

Whitepaper - Nordnet One

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Names	Nordnet One Cautious Nordnet One Balanced Nordnet One Aggressive
ISINs	SE: SE0017832033, SE0017831977, SE0017832413 NO: SE0017832025, SE0017831993, SE0017832405 DK: SE0017832017, SE0017831944, SE0017832397 FI: SE0017832447, SE0017832439, SE0017832421
Type of Fund	UCITS Allocation funds, Fund-of-Funds
SFDR classification	Article 8 – promotes environmental or social characteristics
Management Fees	SE: 0,35% , NO: 0,45%, DK: 0,50% , FI: 0,49%
Fund Manager	Henrik Wiklund, Nordnet Fonder AB

This is What We Believe In - Our Investment Philosophy

Investing, often perceived as a complex maze, can become manageable and rewarding when navigated through a well-structured philosophy. Guided by the key principles of Simplicity, Broad Diversification, Rebalancing, and Low Cost, we aim to build a sustainable approach towards investing with Nordnet One that is rational, effective, and prudent.

Simplicity

The first principle of our investment philosophy is Simplicity. In a world inundated with sophisticated financial products and complex investment strategies, we prioritize clarity and ease of understanding. By focusing on straightforward, transparent investment vehicles and strategies, we eliminate unnecessary complexity, reduce confusion, and enable informed decision-making. We believe that investing does not have to be complicated to be successful; on the contrary, simplicity often yields more predictable and stable outcomes.

Broad Diversification

Broad Diversification, our second principle, is central to reducing portfolio risk and improving potential returns over the long term. By spreading investments across a variety of asset classes, industries, geographies, and time horizons, we aim to mitigate the impact of any single investment's poor performance on the overall portfolio. This diverse allocation ensures that our investment portfolios can endure market volatility and fluctuations, making the journey towards investment goals smoother and more predictable.

Rebalancing

Our third principle, Rebalancing, ensures that the portfolio remains aligned with the predefined investment strategy and risk tolerance, despite market shifts. By regularly reviewing and adjusting portfolio allocations, we can capitalize on market trends and prevent portfolios from straying too far from their intended asset mix. This disciplined practice of rebalancing not only maintains an optimal risk-reward balance but also helps avoid the behavioral biases of fear and greed that could negatively impact investment outcomes.

Low Cost

Finally, our commitment to Low Cost is a cornerstone of our investment philosophy. We believe in the importance of minimizing costs to maximize net returns. By focusing on low-cost index funds and other cost-effective investment vehicles, we aim to provide higher long-term returns. Every euro saved in fees is a euro earned in investment returns, and over time, these savings compound, leading to significant improvements in net investment outcomes.

The principles of Simplicity, Broad Diversification, Rebalancing, and Low Cost are the pillars of our investment philosophy. By adopting this approach, we aim to navigate the complexities of investing effectively and generate sustainable returns. Remember, successful investing is not about predicting the future; it's about disciplined adherence to a robust, well-thought-out strategy. And that's what Nordnet One aims to provide.

This is How We Do It - Our Investment Methodology

How We Make It Simple

Simplicity, one of the fundamental pillars of our investment philosophy, plays a crucial role in creating a successful investment strategy. The principle of simplicity involves creating easy-to-understand investment plans, avoiding unnecessary complexities, and ensuring transparent communication.

