



Fund Portrait

Third quarter 2018

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.

Morningstar Rating ★★★★★

Morningstar acknowledges the remarkable risk adjusted performance of the fund compared to its peer group¹

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 outper-

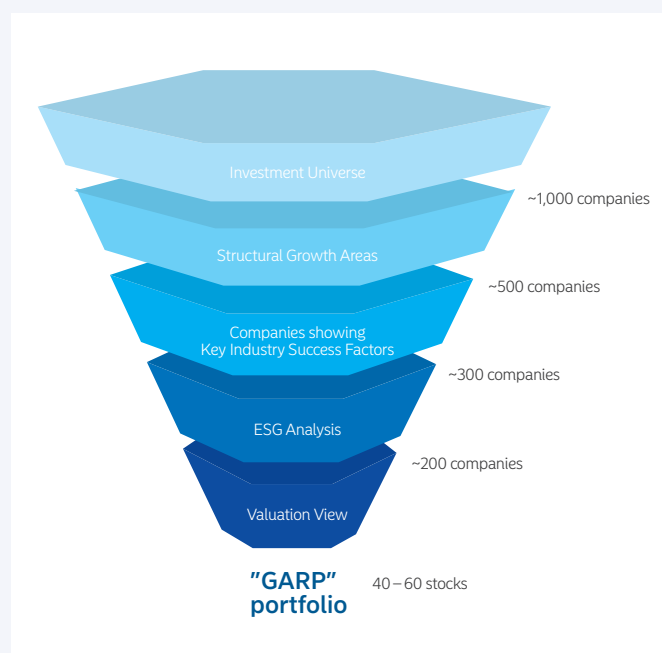
1) Data Source – © 2018 Morningstar, Inc. All Rights Reserved as of 30.09.2018. Date: 30.09.2018, for the BI-USD share class, Global Emerging Markets Morningstar category. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision. **Past performance is no guarantee of future results.**

form 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)². 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**.

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.

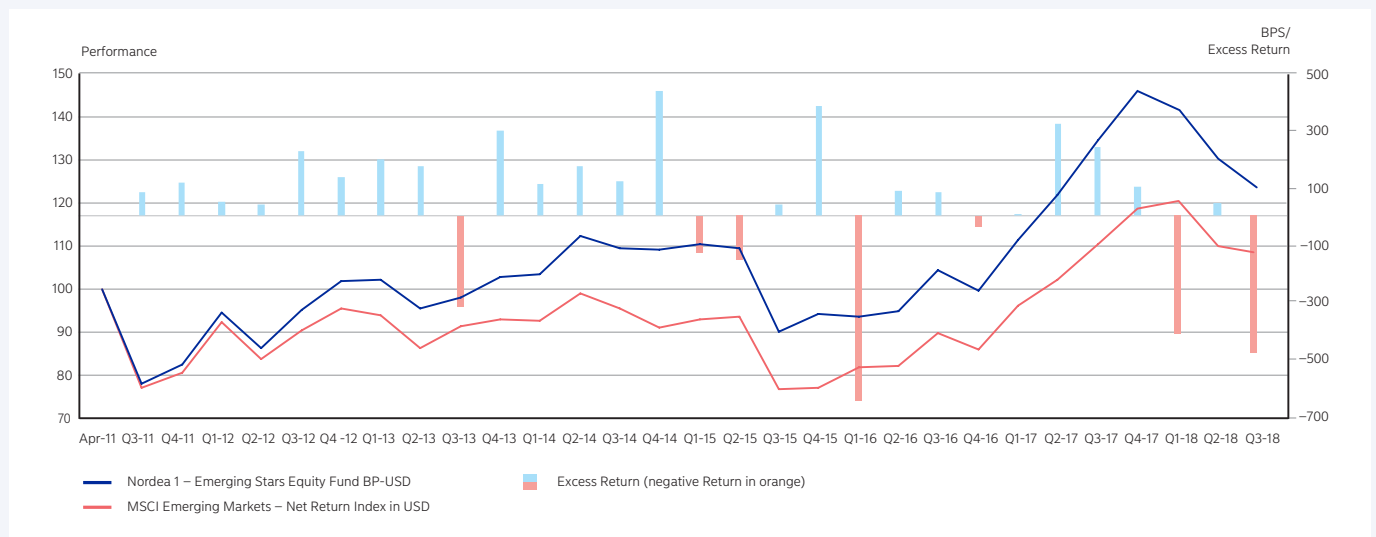
The past few years have been challenging for investors exposed to EM, as shown by the weak returns of the overall GEM (+6.83%). Nevertheless, over the same period the fund has managed to generate a return of +19.61% that translates into an **annualized excess return of +2.43%** (net of fees for the retail share class in USD). What is even more important and worth of mentioning is the consistency with which this results have been achieved, **as the portfolio has outperformed its reference index in 22 out of 29 quarters** since it was launched³.

