

BOARD INSTRUCTION ON VALUATION PRINCIPLES

January 2022

Board of Directors of Nordea Funds Ltd

Contents

1	Background and purpose	3
2	Governance	3
2.1	Review of valuation principles	3
2.2	Independence of valuation	3
2.3	Deviations from standard valuation principles	3
2.4	Price controls	4
2.5	New models or changes to existing models	4
3	NAV Calculation	4
4	Valuation principles	4
4.1	Fixed income	4
4.2	Equities	4
4.3	Fund certificates	5
4.4	Derivatives	5
4.4.1	OTC derivatives	5
4.4.2	Listed derivatives	5
4.5	FX Valuation	5

1 Background and purpose

A company conducting investment fund business has to establish, implement and maintain an adequate and documented procedure covering fund accounting, calculation of net asset value and valuation principle processes.

This document describes the general valuation principles for UCITS and AIF funds managed by Nordea Funds Ltd (“NF”). The valuation principles apply to all funds registered in Finland, Denmark, Norway and Sweden managed by NF.

Based on the Outsourcing Agreement between NF and Nordea Investment Management AB (“NIM”) where NF has outsourced the fund accounting and calculation of the net asset values of the funds to NIM, NIM is responsible for implementing these valuation principles in its daily operations in cooperation with NF.

The objective of the valuation principles is to ensure that consistent procedures are established and to secure a proper and independent valuation of fund assets that are performed in accordance with the applicable national law, rules, regulations and recommendations. Furthermore, the objective is to ensure fair pricing of the fund’s assets that applies to all unitholders, including both subscribing and redeeming.

2 Governance

2.1 Review of valuation principles

The Board of NF approves the valuation principles which are reviewed at least annually to ensure sound, transparent and appropriate pricing. The valuation principles set forth in this document complement the fund rules of each fund managed by NF stipulating the calculation of the fund’s asset value.

2.2 Independence of valuation

Decisions regarding valuation of assets are done independently from trading and investment units. The valuation of the instruments in the funds managed by NF is based on price quotes or input data to pricing models, from external sources such as recognised vendors, pricing services, exchange quotes and broker quotes, securing objective pricing. Control processes are in place to validate all model prices.

2.3 Deviations from standard valuation principles

Deviation from the standard valuation methods may in special cases be required from time to time, in order to ensure fair valuation. These cases can for example relate to issuer specific cases such as asset liquidity, restructuring or changes in specific market situations. NIM has established a specific valuation procedure for distressed market circumstances. Significant cases are escalated to NF which makes the final decision regarding the valuation of assets.

2.4 Price controls

The purpose of price controls is to ensure that all instruments are valued at fair value, and that appropriate and transparent valuation methods are applied, as required by regulation. To ensure the appropriateness and fairness of the valuation of individual assets, but also to identify assets with a material risk of an inappropriate valuation, several daily controls such as price sensitivity checks, trade controls, corporate action controls, missing price controls and model controls are performed. In addition, a fair value controls are conducted on a regular basis in order to highlight cases which need special attention or decisions. Control findings above defined thresholds are escalated within NIM and NF. Any controls or decisions made are documented and archived.

2.5 New models or changes to existing models

A number of different circumstances may require that new models are implemented or that the current policy and principles are changed. The triggers can be changes to market practice/conditions, change in legislation or requests for new instruments.

New models and changed valuation methodologies are first handled within NIM before being accepted or rejected by NF and applied in valuation.

3 NAV Calculation

Fund net asset value (“NAV”) is calculated in accordance with frequency and timelines set out in legal documentation of the relevant fund. The valuation point of the fund’s assets will reflect this.

Intraday NAVs for the Danish funds are calculated by NIM. The general valuation principles are the same as for other funds managed by NF, however proxy pricing for closed markets is introduced.

4 Valuation principles

The valuation process and the asset specific principles reflect a number of different methods for determining fair value based on either the mark-to-mark or mark-to-model. Depending on the asset class, a market quote from an exchange, pricing services, broker quotes or valuation based mark-to-models utilizing relevant observable input from recognized vendors is the first priority.

4.1 Fixed income

The fixed income instruments are priced using a number of asset class specific methods and models which reflects the complexity of the Fixed Income market. In general prices are mid prices received from pricing services. Some bond instruments with short maturities are getting the mid quote indirectly using a theoretical mark-to-model, discounting the cashflow with the appropriate yield curves and credit spreads.

4.2 Equities

As almost all equities are listed they are generally priced based on the latest observable traded prices retrieved from the market at the valuation point. However special models exist for more exotic markets; e.g. markets where foreign and domestic shares co-exist, suspended shares etc.

4.3 Fund certificates

Valuation is based on the latest traded price (ETF's), latest official Net-Asset-Value or a price provided by an approved pricing source available at the valuation point.

4.4 Derivatives

4.4.1 *OTC derivatives*

OTC derivatives are mid-priced on standard vendor valuation models which utilize objective market data from recognized data vendors.

4.4.2 *Listed derivatives*

Futures and other liquid derivatives are valued based on market quotes, while more illiquid listed derivatives are valued theoretically on standard vendor valuation models which utilize objective market data from underlying instruments.

4.5 FX Valuation

Depending on the NAV calculation time of the fund, either mid-market FX rates or official closing rates are used.