



Nordea 1 – European Small and Mid Cap Equity Fund

ISIN: LU0417818407 (BP-EUR) / LU0417818316 (BI-EUR)

Fund highlights

- The fund aims to uncover interesting growth opportunities in a market segment which is under researched and less transparent. Here the potential of adding value through intense research and active investing is very high.
- Proven investment process:
 - Focus is on finding growth drivers and profitability across the entire value chain where the company positions its products/services;
 - Direct contacts with company management, and also with other players in the value chain, e.g. suppliers and clients;
 - Importance of inter-sectorial view;
 - Disciplined use of a proprietary scoring model.
- The portfolio includes 40 to 70 securities.
- Experienced portfolio managers: average of 19 years experience.
- Demonstrated ability to consistently outperform benchmark.*

Why invest in European Small and Mid Caps?

The investment universe of European small and mid caps is huge, consisting of more than 10,000 companies. Typically these companies are not a focus for analysts and investors. This leads to information inefficiencies in the small and mid cap market. In other words information is often hard to find or not immediately processed by the market – in contrast to large cap stocks which have been subject to numerous analysis, and x-rays. As a consequence small and mid caps are often mispriced and therefore, via careful research, offer high potential of alpha generation and long-term outperformance compared to well-known large caps.

In addition many new business ideas are born in the small and mid cap area. Here companies tend to be more flexible and innovative than large caps. This offers investors the possibility of benefiting from strong corporate growth in niche markets.

Investment philosophy

The managers believe that investing in companies benefiting from structural growth creates a natural foundation for long-term value creation.

The investment universe places special emphasis on smaller niche industries, which are often neglected by the investment community. There is a strong focus on valuation, to avoid over-paying for a share in any given company. However the managers do believe in paying a fair price for what they would consider to be a great business, as experience shows that these companies tend to outperform over time.

The vast majority of **investment ideas** come from **meeting companies**. By being generalists and meeting hundreds of companies every year the managers are able to transfer a very significant amount of knowledge between sectors.

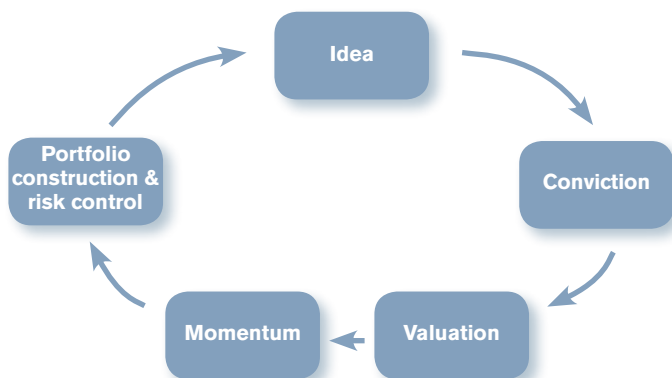
This allows them to get a much better view of overall economic development and how it impacts different parts of the value chain. They might not have time to find out every single detail about a company but they do have a superior view on what really drives profitability and growth compared to sector analysts.

Special focus is on understanding the **value chain within the industry**, and targeting market leaders by narrowing down the universe of companies to whom the team would apply a full due diligence process.

* The performance indication is only indicative and may not be met in the future.

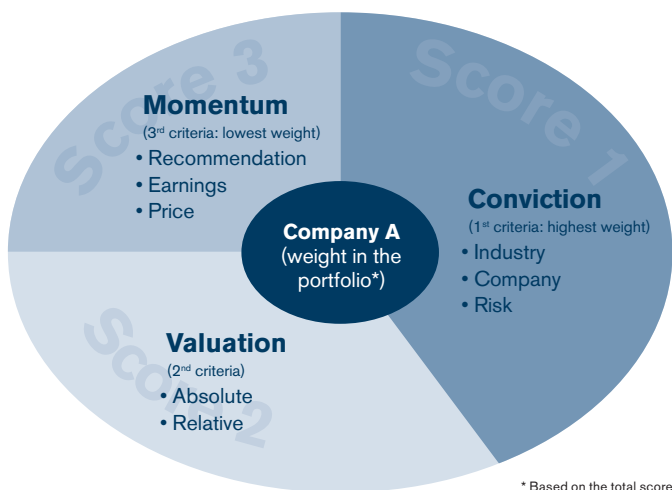
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Investment process



Once companies that benefit from the team’s fundamental views and offer potentially interesting investment ideas have been found, they apply a **three-part scoring model** on each candidate. This model is based on the three criteria “Conviction”, “Valuation” and “Earnings momentum/catalysts” and applies a numerical score on each of them.

