Nordea ASSET MANAGEMENT

Fund Portrait

Third quarter 2018

Nordea 1 – Emerging Consumer Fund

ISIN: LU0390857471 (BP-EUR) / LU0390857398 (BI-EUR)

Highlights

- Driven by internal consumption many developing markets are experiencing a rapid growth and represent a very attractive long-term investment opportunity
- 70 – 80 million people are entering the middle class per year in the emerging economic powerhouses[1]
- There is a strongly growing potential market of consumers waiting to be tapped
- The Nordea 1 – Emerging Consumer Fund aims to harness this opportunity by investing in global and domestic companies with a minimum of 30% emerging markets exposure, which are best positioned to benefit

Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. Furthermore, we have put a lot of emphasis on launching outcome – as opposed to benchmark – oriented investment solutions whose basis, "stability investment philosophy", is designed to meet clients' risk appetite and needs.

The Nordea 1 – Emerging Consumer Fund has been managed internally by the 'Fundamental Equities' team since its launch in 2008. The investment team is located in Copenhagen and it uses a fundamental, team-based approach to identify and analyze the consequences of structural changes in technology, demographics and globalization. The result of this analysis is the identification of the long term trends that drive cash flows for an investable group of companies.

A megatrend of the coming decades: urbanisation

Mexico City, Lagos, Beijing, Istanbul, Cairo, Shanghai, Bombay, Sao Paulo: all these cities are prime examples for the so called "megacities", which became the flagships of the rapid growth in many emerging countries.

In 1950 only one city in the world, New York, had a population of more than 10 million; now there are over 25. World population is growing at an annual rate of 1.3% and more than 90% of that growth is taking place in the cities of developing countries. Since 2007 more than the half of the world's population lives in cities. The United Nations (UN) forecasts estimate that the share of urban population will grow to 60% in 2030 and 70% in 2050[2]. The rate of this trend has accelerated over the last thirty years with the growing income disparity between urban and rural areas being a key contributor to this pattern of population movement.

The rise of a new consumer class

People leaving their rural living environment enter the cities with similar ambitions. They are longing for better living conditions by taking advantage of new employment opportunities fuelled by the industrialization of many emerging markets countries. They find higher paying jobs in the rapidly expanding manufacturing and service sectors.

After having taken the decision to build a new life in the city, these migrants have a high willingness to work hard and do their best to improve the lives of themselves and their families. As they come to the cities with no debts, already their first wages have an immediate impact on their spending patterns. Along with the increased power to spend money comes the willingness to do so.

The emerging consumer class is born.

