

March 2020

## Staying true to yourself pays off

### Nordea 1 – Emerging Stars Equity Fund

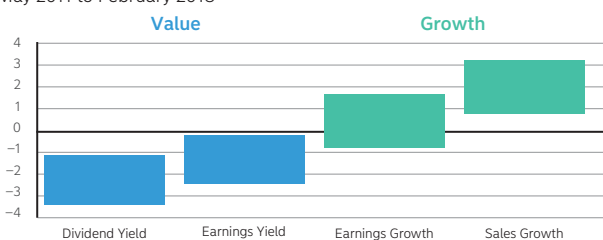
ISIN: LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

In February 2018, Juliana Hansveden became Lead Portfolio Manager and Emily Leveille Co-Portfolio Manager of the Nordea 1 – Emerging Stars Equity Fund. Both have been key people in the team before and have helped build the strong track record of the fund. Given that 2 years have passed, we think it's a good opportunity to review the investment philosophy, positioning and also discuss the performance during this period and the recent turmoil.

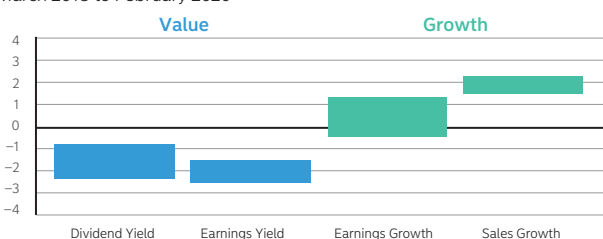
### Same proven investment philosophy and process ...

#### Style skylines – Value and Growth tilts

May 2011 to February 2018



March 2018 to February 2020



Note: Benchmark is MSCI Emerging Markets net return index, USD. Source: StyleAnalytics.

The fund remains a **fundamental, bottom-up, long-term, high conviction fund with a growth tilt** – as illustrated in the charts above. ESG is fully integrated in the investment process as the portfolio managers and our dedicated Responsible Investment team are working hand in hand through each step. Both teams leverage their expertise to discover new investment

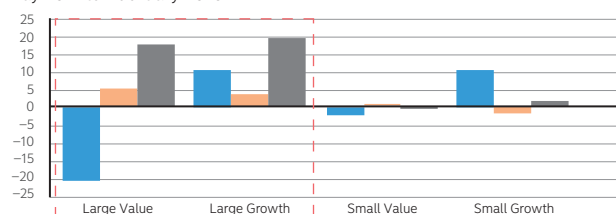
opportunities evaluating companies holistically for their exposure to structural growth trends, competitive advantages, return profile, and material ESG risks and opportunities.

Let's have a closer look at the key components highlighting that our investment philosophy and process remain unchanged:

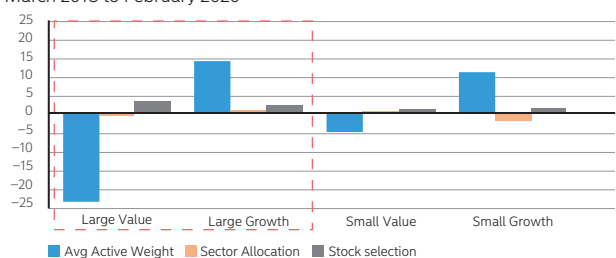
- **High conviction ideas with a long-term thinking:** 8 out of the 10 main positions did not change over the last 2 years
- **Investing in pockets of growth:** The fund kept its overweights in India and IT in order to benefit from the most recent trends such as technology penetration, urbanization, and increase of disposable income
- **Large Cap Growth tilt:** Our Large Cap growth tilt, which has historically generated most of the alpha as depicted in the chart below, remains well within the historical range of the fund

#### Performance contribution by style (USD)

May 2011 to February 2018

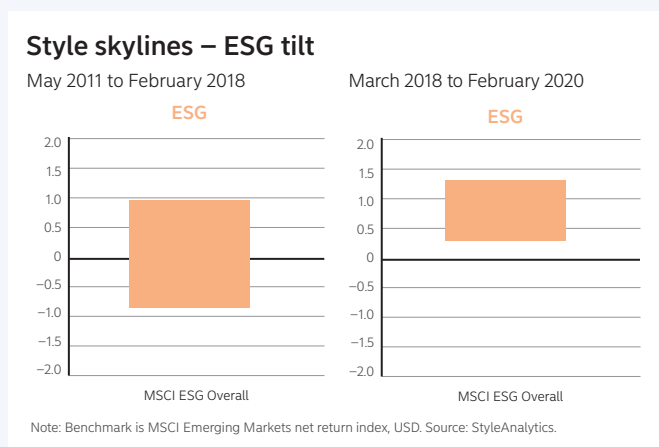


March 2018 to February 2020



Note: Benchmark is MSCI Emerging Markets net return index, USD. Source: StyleAnalytics. 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.

