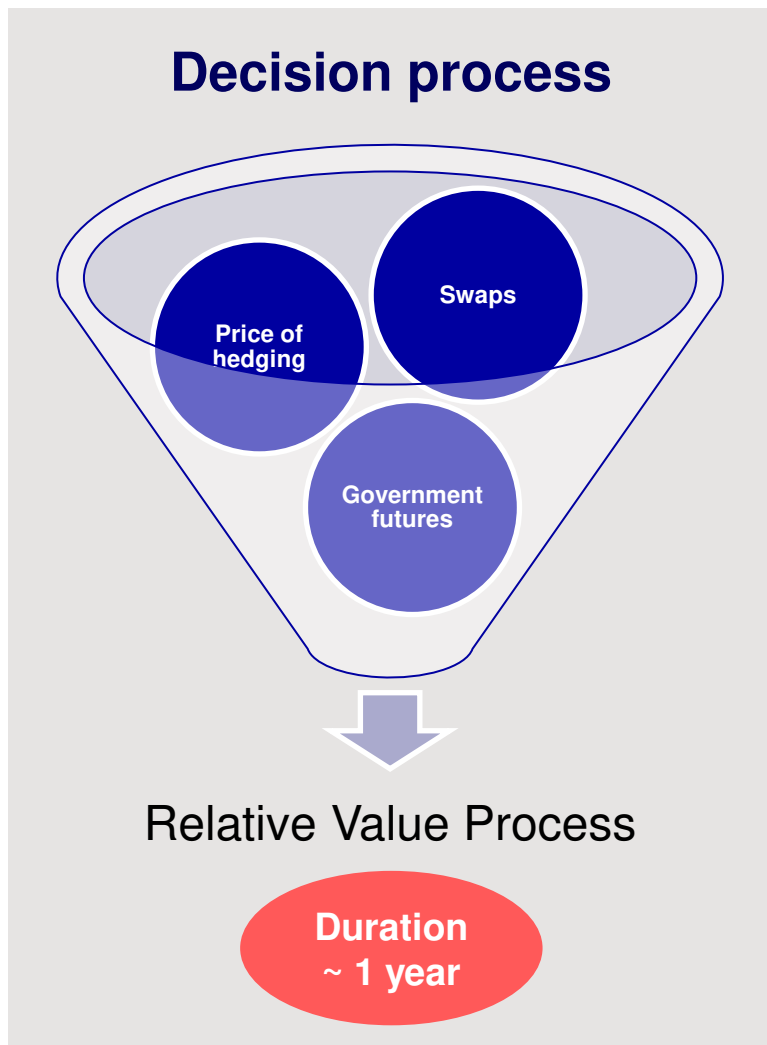
Alpha contribution in bps	2012 (starting 30.01.2012)	2013	2014	2015	2016	2017
Credit spreads	57	149	322	-39	130	184
Duration	26	-16	53	-8	35	-11
Carry	12	58	55	90	83	-3
FX	12	4	-60	55	47	-19
Trading	34	16	13	-2	-17	2
Portfolio	892	403	1144	141	507	211
Benchmark	749	193	728	43	205	60
Alpha	143	210	416	98	302	151

- Credit spreads have historically been the main contributor to alpha ( ~ 60%)
- Duration exposure only accounted for approx. 6% of the alpha generated

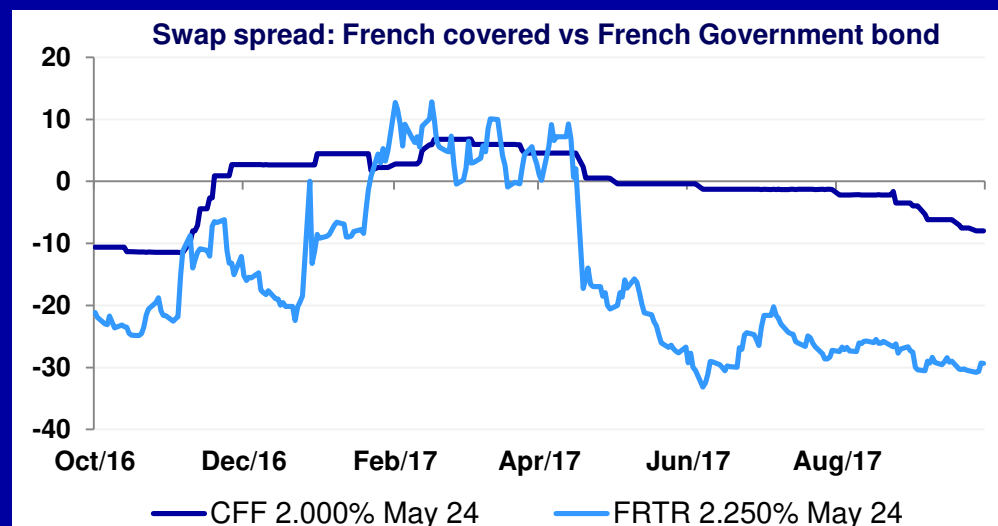
- **The reduction of duration risk does not affect the alpha capabilities of the team**
- **Alpha instead is generated by strong credit selection, which investors in the duration hedged solution still fully benefit from**

Source: Nordea Investment Management AB. Performance calculated gross of fees. Benchmark: Iboxx EUR Covered Bond Index. Period under consideration: 30.01.2012 – 31.12.2017. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.

## How is the duration hedged?

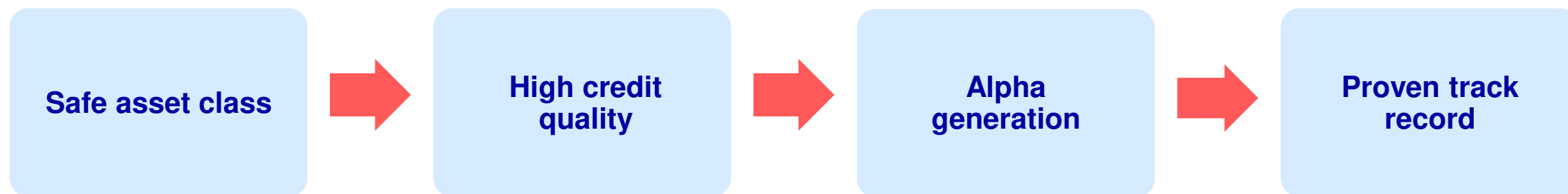


## Example: French Covered Bonds



- French covered are expensive to swap (MS-8)
- Covereds are cheap to government bonds (+22bp)
  - We therefore prefer to hedge with government futures.
- Should we use German or French futures? – Pricing?
- Ex. OAT future: yield of 0.78 %, implied repo of -0.63 %:
  - Total cost: -1.41 %

## Nordea's value proposition



- ✓ **Low Duration risk** → **Duration target of 1 year**
- ✓ **Low Credit risk** → **High quality (typically A - AA) & no default for over 200 years**
- ✓ **No Risk of bail-in** → **Covered Bonds are exempted from EU bail-in mechanism**
- ✓ **No Currency risk** → **Portfolio hedged to EUR**

