



Fund Portrait

Fourth quarter 2018

Nordea 1 – Global Stars Equity Fund

ISIN: LU0985320562 (BP-USD) / LU0985319804 (BI-USD)

Highlights

- A Global Equities solution where ESG investing meets performance. One of the best track-records available in the ESG Global Equities investment universe
- High conviction portfolio with a long-term fundamental bottom-up approach
- A true ESG investing solution where our dedicated Responsible Investment team conducts detailed ESG research and aims at engaging actively on all portfolio companies
- A two-tier portfolio, combining stocks with high expectation gaps and stocks with a strong sustainable competitive advantage, or Moat



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 resources with exclusive external competences with the aim to deliver alpha over time for the benefit of our clients.

Since its launch in May 2016, the Nordea 1 – Global Stars Equity Fund has been managed internally by Johan Swahn in Nordea's Fundamental Equities team. The team is composed of approximately 20 seasoned investment professionals and exhibits significant diversity with 9 different nationalities. The investment team uses a fundamental bottom-up investment process to identify and analyse companies that are mispriced relative to their ability to generate future cash flows.

Introduction to the STARS concept

Nordea's STARS funds proactively select high-quality ESG 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.

Nordea's Fundamental Equities team works closely with Nordea's Responsible Investment team in order to:

- **Outperform the benchmark:** actively managing a concentrated high conviction portfolio.
- **Meet Nordea's ESG standards:** analysing each individual stock to ensure that the fund invests only in companies that meet our minimum ESG criteria. The idea is to invest in leading companies or companies with a sufficiently rising ESG profile, thus avoiding the laggards (lower rated companies).
- **Exercise active ownership:** proactively engaging with companies and encouraging them to improve corporate governance, their overall ESG performance, as well as exercising voting rights.

Investment approach

The Nordea 1 – Global Stars Equity Fund focuses on selecting companies that are mispriced relative to their ability to generate future cash flows. The portfolio fully integrates ESG factors into the **fundamental analysis**, including **verifying expectations gaps** and **valuation**.



Fundamental analysis

Our fundamental analysis has three primary components, which form the basis for a repeatable investment process.

Verifying Expectation Gaps. Expectation gaps are the differences between our expectations and the market valuation. We collect and analyse all relevant data to verify our expectations and understand the market's expectations through a two-stage process:

- We build conviction in the company outlook by analysing its financial data, industry data, industry expert comments, sell-side research and a variety of other sources.
- We gauge market's expectations through consensus estimates and implied valuation.

Identifying Moats. We make assessments of companies' strategic position before investing. We believe companies with sustainable competitive advantages (Moat) have better long-term opportunities for profitable growth and exhibit less risk. We use proprietary models to score each company according to their Moat and risks.



1) There is no guarantee that this expected return will be achieved.

Valuation

Valuation is the numerical illustration of Expectation Gaps and we perform extensive work based on proprietary discounted cash flow (DCF) models to determine the upside potential. Results are cross-checked with absolute and peers relative valuation multiples as well as the overall market.

Our current investment universe is based on listed global equity securities with sufficient liquidity (typically with a market capitalisation of at least \$1bn – \$3bn).

ESG research

All STARS products are based on an integrated approach to in-house ESG analysis, which is conducted by our independent and seasoned Responsible Investment team on all companies considered for investment. The team draws on multiple sources of information in their proprietary analysis and engages directly with companies. Like our fundamental investment analysis, the ESG analysis is performed "bottom-up" and focuses on how the company deals with potential conflicts of interest among various stakeholders. For each sector we have identified material issues which are included in our evaluation. As a result we assign a rating (A/B/C) and only companies with a rating above the relevant minimum threshold are eligible for investment.

Additionally, the ESG analysis identifies ESG risks and opportunities which are included in the fundamental assessment of each company. When valuing a company, the managers evaluate the company's projected growth rate, cash flows and balance sheet strength, among many variables. Companies able to conduct their business responsibly with respect to their stakeholders (employees, suppliers, customers, investors and society at large) are likely to have a more sustainable business 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.

Investment objective

The bottom-up stock selection process results in a high conviction portfolio of 50 to 70 positions and offers investors a diversified exposure to ESG Global Equities avoiding top-down, country-specific bets. The fund's objective is to consistently outperform the global equity markets (as measured by its benchmark the MSCI All Country World – Net Return Index) by a minimum of 300bps (gross of fees) over a full investment cycle while aiming for a tracking error between 3% – 5%¹.