The Importance of Simplicity and the Benefit of Starting Small

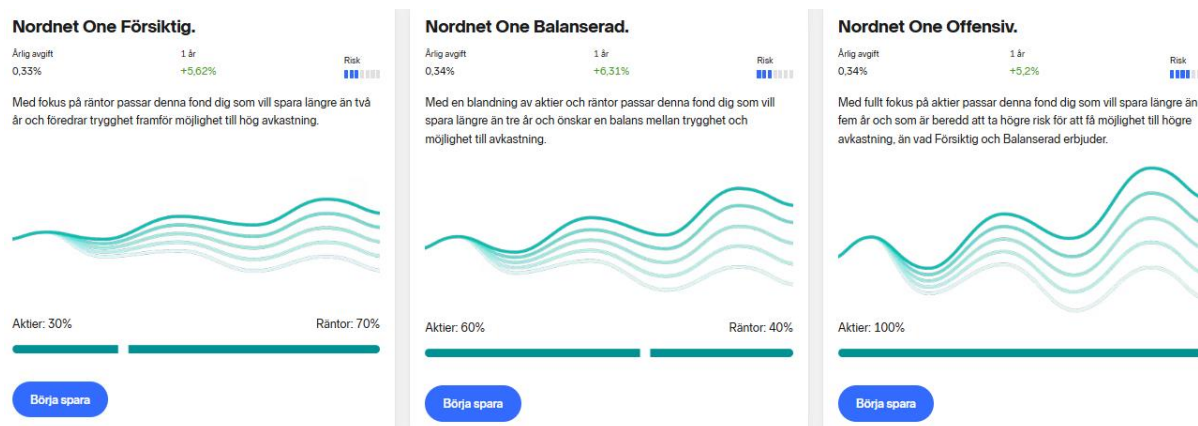
Investing, while intrinsically beneficial, can seem daunting to many due to its perceived complexity. The myriad of financial jargon, complex investment vehicles, and a rapidly changing market can easily overwhelm investors. However, we believe that successful investing doesn't have to be complicated.

Simplicity in investing is about distilling the complexity into an easily comprehensible and manageable strategy. It reduces the risk of misunderstanding or errors and allows investors to make informed decisions. It encourages a more comfortable and confident engagement with investing, which can result in better financial outcomes.

Getting started with investing doesn't necessarily require a significant amount of capital. One can begin with a small amount and gradually increase it over time. The power of compounding returns can turn even small, regular investments into substantial sums over the long term.

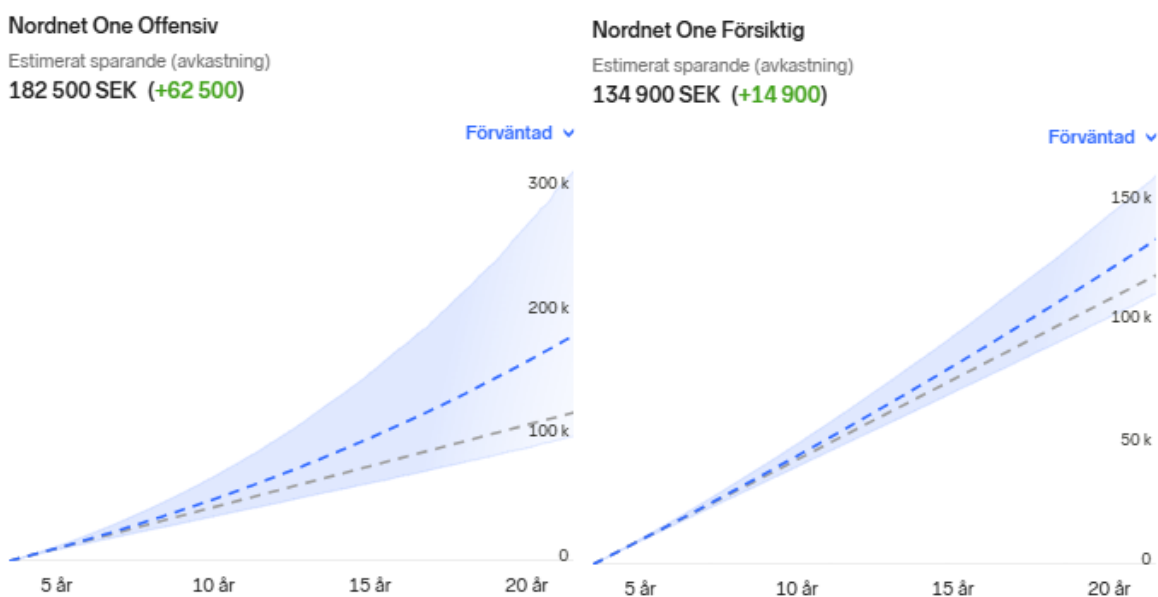
This approach also helps novice investors to learn and understand the nuances of investing without exposing substantial capital to risk. The focus is on creating a regular investment habit, which is often more important than the initial investment amount.

