



# Fund Portrait

Second quarter 2018

## Nordea 1 – Alpha 15 MA Fund<sup>1</sup>

ISIN: LU0607983896 (BP-EUR) / LU0607983383 (BI-EUR)

### Highlights

- A **liquid alternative** which benefits from **Nordea's Multi Assets Team** exclusive research capabilities
- Combines a variety of **uncorrelated risk premia** strategies to **generate attractive long term returns with lower risk**
- **Return objective:** Cash +7 – 10%<sup>2</sup> p.a. (gross of fees) over a full investment cycle
- **Expected volatility:** 10 – 15%<sup>3</sup>

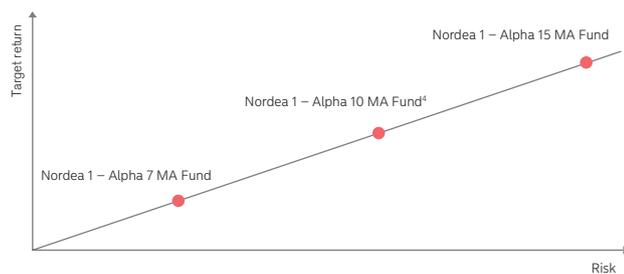


### Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages and sources investment solutions across the full investment spectrum with the aim to provide investment solutions to clients, irrespective of prevailing financial market conditions. Nordea offers many outcome – as opposed to benchmark – oriented investment solutions, which are designed to meet clients' risk appetite and needs. Harnessing this outcome approach, Nordea's Multi Assets Team (MAT) has engineered a number of investment solutions with different risk/return profiles. They all have one common denominator: **looking beyond asset classes to exploit specific risk premia**. The MAT research structure focuses therefore on identifying, analysing, and testing risk premia across liquid asset classes and then implementing them into specific investment vehicles according to the targeted risk profile.

#### The breadth of our capabilities in Liquid Alternatives

For illustrative purposes only



These products are liquid alternatives which use a broad and diversified source of return, leverage and advanced trading strategies.

The **team has successfully worked with risk premia for over a decade**, during which time this approach has proven very effective. The Nordea 1 – Alpha 15 MA Fund is one of the funds managed by the team based on this distinct approach and was launched in 2011.

### The need for liquid alternative solutions

In the current low yield environment traditional fixed income instruments offer meagre expected returns, combined with high downside risks in case of rising yields. At the same time equity markets are still subject to elevated volatility, meaning investors are urged to look for **alternative investment solutions** that can help improve diversification and deliver returns while controlling risk in their portfolios. This is obviously not an easy task.

Nordea's MAT has a longstanding tradition, and strong track record, in managing products based on risk premia underpinned by a coherent risk management, which forms the backbone of its investment approach. At Nordea we believe that these competencies can help alleviate some of the challenges presented by the market today.

### What is a risk premium?

Risk premium is a phrase well-known in the investment community but can refer to multiple other terms. In a nutshell, risk premia are **rewards for taking risk using given strategies in excess of the risk free rate**. The basic idea is that investors are not compensated by investing in asset classes, but rather for both the type and amount of risk they take. Risk premia are

<sup>1</sup> With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Alpha 15 to Nordea 1 – Alpha 15 MA Fund. <sup>2</sup> There is no guarantee that this expected return will be achieved. <sup>3</sup> During adverse market environments, the volatility could reach 15%. <sup>4</sup> With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Multi-Asset Fund to Nordea 1 – Alpha 10 MA Fund.

generally backed by economic theory and have been widely researched and endorsed by the academic community.

Even though the concept of risk premia is well-known and accepted, the implementation of a diversified range of them can be complicated. Experience, accuracy and the right set of tools are needed to be able to exploit them.

## How does Nordea use risk premia?

Since Nordea's MAT was founded in 2004, the choice of developing investment processes around the use of risk premia and risk budgeting has been the key. This investment approach has shown resilience in times of market turmoil when more traditional investment solutions have struggled to deliver on its objectives. Our multi assets/flexible solutions represent today some of the most attractive products in their respective categories.

Using risk premia leads the team to build portfolios where risk budgeting and control is at the centre of any investment decision. The investment team has the possibility, over time, to develop and focus on the risk premia where they assess the market is adequately compensating them for the risk taken. **Continuous innovation and on-going development is the key to success.**

The MAT considers a broad and diversified set of different risk premia, all of which are continuously monitored and tested to ensure that their portfolios are, at any given point in time, running with the most attractive combination of risk premia. In particular the team actively relies on **more than 30 risk premia**, spread across all asset classes. These are selectively used for different investment solutions depending on the client's risk/return profile.