# Nordea 1 – Low Duration European Covered Bond Fund

## Top Ten Holdings, Country and Currency Breakdowns, Fund Characteristics

### Top Ten in %

Realkredit Danmark 1% 04-01-2019 SDRO A T	DK0009294688	8.36
Italy Buoni Poliennali Del T 0.35% 15-06-2020	IT0005250946	5.23
Nykredit Realkredit FRN 10-01-2021 IO CITA-3M SDO	DK0009514200	3.84
National Bank of Greece SA 2.75% 19-10-2020	XS1698932925	3.73
Kreditanstalt fuer Wiederauf 2.75% 15-07-2020	US500769HV97	3.67
Nordea Kredit FRN 07-01-2022 IO CIBOR 6M SDRO A 2	DK0002041532	3.33
PITCH1 5.125% 20-07-2022	ES0334699008	2.49
Commonwealth Bank of Austral 3.25% 20-07-2023	US20271BAG05	2.04
Stadshypotek AB 1.75% 09-04-2020	US85235YAE32	2.00
Eika Boligkreditt AS 18/23 FRN C COVD	NO0010821192	1.96
<b>Total</b>		<b>36.66</b>

### Currency breakdown in %

EUR	55.59
DKK	22.39
USD	14.04
NOK	1.96
CHF	1.42
SEK	0.49
<b>Net Liquid Assets</b>	<b>4.11</b>
<b>Total</b>	<b>100.00</b>

### Country Breakdown in %

<b>Denmark</b>	25.26
<b>Greece</b>	9.98
<b>Italy</b>	9.74
<b>France</b>	8.98
<b>Germany</b>	8.31
<b>Spain</b>	6.49
<b>Norway</b>	5.18
<b>Austria</b>	3.69
<b>Other</b>	18.27
<b>Net Liquid Assets</b>	<b>4.11</b>
<b>Total</b>	<b>100.00</b>

### Key Figures

Average maturity	4.77
Effective Duration	1.63
Yield to maturity in %	0.34

Source (unless otherwise stated): Nordea Investment Funds S.A. Date: 31.08.2018

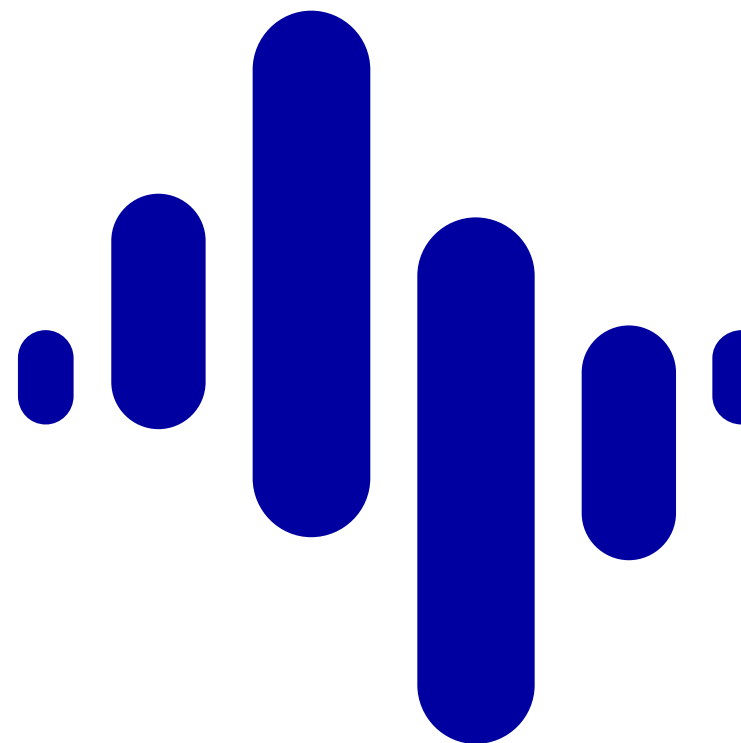
# Nordea 1 – Low Duration European Covered Bond Fund

## Key Fund Data (BP-EUR)

<b>Sub-fund's name</b>	<b>Nordea 1 - Low Duration European Covered Bond Fund</b>
Fund Manager	Danish Fixed Income & Euro Covered Bond Team
Fund Domicile	562, rue de Neudorf, 2220 Luxembourg, Luxembourg
Share class	BP-EUR
Annual Man. Fee	0.500 %
Security number (ISIN)	LU1694212348
Security number (WKN)	A2H6PJ
Fund Size in millions	1,275.15
Currency	EUR
Reference index	N/A
No. of holdings	105
Launch date	24/10/2017
Minimum investment (EUR)	0

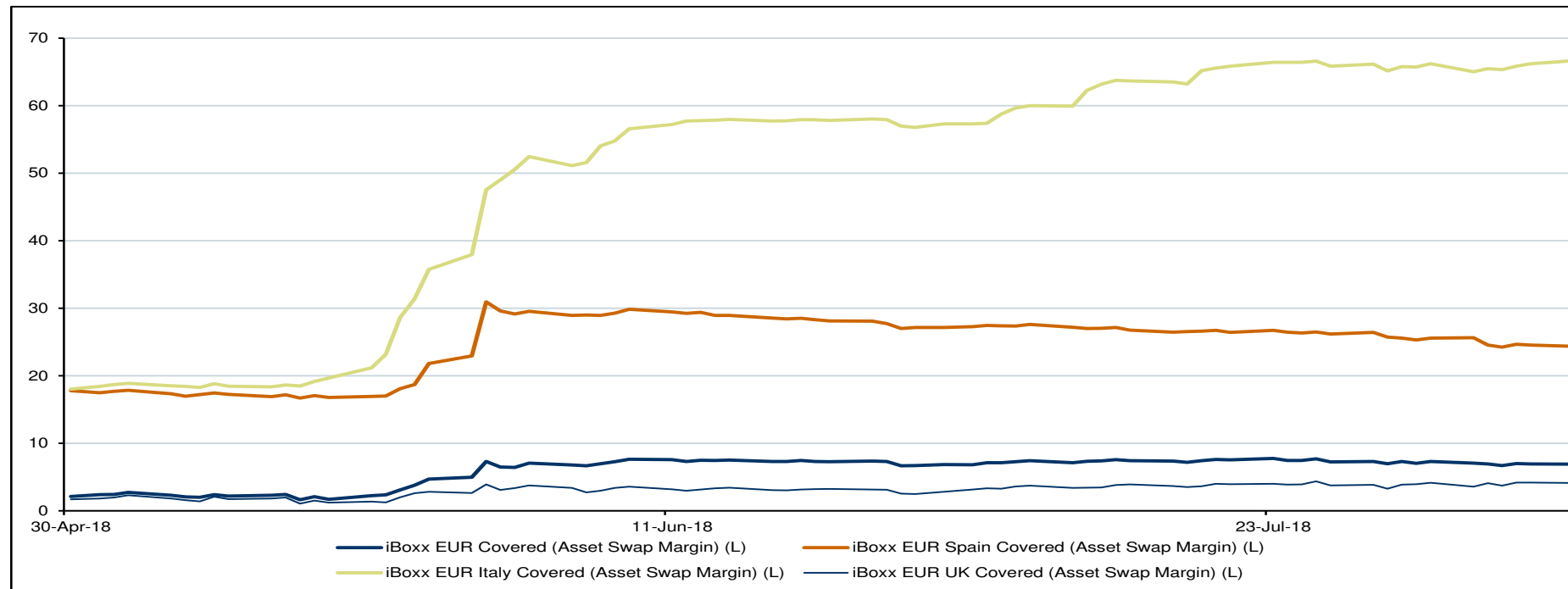
Source (unless otherwise stated): Nordea Investment Funds S.A. Date: 28.09.2018

