

January 2021

Asia – investing in the Engine of Global Growth

Nordea 1 – Emerging Stars Equity Fund

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

Nordea 1 – Asian Stars Equity Fund

ISIN: LU215297971 (BP-USD) / LU2152928607 (BI-USD)

Highlights

- 2020 saw a **strong outperformance of Chinese and Asian equities**, supported by early lockdowns and early reopening of their economies
- In 2021, a strong **global rebound** is expected, **led by Asia**
- **Nordea offers two uniquely positioned solutions**, combining full ESG integration with investments into asian pockets of structural growth

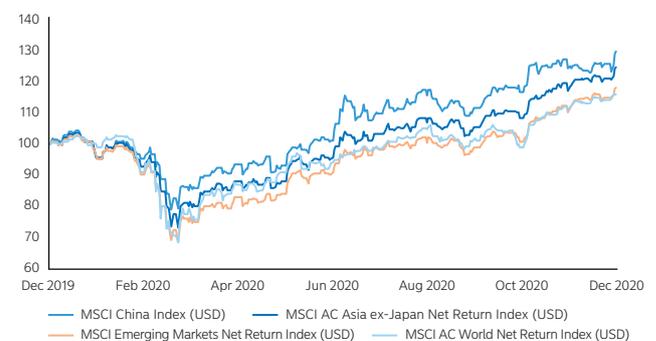
2020 review: Chinese resilience

The outbreak of Covid-19 led to slowdown in activities across the globe, sending prices of various asset classes on a downward spiral. In light of the sudden shock to the global economy, **governments and central banks around the world provided unprecedented fiscal and monetary stimulus into the system** to calm capital markets and to support economic growth in their respective countries.

China has performed exceptionally well in managing both the health and the economic impact of the pandemic. Strict and early lockdowns did help in keeping infections under control, which allowed China to reopen its economy early, leading to a swift recovery in all major economic metric. In this context, China was the only G20 economy with a positive GDP growth of 2.3% in 2020, leading to a spill over effect to other Asian markets, who in general outperformed development markets, as we see in the picture on the right:

The resilience of Asian equities

Indexes Performance



So what will 2021 bring to the market? Are conditions for Asian equities strong enough to continue the positive growth trajectory?

2021 Outlook: blueprint of late 2020?

Looking ahead, the consensus forecast expects real GDP growth in Asia Ex-Japan to return to its pre-Covid-19 level of 5.4% in 2021. Growth in China and in India is estimated at 8-9% YoY, outpacing growth in other countries within the region while contributing the most to global GDP (see graph below). Comparing this to developed markets with an expected 4.2% growth, the environment looks favourable for Asian equities.

Historical GDP growth contribution



But there are more reasons to look more thoroughly into the Asian region and consider it more broadly in the portfolio allocation:

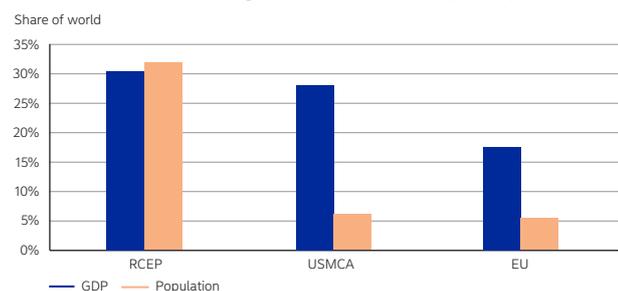
Covid-19 is under control

In North Asia and especially in China, the rate of infection seems to be under control. These markets keep on reopening to a greater extent than elsewhere globally, and economic activity levels are normalising. We expect the Chinese economy to deliver strong growth this year as it benefits from both cyclical and structural tailwinds in areas such as industrial automation, electric vehicles and components, and supply chain localisation.

RCEP: the future of Asia

Asia is now taking on the role of the new engine of global growth with China as the hub for trade in the region. The RCEP (Regional Comprehensive Economic Partnership) will bring Asia a step closer to becoming an integrated trading zone like the EU. This trade deal will reduce economic frictions and according to analysts add 500 bn USD annually to world trade with the biggest beneficiaries being the RECP members – China, Japan, South Korea, Australia, New Zealand, and 10 other Southeast Asian countries.

