Nordea
ASSET MANAGEMENT

For professional investors only*

Fund Portrait

Third quarter 2018

Nordea 1 – Stable Emerging Markets Equity Fund

ISIN: LU0634510886 (BP-USD) / LU0637344622 (BI-USD)

Highlights

- The fund aims to offer emerging markets equity investors a safety buffer in volatile markets
- Focus on "Stable Equities" with moderate stress level and attractive valuation
- Main criteria for the stock selection is the stability of the development in all important areas (e.g. price, earnings, dividends, cash flow)

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 specialised internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. Furthermore, we have 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.

"We are offering an investment alternative which enables investors to benefit from the long-term return opportunities on the emerging equity markets with limited exposure to the high volatility which characterises this asset class.

Harnessing this stable approach in 2005, Nordea's Stable Equities/Multi Assets Team created the concept of "Stable Equities". The fund is managed by the same team since launch, which oversees more than EUR 100bn of assets across various asset classes[1].

Stable Equities

The fund managers of the Nordea 1 – Stable Emerging Markets Equity Fund (SEMEF) identify companies that operate in established lines of businesses, generating relatively stable earnings, dividends, cash flows, etc. on an ongoing basis. **A higher level of stability** in these key figures helps dampen price volatility of such companies' stocks, making them less risky than the market.

Stable Equities in many cases can be seen as "boring stocks", attracting less attention from investors, media, and the public in general. Instead, investors focus on "hot stocks" with interesting stories, i.e. stocks in companies associated with high profile stories, new technologies, product development, or other factors leading to expectations of extraordinary future returns.

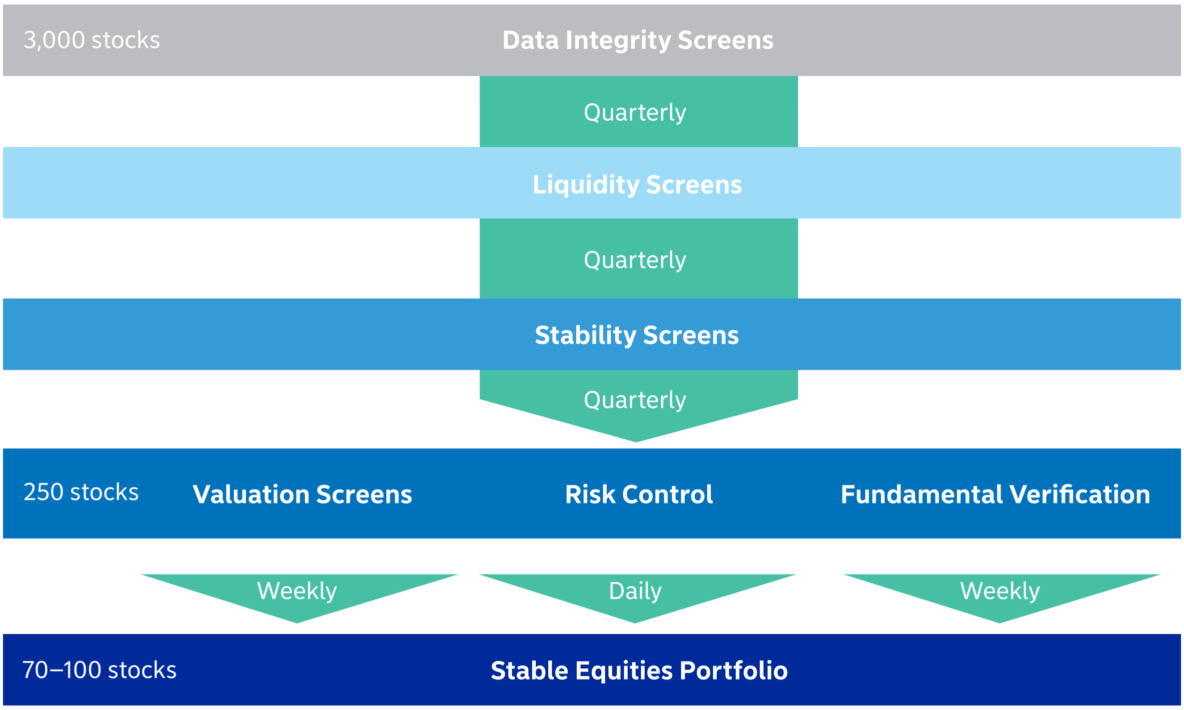
As a result, the pricing of stable stocks does not necessarily reflect a rational weighting of expected returns relative to risk. But stocks often tend to behave like people. The more popular they are, the more ups and downs they experience in their lives. Stress is often guaranteed, but not necessarily a happy ending.

