

January 2017

## Nordea 1 – Flexible Fixed Income Fund

ISIN: LU0915365364 (BP-EUR)

### Fund Commentary

Political issues continued to dominate markets' headlines in January as the new US administration came to power. US high yield (HY) credit spreads continued to perform strongly on the back of continuous macro momentum and a supportive Q4 earnings report season. The positive macro environment took a toll on European government bond yields, while their US peers remained almost unchanged following the correction they had late last year. A slightly weaker USD and more positive economic surprises helped Emerging Market (EM) fixed income to outperform their developed counterparts despite Trump's protectionist rhetoric.

In this context, the fund had a negative performance of -0.32%<sup>1</sup> in January. The return was comprised of negative contributions from our duration (-0.29%), FX Valuation strategies (-0.06%) and credit (-0.01%), while the Cross Asset Anti-Beta strategy contributed positively (+0.05%) over the month.

In the credit space, spreads generally tightened across all regions and segments with the exception of Eurozone spreads. Following this, the fund's exposure to Covered Bonds, EM and HY spreads supported the portfolio's performance. On the other hand, Eurozone spreads had a negative impact on the performance due to heightened political risks.

Our strategic allocation to highly rated government bonds (duration) – predominantly related to long positions in the UK, Canada, the US and Australia and short positions in Germany – generated a negative contribution as yields rose in the UK and remained almost unchanged in other countries.

Over the same period, our FX Valuation contributed negatively (-0.06%) as our short commodity driven currencies (AUD and NZD) appreciated on the back of rising commodity prices. On the other hand, our Cross Assets Anti-beta strategy contributed positively to performance (+0.05%) as the strategy benefited from its short USD exposure which weakened during the month.

As for the performance of the fund's tactical overlay, the fund's short credit holdings delivered a negative contribution to performance as we were adding credit protection to the portfolio in an environment where HY spreads largely tightened. Meanwhile, our short duration position contributed positively as German Bund yields rose.

### Strategy and Outlook

As at the end of January, there were no big changes to the key characteristics of the fund: the duration remained at around 3.1 years with an average credit rating of AA- grade. The majority of the contribution to duration was related to 10 year issues from the UK, the US, Canada and Australia, as well as short positions in Germany.

Strategically, there were no significant changes in the portfolio in January. However, going into February, the overall duration of the fund was increased to 3.7 years and the allocation to our FX valuation strategy was reduced. The change was motivated by rising yields, which suggest that duration becomes more attractive both in terms of expected return and potential downside protection.

From a tactical, short-term point of view, compared to our strategic asset allocation, we remain "positive" duration and "short" credit going through February.

Currency-wise, the fund continues to be hedged to EUR, now at 95%. The weight of the broader FX Valuation strategy accounted for around 18% of total assets at month-end January (later reduced to 10% in February), whereof examples of pairs traded included long positions in SEK and JPY in combination with short positions in NZD and AUD. As for the Cross Assets Anti-beta strategy, it was including a currency pair in the form of long CHF and short USD positions.

1) Source (unless otherwise stated): Nordea Investment Funds S.A.. Period under consideration (unless otherwise stated): 31.12.2016 – 31.01.2017. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income and dividends reinvested, in the base currency of the respective sub-fund, excluding initial and exit charges as per 31.01.2017. 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.**

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 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 perform well and offer risk absorption during bear markets.

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