For each company a total score is calculated as a weighted average of the scores of the three criteria. Hereby the highest weight is put on “Conviction” and the lowest on “Earnings momentum/catalysts”.



Conviction

The first and most important criterion is “Conviction”. The score is deduced from a security evaluation based on industry and company specific criteria.

Industry specific criteria:

- The company must have market leadership and a sustainable business model.
- The company must be in an industry with structural growth or in an industry in transition.

Company specific criteria:

- The management team must have:
 - commitment to optimising shareholder value,
 - strong track record,
 - and incentives aligned with investors.
- The company must benefit from competitive advantages:
 - barriers to entry,
 - pricing power.
- Industry dynamics: competitive forces, advantages and value creation.

Valuation

If a company comes into the close-pitch selection, it becomes important to ensure that it is not over-valued by the market. This means calculating a price target and/or potential upside. The score put on “Valuation” criteria reflects primarily the absolute upside but very often also the valuation relative to the company’s peer group. In the fund valuation is strongly focused on GARP (Growth at Reasonable Price).

There is a wide tool box of valuation methods but extra weight is put on **cash flow generation**. In most cases this means using a DCF-model (Discounted Cash Flow model) to calculate a target price. The DCF-model captures risk and the expected development in value drivers such as growth and margins. The model is also very useful in analysing different risk scenarios.

Earnings momentum/catalysts

Earnings momentum is also reviewed to make sure it is not deteriorating, looking at both historical and expected earnings growth. The managers also take into account their belief in positive earnings momentum surprises and possible events that can trigger price momentum.

Portfolio construction

The resulting score forms the base for deciding an appropriate portfolio weighting. The aim is to have 40-70 stocks in the portfolio at any given time, in order to achieve good diversification.

For every single holding in the portfolio the score on each of the three criteria is reviewed on a regular basis. This means that a change in each of the three criteria scores can trigger an adjustment to the position size in the individual stocks, securing a continuously optimisation of the portfolio.

Risk control

Capital is allocated to the strongest companies and the related industries best positioned to benefit from current and future developments. While constructing,

managing and monitoring the portfolio, certain risk limitations are respected.

- Number of holdings: 40 – 70
- Maximum active stock position: 4 %
- Maximum cash position: 5 %
- Maximum individual position weighting: 7 %
- Maximum sector deviation: 20 %
- Maximum country deviation:
 - +/- 20% from benchmark (Dow Jones STOXX Mid 200 – Net Return index)
 - 10 % in non-benchmark countries
- Futures and ETF's can be used to manage unintentional bets

Sell discipline

Any of the following factors can prompt the sale of a security:

- Price target is reached;
- A significant change in a company's implied growth rate;
- A more attractive investment opportunity is identified in an alternative company;
- A change in management/strategy;
- Deteriorating earnings momentum.

This investment process is iterative; stock picks are constantly followed up and challenged while new investment opportunities are permanently sought.

Investment team

The investment management team consists of two portfolio managers, Magnus Larsson and Jesper Gulstad (having an **average of 19 years experience**) and one research analyst, Jess Lyngby. Although Mr. Larsson is the head of the investment team, any investment decision is discussed internally and taken within the team.