# Appendix



## Covered bonds Q2

- Core covered bonds have been stable in spreads after widening in May
- Italy underperforming
- UK coming under some pressure lately

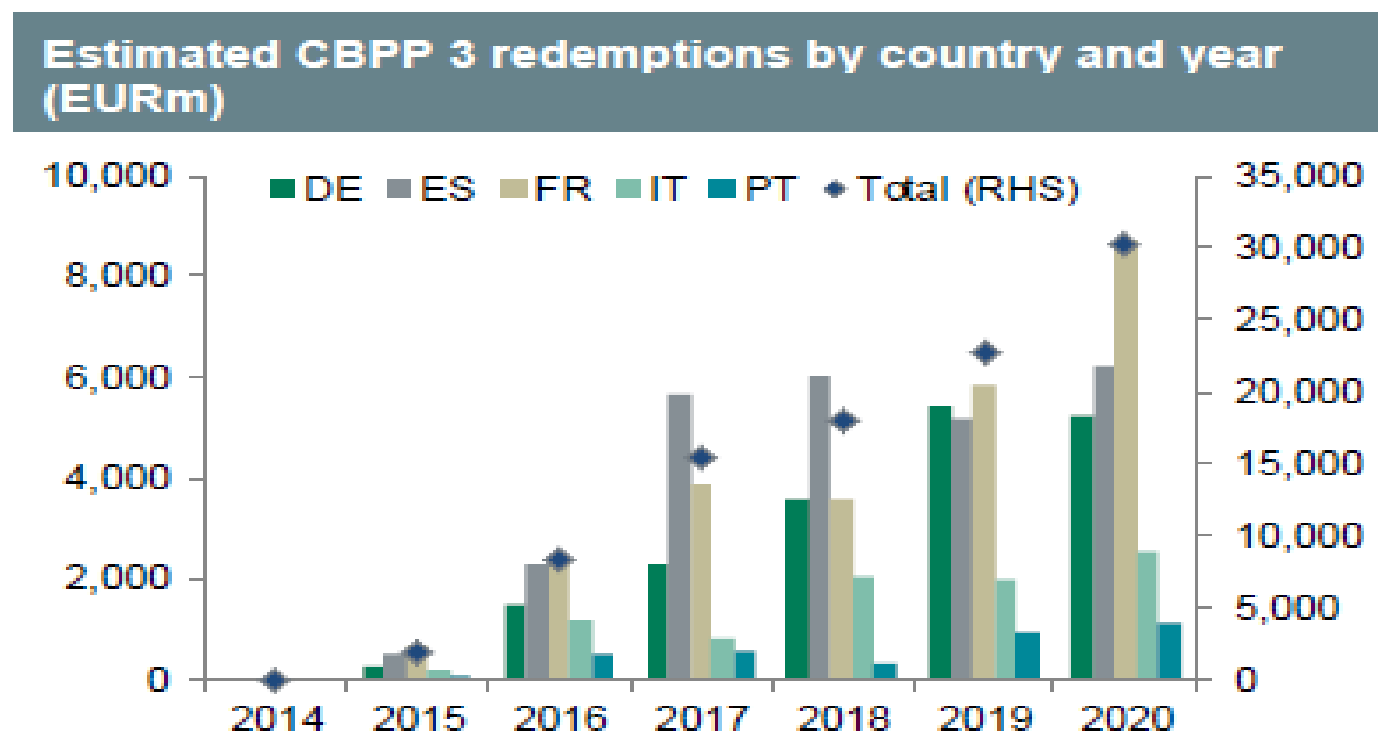


Source: Nordea Analytics Nordea Investment Management AB. As of 14.08.2018



## Focus moving from net to gross purchases

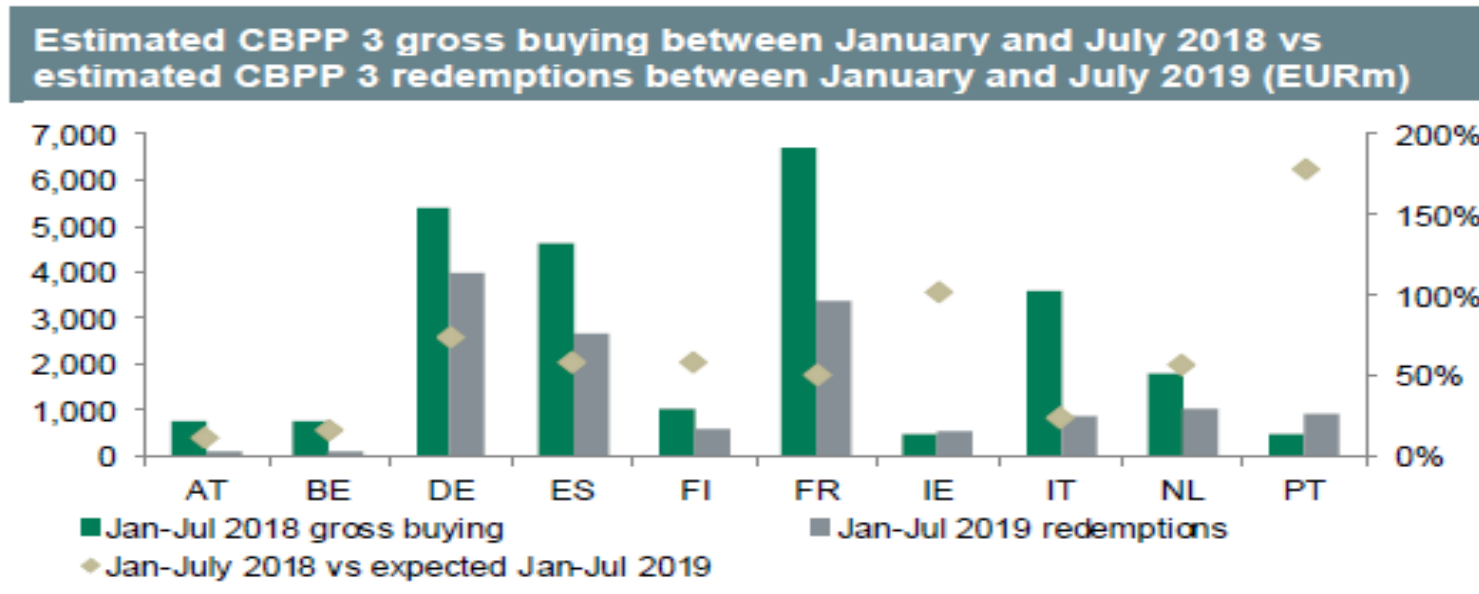
- Total redemptions in 2019 almost the same as total net purchases in 2018



