



Fund Portrait

Third quarter 2018

Nordea 1 – European Value Fund

ISIN: LU0064319337 (BP-EUR) / LU0229519557 (BI-EUR)

Highlights

- A unique European all-cap value approach: invests in companies with significant margin of safety based on the team's assessment of the intrinsic value
- High conviction and low turnover portfolio, with a stock holding period from 4 to 5 years
- Structured and systematic approach to investing with a detailed due diligence process



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.

Nordea entered into an exclusive agreement with Tom Stubbe Olsen (fund manager of the sub-fund since November 1998). In September 2007, the ex-Nordea portfolio manager started an independent asset management firm, Mensarius (formerly European Value Partners), focusing on managing European equities according to his well-established value approach.

Value Investing at Mensarius

In today's markets, the prices of individual stocks are subject to significant and sometimes irrational movements. In the long term, however, Mensarius believes that stock prices follow the development of the company's earnings. When value funds traditionally focus solely on less expensive or more mature companies with lower growth potential, this conception could lead to an inaccurate assessment of the potential value universe. The team instead invests with the **mindset of buying the whole company**. Understanding the underlying fundamentals is the key to assess the real risks and opportunities in the investments. The assessment of an investment's attractiveness is based on the **sustainable level of return of capital versus the cost of capital**. Mensarius likes therefore businesses operating in attractive markets that are able to generate discretionary free cash flow: companies that have significant earning power, but as well a healthy margin of safety.

Intrinsic value and margin of safety

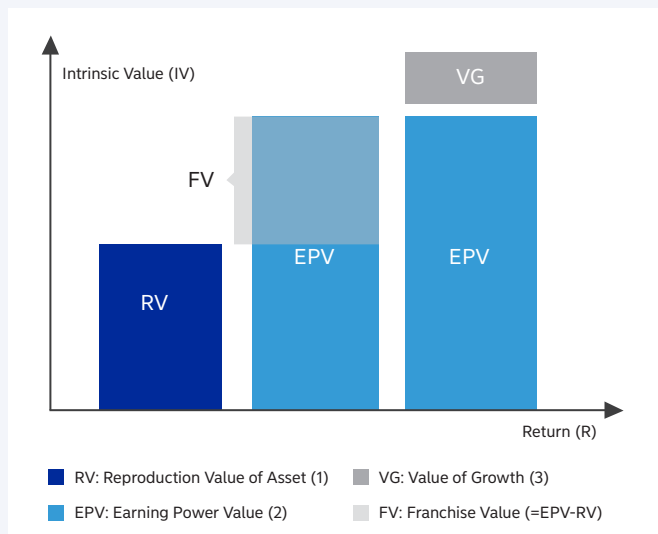
The team's value approach means buying something which is worth more than its current price, in other words the assessment of a company is based on the value of its current and future earnings.

The due diligence analysis aims at **determining the intrinsic value** of the company. As illustrated in the chart below, it can be broken down into three elements:

- The reproduction value of the assets (1)
- The value of the earning power (2)
- The value of growth (3)

The most attractive investment opportunities stem from companies with sustainable returns above the cost of capital. This ability is expressed in the valuation when the intrinsic value of the company is higher than the value of the assets. Within the valuation framework, this results in an identified earning power value. A company with a significant earning power may even be valued with a growth component, adding the value of growth to the assessment.

Determining the intrinsic value



To secure the investment return and avoid overpaying, the team looks for a significant margin of safety. An investment will only be made when a company can be bought at a minimum discount of 40% to the intrinsic value.

With this perspective, the investments generally fall into one of the three following categories:

- Companies with a high return on invested capital bought at attractive valuation versus its own history
- Quality cyclical companies with a competitive edge close to the through of the cycle
- Companies undertaking restructuring measures that will increase the earning power of their assets in the future

A structured process and approach to investing

The team is looking for undervalued profitability: they believe that **through a well-structured and disciplined process** they can identify such situations ahead of the market.