		Risk Premia (example)									
		Strategic beta	Value	Momentum	Low Volatility	Time Variation (TAA)	Liquidity	Size	Inflation	Curve	
Underlying	Equities										
	Safe Govern. Bonds										
	Credit bonds										
	Currencies										
	Implied Volatility										
	Commodities*										

■ Risk on    ■ Risk off    ■ Directional

\*Please note that as per UCIT directives the Nordea 1 – Alpha 7 MA Fund is not invested directly in commodities. However, the asset class is included in the table as this is an illustration of the risk premia research the Multi Assets team conduct.

Combining a wide set of risk premia will allow the portfolio managers to **broaden the set of opportunities** and have access to a **diversified source of returns**, which will allow **higher expected return with lower risk**.

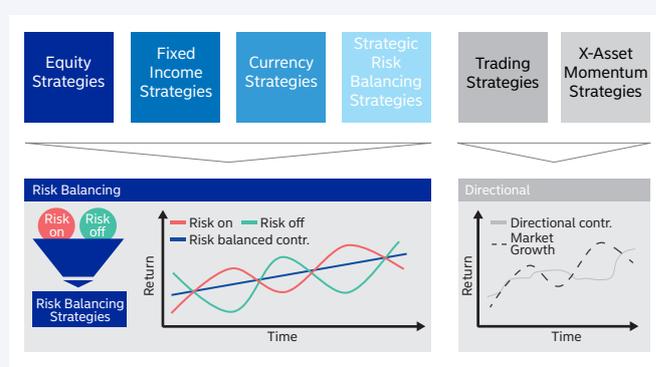
Once the team understands the behaviour of risk premia, they are divided into: risk on (highly correlated to equity beta), risk off (negatively correlated to equity beta) and more directional alpha strategies where the beta can vary over time. The alpha strategies also rely on risk premia, but focus more on generating absolute returns (alpha) independently from the economic cycle.

The team looks at the **expected return, correlation** and **volatility** of each risk premium. Proprietary models help to manage this

process efficiently as well as drive on-going monitoring. An important element that the team also considers is the level of diversification that each risk premium brings to the portfolio. Thus, various **correlations** matrices (peak, conditional, etc.) are used to analyse portfolio dependency from different angles and to ensure that the portfolio is truly diversified. The timeframe from the research and development of a risk premia to full implementation can vary substantially, but it is not uncommon for it to take more than a year.

## Investment process

In the Nordea 1 – Alpha 15 MA Fund, the team allocates investments across **6 underlying SuperStrategies** which operate independently (as sub-portfolios) and include multiple different risk premia.



- The **first four SuperStrategies** are built following the **risk balancing principle**, which consists of combining both beta and anti-beta risk premia for "all-weather" behaviour. Such portfolios are created to perform well independently from the investment cycle. The result is more balanced and less volatile returns over time.
- The **last two SuperStrategies** are directional strategies aiming to deliver absolute returns (alpha) over time. These strategies will not invest in trades that are meant to 'offset' each other in different market environments, but rather tend to exploit particular market inefficiencies and recognised patterns identified and developed by the Multi Assets Team proprietary models.

The **first four SuperStrategies** are defined as: **Equities, Fixed Income, Currencies and Strategic Risk Balancing**.

In the **Equity SuperStrategy** we identify risk premia such as the low risk anomaly or quality premium which performs well in a risk off environment, or value which tends to be more correlated to beta and perform well in risk on environment.

Another example would be our **Currency SuperStrategy**. Here we try to identify currency pair trades that work well in bull (carry trade for instance) and bear markets (FX valuation model for instance) respectively.

The **two final SuperStrategies, X-Asset Momentum and Trading** exploit time variation in beta across asset classes, but on

different horizons. The **Trading SuperStrategy** has the shortest horizon where **X-Asset Momentum SuperStrategy** works more medium term.

The allocation across SuperStrategies depends on the conviction level of the investment team. SuperStrategies that are more attractive from a fundamental, diversification and valuation perspective, will have a higher risk budget allocation.

**Relying more on directional (alpha) strategies** will enable to generate **higher expected returns** than what is available in the current market environment and what is implied by our risk balanced strategies. However, it also involves higher directional (beta) risks. That is why **we use a broader universe of risk premia** when building our risk balanced (market neutral) strategies. This will allow us to control better downside risk and to add more diversification.

