



Quarterly Report

Fourth quarter 2018

Nordea 1 – Stable Return Fund

ISIN: LU0227384020 (BP-EUR)

Overview

- The Nordea 1 – Stable Return Fund (BP-EUR share class) yielded a negative return of -3.83% in Q4 2018¹
- During the quarter, our fixed income strategies were the largest positive contributors to performance. They were closely followed by our currency exposures, as well as our cross assets' strategies. Conversely, our equity positions offered large negative contributions during the period
- The fund's cautious investment approach and positioning are fairly unchanged given the economic market environment and outlook. Nevertheless, throughout the quarter, we reduced the fund's risk allocation to Momentum strategy and in turn increased the allocation to US duration and FX Valuation & Quality. Taking this into account, and given the composition of the equity allocation, it is still expected that the fund will continue to benefit from a relatively small exposure to future downside risk, compared to the broader market, in case of uncertainty and volatility in financial markets

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 aims to ensure capital preservation over a three-year horizon (i.e. low probability of negative returns over three years) and to maximize returns within this constraint. In addition, we target low volatility and consistent returns over time (e.g. stable returns). The investment philosophy is based on the overall belief that, over a full investment cycle, positive total returns can be achieved in different market environments by investing in well diversified return drivers across multiple assets through an unconstrained approach combined with robust risk management. Investments are made globally across financial assets including equities, bonds and money market instruments denominated in various currencies. The strategy may also invest in financial derivative instruments such as equity and fixed income futures in order to adjust the portfolio's beta and duration.

Fund data

Share class	BP-EUR
Fund category	Accumulating
NAV in EUR	15.81
Base Currency	EUR
Fund AUM Million (EUR)	10,834.69
Front end fee in %	Up to 5.00
Annual management fee in %	1.50
Launch date	02.11.2005
ISIN	LU0227384020
Sedol	B1WL6Z4
WKN	A0HF3W
Bloomberg ticker	NABSRBE LX
Number of holdings	441
Morningstar Rating Overall ²	★★★

Data as of 31.12.2018. 2) Data Source – © 2019 Morningstar, Inc. All Rights Reserved as at 14.01.2019. EAA OE EUR Moderate Allocation – Global. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision. Past performance is no guarantee of future results.

Portfolio Managers

Nordea Multi Assets Team



Asbjørn Trolle Hansen
Head of Multi Assets



Claus Vorm
Portfolio Manager



Kurt Kongsted
Portfolio Manager

Quarterly commentary Q4 2018

Q4 2018 got off to a rocky start, with global equities tumbling in October. Higher bond yields, late-cycle worries, and a continued tariff dispute pushed equities sharply lower, erasing this year's gains. In this context, most market indices were down – and even traditional safe havens (i.e. US Treasuries) were not able to protect investors. December suffered the same fate, with equities experiencing the most bearish month since the financial crisis. Indeed, this was the worst December performance since 1931. Conversely, November served as a relatively peaceful pause: despite still high volatility, DM and EM equities experienced a rebound. During this quarter, FED's rhetoric and statements were determining factors for markets' behaviour. US Treasury yields decreased overall, mainly in December when 10Y Treasuries fell almost 30bps. Finally, credit spreads widened across the board, especially in the High Yield (HY) space.

In this context, the Nordea 1 – Stable Return Fund (BP-EUR share class) yielded a negative return of -3.83% in Q4 2018³. The fund's fixed income strategies were the largest positive contributors and were closely followed by our currencies and cross asset strategies. On the negative side, our equity positions had a large negative impact on overall performance. Our long equity exposure to developed markets (DM) and emerging markets (EM), implemented through our 'Global & EM Stable/Low Risk Equities', delivered negative contributions this quarter. Nevertheless, they outperformed the market from a risk adjusted basis thanks to better valuation support and rising concerns on the macro front. Moreover, the recent sector and style rotation went on throughout the quarter, with defensive sectors outperforming the more cyclical ones and 'Value' outperforming 'Growth'. This trend also benefitted our Stable Equities. Meanwhile, our short equity positions (through various indices replicating the MSCI World), implemented to reduce the fund's beta, had a positive impact on performance. The momentum strategy – which is activated when risk in the markets rise – had almost no impact on this quarter's performance, as it was mostly deactivated.

Within the fixed income space, the US Yield curve moved downward at the end of the year, as Fed's Chairman Powell dampened investors' fears on upcoming interest rate hikes – stating the normalisation policy was close to its neutral level. In addition, Fed increased its short-term interest rate in December, for the fourth time in 2018. In this context, our long exposure to US Treasuries had a positive contribution to performance, offsetting the negative contributions coming from our short exposure to German Bobls (5 years). Moreover, our allocation to European Covered Bonds and Scandinavian Mortgage Bonds generated positive returns. Finally, our tactical positions in HY spreads contributed negatively to performance as they were hurt by spreads widening in this risk off environment.

Open currency positions in our FX Valuation & Quality strategy had a positive impact this quarter. Our defensive currencies offered diversification from equity markets and helped preserve capital. Additionally, our Cross Assets Anti-Beta strategy, which combines fixed income and currency futures to offer downside protection in weak equity markets, also contributed positively to performance. This positive behaviour was to be expected, as the strategy tends to be negatively correlated to equities.

According to Barra, the annual ex-ante volatility of the fund was higher at 4.2% as of the end of Q4 2018. Moreover, the portfolio's duration was higher at 3.41 years and the net equity exposure increased to 51.6%, resulting in a portfolio beta of 0.28.

Strategically speaking, the Momentum strategy's risk budget has been reallocated to more attractive defensive risk premia – our US duration and FX Valuation & Quality strategy. From a tactical point of view (as opposed to our Strategic Asset Allocation), going into January, we have a 'positive' stance on credit and duration, as well as 'neutral' view on equities.

Currency-wise, the fund continues to be hedged to EUR at around 84%, while the overall exposure to our active currency strategies is around 22%. Some examples of the quarter-end currencies in the FX Valuation & Quality strategy included long JPY, USD and SEK, as well as short AUD, CAD and NZD positions. As for the Cross Assets Anti-Beta strategy, it was long duration at quarter-end.

The decision to leave some of our currency exposure unhedged is on one hand relying on valuation metrics as a part of our FX Valuation & Quality strategy, and on the other hand on short-term correlation patterns between currencies and riskier assets in our Cross Assets Anti-beta strategy. Both strategies are primarily expected to provide diversification and positive returns in weak equity markets.

The fund's cautious investment approach and positioning are 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.

Performance of the fund versus its peer group⁴ (since inception)



4) Data Source - © 2019 Morningstar, Inc. All Rights Reserved as at 14.01.2019. European Open End Funds database, Morningstar Europe OE EUR Moderate allocation - Global category. Period under consideration: 02.11.2005 - 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 %

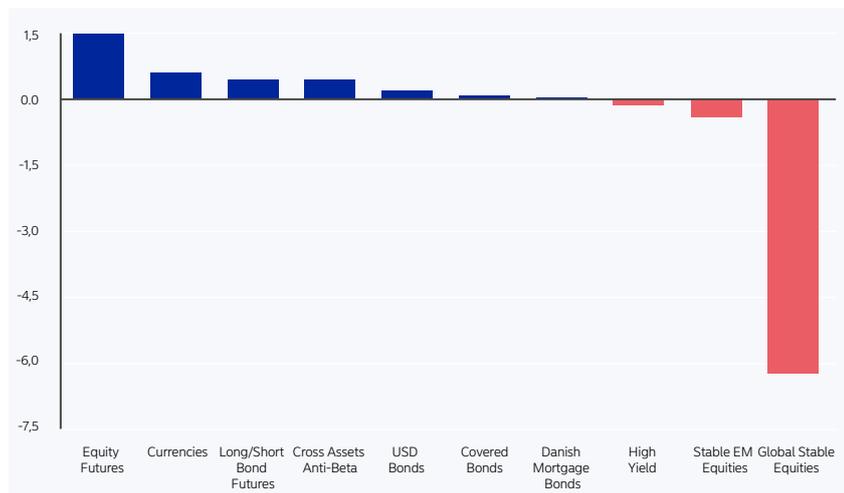
Time frame	Fund ⁵
Year to date	-5.78
1 month	-2.35
3 months	-3.83
6 months	-2.35
1 year	-5.78
3 years	-0.44
5 years	13.01
10 years	61.00
Since launch	58.10

Calendar year returns in %

Time frame	Fund ⁵
2017	2.63
2016	2.96
2015	2.58
2014	10.65
2013	7.12
2012	6.61
2011	5.79
2010	1.67
2009	15.99
2008	-9.83
2007	0.00
2006	7.40