Source: Crédit Agricole, As of 14.08.2018

## Focus moving from net to gross purchases

- Even if net purchases end in December 2018 gross purchases on average will remain >50% of gross purchases in 2018
- In Portugal and Ireland gross purchases will increase
- Italy will have less ECB support in 2019

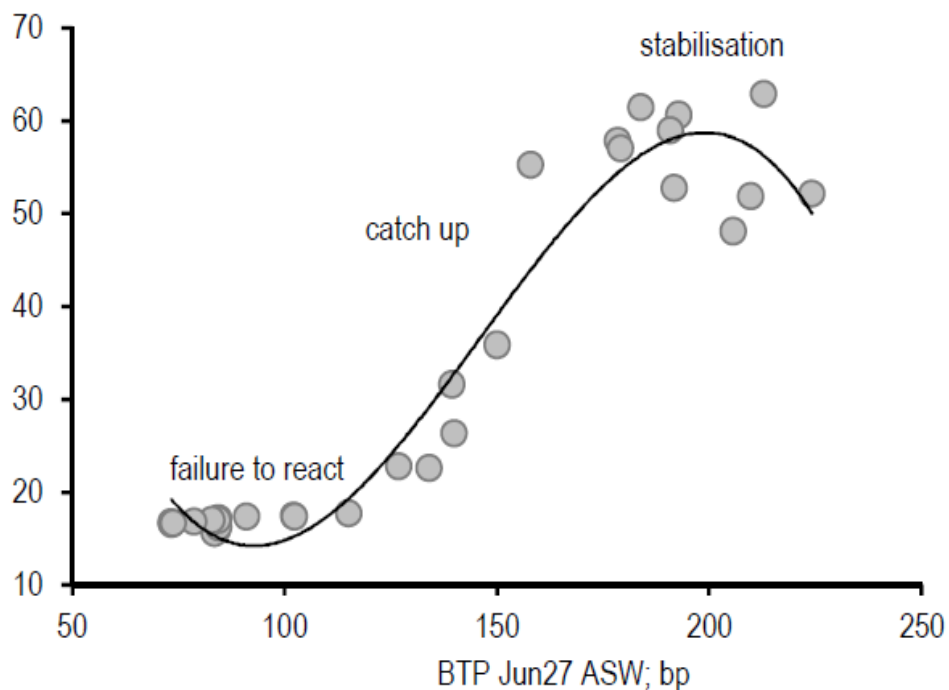


Source: ECB, Bloomberg, Covered Bond Report, Global Capital, Crédit Agricole CIB

## The risk-reward currently poor in Italian covered bonds

The reaction of Italian covered bonds to the Italian political crisis has been non-linear

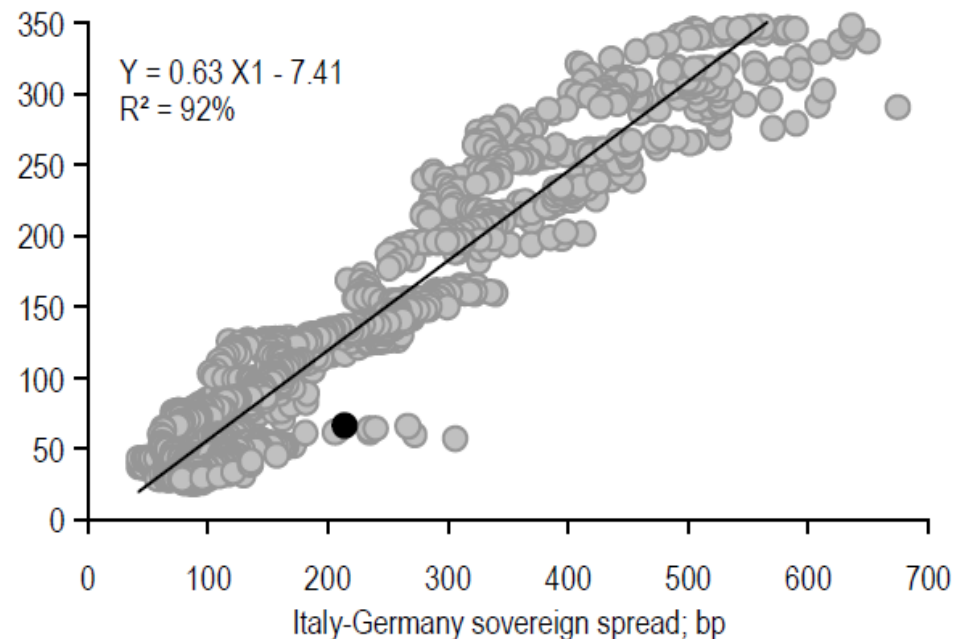
ISPIM Jun27 ASW vs. BTP Jun27 ASW since 1 May 2018; bp



Source: J.P. Morgan

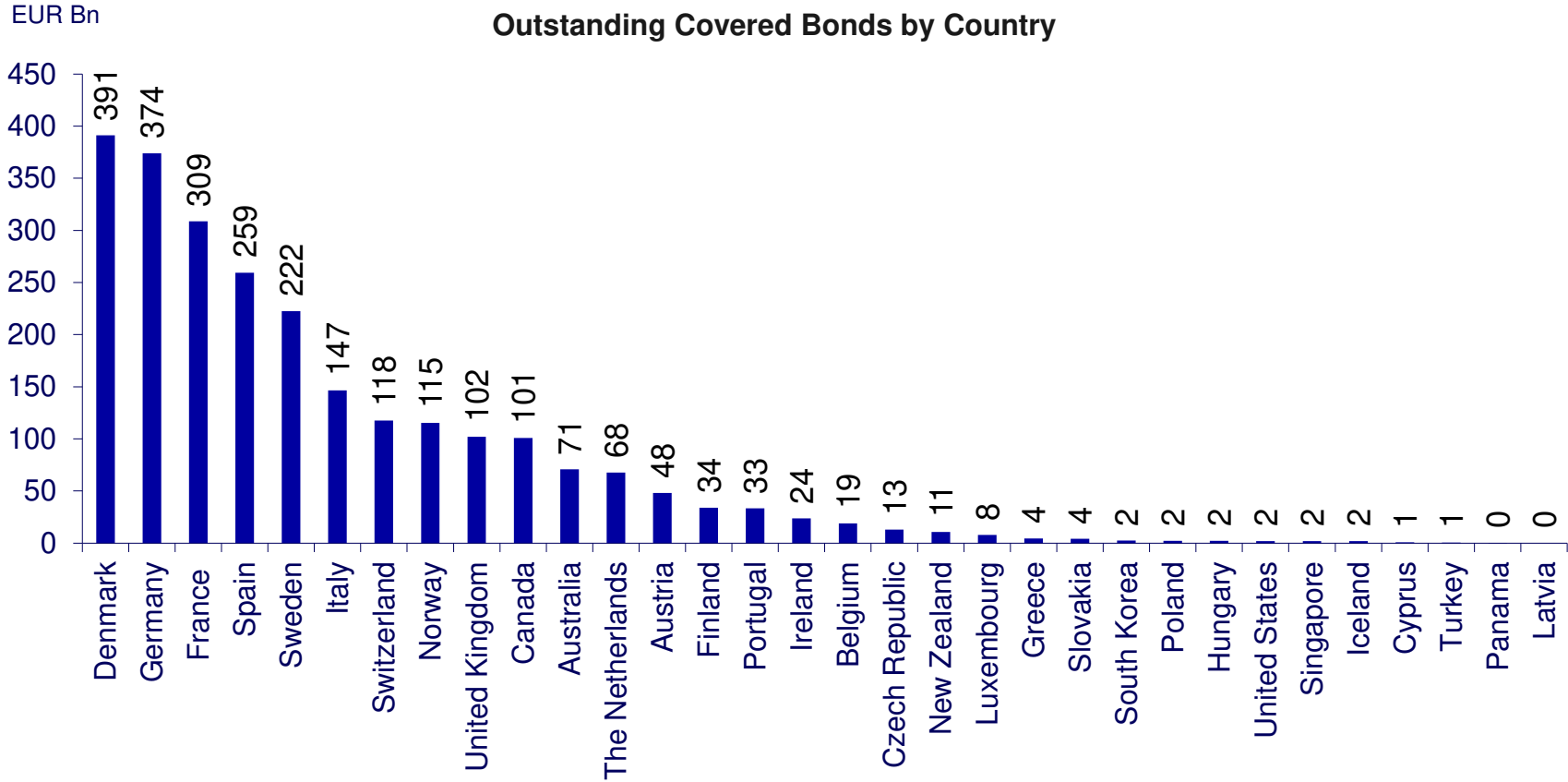
From a long term perspective the risk-reward on Italian covered bonds remains poor on valuations and historical beta

Spread between Italian and German covered bonds regressed against 5Y BTP-Bobl spread; since 2010; bp



Source: J.P. Morgan

# Market Size Covered Bonds



Source: EMF-ECBC, data from end of 2016

## A favourable treatment with regards to EU regulations on Financial Institutions

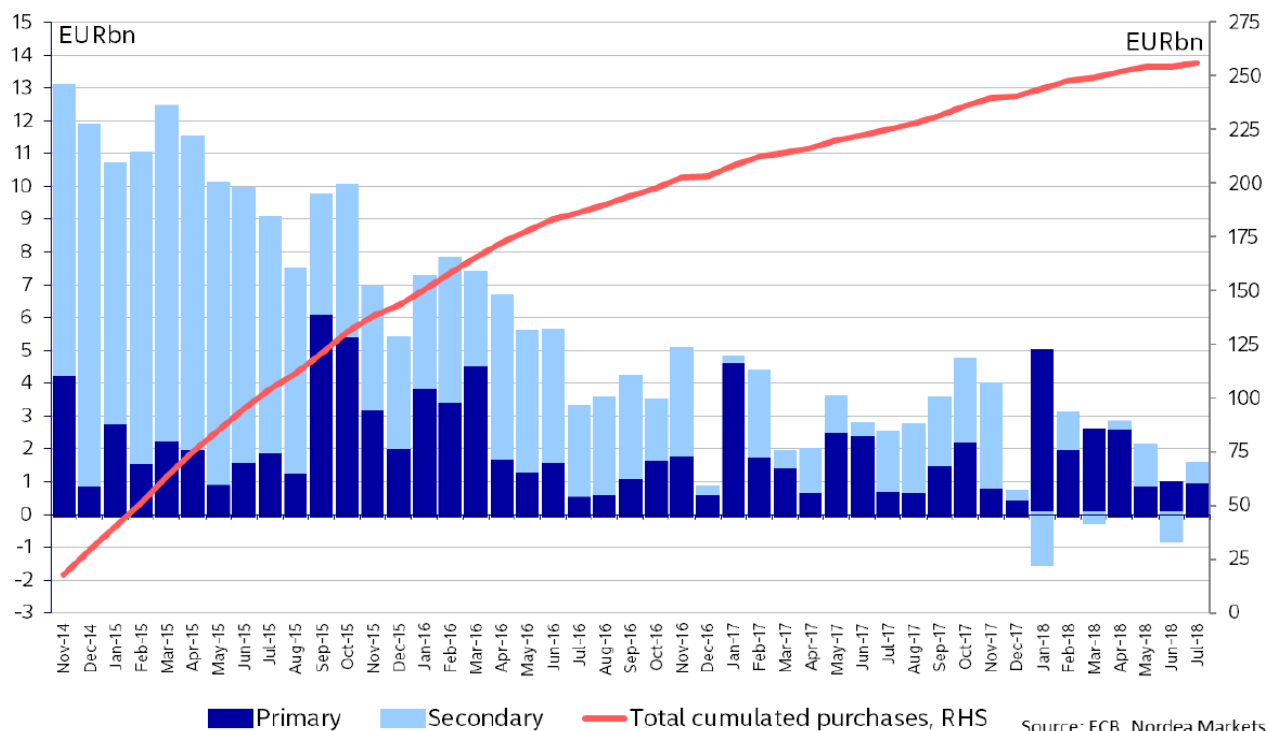
- Under the **Bank Recovery and Resolution Directive (BRRD)**, covered bonds are **exempted from bail-in**
  - In case of a defaulting bank, the BRRD excludes covered bonds from absorbing any losses via bail-in (unlike e.g. senior bonds)
- Under the **Liquidity Coverage Ratio (LCR)**, covered bonds are considered a **very liquid asset class**
  - Most covered bonds qualify as Level 1 High Quality Liquid Assets and are subject to a very low haircut
- The **Capital Requirement Regulation (CRR)** assigns **low risk weights** to covered bonds
  - Covered Bonds under Basel III for banks are an obvious low-risk choice as a capital standard.
- Under **Solvency II**, **low spread risk factors** are assigned to covered bonds
  - Especially UCITS compliant covered bonds, rated at least AA-, enjoy a preferential treatment and don't burden further the insurance companies' capital requirement

**In all regulations, Covered Bonds - together with Sovereign Debt - are seen as the safest asset class.**

# Questions on the potential ECB tapering?

ECB primary and secondary market purchases  
The ECB portfolio stands at EUR 256.882bn