The SEMEF looks for emerging markets stocks that go along with a moderate stress level – comforting for investors.

1) Source: Nordea Investment Managment AB. Date: 30.09.2018

*investing for their own account – according to MiFID definition

Investment process



Stable equity investment process

Emerging markets are typically characterised by a higher level of volatility and a lower liquidity in general. The investment team, creating the Emerging Stable Return universe, is excluding the emerging market stocks whose liquidity is low (liquidity screen), as well as the stocks that do not have at least five years of fundamental data (data integrity screen).

The investment process is based on an **objective computer-driven, quantitative model** for stock screening, which analyses the development of a company's stock price, earnings, dividends, EBITDA and cash flow over prior years. Here we **focus on one major characteristic: stability.** The more stable these variables have been in the past, the more interesting the company is for us.

Then the fund managers use their own **proprietary valuation models** to come up with a list of stocks to include in the portfolio. Valuation techniques are based on Dividend Discount Model methodology. However, each portfolio manager uses different assumptions in his computations. We believe that using separate sets of assumptions is critical in mitigating the "model" risk inherent in all quantitative models.

Finally, an objective fundamental validation of the final recommendations is combined with a rigorous risk control process. In the end, a portfolio consisting of 70 to 100 Stable Equities is created and permanently monitored.

Following the markets – but not without a safety belt

Particularly in volatile markets stocks with more stable returns gain in attractiveness for investors.

In many cases, these are the stocks that traditionally have lower beta. The beta coefficient indicates the sensitivity of a stock's returns to changes in the market or reference index.

By definition, the market has a beta of 1.0. Hence, a stock with a beta of 1.0 will move by the same percentage as the reference index. A beta lower than one, indicates a lower sensitivity to the reference index.

Thus, a stock with a beta of 0.5 will fall by 5% if the index falls 10%. Low beta stocks tend to be laggards during a bull market, as they are less sensitive to market movements; but they provide the much-needed cushion during times of sharp declines.

Even though the stable equity investment process does not directly try to identify low beta stocks – its focus is on identifying stable companies – it produces a portfolio whose beta is below that of the market. This is a logical outcome of the proprietary process since most stable companies tend to have low betas; however, low beta companies are not necessarily stable companies.

How we build the portfolio

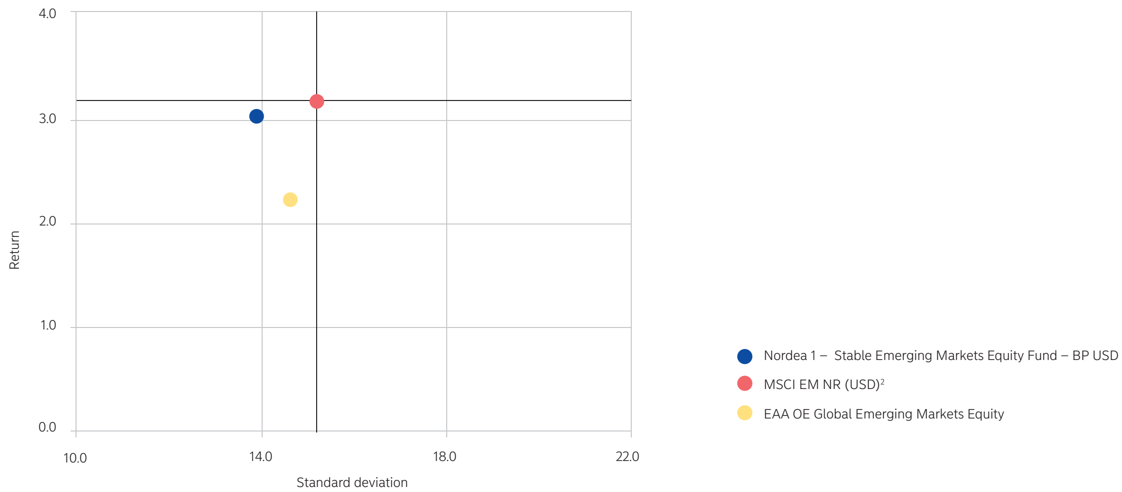
- **Bottom-up approach:** the emphasis is on the company itself. Factors such as market capitalisation, sector, region, etc. are secondary
- Main selection criteria: **stability and attractive valuation**
- **High degree of portfolio diversification:** no stock normally has a weighting of more than 3 %
- **Selling discipline:** the shares are sold as soon as:
  - equities in the portfolio rise above their fair value. There is no pre-defined target price, which triggers the sale. Instead the fair value of companies is recalculated regularly
  - significant changes which undermine our stability criteria occur or are imminent in a company (e.g. mergers, changes in management or the business model)