Size of free trade agreement areas (2019)



More room for monetary easing, if needed

Compared to other regions, conditions in Asia would allow a further stimulus for the economy if needed. Higher general yield levels, relatively stable foreign exchange markets and low inflation levels are supportive drivers of further monetary easings to boost economic growth.

While for now we were looking into the relative attractiveness of Asia as a whole, let's have a closer look into the structural trends within the region which investors can benefit from:

Asian consumption, main driver of growth

The rising purchasing power of Asian consumers indicates opportunities in many consumer-related businesses across a range of segments. This goes far beyond the purely internet-related names that Asia is known for and includes among others sportswear and staples consumption.

One lockdown trend we expect to continue in Asia is the rise of e-commerce. Its penetration is unlikely to recede, as consumers are hooked on the added convenience of these services. With the Covid-19 situation under control, Asian consumers are on

top expected to re-engage in offline activities that have been badly affected by the pandemic.

When technology meets sustainability

The technology sector was one of the main winner in 2020 benefitting from an accelerated shift in consumers' behaviour, and we are optimistic about the longer-term outlook for many of the main Asian players. We believe new technology like artificial intelligence, automation, 5G and biotech will continue to perform as a result of the pandemic and the need for businesses to adopt some of these technologies to maintain growth. Meanwhile, the 'digitisation' of many areas of the economy will continue. We expect digital adoption in South East Asia to catch up with China, which drives demand for increased processor power, bandwidth and storage.

There will be more attention on sustainability-related industries such as electric vehicles, battery storage and supply chain, as countries around the world place stronger emphasis on climate change. Indeed, the commitment to reduce green-house gas emission will most likely accelerate the development and adoption of electric vehicles and energy efficient products, also inducing growth in the ecosystem of renewable energy and resources.

Cheap equities and an appreciating currency

Moreover, looking at Asian equities from a valuation perspective they are trading at 30% discount versus developed market equities while future earnings growth is expected to be higher. This is mainly because Asia is still benefiting from external demand, particularly when growth in DM will be propped up by fiscal policy that will in turn support Asian exports.

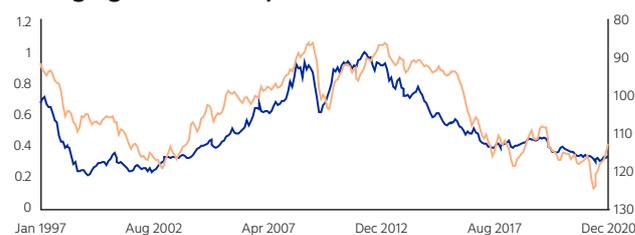
Asian equities forward PE trades at a large discount

Index	12m Forward Price-to-Earnings ratio (x)
MSCI World Index (USD)	20.97
MSCI USA Index (USD)	23.46
MSCI Europe ex-UK Index (USD)	18.15
MSCI Japan Index (USD)	18.30
MSCI Asia ex-Japan Index (USD)	16.38

Source: MSCI Inc as of 31.12.2020.

In combination with a weak USD, which according to analyst consensus is expected to stay under pressure in 2021, the scene seems to be set for a bright EM equity year, as historically there has been a high correlation between a weak USD and EM equities outperforming DM equivalents.

Emerging Markets outperforms when the dollar is weak



Source: Nordea Investment Funds S.A. and Bloomberg.

Investing into Asia: STARS shining bright

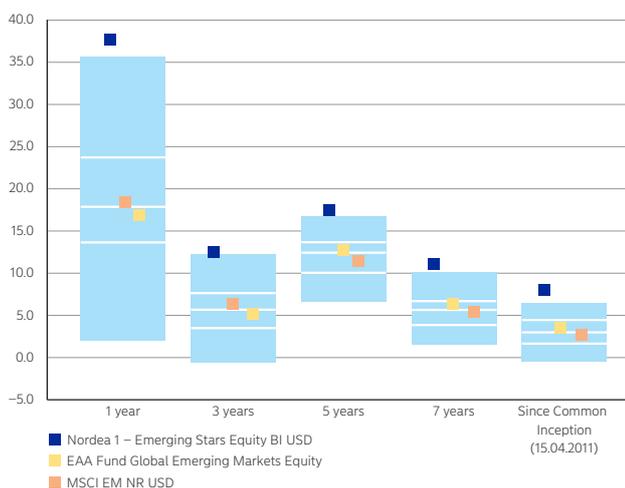
Nordea's Emerging Stars Equity and Asian Stars Equity Strategies are members of our ESG STARS family, a group of equity (and fixed income) solutions at the forefront of responsible investment which invest in companies living up to our strict ESG standards while active ownership and engagement with companies are a central component of the investment process.