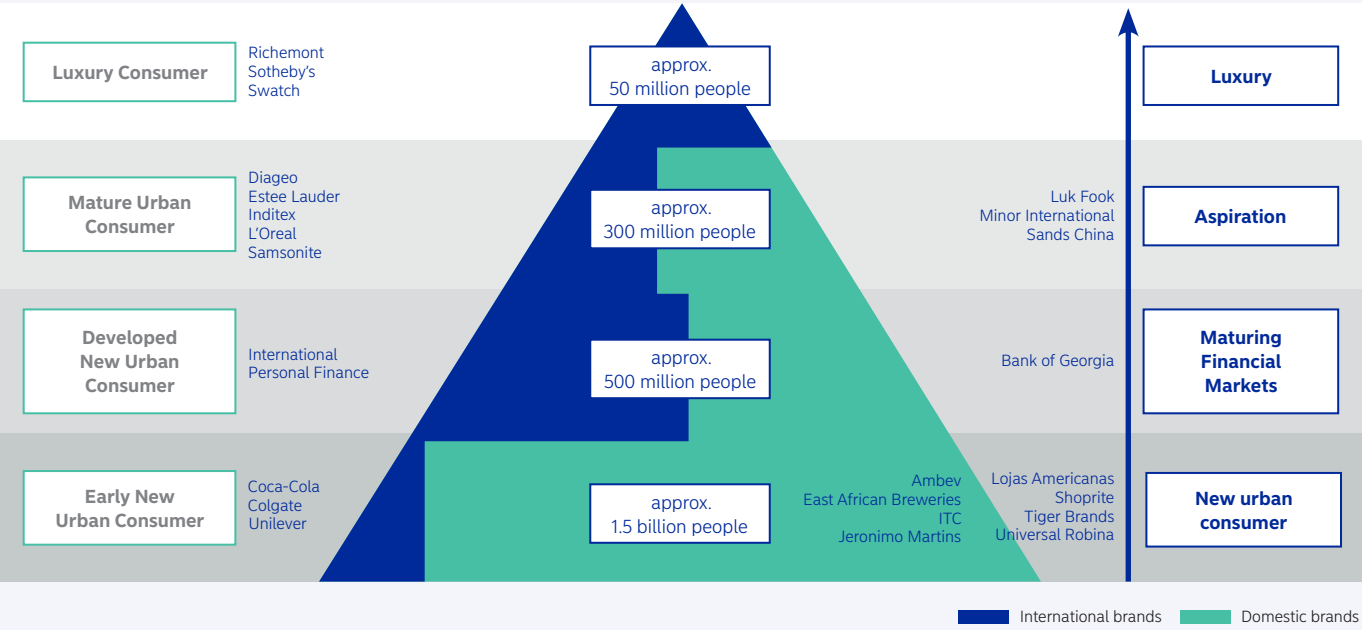
1) Source: World Bank economic projections combined with UN population predictions. Date: June 2008. 2) United Nations, UN Population Division Report, December 2009.

The growing appetite for consumption has many faces

As the consumers in the emerging middle class become more wealthy, and are exposed to new ideas, new products and new markets, their tastes and preferences for goods and services will change. Nordea has identified different levels of emerging consumers with differing demands towards the market:

- **Early New Urban Consumer (1.5 billion people)**
  This group resembles neither the city dwellers they have joined nor the rural communities they have left behind. Their overall appetite tends to be strong for certain must-have items like basic food and beverage, as well as basic sanitary products.
- **Developed New Urban Consumer (500 million people)**
  This group already shows a growing demand for discretionary products as its disposable wealth grows: personal care products, processed food, consumer electronics, household products (shampoo, toothpaste, dishwashing tablets, cosmetics etc).
- **Mature Urban Consumer (300 million people)**
  After gaining a certain level of wealth and regular income these consumers start to satisfy their needs for travelling (cars, holidays), education and security (insurances, protection of their property).
- **Luxury Consumer (50 million people)**
  These newly affluent consumers want Western badges of status to signal their arrival into prosperity. Owning luxury brands is the main goal. Here the motto is often "the high-priced, the better". And the potential is huge. So, for example, Russia has already become the world's fourth largest luxury market.

Emerging Consumer framework[3]



Building a strong portfolio out of global and domestic players

The goal of the Nordea 1 – Emerging Consumer Fund is to make a targeted choice in international and domestic companies which attract the growing emerging consumer class with their products and services.

The combination of handpicked global and local players is the fund's key to success. By concentrating on the needs of the growing middle class in the developing countries, the Nordea 1 – Emerging Consumer Fund doesn't lay its focus on the origin of the companies it buys. Instead the fund tries to find those companies, which can benefit the most from the rising demand. By taking this broad approach, the portfolio diversifies risk by investing in companies coming from different industries, countries and regions, all of which have the best potential to establish themselves as one of the leaders in their specific field. This makes the Nordea 1 – Emerging Consumer Fund unique in comparison to conventional emerging markets funds.

An example for an above-mentioned global player is Coca-Cola whose products currently account for 35 % of China's carbonated beverage market. However, this is not just the brands we are familiar with: in China Coca-Cola introduced Tian Yu Di, a line of noncarbonated drinks that includes mango and lychee flavors or jasmine teas. This is typical of their approach across the whole Asian region, with local beverages being developed for each specific market.

3) The companies mentioned are examples and are not necessarily part of the current Nordea 1 – Emerging Consumer Fund portfolio.