To help you with this focus, Nordnet One comes accompanied with a digital tool that helps you compare the different fund options and setup a low maintenance monthly savings plan. The most important step is to start saving something and create a habit of periodical investing. Over time, the small amounts will compound and create the foundation for a safer and better financial life.



Screenshot from the digital tool available for free at Nordnets platform. The tool helps you compare the funds and setup up a monthly savings.

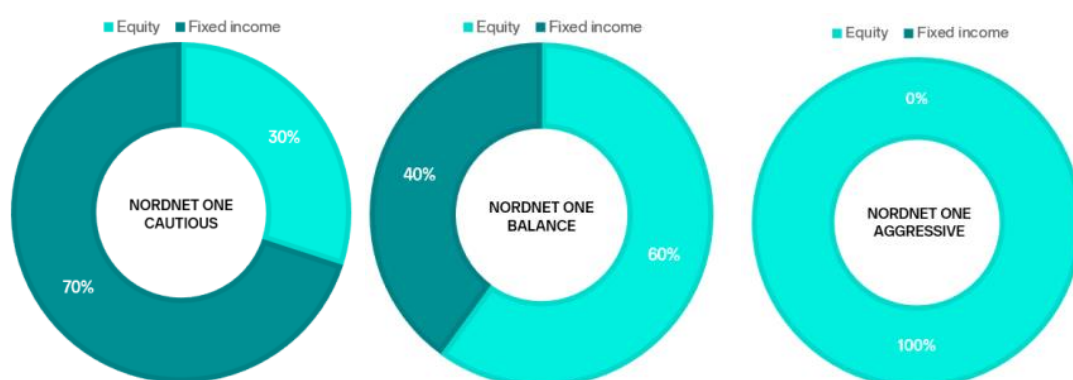
The digital tool also visualizes the effects of monthly savings by letting you try different amounts, timeframes and portfolios.



Strategic Asset Allocation

Simplicity also finds expression in our strategic asset allocation approach. We use a straightforward, yet effective, method of dividing investments among different asset classes such as equities, bonds, and cash equivalents. The proportion is determined based on your risk appetite which we help you determine with our digital tools. Compare our three different choices and make the pick that suits you the best.

This straightforward asset allocation strategy reduces the need for frequent trading or market timing attempts, which are often complex and inefficient. It also allows you to have a clear understanding of where your money is invested and why.



The three piecharts illustrate the overall strategic asset allocation in each One fund. With higher risk comes a higher allocation to equity.

Transparent and Easy-to-Understand Fees

The principle of simplicity extends to our fee structure as well. We believe in complete transparency and straightforward pricing with no hidden charges. Understanding the cost of investing is crucial as high fees can significantly erode investment returns over time. We make it a point to communicate clearly about all charges associated with our services.

Conclusion

Simplicity in investing, from getting started to managing investments and understanding fees, is an integral part of our investment methodology. By keeping things simple, we can improve understanding, reduce unnecessary risks, and help you stay the course to reach your financial goals. While the financial markets may be complex, the way we invest in them doesn't have to be.

How We Diversify

Diversification Among Asset Classes

The first level of broad diversification involves spreading investments across multiple asset classes such as equities and bonds. Each asset class has a unique risk and return profile and responds differently to various economic events. By diversifying across asset classes, we avoid over-reliance on a single class, thereby reducing the potential impact of a poor performing asset on the entire portfolio.

The precise mix of asset classes within a portfolio depends on a variety of factors, including your risk appetite and savings horizon. For example, a risk-averse investor or one nearing retirement may have a higher proportion of bonds, while a risk-tolerant investor or one with a long investment horizon may have a higher allocation to equities.