Nordea 1 – Emerging Stars Equity Fund

The Nordea 1 – Emerging Stars Equity Fund is the **flagship** of our ESG STARS family. This strategy is a core global Emerging Markets solution that invests **more than 70% in Asia**, across all market capitalizations, hence being well positioned to benefit from the Asian growth story, while still being more broadly diversified within EM. Our solution follows a **fundamental, bottom-up, long-term, high-conviction approach** with an ESG slant and a focus on companies that delivers higher growth and better quality.

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 with two of those ESG analysts being fully dedicated to the Nordea 1 – Emerging Stars Equity Fund. 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



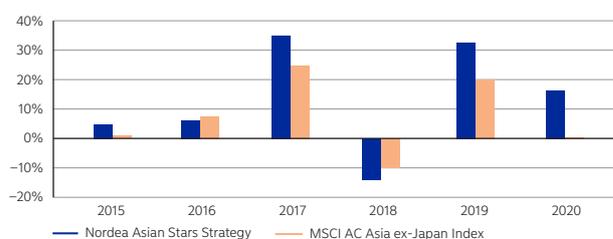
Please notice that the chart herein contained corresponds to the net of fees performance of the Nordea 1 – Emerging Stars Equity Fund (BI-USD) and not the Nordea – Emerging Stars Equity Strategy USD reflecting gross of fees figures. Data Source – © 2021 Morningstar, Inc. All Rights Reserved as of 31.12.2020. European Open End Funds database, Morningstar EAA OE Global Emerging Market Equity category. Period under consideration: 16.04.2011 – 31.12.2020. 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.** 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. Comparison with other financial products or benchmarks is only meant for indicative purposes.

Nordea 1 – Asian Stars Equity Fund

In 2020, reacting to the strong demand from investors to have an **ESG solution investing solely in Asia**, we launched the Nordea 1 – Asian Stars Equity Fund. This strategy follows the

same process, the same philosophy, the same integration, the same engagement policy and the same bias towards **sustainable business models** than its older sister, the Nordea 1 – Emerging Stars Equity Fund. While still being young in age, the Fundamental Equities Team has been managing Asian equities since 2013 with an outstanding historical alpha creation, now adding ESG integration in the ESG Stars format on top.

Performance relative to reference index



Source: Nordea Investment Management AB, Date: 31.12.2020. Performance figures are in EUR. Product Inception: November 2013. The performance represented is gross of fees. **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.** Comparison with other financial products or benchmarks is only meant for indicative purposes. Benchmark: MSCI AC Asia ex-Japan Index.

Well positioned to participate in the Asian growth stories

While everything seems to be set for a continuation of the Asian growth story, there is without any doubt a volatile way in front of us, as too many uncertainties are crossing the paths. With both solutions being tilted towards sustainable and liquid quality names, we are confident we built a robust portfolio which is able to weather potential upcoming storms.

On top, both portfolios are perfectly positioned to benefit from the afore mentioned tailwinds that Asian equities are benefitting from. Both solutions are allocating into pockets of growth, being identified as the structural shifts in the Asian region taking place right now.

Focus on our investment themes

Asian Stars	
Technology	• Memory, Foundry, IoT, Industrial Automation, Cloud software
Sustainability	• Energy efficiency in manufacturing, electric vehicles, Power generation mix shifting to renewable energy
Healthcare	• Ageing populations with more disposable income demanding better quality services, insurance
Indian Growth	• Financial inclusion, consumption, property, growth of middle class
Emerging Consumer	• Social Media, eCommerce, new retail, online travel agencies, financial inclusion, lifestyle changes
New China	• Development of new China, consumption upgrading, media consumption, growth in financial services

While by 2030, Asia is expected to contribute 60% to global growth, Asian equities are still under-represented in global benchmarks and investors' portfolios.

Especially when looking at the current tailwinds, It's time to rethink your Asian Allocation. Let the STARS guide you.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.01.2012 – 31.12.2020. 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 31.12.2020. 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, you could lose some or all of your invested money.** 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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