



# Quarterly Report

Fourth quarter 2018

## Nordea 1 – European Cross Credit Fund

ISIN: LU0733673288 (BP-EUR)

### Overview

- During Q4 2018 the fund generated a return of -3.43%<sup>1</sup>
- After some investor relief during the third quarter, the final quarter of the year turned very sour
- Over the quarter high yield option-adjusted spreads (vs Govt, including rebalancing impact) widened by 36 basis points<sup>2</sup> and investment grade spreads widened by 6 basis points<sup>3</sup>
- We strictly maintain our focus on companies with low cyclicity and stable operations even in an economic downturn, or cyclical companies with a capital structure that enables them to weather economic downturns

1) Source: Nordea Investment Funds S.A. Period under consideration: 30.09.2018 – 31.12.2018. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. Please note that the fund does not have an official benchmark. 2) Source Bloomberg: HPID Index – including rebalancing. 3) Source Bloomberg: EN00 Index – including rebalancing.

### Investment strategy

The fund invests in the universe of high yield and investment grade bonds to take advantage of structural inefficiencies created by rating agencies. More specifically, the fund invests in European corporate bonds (excluding financials) which have, at time of purchase, a long-term rating between BBB+ and B– or equivalent by any other available rating agency such as Moodys and Fitch. The cornerstone of the strategy is to exploit credit spreads/valuation variations between the different rating buckets revealing the best risk/adjusted returns. The fund follows a bottom-up approach which results in a conservative high conviction portfolio being built based on the credits' solid fundamentals.

### Fund data

Share class	BP-EUR
Fund category	Accumulating
NAV in EUR	124.78
Base Currency	EUR
Fund AUM Million (EUR)	1,134.06
Front end fee in %	Up to 3.00
Annual management fee in %	1.00
Launch date	22.02.2012
ISIN	LU0733673288
Sedol	B777BK9
WKN	A1JXU3
Bloomberg ticker	NECCBPE LX
No. of holdings	71

Data as of 31.12.2018.

### Portfolio Managers

#### Nordea Credit Team



Jan Sørensen  
Portfolio Manager

## Quarterly commentary Q4 2018

After some investor relief during the third quarter, the final quarter of the year turned very sour. Probably the market development was more negative than the most bearish investors would have expected. This marked the end of a very difficult year on credit markets with spreads ending much wider than a year ago.

The quarter caused most credit indices to post both negative total and excess returns (vs. duration neutral government bonds) for both the quarter and the full year.

It is hard to pin point one single explanatory factor behind the negative investor sentiment. As we enter 2019 the uncertainties remain largely unchanged and one can list quite a few unsolved issues. This includes Italy, Brexit, escalating trade-war rhetoric, deteriorating macro backdrop etc. Also, the credit markets need to find a new foothold after the phasing out of the ECB Asset Purchasing Programme. These issues might spur some further volatility.

Negative technical support remained a negative driver for the quarter as the imbalance between supply and demand for corporate bonds continued. On high yield this happened even though new issuance slowed markedly in the final quarter of the year to just EUR 6.4bn.

European high yield funds (indicator of overall demand) continued to see outflows which accounted to EUR 3.3bn in redemptions during Q4. All-in-all almost EUR 10bn has been redeemed in 2018 from European high yield mutual funds.

New issue leverage averaged 5.0x over Q4 to 4.5x for the year (J.P. Morgan Markets) which is the highest level since 2008. While there is some tendency to a fundamentals drift, we still witness a rather solid base and defaults have remained contained.

Over the quarter, high yield spreads widened by 36bps<sup>4</sup>, while investment grade spreads widened by 6bps<sup>5</sup> (both excluding financials).

In this environment, the fund generated a return equal to -3.43%<sup>6</sup> over the quarter.

We still expect to see continued focus on credit fundamental developments as technical support is fading. This means that we still expect that minor reporting disappointments are likely to be punished more consequently in today's market than was the case just a few months ago. Idiosyncratic risks are expected to remain high.

We strictly maintain our focus on companies with low cyclicality and stable operations even in an economic downturn, or cyclical companies with a capital structure that enables them to weather economic downturns.

4) Source Bloomberg: HPID Index – including rebalancing. 5) Source Bloomberg: EN00 Index – including rebalancing. Please note that the fund does not have an official benchmark. 6) Share class BP-EUR. Source: Nordea Investment Funds S.A. Period under consideration: 30.09.2018 – 31.12.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

### Cumulative returns as of 31.12.2018 in %

Time frame	Fund <sup>7</sup>
Year to date	-3.43
1 month	-0.67
3 months	-2.90
6 months	-1.51
1 year	-3.43
3 years	5.37
5 years	11.05
Since launch	24.78

### Calendar year returns in %

Time frame	Fund <sup>7</sup>
2017	3.67
2016	5.25
2015	0.30
2014	5.08
2013	5.27

### Performance of the fund (since inception on 22.02.2012)



7) ISIN Code LU0733673288. Inception date: 22.02.2012. Sources: Nordea Investment Funds S.A. Period under consideration: 22.02.2012 – 31.12.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

### Top ten holdings as of 31.12.2018 in %

Company	ISIN Code	Weight
Electricite de France 4.000% MULTI Perp FC2024	FR0013367612	2.01
International Game Technolog 3.5% 15-07-2024	XS1844997970	2.00
Teollisuuden Voima Oyj 2.125% 04-02-2025	XS1183235644	1.96
Arena Luxembourg Finance Sar 2.875% 01-11-2024	XS1577948174	1.95
IQVIA Inc 3.5% 15-10-2024	XS1492822033	1.93
Grifols SA 3.2% 01-05-2025	XS1598757760	1.93
SPCM SA 2.875% 15-06-2023	XS1221105759	1.91
Global Switch Holdings Ltd 1.5% 31-01-2024	XS1623615546	1.91
Aramark International Financ 3.125% 01-04-2025	XS1586831999	1.90
Verizon Communications Inc 0.875% 02-04-2025	XS1405766897	1.90

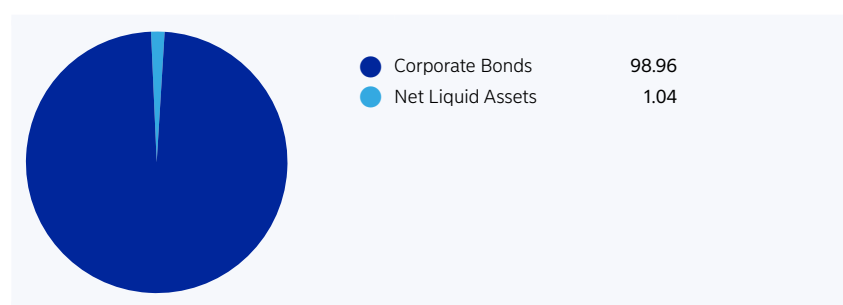
Source: Nordea Investment Funds S.A. Date: 31.12.2018.

### Rating breakdown as of 31.12.2018 in %

Rating	Fund
BBB	25,08
BB	58,68
B	15,20
Net liquid assets	1,04

Source: Nordea Investment Funds S.A. Date: 31.12.2018.

### Asset allocation as of 31.12.2018 in %



Source: Nordea Investment Funds S.A. Date: 31.12.2018.

### Risk figures as of 31.12.2018

	Fund
Year to 1st call	3.72
Duration to worst	3.32
Yield to worst	3.48%
Average weighted rating	BB+
Average weighted coupon	3.58%

Source: Nordea Investment Funds S.A. Date: 31.12.2018.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.09.2018–31.12.2018. 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 31.12.2018. 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. 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