



Fund Portrait

Nordea 1 – US High Yield Bond Fund

ISIN: LU0278531610 (BP-USD) / LU0378611387 (BI-USD)

Highlights

- Regimented process in a team environment, rather than basing the system on a “star” portfolio manager
- A team of more than 20 investment professionals with an average of 20+ years of investment experience
- Excluding rather than including bonds – “avoiding the losers”
- Maximising yield and capital appreciation while controlling risk and limiting defaults through a bottom-up approach
- Focusing on superior credit selection
- Successful performance history¹



Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. Furthermore, we've put a lot of emphasis on launching outcome – as opposed to benchmark – oriented investment solutions whose basis, “stability investment philosophy”, is designed to meet clients' risk appetite and needs.

Consistent with Nordea's multi-boutique approach of identifying, managing and securing the services of the best fund managers in the industry, Nordea has appointed **MacKay Shields LLC** (“MacKay Shields”), New York, as investment sub-manager for the Nordea 1 – US High Yield Bond Fund launched on July 28, 2008.

Since July 1, 1997, the team has been managing the MacKay Shields High Yield Active Core Composite which includes all discretionary High Yield Active Core accounts managed with similar objectives.

This composite represents a model portfolio which has the same investment philosophy, investment process and investment team as the Nordea 1 – US High Yield Bond Fund².

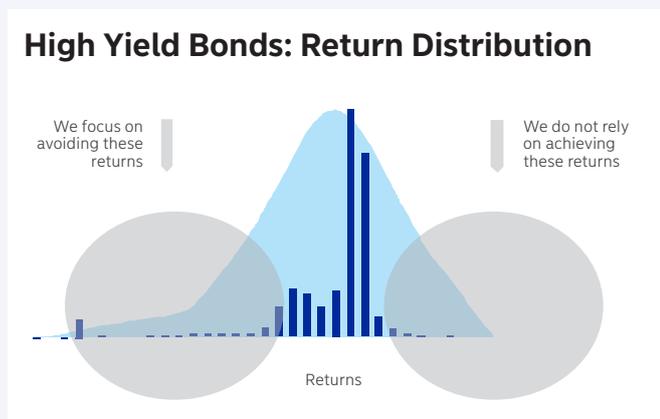
The management team is steadfast in its belief that using a **regimented process in a team environment**, rather than relying on a “star” portfolio manager, offers a distinct advantage. Their investment divisions support each other by exchanging information, market research, and judgements that have surfaced through their investment processes. Investors, therefore, benefit from the knowledge and experience of all the investment professionals at MacKay Shields.

1) Past performance is not a reliable indicator of future results and investors may not recover the full amount invested. 2) There is no guarantee that using the same investment process will produce similar returns since the Nordea 1 sub-fund has specific limits and restrictions, and the result might differ from the composite used for illustration purposes.

Excluding rather than including bonds – “avoiding the losers”

The fund management team believes that the best risk-adjusted returns and, ultimately, the best absolute returns are generated by a **strategy of yield capture and error avoidance**.

They screen the investment universe for risk in order to quantify upside potential using bond analysis, not equity-style analysis. By targeting the “sweet spot” for risk compensation, **the goal is to exclude rather than to include bonds**. The underlying belief is that to deliver attractive returns it is more important to recognise which bonds NOT to include in the portfolio, than to focus on the ones that should be selected.



Therefore one can add great value in the management of this asset class by concentrating on avoiding the bonds which will deliver the lower return, i.e. those which are positioned in the left part of the distribution of returns, as shown in the graph above. When this fact is considered in combination with the fact that over any given cycle total return is driven almost entirely by income, the logic of the approach becomes clear:

- **Capture the yield offered through the market by investing in stable, quality credits**
- **Aggressively protect this yield through a variety of risk control measures**
- **Resist the temptation to augment returns by “stretching” for the yield offered by the market’s riskiest credits**
- **Manage risk relative to the benchmark**

This investment philosophy has not changed since 1989 when the Active Fixed Income Group first started managing high yield portfolios. While having continually explored ways to improve this process, the basic components have remained the same.