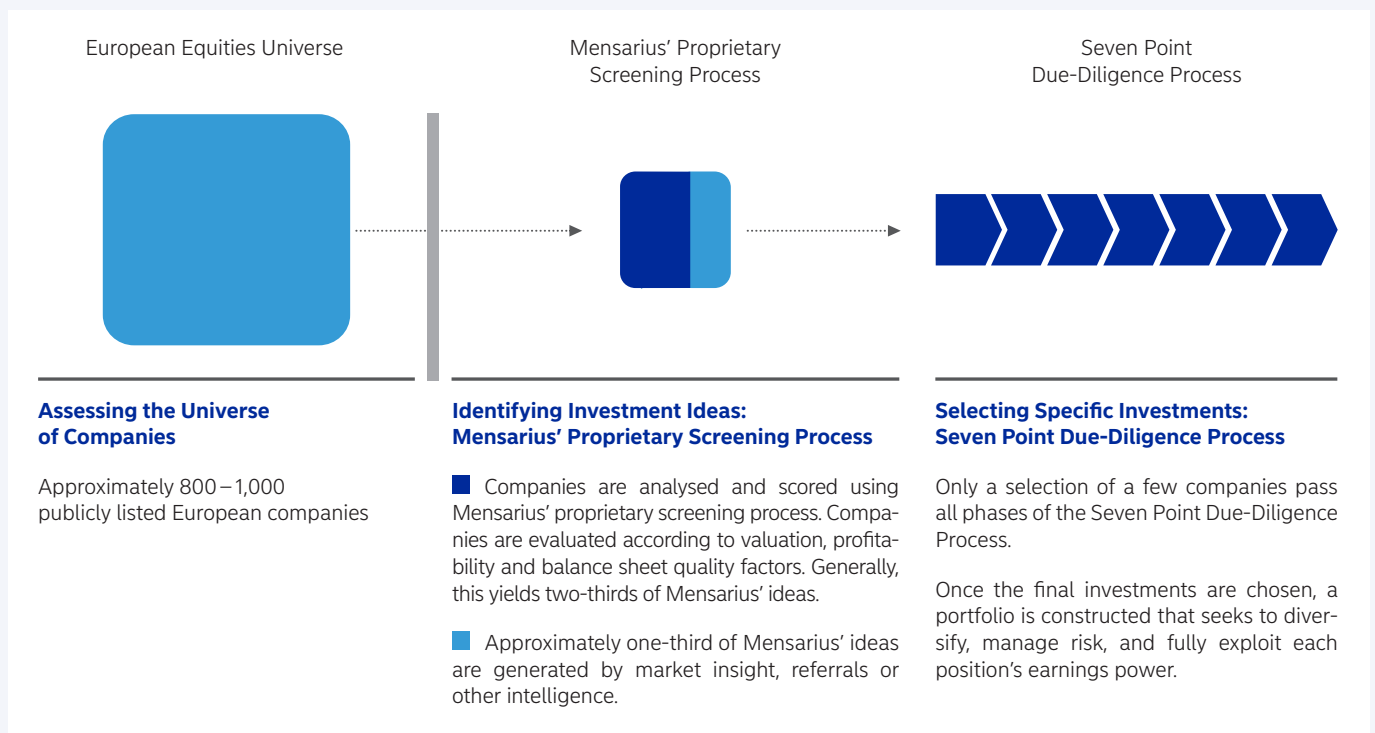
The portfolio construction is entirely **based on the bottom-up stock selection**, with no constraints on market capitalisation, sector or industry. Yet, external factors speaking against an investment are not ignored. Making successful investments over time requires an element of contrarian behaviour, but only when there are tangible reasons to think so and when the investment adequately pays for the risk involved.

The fund's **value philosophy stays firm and steady** amidst market turmoil:

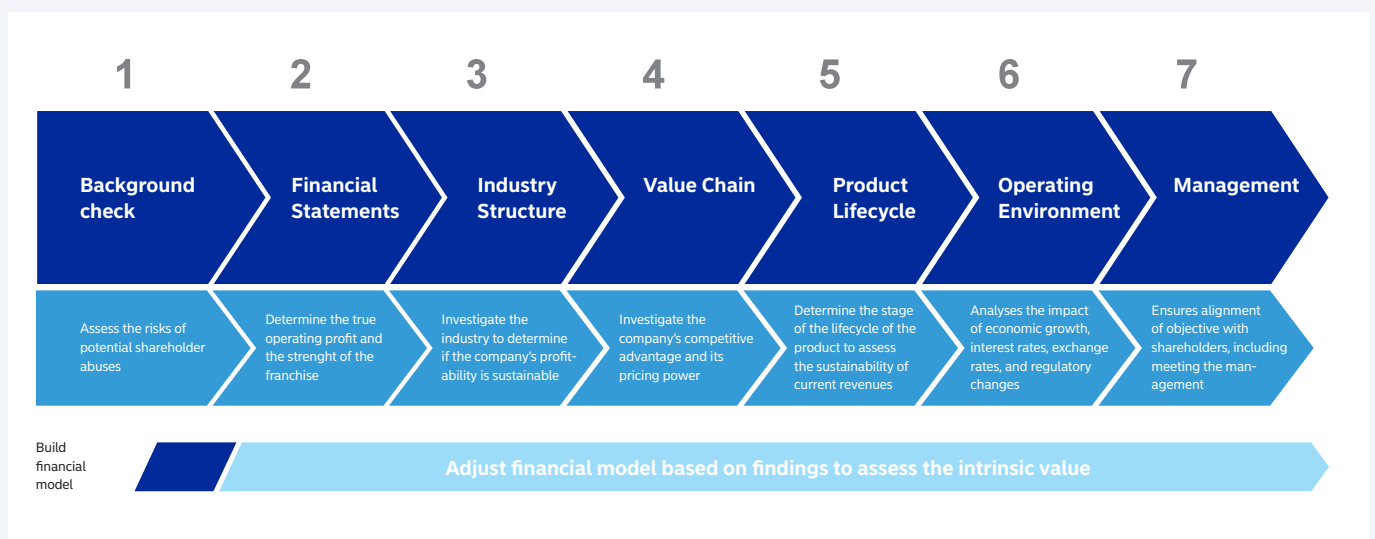
- The focus remains on the business, sales, cash flow and earnings, and not only on the price at which the business is being bought and sold in the stock market
- Each investment case is well-documented and closely discussed between the responsible analyst and the portfolio managers before making the investment decision
- The assessment of risk is embedded in the research process, with our appraisal of the intrinsic value and strict buy discipline of margin of safety, as well as in the monitoring on the portfolio level
- The fund has one of the longest track record in European Equities with the same manager and philosophy

