

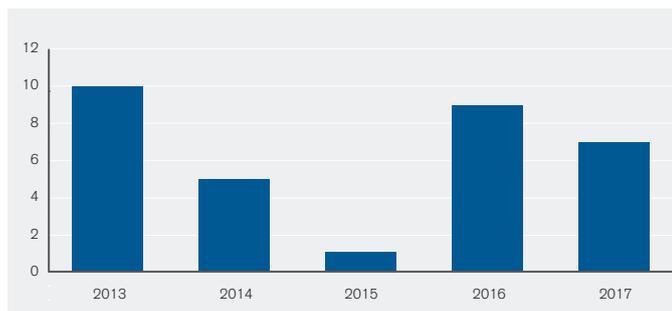
## European high yield market, where do we stand?

### Nordea 1 – European High Yield Bond Fund

ISIN: LU0141799501, BP-EUR / LU0141799097, BI-EUR

The European high yield market has delivered strong returns in the last 5 years, significantly rewarding investors that believed in the asset class. Improving fundamentals, decreasing default rates and healthy corporate results were some of the factors that drove the performance of European high yield debt. While the high coupon that characterises this asset class certainly contributed to the positive results, much of the returns came in the form of capital appreciation, as high yield spreads have steadily tightened across issuers.

#### Return of the European High Yield bond market



Source: ICE, period under consideration: 31.12.2012 – 31.12.2017. The performance represented is the one of the ICE BofA ML European Currency HY Constrained index (HPCO). **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 attempt to ponder where the European high yield market stands, valuations shall be considered in a broader market context and tackled from different angles. Investors across all jurisdictions closely monitor the spread levels as the market develops, but what is the underlying driver of spread changes?

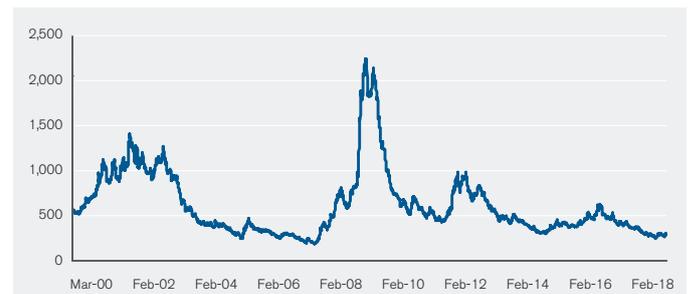
#### What is driving the spread?

The credit risk of the bond clearly plays a central role: the higher the risk of default, the higher the spread, because investors demand a higher compensation for a higher risk. Fundamental data like leverage, default rate and financial ratios allow investors to gauge the credit risk of issuers and the underlying health of the market, however this is only half of the story. A critical role is played by the risk perception of investors as well. A more risk averse market sentiment might for example drive spreads higher even if fundamentals are not deteriorating, and vice versa of course.

History teaches that a low risk aversion is detrimental to market discipline, and might represent a warning signal, especially in the credit space. This is why it is important to tackle the current valuation level from multiple angles, especially today as investors navigate the latest stage of the credit cycle.

Spreads have tightened significantly in the last five years and are currently sitting slightly above the 300 bps mark<sup>1</sup>.

#### OAS of the European High Yield Market



Source: Capital Four Management, ICE, period under consideration: 01.01.2000 – 14.02.2018.

Credit quality has been steadily on the rise and this explains much of the spread tightening that we have witnessed so far, together with the search for yield sentiment that characterised the last years of low rates.

#### European High Yield, Overall Rating Quality



Source: Capital Four Management, ICE, period under consideration: 31.01.2001 – 31.12.2017.

As we approach historical spread lows however, it is natural to have a closer look at the fundamentals underlying the market to better understand the context.

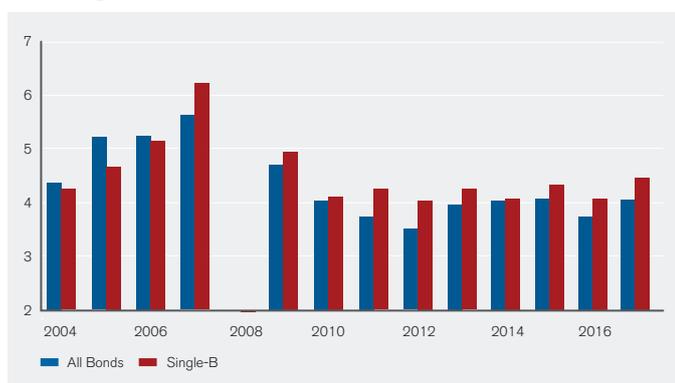
1) Data as of 28.02.2018.

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

## A closer look at the market

**Leverage**, as measured by debt on EBITDA, is particularly important to look at as markets are in a mature stage of the cycle. Primary market activities are especially in focus because an increase in new issues leverage is typically an early warning of the cycle reaching its end. The improving earnings profile recorded in the last years by companies across most sectors has contributed to a somewhat stable leverage reading following the financial crisis, as the below graph portrays.

### Leverage (Debt on EBITDA)

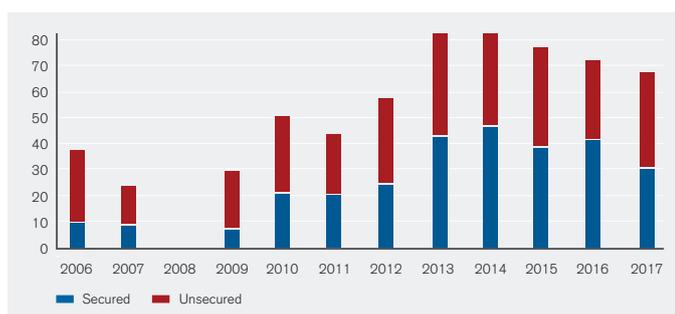


Source: ICE, JP Morgan, period under consideration: 01.01.2000 – 05.02.2018.

