



# Fund Portrait



## Nordea 1 – Emerging Stars Equity Fund

ISIN: LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

### Highlights

- A **true Global Emerging Markets (GEM) equity portfolio**, both in terms of its objective and its portfolio construction
- **High conviction, bottom-up** driven, with a **GARP** (Growth at a Reasonable Price) and **High Quality** bias
- A **true ESG-investing** solution where our dedicated Responsible Investment team conducts detailed **ESG research** and aims at **engaging** actively on all portfolio companies
- One of **the longest track-records with true ESG integration** from the beginning available in the core GEM investment universe<sup>1</sup>



### 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 which combines the expertise of specialized internal resources with exclusive external competences with the aim to deliver alpha over time for the benefit of our clients.

### Investment Management Team

Since its launch in 2011, the Nordea 1 – Emerging Stars Equity Fund has been managed internally by the Emerging Markets Equities Team. The Emerging Markets Equities Team is part of Nordea's Fundamental Equities Team (FET). The FET consists of around 30 investment professionals, mainly focusing on sustainability themed strategies, where they apply a fundamental bottom-up investment process in order to identify and analyse mispriced companies relative to their ability to generate future cash flows.

The investment team, based in Copenhagen, uses a fundamental bottom-up investment process to identify and analyse companies that are mispriced in respect to their ability to generate future cash flows.

The investment team cooperates with Nordea's Responsible Investment (RI) team which provides company specific and general research regarding Environmental, Social and Governance risks and opportunities. Formed in 2009, the RI Team is one of the largest and most experienced teams in Europe. It encompasses around 25 analysts working hand in hand with the portfolio managers. This creates synergies by actively integrating ESG research throughout every step of the investment process, from the idea generation stage to the engagement with the company. We believe this set-up of combining a full ESG integration with fundamental analysis is key when it comes to delivering alpha.

### Introduction to the ESG STARS concept

Nordea's ESG STARS funds proactively select high-quality companies with the objective to identify tomorrow's winners, which, we believe, have sustainable business models and conduct their businesses responsibly in relation to their stakeholders – employees, suppliers, customers, investors and society at large. The FET works closely with the RI team in order to deliver a solution able to:

- **Outperform the benchmark:** actively managing a concentrated high conviction portfolio<sup>2</sup>
- **Meet Nordea's ESG standards:** systematically analysing each stock to ensure the fund invests only in businesses which

1) 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, you could lose some or all of your invested money. 2) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

meet our ESG standards. We invest in companies that are either leaders in terms of their ESG profile or alternatively in those with a rising ESG potential, thus avoiding the laggards

- **Active ownership:** proactively engaging with companies and encouraging them to improve on material ESG issues as well as exercising our voting rights

## Focus on structural growth

As the world undergoes a major shift in wealth and relative competitiveness, markets expect that **new global leading players will come from Emerging Markets (EM) economies.** Our investment team believes that certain long-term trends will drive the cash flows of this “Next Generation” of leading EM companies.

These trends, whether caused by changes in **technology, demographics, globalization or sustainability,** will create opportunities for companies able to detect, manage and take advantage of them. The resulting global structural changes will create what we like to call “pockets of structural growth”, whose implications will act as catalysts affecting the long-term potential earnings growth of companies.