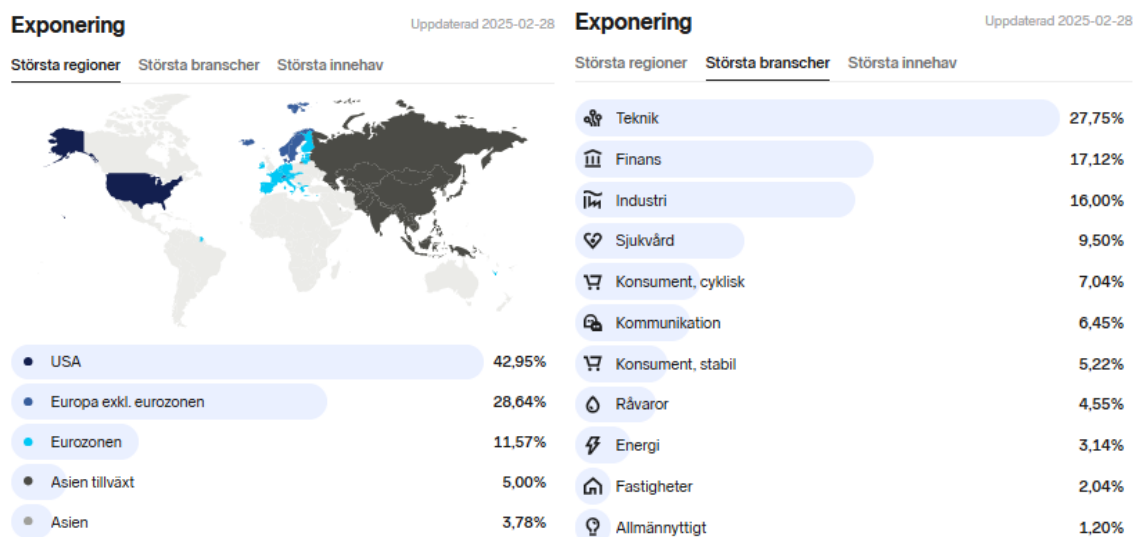
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	Oct '23
Global REITS 23.0%	Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITS 32.6%	Cmdty 16.1%	Growth 18.2%	Cmdty 0.3%
MSCI EM 18.6%	Value 27.5%	Growth 6.5%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 8.3%	Global Agg -1.2%
Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.2%	Value -0.8%	Growth -2.4%
Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITS 24.4%	Small cap 16.5%	DM Equities 22.3%	DM Equities -17.7%	MSCI EM -1.8%	DM Equities -2.9%
DM Equities 16.5%	Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Small cap -3.0%	Value -3.4%
Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	Cmdty -3.2%	MSCI EM -3.9%
Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITS -23.7%	Global Agg -3.4%	Global REITS -4.7%
Cmdty -1.1%	Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITS -10.4%	Global Agg -4.7%	Growth -29.1%	Global REITS -8.6%	Small cap -6.1%

The matrix illustrates how different asset classes have performed the last years. It is hard to identify a pattern or a clear trend. Source: J.P. Morgan Asset Management.

Diversification Within Asset Classes

Broad diversification extends beyond asset classes to include diversification within each asset class. This involves varying investments across sectors, geographical regions, and market capitalizations.

For example, within the equity class, investments can be made in a mix of sectors such as technology, healthcare, finance, and consumer goods. Geographical diversification within equities could involve investing in Sweden, USA and emerging markets. Similarly, diversification across market capitalizations might involve a combination of large-cap, mid-cap, and small-cap stocks. Such diversification helps to mitigate risks associated with specific sectors, regions, or market caps.



The geographical and sectorial allocation of the Swedish Nordnet One Aggressive fund. Updated data on all funds are always present on the Nordnet platform.