Growing importance of emerging markets for Western companies

The emerging markets are not merely generating economic growth. They are also breeding companies that are more and more competitive and at times performing better than the best of the developed world's multinationals. They do this by becoming increasingly more innovative, in both business models and product development.

Domestic players are also more observant of the needs in the local markets. A good example of a such newcomer is Haier, the Chinese producer of white goods like washing machines and microwaves.

A long-term mega-trend

The emerging middle-class growth trend remains intact in its long-term potential.

The focus of China to shift away from an investment and export driven model to a more market oriented and consumption-fueled economy will further sustain this trend for years to come. For decades China has relied on exports and investments to propel its growth. However, to ensure a more steady and sustainable progress, the Chinese economy must embrace this development.

As a broad range of research and analysis predict, Asia will be among the key beneficiaries of this middle-class growth.

According to a study published by Brookings Institution in 2010, by 2030, 5 billion people could belong to the global middle class and two-thirds of them will be residents of the Asia-Pacific region, up from just under one-third in 2009. Furthermore, the study suggests that the shift is even more rapid when we look at the middle-class growth in terms of expenditures rather than number of people. In 2009, Asia accounted for only 23% of the expenditures of the global middle class. By 2030, it may account for 59% following the strong development in India, China and Indonesia.

No investment without social responsibility

As a Signatory for the UN Principles for Responsible Investment, Nordea lays a big emphasis on the fact that the companies Nordea 1 – Emerging Consumer Fund invests in adhere to these principles.

PRI Principles for Responsible Investment

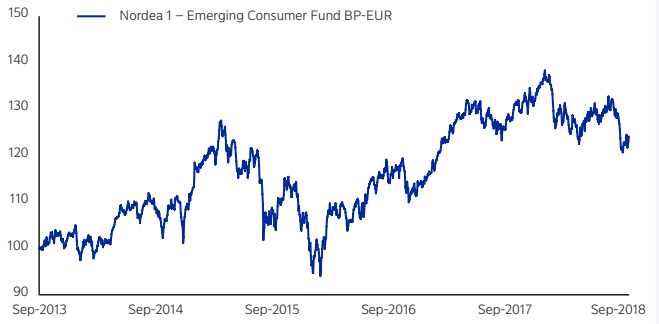
Cumulative returns in % (30.09.2018)	Fund[4]
YTD	–8.35
1 month	–1.15
3 months	–3.59
6 months	–1.33
1 year	–3.11
3 years	17.16
5 years	24.12
Since launch (03.11.2008)	115.10

Calendar year returns in %	Fund[4]
2017	18.90
2016	6.36
2015	–2.26

Holdings (top 10) in % (30.09.2018)	
Naspers	7.29
Mondelez International	4.69
Nestle	4.36
NIKE	4.08
Ambev	3.70
Reckitt Benckiser Group	3.70
Alibaba Group Holding ADR	3.43
International Flavors & Fragrances	3.43
British American Tobacco	3.42
Philip Morris International	3.31

Nordea 1 – Emerging Consumer Fund	
Fund managers	Fundamental Equities
Fund domicile	Luxembourg
ISIN codes*	LU0390857471 (BP-EUR) LU0390857398 (BI-EUR)[5]
Annual management fees	1.50 % p.a. (BP-EUR) 0.85 % p.a. (BI-EUR)[5]
Base currency	EUR
Fund size in millions	108.16
No. of holdings	37
Launch date	03.11.2008

Performance (30.09.2013 – 30.09.2018)



Country breakdown (top 10) in % (30.09.2018)	
United States	36.32
United Kingdom	9.37
China	8.63
South Africa	7.29
Brazil	5.70
India	5.24
Republic Of Korea	5.23
Switzerland	4.36
Mexico	2.99
Italy	2.82

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.

*Other share classes may be available in your jurisdiction. 4) ISIN code: LU0390857471. 5) 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): 03.11.2008– 30.09.2018. 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 30.09.2018. 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. 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