



Fund Portrait

Nordea 1 – Emerging Stars Equity Fund

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

Highlights

- A **true Global Emerging Markets (GEM) equity portfolio**, with reference to both its objective and its portfolio construction
- **High conviction, bottom-up** driven, with a **GARP** (Growth at a Reasonable Price) and **High Quality** bias
- Integrates ESG analysis as a risk management tool: **a core GEM solution, not an ethical fund**
- One of **best track-records** available in the core GEM investment universe



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've 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 Stars Equity Fund has been managed internally by **Emerging Markets Equities Team** since its launch in 2011. 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.

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.

In our view, the opportunity to add value exists because the markets often either ineffectively evaluate or overlook these implications over the long term. By applying this knowledge into our investment process, we can identify the companies best-positioned to benefit from structural changes to capture the positive alpha.

Investment objective & approach

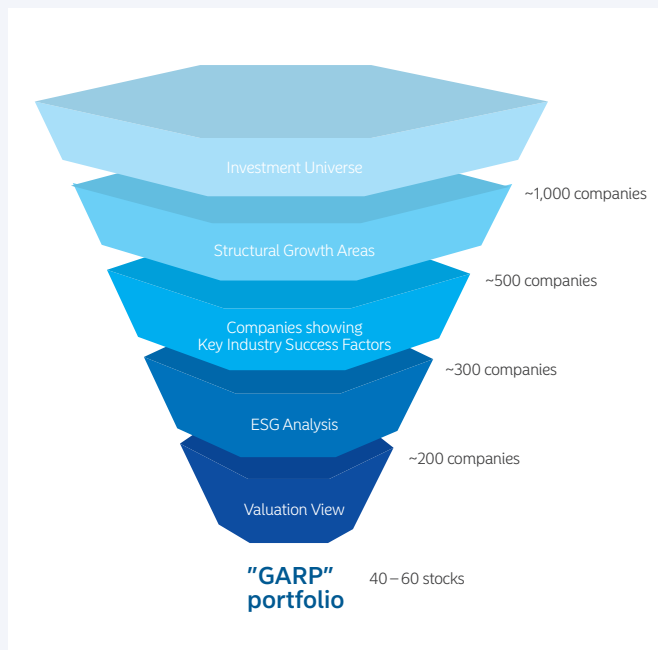
The Nordea 1 – Emerging Stars Equity Fund is a **high conviction** and **bottom-up** driven Global Emerging Markets (GEM) equity portfolio with a **GARP** (Growth at a Reasonable Price) and **High Quality bias**. The objective of the fund is to outperform the MSCI Emerging Markets Index – the most commonly used benchmark within GEM – by 300 bps p.a. (gross of fees) over a full investment cycle, while keeping an eye on active risk vis-a-vis the benchmark (target information ratio 0.5 – 0.75)¹. While the portfolio integrates an active **ESG** (Environmental, Social Responsible and Governance) overlay as a risk management tool, this **is not the main driver for investment decisions**.

¹) There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved.

The Portfolio Manager (PM) works 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.

Built to put a price on growth



The team focuses on finding companies with the ability to capitalize on **structural growth opportunities** 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 investors a diversified exposure to EM that avoids top-down, country-specific bets.

As Juliana Hansveden, 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.

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.

Additionally, the management team believes that including the ESG overlay is not a constraint but an added value to the portfolio.

"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 Ms Hansveden.

ESG: managing risks in EM

The traditional financial analysis is complemented by our **Environmental, Social Responsibility and Governance (ESG)** analysis. To assess these issues globally, we leverage on the resources and expertise of the Responsible Investment team (RI). The RI team is one of the largest European teams covering responsible investment issues.

The RI team concentrates on companies' ability to capitalise on ESG risk and opportunities, i.e. assess whether a framework is in place to manage ESG risks. Areas of evaluation are human rights issues, labour conditions, business ethics, reporting regarding environmental impact, company policies, management systems, etc.

Why does ESG matter in EM? ESG is especially important in EM where companies are much more exposed to these risks and current regulation is often lax. As global awareness over these issues increases, companies are expected to be able to comply with many new requirements. Whether confronted by software companies managing sensitive data, textile enterprises with thousands of employees working daily in its factories or chemical industries generating considerable amounts of waste, the most important aspect is assessing companies' will and ability to manage these issues, not least to protect shareholders.

"I believe that applying an ESG layer in our investment process will mitigate the overall risk of the portfolio. Helping us to better understand the given companies stakeholder environment will certainly add value to our investors" adds Ms Hansveden.

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) ²
Annual management fees	1.50 % (BP-USD) 0.85 % (BI-USD) ²
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. 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

nordea.ch/EmergingStars

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*Other share classes may be available in your jurisdiction. 2) BI-USD share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

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