Diversification and Correlation

A vital element of broad diversification involves considering the correlation between different investments. Correlation measures how investments move in relation to each other. Assets with a high positive correlation tend to move in the same direction, while those with a negative correlation move in opposite directions.

By including a mix of investments with low or negative correlations, we can further reduce portfolio risk. For instance, bonds often have a negative correlation with equities - when equities decline, bonds often rise, thereby providing a cushion for the portfolio during market downturns.

Using Index Funds as Building Blocks

In our quest for broad diversification, we use passive building blocks like index funds. These investment vehicles are designed to replicate the performance of a specific index, sector, or theme, offering instant diversification across a broad range of securities at a relatively low cost.

Given their nature, passive funds eliminate the need for complex and often costly active management, making them an efficient tool for achieving broad diversification. They also offer transparency, as the composition of these funds is clear and trackable, based on the index they replicate. All funds Nordnet One invest in track indices from leading index providers such as MSCI, S&P and Nasdaq.



Integrating ESG Screening

Broad diversification takes on a more comprehensive dimension as we integrate ESG screening into our investment methodology. ESG factors evaluate a company's environmental impact, social responsibility, and governance practices, which are increasingly recognized as significant determinants of long-term financial performance and risk.

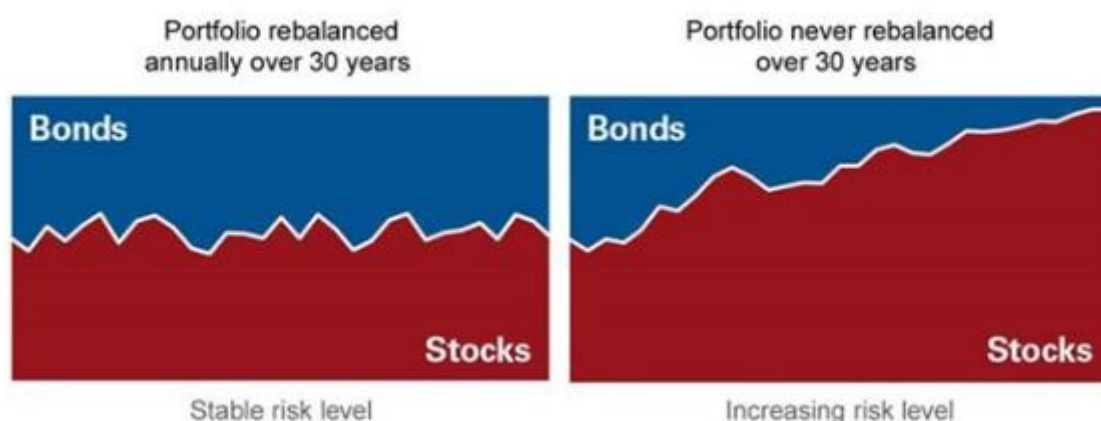
By incorporating ESG criteria, we add another layer of diversification – one that accounts for non-traditional risks related to sustainability and corporate responsibility. This helps to ensure that the investments are resilient to ESG-related shocks and are aligned with the investor's values and ethics.

Conclusion

Broad Diversification, executed meticulously at and within the asset class level, forms a robust defense against market uncertainties and potential investment risks. It is a critical strategy for achieving consistent returns and preserving capital, helping to smooth out the investment journey in the face of market volatility. By adopting a broad diversification strategy, we ensure a balanced, well-rounded investment approach that aligns with your financial goals, risk appetite, and savings horizon.

How We Rebalance

Rebalancing, a key tenet of our investment philosophy, serves as a protective shield and strategic guide for portfolios. It is a disciplined approach that seeks to realign the portfolio with its intended asset allocation, a practice necessary due to market movements causing deviations in the actual allocation over time. Let's delve deeper into the importance, methodology, and benefits of portfolio rebalancing.



The two charts illustrate how the allocation between stocks and bonds behave with and without the rebalancing mechanism. Portfolios that do not rebalance tends to drift over time leading to a changed risk characteristics of the total portfolio.