CBPP3 monthly purchases



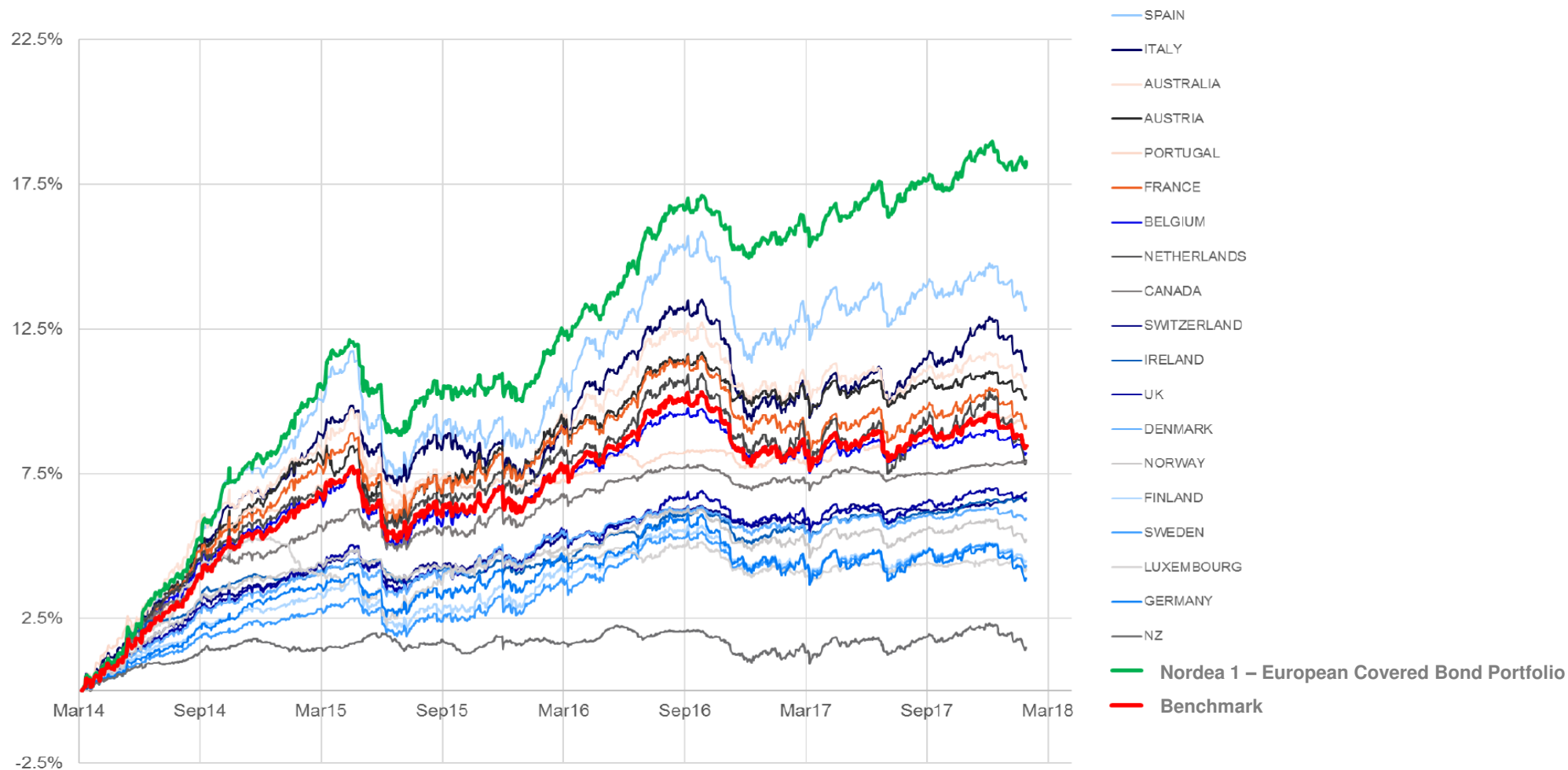
## Small impact on covered bond spreads

- ECB has already tapered the covered bond programme
- Current monthly support will remain in place through ECB reinvestments

Source: ECB, Nordea Investment Management AB, Nordea Markets. As of 27.08.2018

# Performance in light of Covered Bonds Indices

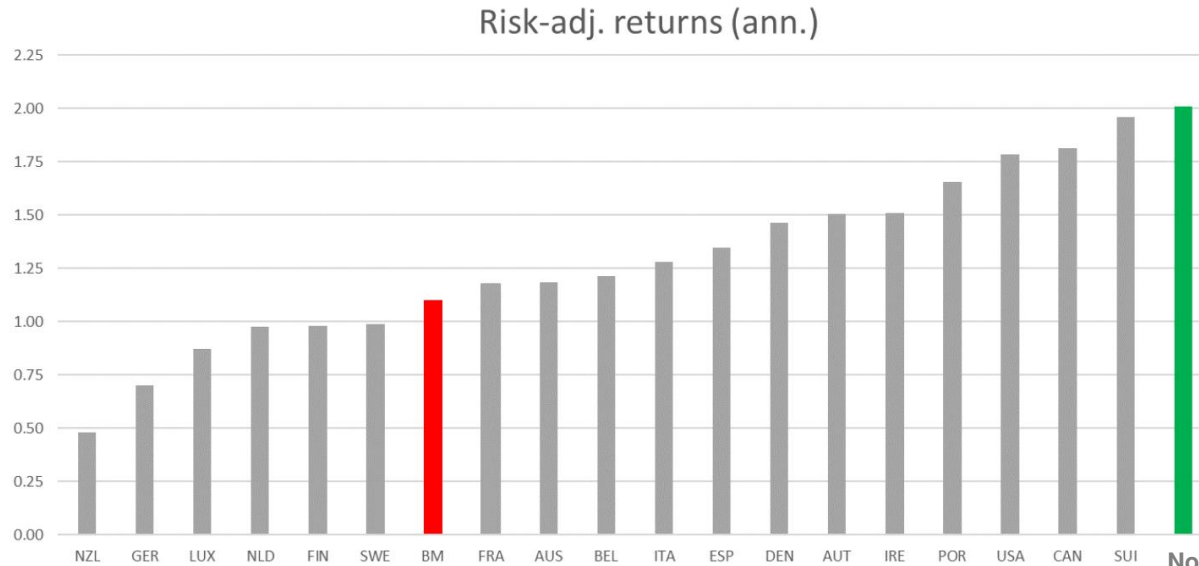
## Nordea 1 – European Covered Bond Portfolio (Gross of fees)



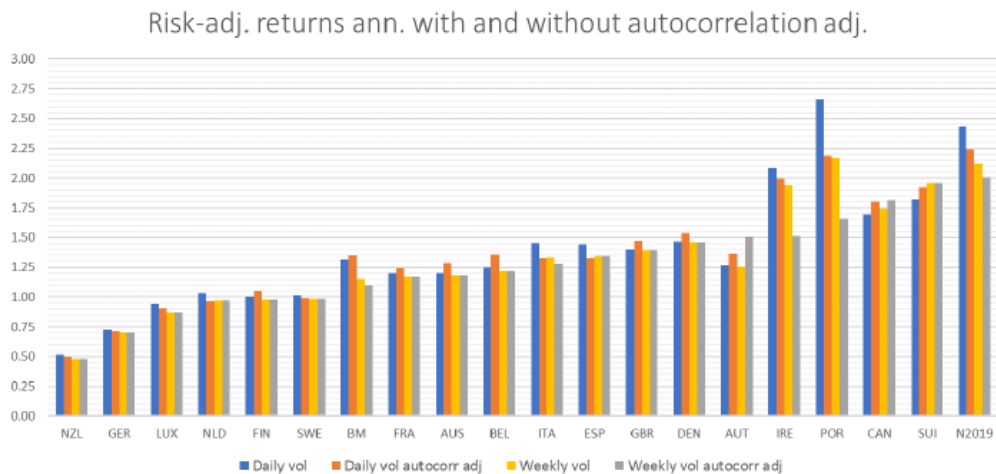
Source: Nordea Investment Management AB. Performance calculated gross of fees. Benchmark: Iboxx EUR Covered Bond Index. Countries performances refer to their respective Iboxx Covered Bond sub-indices. IR hedged to EUR. Period under consideration: 31.03.2014 – 31.01.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. Comparisons with other financial products or reference indices are meant for informational purposes only.**