## Investment Strategy

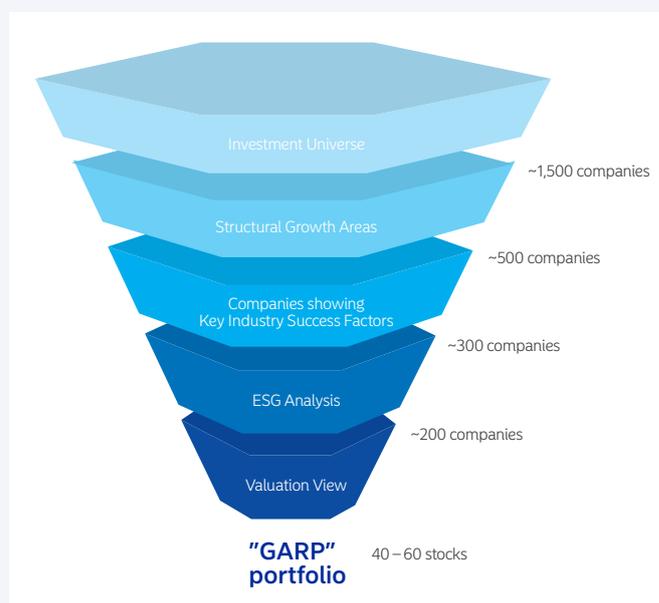
The Nordea 1 – Emerging Stars Equity Fund is a **high conviction** and **bottom-up** driven Global Emerging Markets (GEM) equity portfolio with a **GARP** (Growth at a Reasonable Price) and **High Quality bias.** The objective of the fund is to outperform the MSCI Emerging Markets Index – the most commonly used benchmark<sup>3</sup> within GEM – by 300 bps p.a. (gross of fees)<sup>4</sup> over a full investment cycle, while keeping an eye on active risk vis-a-vis the benchmark (target information ratio 0.5 – 0.75)<sup>3</sup>. We apply a positive selection in our investment process where we actively look for stocks that we expect will contribute to ESG goals, and/or likely to be allowed into the portfolio.

The Portfolio Managers (PMs) work to find the right balance between growth and valuation by concentrating on the mid- to long-term opportunities and to **avoid focusing on short term noise.** Markets, especially EM markets, tend to be very inefficient at assessing the potential development of earnings in the long term, which is actually one of the most important periods when estimating the value of a company’s growth potential.

The investment team believes they can identify those fundamental inefficiencies in the market over that time horizon, allowing them to have a better understanding of the path a company will follow and the value they can get out of an investment.

## Fundamental analysis

The DNA of the investment process has been in place and has not changed since the inception of the fund on 15.04.2011.



The team focuses on finding companies with the ability to capitalize on **structural growth opportunities, such as Technology, Sustainability or New China** and investing in such firms before the market recognizes their potential. The businesses they select must be very well positioned among their sector’s peers, having a **sustainable competitive advantage** in order to profit the most from the recognized opportunities. The resulting names should have what they call **Industry Key Success Factors.**

The companies identified as beneficiaries are then screened following a strict ESG analysis, in order to find business models that are capable to deliver sustainable shareholder value. Only the companies that have passed the ESG screening become a part of the fund’s idea pool and are subject of our proprietary in depth bottom-up stock selection process.

This last step protects us from paying too much for the growth potential we have recognized in the previous stages of the investment process. The identified 40 to 60 “Emerging Stars” are then included in the high conviction portfolio that offers

3) Benchmark: MSCI Emerging Markets Net Return Index. 4) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

investors a diversified exposure to EM that avoids top-down, country-specific bets.

As Pierre-Henri Cloarec, lead portfolio manager of the Nordea 1 – Emerging Stars Equity Fund says: “At the end, what sets us apart from other managers is the fact that we make a big effort to put a price on companies’ current but also future growth opportunities.” The holistic approach used during the investment process is crucial to assess the potential intrinsic value of these different growth opportunities and to unveil companies with a sound balance between growth potentials and attractive valuation.

## ESG research

As an integrated component to the investment process of all our ESG STARS products, a thorough in-house ESG analysis is performed by our independent and seasoned RI team. The team uses multiple sources of information in their proprietary analysis (the most important being the companies themselves) where we aim that each ESG-analysis is achieved through a face-to-face conference with the relevant representatives.

All companies considered for investment are analysed by our RI team. The analysis is performed “bottom-up” and focuses on how the company operates with stakeholders, particularly on potential conflict areas. For each sector we have identified their material ESG issues, which are included in our evaluation. These inputs are used to form our own company view, meaning that we are not bound by any external ESG assessments. Moreover, when assessing a company’s ESG risk profile we also focus on specific themes utilising the UN Sustainable Development Goals (SDG).

Additionally, our ESG research is systematically impacting the valuation model. In the DCF framework, companies with strong ESG profiles tend to generate superior excess returns above their cost of invested capital. Other things being equal, this results in a greater fair value estimate for strong ESG performers.

