



Quarterly Report

Fourth quarter 2018

Nordea 1 – European High Yield Bond Fund

ISIN: LU0141799097 (BI-EUR)

Overview

- European High Yield spreads widened by 151bps to 520bps during the fourth quarter¹
- Europe specific issues such as Italy and Brexit negotiations drove negative market sentiment
- Fundamentals within European High Yield continue to look healthy with high interest rate cover ratios and leverage remaining at overall sound levels

1) Sources: Nordea Investment Funds S.A. and Bloomberg. 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.

Investment strategy

The fund invest in European High Yield bonds and aims to outperform the overall European High Yield market². The fund managers focus on a name-by-name credit selection based on pure bottom-up analysis. They rely on an in depth understanding of the fundamentals of the issuer and of the security to beat the market, with no top down views affecting the positioning. The management team aims to hedge non-Euro investments to Euro; this is achieved via derivatives.

2) There can be no warranty that an investment objective and results of an investment structure is achieved.

Fund data

Share class	BI-EUR
Fund category	Accumulating
NAV in EUR	32.00
Base Currency	EUR
Fund AUM Million (EUR)	3,915.58
Front end fee in %	Up to 3.00
Annual management fee in %	0.50
Launch date	18.01.2002
ISIN	LU0141799097
Sedol	B1WL8N6
WKN	529936
Bloomberg ticker	NIMEHYB LX
No. of holdings	165

Data as of 31.12.2018.

Portfolio Managers

Capital Four Management A/S



Sandro Naef
Portfolio Manager



Laust Johnsen
Portfolio Manager



Torben Skødeberg
Portfolio Manager

Quarterly commentary Q4 2018

European High Yield spreads widened by 151bps to 520bps during the fourth quarter. Like most asset classes the European High Yield Market had a negative return for the quarter as the asset class was not insulated from several growing concerns related to geopolitics, supportiveness of central banks, energy prices, late cycle slowdown in the global economy etc. Europe specific issues such as Italy and Brexit negotiations also drove negative market sentiment and in addition we also saw idiosyncratic risk to a large extent dragging returns down with several single names selling off. Avoiding deep negative tail risk is thus becoming increasingly important.

During the last quarter of 2018 there was also a general flight-to-quality and the BB-rated part of the European High Yield market outperformed the lower rated buckets. In Q4, the returns of the different benchmark rating categories were: BB -2.6%, B -5.5% and the CCC-rated bonds returned -9.1%. In general, more cyclical sectors underperformed more defensive sectors due to the general risk off sentiment and late cycle positioning as well as business model challenges within specific areas (e.g. brick and mortar retail companies and paper pulp producers). The best performing sectors within the benchmark were Energy, Technology & Electronics and Telecommunications while the worst performing sectors were Basic Industry, Services and Consumer Goods.

Although we saw some high yield new issuance during Q4 activity slowed down as volatility increased.

Over Q4 2018, the fund yielded a performance of -3.77%, while its index, the Merrill Lynch European Currency High Yield Constrained - TR Index (100% EUR Hedged), returned -3.61%.³

From a sector perspective Basic Industry, Financial Services and Automotive contributed the most to relative performance in Q4 while Services, Capital Goods and Banks detracted the most from relative performance.

In summary, the positive contributions mainly came from an overweight in TDC and Perstorp together with an underweight in CMC di Ravenna, Vallourec and Nyrstar. The negative contributions primarily came from an overweight in The AA, Belden and Veritas together with an underweight in Petrobras, Telefonica and Intesa Sanpaolo.

The fund has participated in 8 new issues during Q4 including a 1.1bn EUR bond from the world leading internet TV network Netflix as well as a 300m GBP bond from UK airport operator Heathrow.

Despite the increased volatility we saw in 2018 default rates remain at very low levels (below 1%) that are well below the long-term average (around 3%). Most strategists and researchers expect the default rate to increase slightly but remain at low levels in the 1-3% range throughout 2019 as fundamentals within European high yield continue to look healthy with high interest rate cover ratios and leverage remaining at overall healthy levels. A good yardstick for the current state of the market is looking at the number of bonds trading below 80 in price. Going into 2019 this number is currently 2.6% for the European High Yield Benchmark with a low likelihood that all of these bonds will default. We expect default rates to be in the 1.5% to 3.5% range in 2019 with a higher possibility of default rates ending in the lower end of the range as the default rate environment stays benign. Alternatively, due to increased uncertainty we see the possibility of a more rapid increase in default rates as the wider economy might head into the next recession in 2020.

European High Yield spread-to-worst widened to 520bps in December. If we assume a default rate of 2.5% for the coming 12 months and a recovery rate of 40%, European High Yield bonds would generate an excess return of 370bps versus government bonds if the high yield spread stays unchanged at 520bps.