A proven concept

By investing in Stable Equities the SEMEF seeks to deliver attractive risk-adjusted returns, with a lower volatility profile compared to peers and to the broader emerging markets.

The concept of Stable Equities already exists since 2005, and is implemented in a fund launched in 2007: the Nordea 1 – Global Stable Equity Fund – Euro Hedged (GSEF-EH). The SEMEF follows the same investment process and philosophy and is managed by the same team as the GSEF-EH. The main difference between the two funds is the investment universe. While the SEMEF has its investment universe focused on emerging markets, the GSEF-EH is a global fund.

Nordea 1 – Stable Emerging Markets Equity Fund – risk return profile: since inception



Source – © 2018 Morningstar, Inc. All Rights Reserved. Morningstar category: EAA OE Global Emerging Markets Equities. Date: 30.09.2018. Performance in USD. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.** Period under consideration since inception of the N1 – SEMEF, as per the Morningstar slide provided: 01.11.2011 – 30.09.2018.

2) Nordea 1 – Stable Emerging Markets Equity Fund does not have any official reference index. However, for comparison purposes, we have shown **MSCI Emerging Markets – Net Return Index (USD)** which might be one of the possible benchmarks for this type of portfolio.

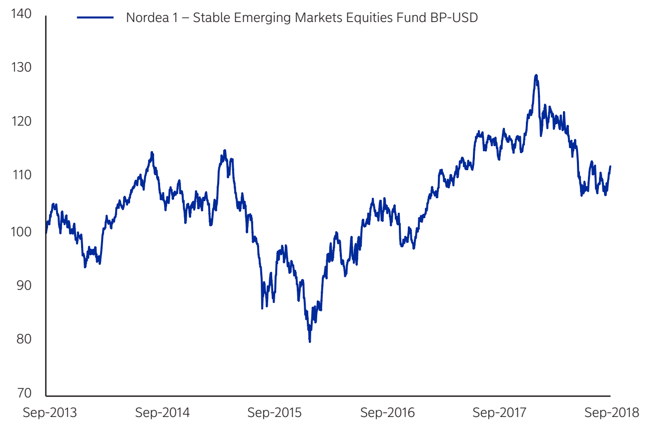
Cumulative returns in % (30.09.2018)	Fund[3]
YTD	–7.23
1 month	2.07
3 months	3.24
6 months	–6.97
1 year	–1.80
3 years	26.39
5 years	12.28
Since launch (03.10.2011)	37.84

Calendar year returns in %	Fund[3]
2017	21.91
2016	9.49
2015	–13.37

Country breakdown (top 10) in % (30.09.2018)	
China	37.34
Republic Of Korea	23.53
India	8.72
South Africa	5.42
Taiwan, Province of China	4.81
Turkey	4.00
Brasil	3.71
Thailand	3.45
Malaysia	2.21
Indonesia	1.77

Nordea 1 – Stable Emerging Markets Equity Fund	
Fund manager	Stable Equities/Multi Assets Team
Fund domicile	Luxembourg
ISIN codes*	LU0634510886 (BP-USD) LU0637344622 (BI-USD)[4]
Annual management fees	1.80 % p.a (BP-USD) 1.00 % p.a (BI-USD)[4]
Base currency	USD
Fund size in millions	1,331.22
No. of holdings	94
Launch date	03.10.2011

Performance (30.09.2013 – 30.09.2018)



Holdings (top 10) in % (30.09.2018)	
Samsung Electronics	3.85
SK Telecom	3.64
China Mobile	3.41
Samsung Fire & Marine Insurance	3.34
Taiwan Semiconductor Manufacturing	3.14
Hyundai Mobis	2.87
China Telecom	2.80
Industrial & Commercial Bank of China	2.80
China Communications Construction	2.56
Power Grid Corp of India	2.28

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. 3) BP-USD share class. 4) 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): 03.10.2011 – 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. 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