Investor profile

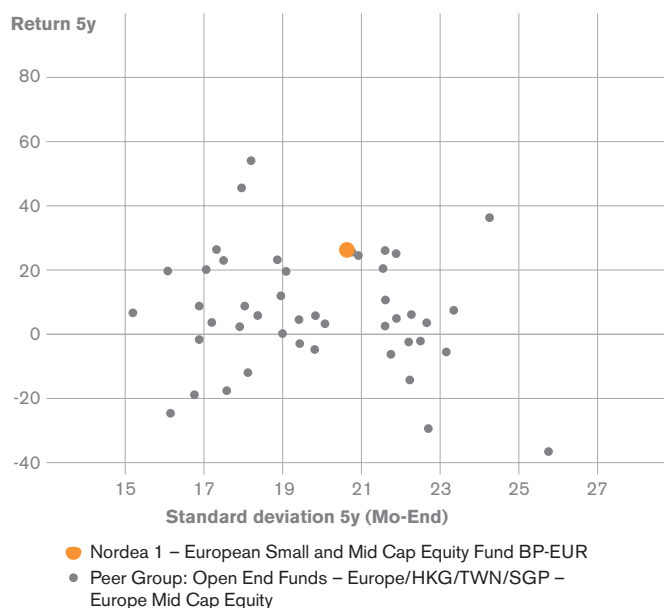
- Investors should be prepared to take higher risks associated with investments in the stock markets in order to maximise the return;
- Thus, investors should have experience with volatile products and be able to accept significant temporary losses;
- Having a long-term investment horizon (at least 5 years) is required in order to ride out potentially adverse market trends: the fund is not designed for those investors pursuing short-term relative outperformance.

Solid track record*

Compared to its peer group the Nordea 1 – European Small and Mid Cap Equity Fund shows an excellent long-term performance. Over three, five and ten years the fund is ranked in the first quartile of its Morningstar category* (as of June 30, 2010). The fund's risk/return profile over five years in the same Morningstar category is also remarkable.

Nordea 1 – European Small and Mid Cap Equity Fund BP-EUR	
Period	Quartile
3 months	2
1 year	3
3 years	1
5 years	1
10 years	1

Risk/return profile*



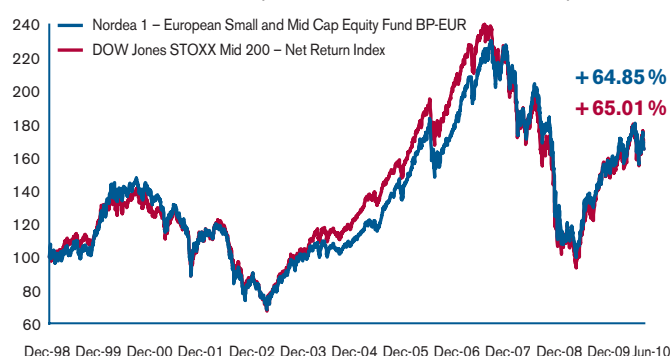
* Source – © 2010 Morningstar, Inc. All Rights Reserved. Date: 30.06.2010. Morningstar category: "Europe Mid-Cap Equity" (including 70 funds). The selection shows the oldest share classes of offshore funds of that category. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in EUR, excluding initial and exit charges as per 30.06.2010. The performance represented is historical; past performance is not necessarily a guide to the future and investors may not recover the full amount invested.

Nordea 1 – European Small and Mid Cap Equity Fund

Cumulative performance in % (30.06.2010)

Timeframe	Fund*	Index**
YTD	1.15	3.35
1 month	-0.30	0.08
3 months	-4.47	-4.70
6 months	1.15	3.35
1 year	21.59	29.45
3 years	-25.89	-29.58
5 years	26.45	13.95
Since inception (31.12.1998)	64.85	65.01

Nordea 1 – European Small and Mid Cap Equity Fund vs. reference index (31.12.1998 – 30.06.2010)



Morningstar Overall Rating***



* ISIN Code: LU0417818407. ** Dow Jones STOXX Mid 200 – Net Return Index. Source: Nordea Investment Funds S.A. and Datastream. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in EUR, excluding initial and exit charges as per 30.06.2010. The performance represented is historical; past performance is not necessarily a guide to the future and investors may not recover the full amount invested. *** Source – © 2010 Morningstar, Inc. All Rights Reserved. Date: 30.06.2010. Morningstar category: "Europe Mid-Cap Equity".