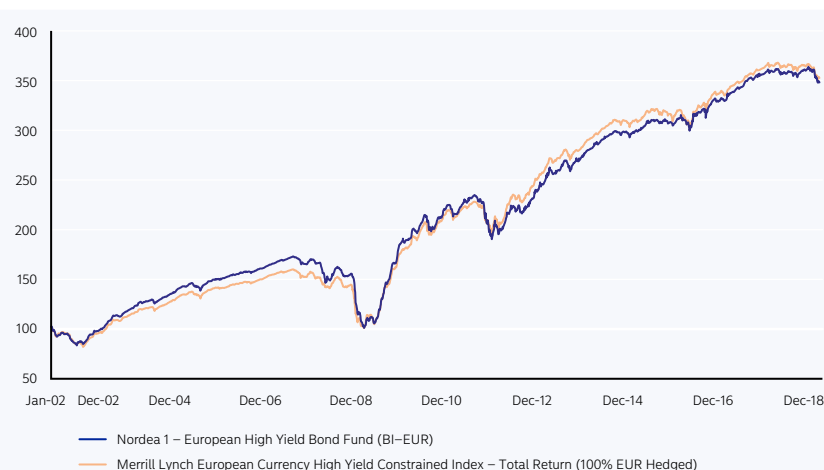
Cumulative returns as of 31.12.2018 in %

Time frame	Fund ⁴	Index ⁵
Year to date	-3.18	-3.48
1 month	-1.08	-0.52
3 months	-3.77	-3.61
6 months	-1.53	-2.06
1 year	-3.18	-3.48
3 years	12.02	12.45
5 years	22.96	20.20
10 years	242.46	245.21
Since launch	247.60	252.09

Calendar year returns in %

Time frame	Fund ⁴	Index ⁵
2017	7.04	6.77
2016	8.09	9.12

Performance of the fund versus index (since inception on 18.01.2002⁶)



4) ISIN Code LU0141799097. Inception date: 18.01.2002. 5) Merrill Lynch European Currency High Yield Constrained Index – Total Return (100% EUR Hedged). 6) On January 18, 2002 the NIMF – European High Yield Bond Fund was launched. At that time the sub-fund only offered an institutional BI share class (ISIN LU0141799097). On January 1, 2006 the NIMF – European High Yield Bond Fund was merged into Nordea 1, SICAV. Since this date an additional BP share class for private investors has been available (ISIN LU0141799501). Sources: Nordea Investment Funds S.A. and Bloomberg. Period under consideration: 18.01.2002 – 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
DKT Finance ApS 7% 17-06-2023	XS1841967356	2.11
MPT Operating Partnership LP 3.325% 24-03-2025	XS1523028436	1.99
Grifols SA 3.2% 01-05-2025	XS1598757760	1.95
Altice France SA/France 5.625% 15-05-2024	XS1028956149	1.83
Matterhorn Telecom SA 3.625% 01-05-2022	XS1219461818	1.71
Nidda Healthcare Holding Gmb 3.5% 30-09-2024	XS1690644668	1.64
Verisure Midholding AB 5.75% 01-12-2023	XS1720016531	1.61
Thames Water Kemble Finance 5.875% 15-07-2022	XS1267053103	1.58
Netflix Inc 4.625% 15-05-2029	XS1900562288	1.55
Nexi Capital SpA 4.125% 01-11-2023	XS1819648129	1.42

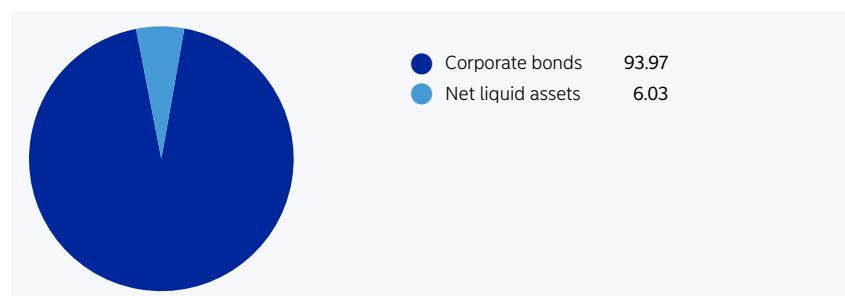
Source: Nordea Investment Funds S.A. Date: 31.12.2018.

Rating breakdown as of 31.12.2018 in %

Rating	Fund	Index ⁷
AAA	0.00	0.00
AA	0.00	0.00
A	0.65	0.83
BBB	5.15	9.59
BB	40.72	62.15
B	41.00	24.50
CCC	3.36	2.53
CC	0.00	0.00
C	0.00	0.01
D	0.14	0.11
NR	2.96	0.00
Net liquid assets	6.02	0.28

7) Merrill Lynch European Currency High Yield Constrained Index – Total Return (100 % EUR Hedged). Sources: 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	Index ⁷
Yield to worst	5.31%	5.06%
Modified duration to worst	3.95	3.97
Average maturity/years	6.17	5.87
Average coupon	4.44%	4.44%
Average rating	BB-	BB

7) Merrill Lynch European Currency High Yield Constrained Index – Total Return (100 % EUR Hedged). Sources: 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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