To make an investment, the **conviction in the investment case and company's intrinsic value is decisive**, as well as an adequate **margin of safety**. The margin of safety is the main tool used to manage the portfolio, but it is never detached from the conviction in the intrinsic value.

Generating investment ideas



Seven Point Due-Diligence Analysis



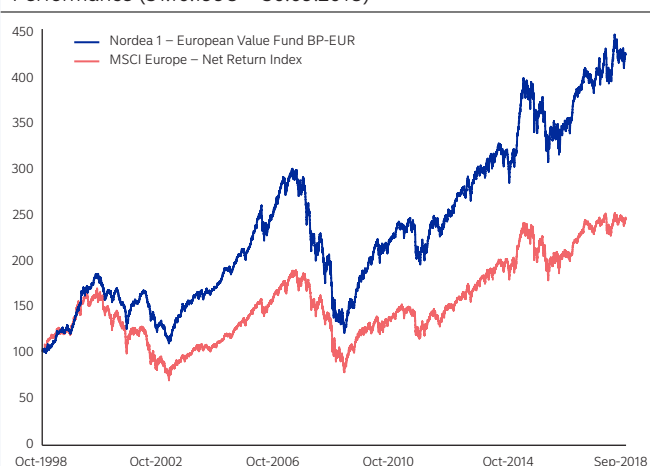
Cumulative returns in % (30.09.2018)	Fund ¹	Index ²
YTD	2.41	0.84
1 month	-0.75	0.53
3 months	-0.11	1.33
6 months	6.11	5.38
1 year	4.51	1.48
3 years	22.78	20.10
5 years	42.66	39.74
10 years	145.69	94.28
Since 31.10.1998 ³	320.85	142.82

Calendar year returns in %	Fund ¹	Index ²
2017	10.30	10.24
2016	3.93	2.58
2015	13.40	8.22

Holdings (top 10) in % (30.09.2018)	
SAP	4.85
Ericsson B	4.77
Frank's International	4.34
Royal Dutch Shell	3.98
Senior	3.80
Amer Sports	3.68
Novo Nordisk B	3.58
Hunting	3.51
Niifsk Holding	3.37
Landis+Gyr Group	3.36

Nordea 1 – European Value Fund	
Fund manager	Mensarius AG
Fund domicile	Luxembourg
ISIN codes*	LU0064319337 (BP-EUR) LU0229519557 (BI-EUR) ⁴
Annual management fees	1.50 % (BP-EUR) 0.85 % (BI-EUR) ⁴
Base currency	EUR
Fund size in millions	1,283.66
Reference index	MSCI Europe – Net Return Index
No. of holdings	37
Launch dates	15.09.1989 (BP-EUR) 02.11.2005 (BI-EUR) ⁴

Performance (31.10.1998 – 30.09.2018)



Country breakdown (top 10) in % (30.09.2018)

United Kingdom	25.24
Denmark	12.10
Germany	11.96
Sweden	11.11
Switzerland	10.55
France	5.97
Italy	5.31
United States	4.34
Finland	3.68
Spain	2.59

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. 1) BP-EUR share class. 2) MSCI Europe – Net Return Index. 3) On 31.10.1998 Tom Stubbe Olsen took over the management of the fund and he has been managing this product since. 4) 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): 15.09.1989 – 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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