Investment process

MacKay Shields’ high yield process is distinctive in that it focuses on the following two aspects:

- **Minimising risk to principal**
- **Locating capital appreciation**

The goal, despite market conditions, is to identify securities that will minimise defaults and maximise yield and capital appreciation.

The investment approach is a combination of bottom-up and top-down, and has remained consistent since the inception of the product. It consists of 6 distinct stages.

Credit Screen

The initial credit screen is the most important filter, as only those bonds that pass this test will be subject to further in-depth analysis. At this initial screen, bonds are run through a 32-factor progression of both quantitative and qualitative characteristics seeking to identify “gross indicators of inappropriate risk”: basic financial and liquidity risk; political risk; regulatory risk; litigation or liability risk; technology risk; and other risks found in areas such as capital structure, footnotes to financials, market capitalization or size of issue.

Approximately 80% of all bonds are excluded at this stage. The team believes that there is no substitute for in-depth analysis or market experience, but the advantage of a highly disciplined initial screen is that these resources can be much more tightly focused on a smaller universe of investment opportunities.

Payoff Analysis

Once an issuer has passed the initial screen, the various bonds in the capital structure are subject to a payoff analysis. This looks at the risk/return profile that each of the bonds provides and considers a range of possible scenarios. This serves two purposes. Firstly, it seeks to highlight those cases where the current market price does not leave sufficient potential return to compensate for the risk of loss. Secondly, it seeks to identify those bonds within the capital structure that have the most attractive profile.

Credit Analysis

Having screened out a large number of candidates on the basis of unacceptable risks, the credit skills of the team can be highly focused. In order to identify companies with high credit worthiness, improving fundamentals, positive outlook, good liquidity, etc., the team will concentrate on the following factors:

- Management and business plan
- Industry environment
- Competitive dynamics
- Cash flow
- Liquidity

Relative Value Analysis

The team extends the relative value analysis beyond the traditional comparison of one bond to another and focuses on the positioning of the entire portfolio relative to the benchmark. The goal is to maximise performance but to be constantly mindful of basis risk.

Following this fundamental analysis, the investment team undertakes a scenario analysis in which they seek to forecast the reaction of the security to a range of changes in economic, credit, market and interest rate conditions. The team also considers the possibility of positive or negative “event risk”. There is no interest in owning bonds whose principal or sole appeal is that they are “cheap” on an absolute basis. The team seeks to screen out or otherwise exclude those investments whose risk/reward profile is inconsistent with the basic philosophy, and to invest exclusively in those opportunities viewed as “cheap” relative only to their stability and positive outlook.

Portfolio Construction

In constructing the model portfolio, the team is unconstrained by sector/industry allocations as they seek the best opportunities to add value. Nevertheless, they do incorporate a top-down sector/industry bias in the security selection process.



This view is influenced both by macro-economic views and by bottom-up evaluation of the securities comprising the sector.

Sell Discipline

The team adheres to a strict “sell discipline”. They typically sell a bond for one (or more) of the following four reasons:

- Credit deterioration
- Repositioning caused by a change in the top-down outlook
- Excessive downward price volatility and/or
- Recognition of an alternative superior relative value opportunity

Consistent with the philosophy of loss avoidance, credit deterioration is by far the most important of these sell disciplines.

6-step investment process



Nordea 1 – US High Yield Bond Fund	
Fund manager	MacKay Shields LLC
Fund domicile	Luxembourg
ISIN codes*	LU0278531610 (BP-USD) LU0378611387 (BI-USD) ³
Annual management fees	1.00% p.a. (BP-USD) 0.70% p.a. (BI-USD) ³
Base currency	USD
Reference index	Merrill Lynch US High Yield Master II – Total Return Index
Swing factor / Threshold	Yes / Yes
Launch date	28.07.2008

Risks

Please be aware that there are risks associated with investing in this sub-fund. For further details, please refer to the Key Investor Information Document, which is available as described in the disclaimer at the end of this document.

*Other share classes may be available in your jurisdiction. 3) BI-USD share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

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