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.

2) There can be no warranty that investment objectives, targeted returns and results of an investment structure are achieved. 3) Sources: Nordea Investment Funds S.A. and Datastream. Period under consideration: 15.04.2011 – 30.09.2018. Performance for the BP-USD share class. 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 MSCI Emerging Markets NR Index has been used as indicator of GEM returns.

Calendar quarterly returns: outperforming in 22 out of 29 quarters



Sources: Nordea Investment Funds S.A. and Datastream. Period under consideration (unless otherwise stated): 15.04.2011 – 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.

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.

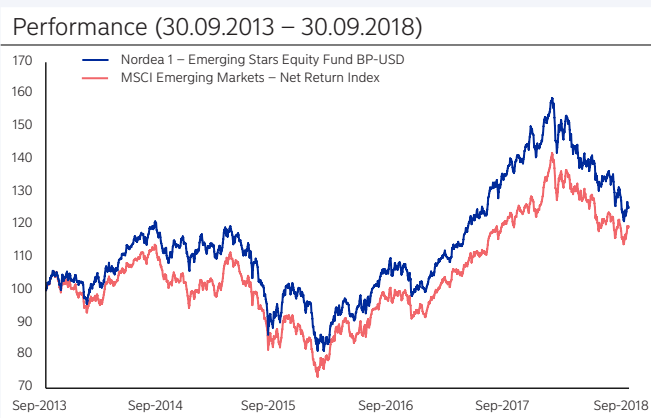
Why does ESG matter in EM? ESG is especially important in EM where companies are much more exposed to these risks and current regulation is often lax. As global awareness over these issues increases, companies are expected to be able to comply with many new requirements. Whether confronted by software 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.

| Cumulative returns in % (30.09.2018) | Fund ⁴ |
|--------------------------------------|-------------------|
| YTD | -15.39 |
| 1 month | -3.06 |
| 3 months | -6.00 |
| 6 months | -13.07 |
| 1 year | -8.23 |
| 3 years | 36.32 |
| 5 years | 25.34 |
| Since launch (15.04.2011) | 19.61 |
| Calendar year returns in % | Fund ⁴ |
| 2017 | 45.88 |
| 2016 | 5.77 |
| 2015 | -13.71 |

| Country breakdown (top 10) in % (30.09.2018) | |
|----------------------------------------------|-------|
| China | 28.76 |
| Republic Of Korea | 14.98 |
| India | 13.89 |
| Taiwan, Province of China | 11.69 |
| Brazil | 7.88 |
| South Africa | 5.29 |
| Hong Kong | 3.21 |
| United Kingdom | 2.97 |
| Mexico | 2.69 |
| Russian Federation | 2.64 |

| 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) ⁵ |
| Annual management fees | 1.50 % (BP-USD) 0.85 % (BI-USD) ⁵ |
| Base currency | USD |
| Fund size in millions | 2,762.96 |
| Reference index | MSCI Emerging Markets – Net Return Index |
| No. of holdings | 46 |
| Launch date | 15.04.2011 |



| Holdings (top 10) in % (30.09.2018) | |
|-------------------------------------|------|
| Samsung Electronics | 7.77 |
| Taiwan Semiconductor Manufacturing | 7.56 |
| Tencent Holdings | 7.24 |
| Alibaba Group Holding ADR | 6.42 |
| Ping An Insurance Group Co of China | 4.17 |
| Naspers | 4.08 |
| Samsung SDI | 4.06 |
| AIA Group | 3.21 |
| Housing Development Finance | 3.16 |
| Itau Unibanco Holding | 3.16 |

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
- nordea.co.uk/emergingstars