## Engagement & Impact Management

Being a key part of the investment process, Engagement means having a constructive dialogue with the companies we invest in or that we are considering for investment. Such dialogue enables us to understand how a company is thinking about and addressing ESG risks or opportunities that are relevant for its business. The portfolio managers and RI Team together build an engagement roadmap, where they identify the most relevant and material ESG topics for each company. Engagement can take various forms, from conference calls to face-to-face meetings, field visits and even active ownership & voting. While the RI Team typically takes the lead in engagement activities, our portfolio managers often participate as well. We hold upwards of 150 meetings a year. We see engagement as a way to preserve and enhance long-term shareholder value, as well as a great opportunity to create a positive impact for the broader society.

Adhering to Nordea’s Responsible Investment policy, we do not invest in companies involved in the production of illegal or nuclear weapons, including cluster munitions and anti-personnel mines.

Moreover, we exclude some companies with exposure to coal mining, oil sands, oil and gas extraction through arctic drilling and Tobacco. The ESG STARS strategies are also subject to a number of formal exclusion criteria and adhere to our PAFF (Paris-Aligned Fossil Fuel Policy). Exclusions will, however, rarely be triggered as companies subject to exclusion would typically not be selected as potentially investible in the first place. However, it is worth noting that the ESG STARS concept aims for positive selection with the objective to influence companies to improve their ESG profiles, that’s why excluding a company from our portfolios is always the last resort for us.

Engagement takes a new dimension with our ESG STARS products. It does not only consist of the traditional forms of engagement, like the exercise of voting rights or entering into a dialogue to encourage companies to improve their management systems, their ESG performance or their reporting. When assessing a company’s ESG risk profile, the RI team pays attention to specific themes utilising the UN Sustainable Development Goals.

We distinguish between two types of engagement:

- **Risk Engagement:** if a company is not managing its material ESG risks well, the RI team engages with the company on the issue. The ESG risks can be company specific or stem from the country in which the company operates or its industry. Violations of international norms and conventions are also addressed under Risk Engagement
- **SDGs Engagement:** we believe the UN Sustainable Development Goals (SDGs) form a useful framework, which helps us to understand company strategy in the context of global ESG themes. While companies’ exposure to SDGs varies greatly, these exposures can be both a source of opportunity and risk, and hence a valuable area for engagement

## Delivering shareholder value

Since its inception, back in April 2011, the Nordea 1 – Emerging Stars Equity Fund has successfully integrated a strong fundamental view on the companies with a comprehensive ESG analysis. The broad capabilities and extensive resources available within Nordea have been key in this process. The PM profits from a strong analytical platform with both regional and sector experts.

“There is generally a high correlation between perceived high quality companies and good ESG companies. Good managers adopt a broader long-term perspective to their business model and their competitive situation, i.e. focus on their stakeholders. Nevertheless, we don’t see ourselves as ethical investors. The ESG component is a tool we use to identify the long term winners among EM companies, as it improves our understanding of the businesses we buy and the risks they are exposed to”, concludes Mr Cloarec.

Nordea 1 – Emerging Stars Equity Fund	
Fund manager	Emerging Markets Equities/ Fundamental Equities Team
Fund domicile	Luxembourg
ISIN codes*	LU0602539602 (BP-USD) LU0602539354 (BI-USD) <sup>5</sup>
Annual management fees	1.50% (BP-USD) 0.75% (BI-USD) <sup>5</sup>
Base currency	USD
Reference index	MSCI Emerging Markets – Net Return Index
Launch date	15.04.2011

## Risks

Please be aware that there are risks associated with investing in this sub-fund, amongst others in: **Country risk – China, Depository receipt, Derivatives, Emerging and frontier markets, Securities handling, Taxation.** 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.

### To find out more, visit our local microsite:

[nordea.lu/EmergingStars](http://nordea.lu/EmergingStars)

[nordea.ch/EmergingStars](http://nordea.ch/EmergingStars)

[nordea.co.uk/EmergingStars](http://nordea.co.uk/EmergingStars)



\*Other share classes may be available in your jurisdiction. 5) BI-USD share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

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