



# Fund Portrait



2021

## Nordea 1 – Global Stars Equity Fund

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

### Highlights

- A Global Equities solution where ESG investing meets performance, with one of the best track-records available in the ESG Global Equities investment universe<sup>1</sup>
- 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 strong tailwinds and sustainable competitive advantages, 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 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<sup>2</sup>.

### Investment Management Team

Since its launch in May 2016, the Nordea 1 – Global Stars Equity Fund has been internally managed by Johan Swahn (Lead Portfolio Manager) in Nordea's Fundamental Equities Team (FET) who was later joined by Joakim Ahlberg (Co-Portfolio Manager) in March 2019. The FET consists of ~30 investment professionals mainly focusing on sustainability themed strategies. The portfolio management team uses a fundamental bottom-up investment process in order to identify and analyse companies which are mispriced relative 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 ~20 ESG professionals 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 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

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 your investment can go up and down, and 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.

## Investment Strategy

The Nordea 1 – Global Stars Equity Fund objective is to consistently outperform the global equity markets by a minimum of 300bps (gross of fees) over a full investment cycle while aiming for a tracking error between 3%–5%<sup>3</sup>.

The investment universe consists of approximately 2,800 companies and is based on listed global equity securities with sufficient liquidity (typically at least USD 1–3 billion market capitalisation). The fund has a significantly high hurdle for inclusion, as a stock has to pass our internal ESG scoring process to be allowed into the portfolio. Our research process does not identify whether the stock is in the benchmark, but we monitor off benchmark positions at the portfolio level.

This high conviction global equity solution follows a bottom-up approach and invests in 40 to 80 companies worldwide and focuses on fundamental analysis.



## Fundamental analysis

The investment team relies on **3 keys to unlock sustainable excess performance**, namely: Risk, Moat & Tailwind and Expectation Gaps.

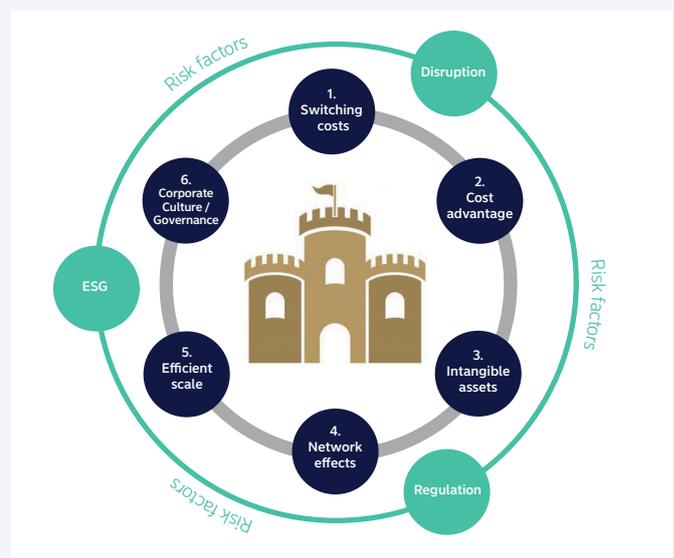
**Risk Management.** The portfolio construction is focussed on creating a balanced portfolio of the best bottom-up ideas. Our thorough fundamental analysis allows a constant evaluation of risk and reward on a stock level, where we manage risk through sizing our positions in accordance with our view of their **relative attractiveness from a risk vs. reward perspective**, as well as the level of conviction we have in each investment thesis.

We strive to **concentrate risk to our highest conviction ideas** and aim to have up to 40% of the portfolio in our top 10 positions (expectation gap picks), and complement it with a large number of smaller positions with wide moats and solid operating tailwinds providing significant diversification benefits.

We believe the majority of **active risk for the fund should come from stock selection** as opposed to regional allocation, sector allocation, currencies or investment style. We however tolerate some deviations from the benchmark because of stock selection or even long-term views on relative value creation. We look for an appropriate level of active risk as we aim for a tracking error of 3%–5% and an active share above 80%<sup>3</sup>.

Due to our strong focus on risk, we monitor the total portfolio risk and ensure strong diversification through a two tier approach:

- **Expectation Gaps to drive strong returns.** We perform extensive work based on our proprietary discounted cash flow (DCF) models to determine the upside potential of an investment. The Expectation Gap is the **difference 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
- **Moat & Tailwinds to absorb shocks and offset risk.** We assess the companies' strategic position before investing. We believe that companies with a positive exposure to external factors (Tailwinds) and with sustainable competitive advantages (Moat) have a better opportunity to maintain stable cash flows, attain **stronger long-term growth** and exhibit **higher risk adjusted returns**



## 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

<sup>3</sup> Relative to its benchmark the MSCI ACWI NR USD Index. 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.

team uses multiple sources of information in their proprietary analysis (the most important being the companies themselves) where 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 the material issues which are included in our evaluation. This input is used to form our 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 such as conference calls, face-to-face meetings, doing 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 Responsible Investment team pays attention to specific themes utilising the UN Sustainable Development Goals.

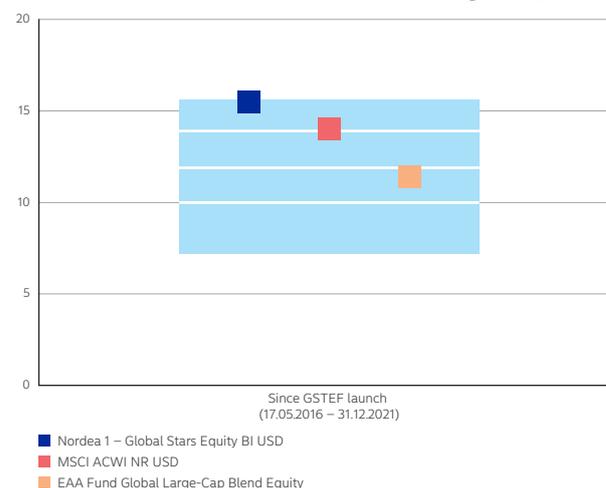
We distinguish between two types of engagement:

- **Risk Engagement:** if a company is not managing its material ESG risks well, the 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 understand company’s strategies 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 launch the fund has delivered strong alpha, compared to its benchmark the MSCI All Country World Net Return index<sup>4</sup> and ranks amongst the best performing funds in its category according to Morningstar<sup>5</sup>.

### Performance Relative to Peer group



Source – © 2021 Morningstar, Inc. All Rights Reserved as of 31.12.2021, EAA Fund Global Large-Cap Blend Equity. Performance in USD. Period under consideration: 17.05.2016 – 31.12.2021. 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 31.12.2021. 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.

4) Note: (1) BI-USD. Source: Nordea Investment Funds S.A. Period under consideration: 17.05.2021 – 31.12.2021. 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. 5) © 2021 Morningstar, Inc. All Rights Reserved as of 31.12.2021, Fund Global Large Cap Blend Equity. Performance in USD.

Nordea 1 – Global Stars Equity Fund	
Fund manager	Fundamental Equities Team
Fund domicile	Luxembourg
ISIN code*	LU0985320562 (BP-USD) LU0985319804 (BI-USD) <sup>6</sup>
Annual management fees	1.50% (BP-USD) 0.75% (BI-USD) <sup>6</sup>
Base currency	USD
Reference index	MSCI All Country World – Net Return Index
Launch date	17.05.2016

## Risks

Please be aware that there are risks associated with investing in this sub-fund, amongst others in: **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:

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