Nordea 1 – European Small and Mid Cap Equity Fund	
Fund managers	Magnus Larsson and Jesper Gulstad
Fund domicile	Luxembourg
ISIN codes	LU0417818407 (BP-EUR) LU0417818316 (BI-EUR)*
Annual management fees	1.3% (BP-EUR) 0.85% (BI-EUR)*
Base currency	EUR
Fund size in millions	147.49
Reference index	Dow Jones STOXX Mid 200 – Net Return Index
No. of holdings	55
Launch dates	31.12.1998 (BP-EUR) 23.03.2009 (BI-EUR)*

Opportunities

- In the long run, equities offer above average return potential *
- European Small and Mid Cap Equity portfolio capitalizing on the strongest ideas, without unintentional bias

Risks

- Equity prices can show significant volatility and may suffer from losses
- The investments made in this Sub-Fund may be subject to substantial fluctuations. A list of possible factors, which could cause such fluctuations, can be found in the latest Nordea 1, SICAV sales prospectus

* The performance indication is only indicative and may not be met in the future.

Source: Nordea Investment Funds S.A. Date: 30.06.2010.

*BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

The sub-fund mentioned is 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 85/611/EEC of 20 December 1985. The custodian of the SICAV's assets is Nordea Bank S.A., Luxembourg. Investments in the Nordea funds should be made on the basis of the current prospectus, which is available, along with the simplified prospectus, current annual and semi-annual reports, free of 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. A transaction involving a foreign exchange transaction may be subject to fluctuations of currency values which may affect the value of an investment. Investments in Emerging Markets involve a higher element of risk. 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Luxembourg, Zweigniederlassung Zürich, Mainaustrasse 21-23, CH-8008 Zürich, Telephone (+41) 44 421 42 42, Fax (+41) 44 421 42 82. **Additional information for investors in Germany:** The Information and Paying Agent in Germany is Nordea Bank Finland Plc, Niederlassung Deutschland, Grüneburgweg 119, D-60323 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 the Erste Bank der Österreichischen Sparkassen AG, Graben 21, A-1010 Vienna. **Additional information for investors in France:** With the authorisation of the Autorité des Marchés Financiers (AMF) as per 11 March 2003, 13 December 2005, 03 April 2007, 28 September 2007, 29 February 2008, 29 April 2008, 25 November 2008 and 09 June 2009, Nordea 1, SICAV may be distributed to investors in France, as published in the Bulletin des Annonces Légales Obligatoire dated 19 March 2003, 19 December 2005, 18 April 2007, 10 October 2007, 19 March 2008, 28 May 2008, 15 December 2008 and 26 June 2009. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, 75013 Paris. 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The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at State Street Bank S.p.A. branches (located in the main towns of each region), BNP Paribas Securities Services, Banca Sella Holding S.p.A., Allfunds Bank S.A., Societe Generale Securities Services Sp.A. and on the website www.nordea.it. Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. For the risk profile of the mentioned sub-funds, please refer to the fund prospectus. **Additional information for investors in the United Kingdom:** Approved by Nordea Bank Finland Plc, London Branch, which is regulated by the FSA in the United Kingdom. **Additional information for investors in Latvia:** The Representative and Paying Agent is Nordea Bank Finland Plc, Latvia Branch, 15, Kalku Street, LV-1050 Riga. **Additional information for investors in Estonia:** The Representative and Paying Agent in Estonia is Nordea Bank Finland Plc, Estonia Branch, Hobujaama 4, 15068 Tallinn. **Additional information for investors in Lithuania:** The Representative and Paying Agent in Lithuania is Nordea Bank Finland Plc, Lithuania Branch, Didzioji str. 18/2, LT-01 128 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. Source: Nordea Investment Funds S.A. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) gross income reinvested, in base currency, excluding initial and exit charges as per 30.06.2010. **The performance represented is historical; past performance is not necessarily a guide to the future and investors may not recover the full amount invested.** The value of shares can fluctuate and is not guaranteed.