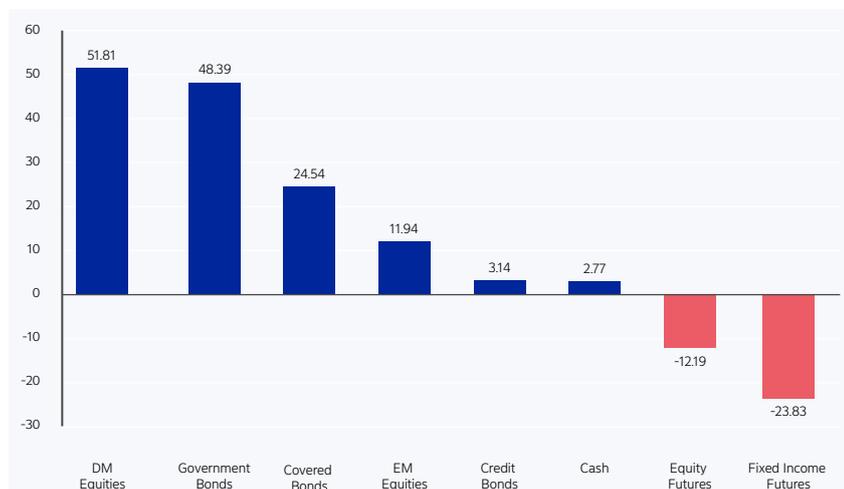
5) ISIN Code LU0227384020. Inception date: 02.11.2005. Sources: Nordea Investment Funds S.A. and Bloomberg. Period under consideration: 02.11.2005 - 31.12.2018. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.

Contribution by asset class as of 31.12.2018 in %



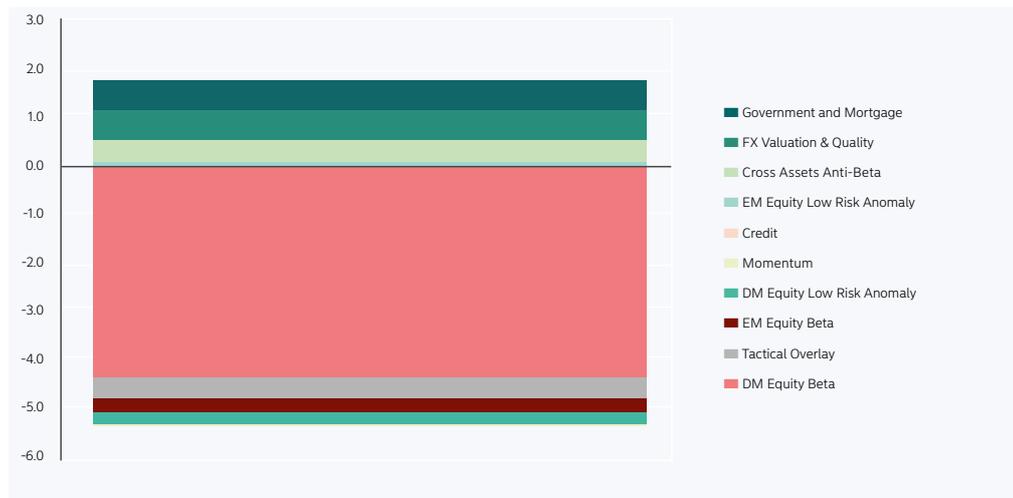
Source: Nordea Investment Management AB. Performance contributions based on the Nordea Stable Return Diversified Growth Strategy (gross of fees). The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. Period under consideration: 30.09.2018 - 31.12.2018.

Exposure by asset class as of 31.12.2018 in %



Sources: Nordea Investment Funds S.A. and Nordea Investment Management AB. Note: Illustrative example based on the Nordea 1 - Stable Return Fund.

Contribution by return driver as of 31.12.2018 in %



Source: Nordea Investment Management AB. Performance contributions based on the Nordea Stable Return Diversified Growth Strategy (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. Period under consideration: 30.09.2018 – 31.12.2018.

Contribution to risk (volatility) by return driver as of 31.12.2018 in %



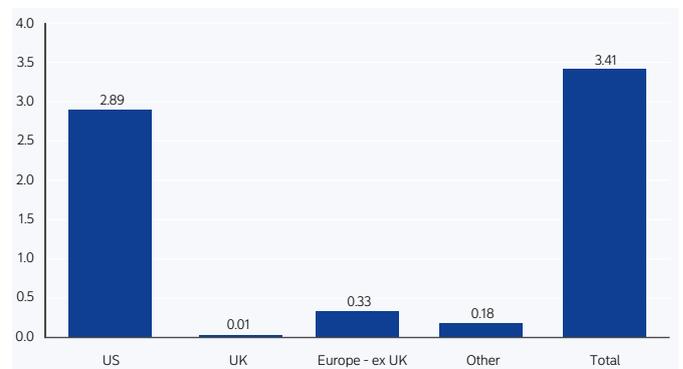
Note: For illustrative purposes. Sources: Nordea Investment Management AB.

Currency breakdown as of 31.12.2018 in %



Source: Nordea Investment Management AB. Date: 31.12.2018. Note: Illustrative example based on the Stable Return – Diversified Growth Strategy, hence there might be some minor deviations relative to the sub-fund.

Duration breakdown as of 31.12.2018 in years



Source: Nordea Investment Management AB.

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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