*Other share classes may be available in your jurisdiction. 4) BP-USD share class. 5) BI-USD 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): 15.04.2011 – 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. The sub-funds mentioned are 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 2009/65/EC of 13 July 2009. This document is advertising material and does not disclose all relevant information concerning the presented sub-funds. Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without 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. Investments in derivative and foreign exchange transactions may be subject to significant fluctuations which may affect the value of an investment. Investments in Emerging Markets involve a higher element of risk. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured. Investments in equity and debt instruments issued by banks could bear the risk of being subject to the bail-in mechanism (meaning that equity and debt instruments could be written down in order to ensure that all secured creditors of an institution bear appropriate losses) as foreseen in EU Directive 2014/59/EU. For further details of investment risks associated with these sub-funds, please refer to the relevant Key Investor Information Document (KIID), available as described above. Nordea Investment Funds S.A. has decided to bear the cost for research, i.e. such cost is covered by existing fee arrangements (Management/Administration-Fee). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. Please note that all sub-funds and share classes might not be available in your country of jurisdiction. Additional information for investors in Switzerland: The Swiss Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland. Additional information for investors in Germany: The Information Agent in Germany is Société Générale S.A. Frankfurt Branch, Neue Mainzer Straße 46-50, D-60311 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 Erste Bank der Österreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna. Additional information for investors in the Netherlands: Nordea 1, SICAV is a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS) registered in the Netherlands in the register kept by the AFM, and as such is allowed to offer its shares in the Netherlands. The AFM register can be consulted via www.afm.nl/register. Additional information for investors in France: With the authorisation of the AMF the shares of the sub-funds of Nordea 1, SICAV may be distributed in France. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, 75013 Paris. Investors are advised to conduct thorough research before making any investment decision. Additional information for investors in Belgium: The Representative Agent in Belgium is BNP Paribas Securities Services S.C.A., Brussels branch, 25 Rue de Loxum, Brussels, B-1000-Belgium. A hard copy of the above-mentioned fund documentation is available upon demand free of charge. Additional information for investors in Spain: Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. The Depositary of the SICAV's assets is, J.P. Morgan Bank Luxembourg S.A. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription. The Representative Agent is Allfunds Bank S.A., Paseo de la Castellana 9, ES-28046 Madrid, Spain. A complete list of the authorised distributors is available in the CNMV's webpage (www.cnmv.es). Additional information for investors in Portugal: The Management Company of the SICAV, Nordea Investment Funds, S.A., and the Depositary of the SICAV's assets, J.P. Morgan Bank Luxembourg S.A., are validly formed and existing in accordance with the laws of Luxembourg and authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Our distributor in Portugal is BEST – Banco Electrónico de Serviço Total, S.A., duly incorporated under the laws of Portugal and registered with the CMVM as a financial intermediary. Additional information for investors in Italy: Fund documentation as listed above is also available in Italy from the distributors and on the website www.nordea.it. BNP Paribas Securities Services – Succursale di Milano, Banca Sella Holding S.p.A., Banca Monte dei Paschi di Siena S.p.A., Allfunds Bank S.A., Succursale di Milano, Société Générale Securities Services S.p.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 and the KIID carefully. We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. The prospectus and KIID for the sub-funds have been published with Conso. Additional information for investors in the United Kingdom: Approved by the Financial Conduct Authority, 5 Aldermanbury Square, London EC2V 7AZ, which is regulated by the FCA in the United Kingdom. Additional information for investors in Sweden: The Paying Agent is Nordea Bank Abp, filial i Sverige, Smålandsgatan 17, Stockholm SE-105 71. The Representative Agent is Nordea Bank Abp, Finland, Strandgade 3, Christiansbro, DK-1401 Copenhagen K. A hard copy of the above-mentioned fund documentation is also available from here. Additional information for investors in Norway: The Paying Agent is Nordea Bank Abp, filial i Norge, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. The Representative Agent is Nordea Bank Abp, filial i Norge, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. Additional information for investors in Finland: The Paying Agent is Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. The Representative Agent is Nordea Bank Abp, filial i Suomi, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. Additional information for investors in Latvia: The Representative and Paying Agent is Luminor Bank AS, Līvālaļa 45, 10145 Tallinn. Additional information for investors in Lithuania: The Representative and Paying Agent in Lithuania is Luminor Bank AB, Konstitucijos pr. 21A, 03601 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. Information for investors in Brazil: This is a strictly privileged and confidential document for the purposes of a potential investment in foreign securities on a one-on-one basis with potential investors with a pre-existing relationship with Nordea Investment Funds S.A. This document contains information addressed only to a specific individual and is not intended for distribution to, or use by, any other person. This document (i) is provided for informational purposes only, (ii) should not be construed in any manner as an offer to buy or sell any securities or any related financial instruments, (iii) should not be construed in any manner as a public offer of any securities or any related financial instruments, and (iv) will be addressed to a potential investor with restricted access to information. Nordea 1, SICAV have not been, and will not be, registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários – CVM), and must not be offered or sold in Brazil except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. Any public offering, placement or distribution, as defined under Brazilian laws and regulations, of securities in Brazil, is not legal without prior registration under Law No. 6,385 of December 7, 1976, as amended. Documents relating to the offering of the Nordea 1, SICAV, as well as information contained therein, must not be supplied to the general public in Brazil (as the offering of the Nordea 1, SICAV is not a public offering of securities in Brazil) or used in connection with any offer for subscription or sale of the Nordea 1, SICAV to the general public in Brazil. Investors within Brazil should consult with their own counsel as to the applicability of these laws and regulations or any exemption therefrom. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration.