

In Focus

For professional investors only*

April 2017

All liquid alternatives are not created equal

Nordea 1 – Alpha 10 MA Fund¹

ISIN: LU0445386369 (BP-EUR) / LU0445386955 (BI-EUR)

- A liquid alternative with **no performance fees**
- Relying on **Nordea’s** exclusive **research capabilities** and **experience**
- Combines **uncorrelated risk premia** to structure portfolio risk
- **Return objective:** Cash +5% p.a. over a full investment cycle²
- **Expected volatility:** Around 7% p.a.³

While expected volatility has clearly stepped higher, it is also accompanied by much lower expected returns some way from what markets have delivered over recent years. With muted forward-looking estimates and financial markets being more and more difficult to navigate, traditional ways of constructing portfolios seem to have reached their limits. To adapt to these new challenges, investors need to find **different solutions** that can diversify their portfolios and deliver returns while controlling risk.

Investors’ challenge: low returns or high volatility?

Investing in traditional asset classes has become a real conundrum for investors. Clearly, the days when investors could generate high returns with fairly low volatility within traditional asset classes are gone. Today, investors can choose only between low volatility/low yielding assets or taking much higher risks in the hope of higher returns. Now, even traditionally safe assets such as high quality government bonds are subject to volatility despite their low projected returns. On top of this, the stretched valuations that result from the multi-year bull rally make both equity and fixed income asset classes significantly more exposed to downside risks.

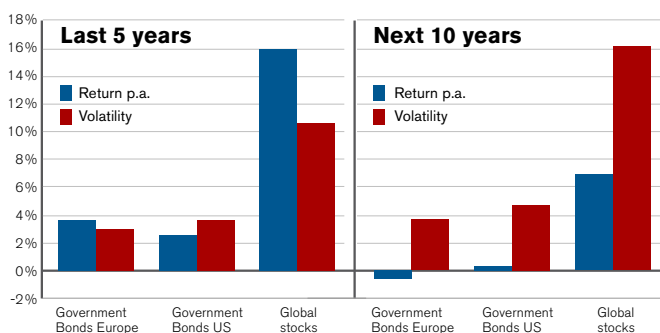
One option is to consider **liquid alternative** strategies, an approach which has been embraced by many investors in recent years as the difficult low yield market environment has become the “new norm”. These strategies are typically daily/weekly-trading (hence “liquid”) assets that offer exposure either to “alternative” asset classes such as real estate and private equity or “alternative strategies” traditionally used by hedge funds.

Experience and innovation is required to build a robust liquid alternative product

Today’s market environment has arguably made liquid alternatives even more attractive on the promise of diversification to traditional asset classes, alternative sources of returns and more attractive risk-adjusted returns. However, the variety of liquid alternatives out there makes it difficult for investors to identify which product will best meet their needs. Nevertheless, key attributes to consider for liquid alternative managers would include: consistent and proven manager experience, depth of research and robust risk management.

All these features are to be found within the **Nordea’s Multi Assets Team’s** (MAT) investment solutions. For over a decade MAT has engineered a number of investment solutions with different risk-return profiles that share one common denominator: looking beyond asset classes and exploiting risk premia.

Comparison of last 5 years returns

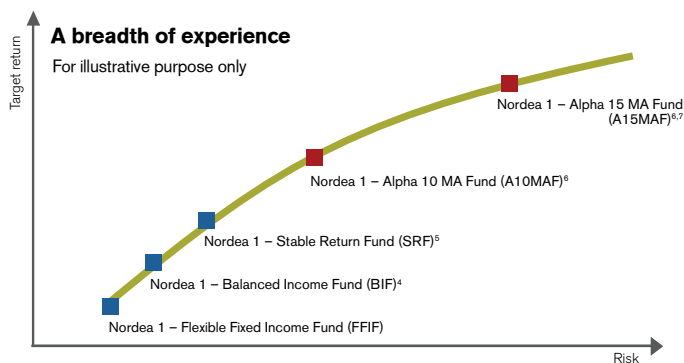


Source: Bloomberg and Nordea Investment Management AB. Date: 30.06.2016. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. There can be no warranty that expected returns are achieved.**

1) 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 and the investment policy of the sub-fund was modified. 2) **There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved.** 3) Expected volatility in normal market conditions. During adverse markets conditions, the volatility could reach 10%.

* investing for their own account - according to MiFID definition

The MAT's research focuses on **identifying, analysing, and testing risk premia across liquid asset classes** and then structuring them into specific investment vehicles according to the targeted risk profile.



4) On 16 December 2016 the investment policy of the sub-fund was modified and the sub-fund was renamed from Nordea 1 – Global Short Duration Bond Fund to Nordea 1 – Flexible Fixed Income Plus Fund. With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Flexible Fixed Income Plus Fund to Nordea 1 – Balanced Income Fund and the investment policy of the sub-fund was modified. 5) **Please note that the Nordea 1 – Stable Return Fund is soft closed since September 7th, 2016.** 6) These products are liquid alternatives which use a broad and diversified source of return, leverage and advanced trading strategies. 7) With effect as of 23 October 2017 the sub-fund is renamed from Nordea 1 – Alpha 15 to Nordea 1 – Alpha 15 MA Fund and the investment policy of the sub-fund was modified.

Focusing on risk premia to deliver attractive returns while controlling risk

Even though the concept of risk-premia investing is well established and accepted within the investment community, a diversified range of risk-based products is difficult to execute. **Experience, accuracy and the right set of tools are needed to exploit risk premia appropriately.**

Using risk premia, the MAT builds portfolios where risk budgeting and controlling risks are central to all investment decisions. The investment team has developed, through continuous innovation, a process that identifies which risk premia it believes will be best rewarded and then structures them into portfolios with a further layer of risk efficiency. This investment approach offers strong risk-adjusted returns through the cycle but has proven to be especially resilient in times of market turmoil when other more traditional investment solutions are challenged.

The MAT considers a broad and diversified set of different risk premia (**more than 30**, spread across all asset classes), 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. Combining a wide set of risk premia allows 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.

The Nordea 1 – Alpha 10 MA Fund in a nutshell...

The Nordea 1 – Alpha 10 MA Fund (N1-A10MAF), launched in 2009, is one of the liquid alternative strategies managed by the MAT using the focus on risk premia. The fund has a **medium volatility profile and targets balanced-like returns**, i.e. between traditional fixed income and equity market returns.

- It aims to generate a return of cash + 5% p.a over a full market cycle⁸
- with an expected volatility of around 7% in normal market conditions⁹

Risk balancing principles together with directional strategies are used to create a portfolio that is market neutral over a market cycle. In terms of investment universe, the fund will **invest only in liquid asset classes** and instruments (i.e no alternative asset classes or exotic derivatives).

...and how it could fit into a client's portfolio

While the fund can be used as a standalone solution, it can also become a building block in a portfolio or asset allocation context. Given its low correlation to traditional asset classes (average correlation 0.3) the fund can offer attractive returns while enhancing an established portfolio within either the equity or fixed income space, increasing returns while reducing overall portfolio volatility through its diversification.

	Government Bonds Europe	Investment Grade Bonds EU	High Yield Bonds Europe	Government Bonds US	Investment Grade Bonds US	High Yield Bonds US	Emerging Market Bonds (HC)	Global Stocks	Nordea's Multi Asset Strategy
Government Bonds Europe	1.00								
Investment Grade Bonds EU	0.58	1.00							
High Yield Bonds Europe	-0.05	0.49	1.00						
Government Bonds US	0.73	0.42	-0.03	1.00					
Investment Grade Bonds US	0.40	0.76	0.57	0.51	1.00				
High Yield Bonds US	-0.02	0.50	0.88	0.03	0.62	1.00			
Emerging Market Bonds (HC)	0.21	0.63	0.66	0.34	0.79	0.76	1.00		
Global Stocks	-0.21	0.27	0.69	-0.13	0.33	0.70	0.56	1.00	
Nordea's Multi Asset Strategy	0.03	0.27	0.44	0.10	0.38	0.40	0.42	0.45	1.00

Source: Nordea Multi Assets Team. Period under consideration: 30.09.2009 – 30.06.2016.

8) There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved. 9) Expected volatility in normal market conditions. During adverse markets conditions, the volatility could reach 10%.

Key Selling Points

The Nordea 1 – Alpha 10 MA Fund offers investors a very attractive investment proposition:

- **Liquidity:** A UCITS liquid alternative solution, offering transparency and daily liquidity (investing in liquid asset classes and instruments)
- **Powerful research:** Identifying, analysing, and testing a wide number of risk premia across liquid asset classes
- **Robust portfolio construction:** Benefits from employing a large set of risk premia through unique portfolio construction, combining:
 - **risk-balancing principles** creating an “all-weather” behaviour
 - **directional strategies** aiming to deliver absolute/market neutral returns (alpha)
- **Experience and performance:** More than 10 years history of generating consistently good returns through various market environments

- **Risk management:** At the centre and starting point for asset allocation
- **Flat fee structure:** Since March 2016, the fund stopped charging performance fees

Fund's performance and volatility in %

Nordea 1 – Alpha 10 MA Fund (LU0445386369, BP-EUR)			
As of 31.03.2017	Performance (annualised)	Volatility (annualised)	Sharpe ratio
1 year	8.78	6.73	1.34
3 years	8.69	6.42	1.35
5 years	5.56	7.00	0.76

Source: Nordea Investment Funds S.A., Date 31.03.2017. Returns are annualised. **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.**

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.03.2012 - 31.03.2017. 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 31.03.2017. 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.** 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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