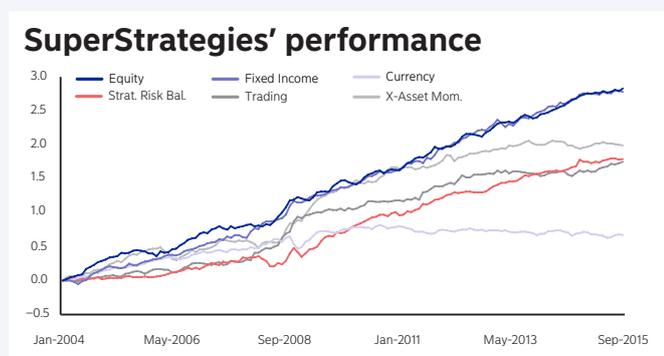
## A well-diversified portfolio

Within each SuperStrategy we use at least 2 – but generally around 5 – underlying risk premia/strategies. Therefore, the decorrelation effects are two-fold: the fund will benefit 1) from the decorrelation across SuperStrategies as well as 2) from the decorrelation across the different risk premia inside a single SuperStrategy.

The final portfolio shows a very high degree of diversification across SuperStrategies. Based on historical backtest, each one of them has shown over the years an independent behaviour to one another as the table below shows.

Strategies	Equity	Fixed Income	Currency	Strat. Risk Bal.	Trading	X-Asset Mom.
Equity	1.00					
Fixed Income	0.18	1.00				
Currency	0.04	0.14	1.00			
Strat. Risk Bal.	0.20	0.25	0.08	1.00		
Trading	0.11	0.07	-0.18	0.12	1.00	
X-Asset Mom.	0.13	0.16	0.30	0.24	0.07	1.00

Source: Nordea Investment Management AB. The data are based on monthly returns of the backtest between 01.01.2004 and 31.12.2015. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**



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As a consequence of this broad diversification effect, returns of individual SuperStrategies show market neutrality over time – as displayed in the graph above. Nevertheless, this diversification and market neutrality comes at a price. The breadth and different nature of the many risk premia strategies used, implies that the overall level of transparency and granularity of the portfolio will be relatively lower than in other more traditional total return portfolios.

## Why invest in Nordea's Alpha 15 MA Fund?

The Nordea 1 – Alpha 15 MA Fund offers investors a very attractive investment proposition:

- A unique UCITS **liquid alternative** solution, offering daily liquidity, that delivers on clients' reward expectation in the current low yield environment
- Generate **attractive and risk controlled** returns by implementing an innovative investment approach based on more than 10 years of experience:
  - A **return of cash +7–10% p.a. (gross of fees)** over a full investment cycle<sup>5</sup>
  - With a **volatility between 10–15%**<sup>6</sup>
- Benefit from a large set of risk premia that offer **low correlation to traditional asset classes** by combining:
  - **Risk balancing principles**, to create a market neutral behaviour
  - **Directional strategies** aiming to deliver absolute returns (alpha) over time

We at Nordea believe that using such a broader set of risk premia **offers an innovative and optimal investment portfolio to fulfill clients' expectations.** In this difficult low yield environment, true diversification is needed in order to mitigate long-term market risks.

5) There is no guarantee that this expected return will be achieved. 6) During adverse market environment, the volatility could reach 15%.

Cumulative returns in % (30.06.2018)	Fund <sup>7</sup>
YTD	-2.03
1 month	-0.24
3 months	-3.50
6 months	-2.03
1 year	1.82
3 years	31.07
5 years	43.40
Since launch (15.06.2011)	49.94
Calendar year returns in %	Fund <sup>7</sup>
2017	12.76
2016	13.94
2015	9.61

Nordea 1 – Alpha 15 MA Fund	
Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0607983896 (BP-EUR) LU0607983383 (BI-EUR) <sup>7</sup>
Annual management fees	2.00 % p.a. (BP-EUR) 1.20 % p.a. (BI-EUR) <sup>7</sup>
Base currency	EUR
Fund size in millions	1,024.91
No. of holdings	146
Launch date	15.06.2011

## Performance (30.06.2013 – 30.06.2018)



## 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.

## Change in fee structure

### 19.03.2016 – Removed performance fees

In order to offer a more attractive product for investors and a more transparent fee structure, effective 19.03.2016, Nordea removed all performance fees (20% of the outperformance vs Euribor 1 month, with a high water mark).

\*Other share classes may be available in your jurisdiction. <sup>7</sup> BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 15.06.2011 – 30.06.2018. 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 30.06.2018. 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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