The Need for Rebalancing

Market movements, characterized by varying rates of return for different asset classes, often cause a fund's actual allocation to deviate from its intended allocation. For instance, during a bull market, the equity portion of a portfolio may outperform other asset classes, causing it to represent a larger proportion of the portfolio than initially intended. If left unchecked, this can result in a higher risk level than the investor is comfortable with or suited for.

This is where rebalancing steps in - it realigns the fund to its original or updated asset allocation, helping to maintain the desired level of risk and return characteristics.

The Methodology of Rebalancing

Rebalancing involves selling assets that have appreciated significantly and buying those that have underperformed. This practice not only brings the fund back into alignment but also embodies the principle of "buy low, sell high."

The frequency and method of rebalancing can vary based on individual circumstances and market conditions. Some prefer a time-based approach, rebalancing their fund annually or semi-annually, while others opt for a threshold-based approach, triggering rebalancing when an asset class's actual weight deviates by a certain percentage from its target weight.

Regardless of the method used, it's important to remember that rebalancing should not be overly frequent, as it can lead to excessive transaction costs and potential tax implications.

The Benefits of Rebalancing

By helping to maintain the desired risk-return profile, rebalancing provides a level of protection against market volatility. It encourages to sell high and buy low, an approach that can contribute positively to fund returns over the long term.

Additionally, rebalancing can help investors avoid the common pitfall of emotional investing. The process requires a disciplined, systematic approach, which reduces the likelihood of making impulsive decisions based on market fluctuations.

Conclusion

Rebalancing, while often overlooked, plays a critical role in successful investing. It helps manage risk, potentially enhance returns, and keep the portfolio aligned with your financial goals. By integrating a disciplined rebalancing strategy into our investment methodology, we aim to provide a steady hand guiding your savings, helping you to navigate the ups and downs of the investment journey with greater confidence and success.

How We Keep the Fee Low

Low-Cost Investing forms a central pillar of our investment methodology. We firmly believe that minimizing investment costs is as important as maximizing returns when it comes to building wealth over the long term.

The Importance of Low Costs

Investment costs can take various forms, including fund management fees, and other transactional costs. While these costs might seem insignificant in isolation, their cumulative impact over time can significantly erode investment returns, particularly when compounded.

For example, an annual fee of 1% may not sound like much, but over a 40-year investment period, it could reduce a portfolio's value by nearly a third. Therefore, keeping investment costs low is critical to enhancing net returns and achieving financial goals.

Low-Cost Investment Vehicles

One of the key ways we implement a low-cost strategy is through the use of low-cost investment vehicles such as index funds. These funds aim to replicate the performance of a specific index, thereby offering broad market exposure at a fraction of the cost of actively managed funds.

Index funds generally have lower expense ratios than actively managed funds because they don't require the same level of intensive research and active trading. By incorporating these low-cost funds into our investment strategy, we aim to offer you the benefits of broad market exposure without the high costs often associated with active management.

Transaction Costs and Tax Efficiency

Another aspect of low-cost investing involves minimizing transaction costs. Excessive trading incurs significant transaction fees impacting the overall returns negatively. We employ a buy-and-hold strategy, favoring investments with long-term potential over short-term trades. This strategy aligns well with our commitment to low costs efficiency.

Negotiating Lower Fees

We also aim to keep costs low by negotiating lower fees whenever possible. This includes partnering with fund providers to access lower-cost options. We pass these savings directly to you, further reducing your investment costs.

Conclusion

In the world of investing, it's not just what you earn that matters, but what you keep after costs. A low-cost investment approach, focused on minimizing expenses and maximizing net returns, forms a fundamental part of our investment methodology. By prioritizing low-cost investment vehicles, reducing transaction costs, and negotiating lower fees, we aim to enhance your long-term wealth accumulation potential. In doing so, we reaffirm our commitment to aligning our interests with those of you, promoting transparency, and delivering sustainable, cost-effective investment solutions.