# Risk-adjusted returns in light of Covered Bonds Indices

## Nordea 1 – European Covered Bond Portfolio (Gross of fees)



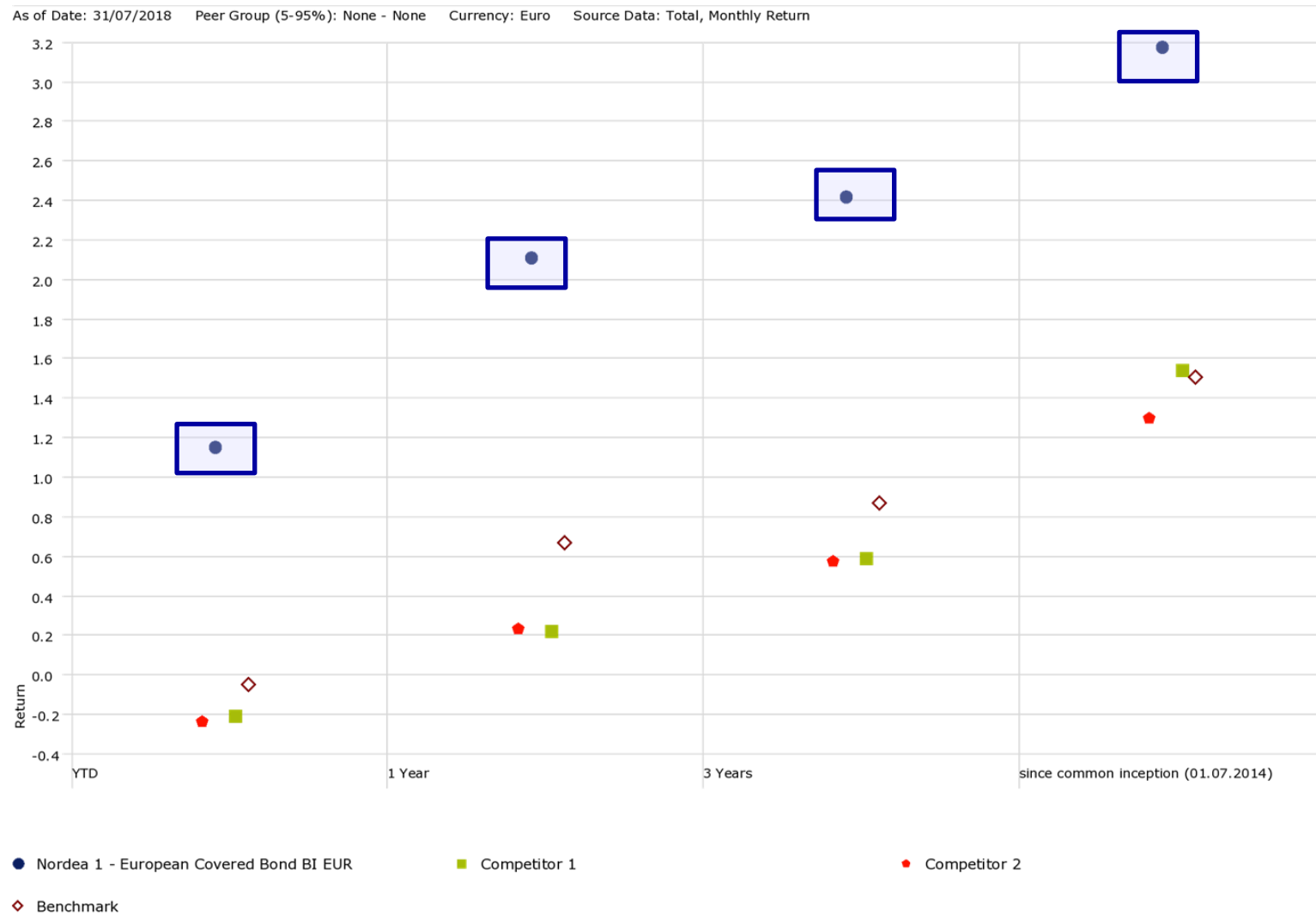
Nordea 1 – European Covered Bond Portfolio



Source: Nordea Investment Management AB. Performance calculated gross of fees. Benchmark (BM): Iboxx EUR Covered Bond Index. Countries performances and volatility refer to their respective Iboxx Covered Bond sub-indices. Risk adjusted returns: Ann. Return divided by ann. Volatility. Volatility is measured using weekly (Friday) returns and annualized taking any autocorrelation in returns into account. If positive (negative) autocorrelation in returns, standard annualization underestimates (overestimates) true volatility. Period under consideration: 31.03.2014 – 31.01.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. Comparisons with other financial products or reference indices are meant for informational purposes only.**



# Performance relative to main peers and the benchmark



Data Source - © 2018 Morningstar, Inc. All Rights Reserved as of 13.08.2018. European Open End Funds database. Peer group: Morningstar EAA OE EUR Corporate Bond category. Benchmark: Iboxx EUR Covered Bond Index. Period under consideration: 01.07.2014 – 31.07.2018. Performance in EUR. 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 is not guaranteed. Comparison with other financial products or benchmarks is only meant for indicative purposes.

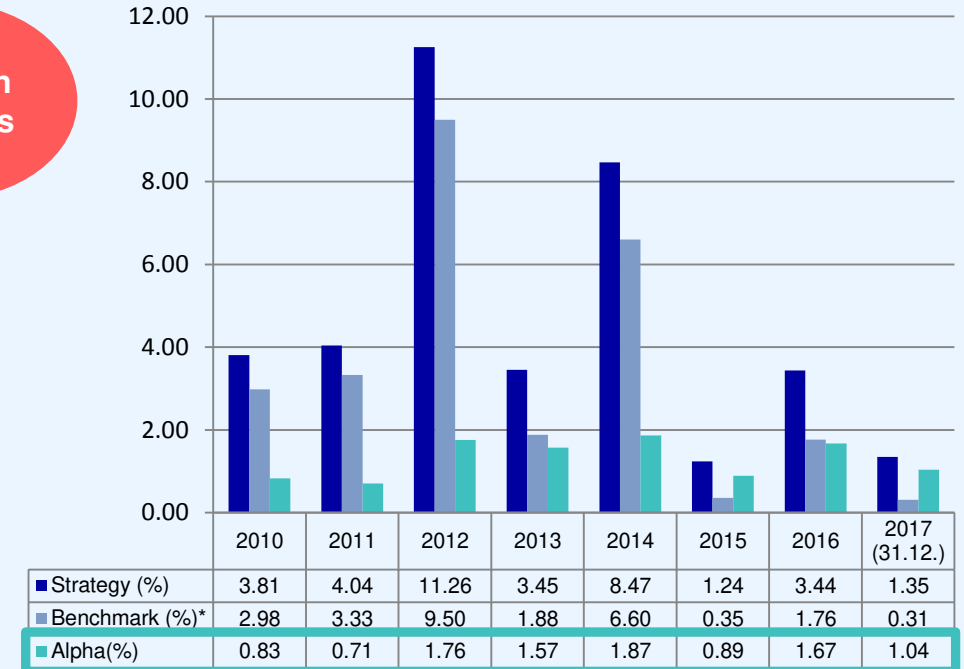
## Expertise creates alpha in the covered bonds space