Engagement is key for active ownership

Engagement is a key part of the investment process as we conduct extensive and structured engagement activities. The portfolio managers together with the ESG analysts build an engagement roadmap, identifying the most relevant companies and topics to engage with. Engagement activities are typi-

cally performed by the Responsible Investment team; however, our portfolio managers are in frequent dialogue with the ESG analysts and they also take part in company meetings. We see engagement as a way to enhance long-term shareholder value in addition to benefitting the broader society.

Adhering to Nordea's Responsible Investment policy, the fund excludes companies involved in the production of nuclear weapons and cluster munitions as well as companies with large exposure to coal mining (>30% revenues). However, excluding a company from our portfolio is always a last resort: the STARS concept aims for positive selection with the objective to influence companies to improve their ESG profiles. Engagement therefore takes on a new dimension with the 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 Responsible Investment team also focuses on specific themes utilising UN Sustainable Development Goals. Thus, we distinguish between two types of engagement:

- **Risk Engagement:** if a company is not managing its material ESG risks well, the Responsible Investment 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 inception, the Nordea 1 – Global 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 Portfolio Manager profits from a strong analytical platform with both regional and sector experts.

Since its launch the fund delivered strong outperformance – compared to its benchmark the MSCI All Country World Net Return index – of 7.5% and 3.9% in 2017 and 2018 respectively². The fund is hence ranked top quartile according to Morningstar since its inception but also over 2018³.

Performance Relative to Peer group



Source – © 2018 Morningstar, Inc. All Rights Reserved as of 31.12.2018, EAA Fund Global Large-Cap Blend Equity. Performance in USD. Period under consideration: 17.05.2016 – 31.12.2018. 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 31.12.2018. 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.

2) Note: BI-USD. Source: Nordea Investment Funds S.A. Period under consideration: 31.12.2016 – 31.12.2018. **Performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.** 3) © 2018 Morningstar, Inc. All Rights Reserved as of 31.12.2018, Fund Global Large Cap Blend Equity. 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.**

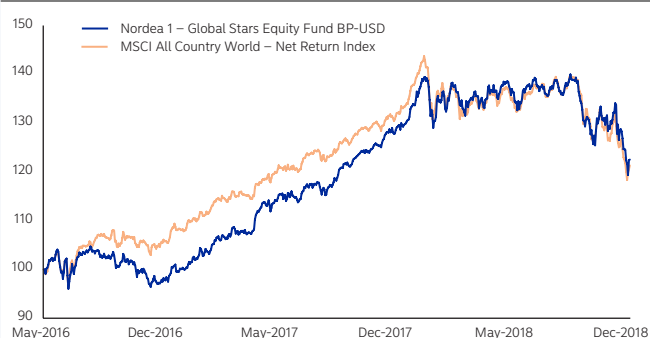
Cumulative returns in % (31.12.2018)	Fund ⁴
YTD	-6.19
1 month	-7.23
3 months	-11.64
6 months	-8.89
1 year	-6.19
Since launch (17.05.2016)	22.51

Calendar year returns in %	Fund ⁴
2017	30.44
2018	-6.19

Country breakdown (top 10) in % (31.12.2018)	
United States	63.49
United Kingdom	6.43
Germany	6.19
China	4.24
Japan	3.44
Switzerland	2.48
Hong Kong	2.18
Ireland	2.06
Taiwan, Province of China	1.75
Israel	1.61

Nordea 1 – Global Stars Equity Fund	
Fund manager	Fundamental Equities Team
Fund domicile	Luxembourg
ISIN code*	LU0985320562 (BP-USD) LU0985319804 (BI-USD) ⁵
Annual management fees	1.50 % (BP-USD) 0.85 % (BI-USD) ⁵
Base currency	USD
Fund size in millions	373
Reference index	MSCI All Country World – Net Return Index
No. of holdings	68
Launch date	17.05.2016

Performance (17.05.2016 – 31.12.2018)



Holdings (top 10) in % (31.12.2018)

Alphabet	4.21
International Flavors & Fragrances	3.06
Kimberly-Clark	2.89
Chubb	2.81
Medtronic	2.67
Microsoft	2.56
Novartis	2.48
Mondelez International	2.43
Rotork	2.36
Munich Re	2.19

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/STARS

nordea.ch/STARS

nordea.co.uk/STARS

*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): 17.05.2016 – 31.12.2018. 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 31.12.2018. 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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