- **ESG Integration:** The fund approach remains unchanged with regards to proactively selecting high quality ESG companies, with the portfolio currently lying within the high end of the ESG range as depicted in the charts below

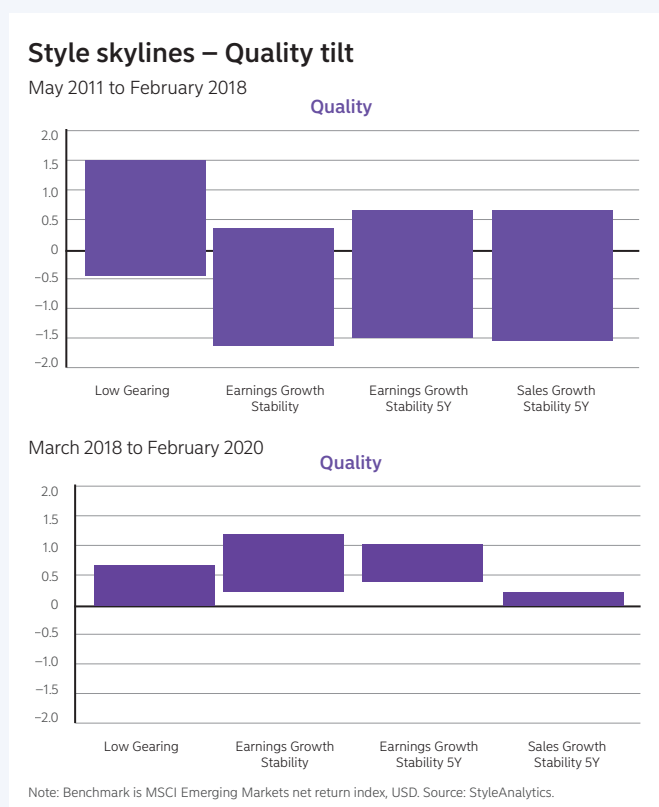


through the late end of the cycle – which exhibits higher volatility and uncertainty – the team focused on **improving the portfolio towards higher quality over the last 2 years**. The current quality tilt lies within the high end of the historical range as emphasized in the charts on the left.

To give a concrete example, the quality of companies was strengthened within the 6 months following March 2018. Among others, the team sold within the Indian holdings State Bank of India due to concerns around its risk management skills. This has proven to be a positive change given India’s current liquidity crisis in the banking/financing sector which has impacted local quality banks/financing companies.

Another major point of concern in the very late end of the cycle is liquidity. Over the last 2 years, **the team improved the liquidity profile of the fund by reducing the size of some illiquid holdings to more appropriate levels and by removing a few low-conviction small caps**. This resulted in the possibility of liquidating 92% of the portfolio within 10 days compared to 74% beginning of 2018 according to StyleAnalytics.

### ... optimized to meet the late cycle challenges



Of course, staying true to our investment philosophy and process does not mean that the portfolio managers are not constantly looking for improvements. As we are navigating

### The perfect solution where ESG meets returns...

The quality and liquidity improvements we just discussed turned out to be a good choice in 2020: In the context of the coronavirus outbreak **the Emerging Market Equity Strategy showed resilience in the severe drawdown and outperformed the benchmark (MSCI Emerging Markets Net return Index) substantially**.<sup>1</sup> In line with our bottom-up approach this outperformance was mostly driven by stock selection. On top **our clear ESG focus contributed to relative performance**, as the strategy benefitted from a big underweight in Energy which suffered the most over the same period. In addition, the portfolio has little exposure to airlines, restaurants, tourism and real estate companies which helped significantly as these sub-sectors were the most impacted. **Our gradual shift towards quality with a focus on strong balance sheet companies contributed significantly to reduce downside risk**.

Over the last 3 years the fund delivered an annual excess return of 4.1% (net of fees)<sup>2</sup> compared to its benchmark.

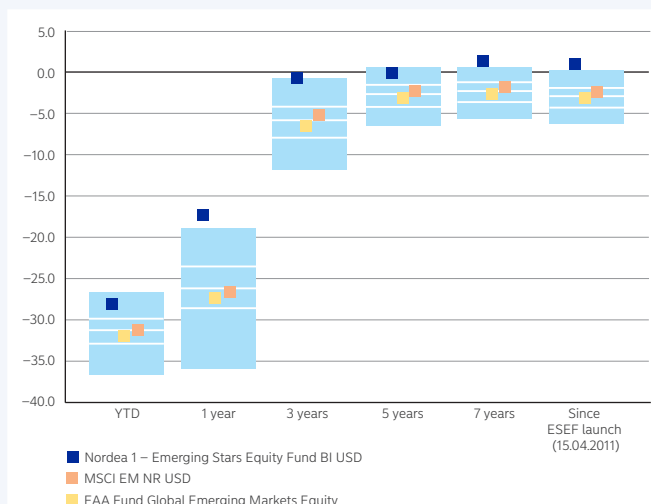
### ... exhibiting top quartile performance in a competitive space

With a track record of 9 years and top-quartile performance according to Morningstar, the fund remains one of the most attractive solutions with the longest track record within the ESG Emerging Equity investment universe.

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) As of 19.03.2020. (BI-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. 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. Comparison with other financial products or benchmarks is only meant for indicative purposes.

Back in 2011 when the fund was launched, we were pioneers in integrating internal ESG research in our investment process and engaging with companies on material ESG risks. Our dedicated team of ESG analysts still follows the same approach and conducts thorough and detailed ESG analyses where they identify and evaluate companies contributing to a better future. Results of such analyses are integrated in their valuations. The team developed a strong understanding and expertise of ESG challenges in Emerging Markets, giving the Nordea 1 – Emerging Stars Equity Fund a strong competitive edge in this space.

## Performance Relative to Peer Group



Data Source – © 2020 Morningstar, Inc. All Rights Reserved as of 19.03.2020, Global Emerging Market Equity Category. 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. 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.

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