- 1997 – Nordea launches the Danish mortgage strategy (Denmark has the second largest European covered bond market, with currently around EUR 400bn of outstanding bonds)
- 2008 – Nordea launches the first **European covered bond** solution, with total AuM of around EUR 5.9bn\*\*
- 2014 – Nordea launches the duration-hedged share class on the Nordea 1 – European Covered Bond Fund, to offer investors a solution with a reduced duration to 1 year
- The team focuses on **delivering alpha** by identifying relative value opportunities across the investment universe, with **strong focus on optimising portfolio risk**.

\*\*Source: Nordea Investment Management AB. As of 31.12.2017.

### Gross of fees performance of the European Covered Bond Composite

Duration  
~ 5 years



\*IBOXX Covered: 50% Germany, 40% France, 10% Spain

Source: Nordea Investment Funds S.A. Period under consideration: 31.12.2009 – 31.12.2017. Performance in EUR. Inception date of the composite: 28.02.2009. **The performance represented is 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. There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. Comparison with other financial products or benchmarks is only meant for indicative purposes.** The duration of the strategy does not deviate significantly of the benchmark's duration, which is approximately between 4 and 5 years. For illustrative purpose only.

## Biographies

**Martin Hagelskjær Nielsen**  
Head of the Danish Fixed Income &  
European Covered Bond Team

Martin is working for Nordea since 2007. Previous to Nordea, Martin was Head of Fixed Income and Derivatives Research at Nykredit Markets (2004 - 2007), responsible for trade recommendations and market analysis – primarily towards the Danish fixed income market and EUR covered bond market. Martin began his career as a consultant at SimCorp Dimension® (1994 - 1997) with focus on Risk Management (Value at Risk). Hereafter he worked as Senior Analyst at Nykredit Markets (1997 - 2000) before he went on to a job as Quantitative Analyst at Nordea Markets (2000 - 2004) with responsibility for Nordea's Danish mortgage model and the development of Nordea Analytics Fixed Income applications. Since 2008 Martin has been managing the Nordea Institutional Investment Fund, Sicav SIF - Covered Bond Fund, which is managed with the same investment process and philosophy as the Nordea 1 – European Covered Bond Fund. Martin holds a MSc from the Technical University of Denmark and a Diploma in Finance from Copenhagen Business School.

**Henrik Stille**  
Portfolio Manager of the Nordea 1 –  
European Covered Bond Fund and  
Nordea 1 – Low Duration European  
Covered Bond Fund

In addition to the Nordea 1 – European Covered Bond Fund and the Nordea 1 - Low Duration European Covered Bond Fund, Henrik has been managing the Nordea 1 – Danish Mortgage Bond Fund since 2008 and has been working in Nordea's Danish Fixed Income Team since 2005. Henrik began his career as assistant Portfolio Manager after he successfully passed his studies at University of Lund, Sweden. He holds a MSc in Economics and Business Administration and participated in Nordea's 2 year graduate program. After working as Assistant Portfolio Manager and completing the Graduate program he took over the responsibility as a Portfolio Manager in the Danish Fixed Income Team in 2007.

The sub-funds mentioned are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d'Investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009. **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). 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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](http://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. **Investors are advised to conduct thorough research before making any investment decision. Additional information for investors in Belgium:** The Representative Agent in Belgium is BNP Paribas Securities Services S.C.A., Brussels branch, 25 Rue de Loos, Brussels, B-1000-Belgium. A hard copy of the above-mentioned fund documentation is available upon demand free of charge. **Additional information for investors in Spain:** Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. The Depository of the SICAV's assets is, J.P. Morgan Bank Luxembourg S.A. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription. The Representative Agent is Allfunds Bank S.A., Paseo de la Castellana 9, ES-28046 Madrid, Spain. A complete list of the authorised distributors is available in the CNMV's webpage ([www.cnmv.es](http://www.cnmv.es)). **Additional information for investors in Portugal:** The Management Company of the SICAV, Nordea Investment Funds, S.A., and the Depository of the SICAV's assets, J.P. Morgan Bank Luxembourg S.A., are validly formed and existing in accordance with the laws of Luxembourg and authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Our distributor in Portugal is BEST - Banco Electrónico de Serviço Total, S.A., duly incorporated under the laws of Portugal and registered with the CMVM as a financial intermediary. **Additional information for investors in Italy:**Fund documentation as listed above is also available in Italy from the distributors and on the website [www.nordea.it](http://www.nordea.it). The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at State Street Bank International GmbH – Succursale Italia, branches (located in the main towns of each region), BNP Paribas Securities Services - Succursale di Milano, Banca Sella Holding S.p.A, Banca Monte dei Paschi di Siena S.p.A., Allfunds Bank S.A. Succursale di Milano, Société Générale Securities Services S.p.A. and on the website [www.nordea.it](http://www.nordea.it). Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus and the KIID carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. **The prospectus and KIID for the sub-funds have been published with Consob. Additional information for investors in the United Kingdom:** Approved by Nordea Bank Abp, 5 Aldermanbury Square, London EC2V 7AZ, which is regulated by the FCA in the United Kingdom. **Additional information for investors in Sweden:** The Paying Agent is Nordea Bank Abp, filial i Sverige, Smålandsgatan 17, Stockholm SE-105 71. The Representative Agent is Nordea Funds Ltd, Swedish Branch, Mäster Samuelsgatan 21, Stockholm, SE-105 71. **Additional information for investors in Denmark:** The Information and Paying Agent is Nordea Danmark, filial af Nordea Bank Abp, Finland, Strandgade 3, Christiansbro, DK-1401 Copenhagen K. A hard copy of the above-mentioned fund documentation is available here. **Additional information for investors in Norway:** The Paying Agent is Nordea Bank Abp, filial i Norge, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. The Representative Agent is Nordea Funds Ltd., Norwegian Branch, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. **Additional information for investors in Finland:**The Paying Agent is Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. The Representative Agent is Nordea Funds Ltd, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. **Additional information for investors in Latvia:** The Representative and Paying Agent is Luminor Bank AS, Skanstes iela 12, Riga, LV-1013. **Additional information for investors in Estonia:** The Representative and Paying Agent in Estonia is Luminor Bank AS, Liivalaia 45, 10145 Tallinn. **Additional information for investors in Lithuania:** The Representative and Paying Agent in Lithuania is Luminor Bank AB, Konstitucijos pr. 21A, 03601 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. Source (unless otherwise stated): Nordea Investment Funds S.A. 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