The low yield environment has been clearly supportive for corporate issuers that enjoyed an increasingly higher **financial flexibility** as the burden represented by interest rate expenses decreased hand in hand with rates. On the other side, this does not apply to longer dated debt, but just to companies that were in fact able to refinance their debt (or part of it at least) at attractive conditions in the last years.

Eventually, credit events always come with grievous implications. The seniority of the debt is what matters the most in case of default and the **capital structure** of the company is a major driver of the potential recovery. After the financial crisis, the portion of secured debt to total debt issued increased significantly, as more risk-aware investors require higher guarantees.

### European High Yield Senior Secured Issuance as % of Total



Source: Barclays, data as of September 2017.

With stable leverage figures and risk awareness in focus, 2018 could turn out to be a coupon clipping year with spreads trading in a relatively narrow range unless new changes in fundamentals materialize. Nonetheless, investors shall not overlook the fact that a severe increase in spreads would instead outweigh the coupon this asset class is able to deliver, especially in today's low yield environment, possibly resulting in negative performance.

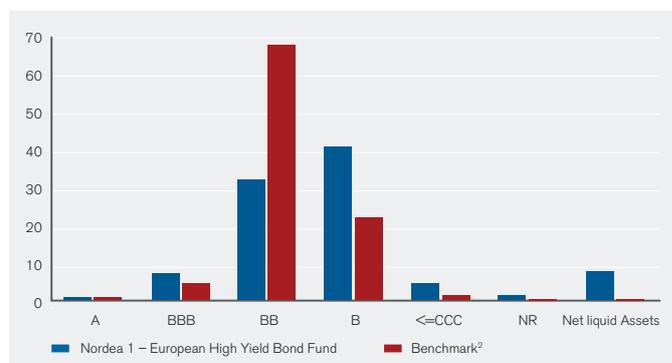
Even if fundamentals are intact then, risk aversion might increase and spreads are close to the bottom. Especially when the room for negative surprises is more compared to the upside potential, it is very important to stick with an active manager that has an extensive experience and a proven track record consolidated through different market cycles. The Nordea 1 – European High Yield Bond Fund and its more defensive approach are worth a closer look.

## The Nordea 1 – European High Yield Bond Fund

The investment philosophy of the Nordea 1 – European High Yield Bond Fund is framed in a solid bottom-up credit selection. Top-down calls are not driving investment decisions, however the fundamental analysis might result in a positioning that deviates from the benchmark. High conviction and a strong focus on downside risk management are two key features of the fund, that is defensively positioned to navigate the current market environment.

Characteristics	N1-EHYBF	Benchmark <sup>2</sup>
Yield To Maturity	3.88%	3.52%
Yield To Worst	3.00%	2.74%
Modified DTW	3.09	3.61
Average Rating	BB	BB
Average Maturity / years	6.06	4.83
Average Coupon	4.45%	4.63%

### Rating (Weight in %)



Source: Capital Four Management, data as of 31.01.2018.

Despite being overweight the B segment, the fund shares the average credit rating of the benchmark, and is compen-

<sup>2</sup> The benchmark is the ICE BofA Merrill Lynch European High Yield Currency Constrained Index. Source: Capital Four Management.

sating the underweight in BB notes with a safer allocation when it comes to debt seniority and geographic breakdown. In case of credit events, sitting high in the capital structure can make the greatest difference and avoiding losers is key to deliver superior returns, especially when downside risk is on the rise. This is why we are largely overweight the senior secured part of the market and underweight the subordinated part as a consequence.

	N1-EHYBF	Benchmark <sup>3</sup>
Sr Secured	41.30%	21.60%
Unsecured/Subordinated	37.30%	58.80%
Financials	19.00%	19.40%
iTraxx XOVER	0.50%	0%
Cash	1.90%	0.20%

Source: Capital Four Management. Data as of 31.12.2017.

Eventually, the fund runs a structural underweight in peripheral European countries, as we favour continental jurisdiction (plus United Kingdom) where we perceive a lower recovery risk. The aggregate portfolio exposure to GIIPS countries is lower than 8%, that compares with approximately 25% in the benchmark.

The fund (BI-EUR) was launched back in January 2002 and since then it has been managed by the very same team of professionals: Sandro Naef, Torben Skodeberg and Henrik Ostergaard. The trio has more than 18 years of experience in the European high Yield market and they have been managing together the portfolio along rallies, crises, hiking and easing cycles, consistently delivering top rated returns to investors.

3) The benchmark is the ICE BofA Merrill Lynch European High Yield Currency Constrained Index. Source: Capital Four Management.

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). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. **Additional information for investors in Switzerland:** The Swiss Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland. **Additional information for investors in Germany:** The Information Agent in Germany is Société Générale S.A. Frankfurt Branch, Neue Mainzer Straße 46-50, D-60311 Frankfurt am Main. 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 Loxum, 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 SA. 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 AB, 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 AB (publ), 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 AB (publ), Sverige, 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 AB (publ), 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 AB (publ), Finnish Branch, 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. **Information for investors in Brazil:** Nordea 1, SICAV have not been, and will not be, registered with the CVM and may not be offered or sold in Brazil except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. Investors within Brazil should consult with their own counsel as to the applicability of these laws and regulations or any exemption there from. This material aims to provide information only and does not constitute and should not be construed as an offer to buy or sell or solicitation of an offer to buy or sell any security or financial instrument. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and independent financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration.