



# Fund Portrait

Second quarter 2018

## Nordea 1 – Alpha 10 MA Fund<sup>1</sup>

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

### Highlights

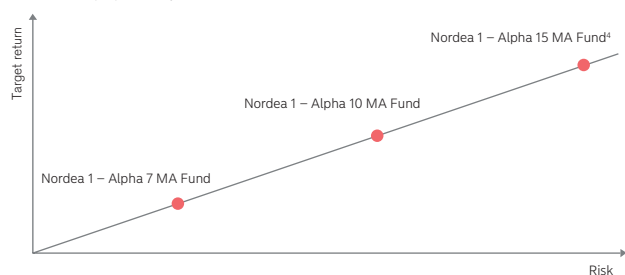
- A **liquid alternative** which benefits from **Nordea's Multi Assets Team** exclusive research capabilities
- Combines a variety of **uncorrelated risk** premia strategies to **generate attractive long term returns with lower risk**
- **Return objective:** Cash +5 – 7%<sup>2</sup> p.a. (gross of fees) over a full investment cycle
- **Expected volatility:** 7 – 10%<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 – 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 10 MA Fund is one of the funds managed by the team based on this distinct approach and was launched in 2009.

### 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**

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

**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 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)								
Underlying		Strategic beta	Value	Momentum	Low Volatility	Time Variation (TAA)	Liquidity	Size	Inflation	Curve
	Equities									
	Safe Govern. Bonds									
	Credit bonds									
	Currencies									
	Implied Volatility									
	Commodities*									
		<span style="color: red;">■</span> Risk on <span style="color: green;">■</span> Risk off <span style="color: grey;">■</span> 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

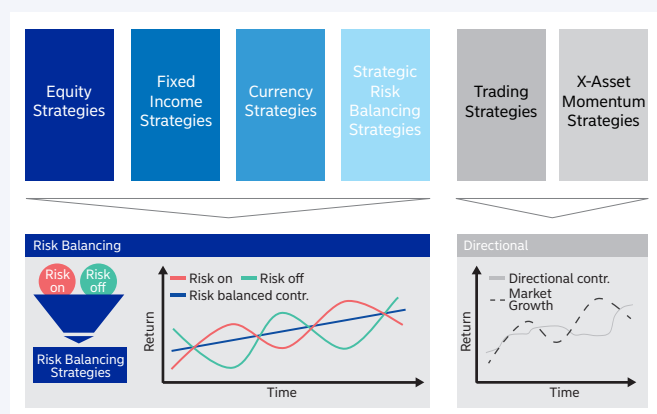
strategies also rely on risk premia, but focus more on generating absolute returns (alpha) independently from the economic cycle.

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 10 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

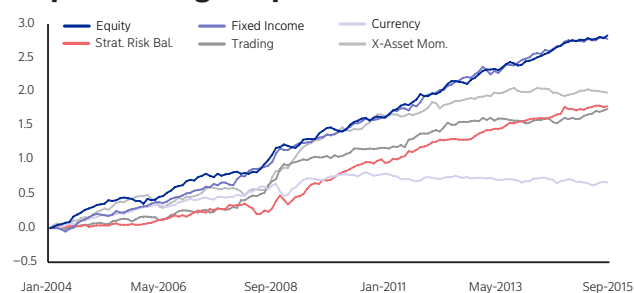
Within each SuperStrategy we use at least 2 – but generally around 5 – underlying risk premia/strategies. Therefore, the decorrelation effects are two-fold: the fund will benefit 1) from the decorrelation across SuperStrategies as well as 2) from the decorrelation across the different risk premia inside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

## SuperStrategies' performance



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.

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 10 MA Fund?

The Nordea 1 – Alpha 10 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 +5–7% p.a.** (gross of fees) over a full investment cycle<sup>5</sup>
  - With a **volatility between 7–10%**<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

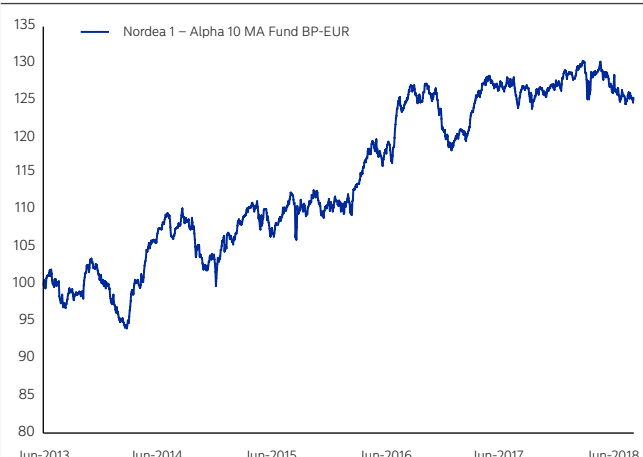
We at Nordea believe that using such a broader set of risk premia **offers an innovative and optimal investment portfolio to fulfill clients' expectations**. In this difficult low yield environment, true diversification is needed in order to mitigate long-term market risks.

5) There is no guarantee that this expected return will be achieved. 6) During adverse market environment, the volatility could reach 10%.

Cumulative returns in % (30.06.2018)	Fund <sup>7</sup>
YTD	-2.07
1 month	-0.25
3 months	-2.64
6 months	-2.07
1 year	-0.25
3 years	15.90
5 years	25.37
Since launch (30.09.2009)	18.10
Calendar year returns in %	Fund <sup>7</sup>
2017	6.44
2016	8.42
2015	7.18

Nordea 1 – Alpha 10 MA Fund	
Fund manager	Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0445386369 (BP-EUR) LU0445386955 (BI-EUR) <sup>8</sup>
Annual management fees	1.70 % p.a. (BP-EUR) 1.00 % p.a. (BI-EUR) <sup>8</sup>
Base currency	EUR
Fund size in millions	1,823.08
No. of holdings	154
Launch date	30.09.2009

## 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. 7) BP-EUR share class. 8) 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): 30.09.2009 – 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. The sub-funds mentioned are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d'Investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009. **This document is advertising material and does not disclose all relevant information concerning the presented sub-funds. Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without charge upon request from Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, from the local representatives or information agents, or from our distributors. Investments in derivative and foreign exchange transactions may be subject to significant fluctuations which may affect the value of an investment. Investments in Emerging Markets involve a higher element of risk. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured. Investments in equity and debt instruments issued by banks could bear the risk of being subject to the bail-in mechanism (meaning that equity and debt instruments could be written down in order to ensure that most unsecured creditors of an institution bear appropriate losses) as foreseen in EU Directive 2014/59/EU. For further details of investment risks associated with these sub-funds, please refer to the relevant Key Investor Information Document (KIID), available as described above.** Nordea Investment Funds S.A. has decided to bear the cost for research, i.e. such cost is covered by existing fee arrangements (Management-/Administration-Fee). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. **Additional information for investors in Switzerland:** The Swiss Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland. **Additional information for investors in Germany:** The Information Agent in Germany is Société Générale S.A. Frankfurt Branch, Neue Mainzer Straße 46-50, D-60311 Frankfurt am Main. A hard copy of the above-mentioned fund documentation is also available from here. **Additional information for investors in Austria:** Sub-paying Agent and Representative in Austria is Erste Bank der Österreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna. **Additional information for investors in the Netherlands:** Nordea 1, SICAV is a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS) registered in the Netherlands in the register kept by the AFM, and as such is allowed to offer its shares in the Netherlands. The AFM register can be consulted via [www.afm.nl/register](http://www.afm.nl/register). **Additional information for investors in France:** With the authorisation of the AMF the shares of the sub-funds of Nordea 1, SICAV may be distributed in France. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, 75013 Paris. **Investors are advised to conduct thorough research before making any investment decision.** **Additional information for investors in Belgium:** The Representative Agent in Belgium is BNP Paribas Securities Services S.C.A., Brussels branch, 25 Rue de Loux, Brussels, B-1000-Belgium. A hard copy of the above-mentioned fund documentation is available upon demand free of charge. **Additional information for investors in Spain:** Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. The Depositary of the SICAV's assets is, J.P. Morgan Bank Luxembourg S.A. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription. The Representative Agent is Allfunds Bank S.A., Paseo de la Castellana 9, ES-28046 Madrid, Spain. A complete list of the authorised distributors is available in the CNMV's webpage ([www.cnmv.es](http://www.cnmv.es)). **Additional information for investors in Portugal:** The Management Company of the SICAV, Nordea Investment Funds S.A., and the Depositary of the SICAV's assets, J.P. Morgan Bank Luxembourg S.A., are validly formed and existing in accordance with the laws of Luxembourg and authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Our distributor in Portugal is BEST - Banco Electrónico de Serviço Total, S.A., duly incorporated under the laws of Portugal and registered with the CMVM as a financial intermediary. **Additional information for investors in Italy:** Fund documentation as listed above is also available in Italy from the distributors and on the website [www.nordea.it](http://www.nordea.it). The updated list of distribution agents in Italy, grouped by homogeneous category, is available from the distributors themselves, at State Street Bank International GmbH – Succursale Italia, branches (located in the main towns of each region), BNP Paribas Securities Services - Succursale di Milano, Banca Sella Holding S.p.A., Banca Monte dei Paschi di Siena S.p.A., Allfunds Bank S.A., Succursale di Milano, Société Générale Securities Services S.p.A. and on the website [www.nordea.it](http://www.nordea.it). Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus and the KIID carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. **The prospectus and KIID for the sub-funds have been published with Consob. Additional information for investors in the United Kingdom:** Approved by Nordea Bank AB, 5 Aldermanbury Square, London EC2V 7AZ, which is regulated by the FCA in the United Kingdom. **Additional information for investors in Sweden:** The Paying Agent is Nordea Bank AB (publ), Smlåndsgratan 17 Stockholm SE-105 71. The Representative Agent is Nordea Funds Ltd, Swedish Branch, Mäster Samuelsgratan 21, Stockholm, SE-105 71. **Additional information for investors in Denmark:** The Information and Paying Agent is Nordea Danmark, filial af Nordea Bank AB (publ), Sverige, Strandgade 3, Christiansbro, DK-1401 Copenhagen K. A hard copy of the above-mentioned fund documentation is available here. **Additional information for investors in Norway:** The Paying Agent is Nordea Bank AB (publ), Filial i Norge, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. The Representative Agent is Nordea Funds Ltd, Norwegian Branch, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. **Additional information for investors in Finland:** The Paying Agent is Nordea Bank AB (publ), Finnish Branch, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. **Additional information for investors in Latvia:** The Representative and Paying Agent is Luminor Bank AS, Skanstes iela 12, Riga, LV-1013. **Additional information for investors in Estonia:** The Representative and Paying Agent in Estonia is Luminor Bank AS, Liivalaia 45, 10145 Tallinn. **Additional information for investors in Lithuania:** The Representative and Paying Agent in Lithuania is Luminor Bank AB, Konstitucijos pr. 21A, 03601 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. **Information for investors in Brazil:** Nordea 1, SICAV have not been, and will not be, registered with the CVM and may not be offered or sold in Brazil except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. Investors within Brazil should consult with their own counsel as to the applicability of these laws and regulations or any exemption there from. This material aims to provide information only and does not constitute and should not be construed as an offer to buy or sell or solicitation of an offer to buy or sell any security or financial instrument. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and independent financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration.