



# Quarterly Report

Third quarter 2018

## Nordea 1 – Emerging Stars Equity Fund

ISIN: LU0602539602 (BP-USD)

### Overview

- Over the third quarter of 2018, the fund returned -6.21%, outperforming the broader market (measured by the MSCI Emerging Markets – Net Return Index in USD) by -4.97%<sup>1</sup>
- The fund's underperformance was driven by both negative security selection and asset allocation. Country-wise, China and India were among the bottom contributors to performance, while Energy and Real Estate, were the largest drivers sector-wise
- We continue to see an attractive risk/reward relation with a good absolute return potential in EM. Volatility will for sure still be around in the market – the spectrum of outcomes from the political scene in the US, Europe and China can be widespread – but our base case is that we will see more noise rather than actual fundamental changes to economic structures. Good structural long term fundamentals, attractive valuation levels, and a current weak sentiment towards EM equities in general will be factors that can make the investment in this asset class very positive

1) Sources: Nordea Investment Funds S.A. and Datastream. Period under consideration: 30.06.2018 – 30.09.2018. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.

### Investment strategy

The fund invests in Global Emerging Markets companies which are domiciled or exercise the predominant part of their activity in Emerging Markets. The fund's strategy focuses on structural growth, which means that the portfolio is composed of stocks which provide high shareholder value on the company level and which take significant advantage of the long-term structural mega-trends, demographics, technology and globalisation and sustainability. The fund has a particular focus on the companies' ability to comply with international standards for environment, social and corporate governance (ESG) and uses this actively in its investment process.

### Fund data

Share class	BP-USD
Fund category	Accumulating
NAV in USD	119.61
Base Currency	USD
Fund AUM Million (USD)	2,762.96
Front end fee in %	Up to 5.00
Annual management fee in %	1.50
Launch date	15.04.2011
ISIN	LU0602539602
Sedol	B4V3771
WKN	A1JHTL
Bloomberg ticker	NEMSBPU LX
No. of holdings	46
Morningstar Rating Overall <sup>2</sup>	★★★★

Data as of 30.09.2018. 2) Data Source – © 2018 Morningstar, Inc. All Rights Reserved. Date: 11.10.2018, Global Emerging Markets Morningstar category. For the BI-USD share class. 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.

### Portfolio Managers

#### Nordea Fundamental Equities Team



Juliana Hansveden  
Portfolio Manager



Emily Leveille  
Co-Portfolio Manager

## Quarterly commentary Q3 2018

Emerging markets were affected by political events as well as higher rates and a strong USD. Especially the escalating trade war between US and China contributed to high volatility.

In this environment, the Nordea 1 – Emerging Stars Equity Fund (BP-USD) underperformed the benchmark (the MSCI Emerging Markets – Net Return Index) by 497bps<sup>3</sup>. The underperformance was driven both by negative contribution from asset allocation as well as stock selection.

From a regional perspective, it was primarily the stock picking in China and India that drove the performance. On the other hand, security selection was strong in Korea. Sector wise, Utilities and Consumer Discretionary and Real Estate were the main detractors, while IT and Utilities contributed positively. In terms of asset allocation, the underweight in Energy and the overweight in IT was negative for the fund.

At the stock level, among the top contributors we find:

- Samsung SDI (Korea, IT) performed well on the back of a number of positive reports on the company in September. We continue to see a lot of value and future earnings growth in Samsung SDI's large battery energy storage business, and in its lithium battery business for electric vehicles. We believe these opportunities are not correctly priced by the market.
- Taiwan Semiconductor Manufacturing (Taiwan, IT) rallied in July after the stock had been under pressure the previous months, as the market expected weak Q2 earnings due to lower iPhone shipments and crypto-related volatility. The reported Q2 numbers and subsequent guidance were better than expected by the market.
- Ping An Insurance (China, Financials) recovered after a period of underperformance despite a very healthy outlook for the business, both in core insurance and in its new technology and ventures business.

Among the bottom contributors to performance we find:

- Sunny Optical Technology (China, IT) underperformance was driven by decline in gross profit margins. Gross profit margins declined as a result of softer vehicle lens set growth, RMB depreciation and internal production process reshuffling. We expect profitability to improve during the 2nd half of 2018, as most of the internal production process issues are resolved.

- Phoenix Mills (India, Real Estate) contributed slightly negative to performance in July. However, the company is in the process of investing in new growth areas. We believe the company is well on track with their expansion plan and we look forward to seeing the results of their new investments.

- JD.com (China, Consumer Discretionary) underperformed after it's CEO and founder were found to potentially have been involved in some misconduct while visiting the United States. The company is also facing intensified competition from Alibaba in China.

During the quarter, the most significant investment were:

- The laser equipment maker Han's Laser Technology (China, Industrials) engages in the research and development, production, and sale of laser processing equipment. We see the company benefiting from increasing laser adoption in manufacturing as part of the trend towards industrial automation in China, following rising labour costs.

- Hindustan Unilever (India, Consumer Staples) is one of India's best in class consumer companies. The company has a portfolio of strong brands and a superior distribution network located in a very early stage consumer market.

- Haidilao International (China, Consumer Discretionary) is a Chinese restaurant chain and we expect the company to experience significant growth in a very fragmented market.

In the meantime, we have divested from:

- The Chinese telecom operator (China, Telecoms) was sold due to a lack of strong conviction in the case.
- Infosys (India, IT), an Indian IT consulting and software service provider company, was sold after a strong performance together with a deterioration of the long term growth outlook.

We expect continued market volatility driven by geopolitical uncertainty and further US monetary tightening. So far, the fundamental effects on the Chinese economy from the US-China trade war have been relatively small but there is a risk that weakening sentiment and the disruption of supply chain can impact the economy. However, given China's successful rebalancing, private consumption is now the main driver of the economy, not exports. In addition, China has reached a high level of technological know-how and can continue its industrial upgrade. Also, it is important to remember that the market correction has priced in a good deal of the current uncertainty and there can be positive surprises in terms of a trade deal and slower tightening by the Federal Reserve if the US economy slows down.

---

In general, we are very comfortable with the outlook for emerging markets and believe they are in a strong position to weather this volatility. Emerging Markets continue to have extremely attractive long-term fundamental characteristics, both in absolute terms and relative to developed economies.

In emerging markets, we see economies with faster rates of growth, younger populations, higher savings rates, lower debt levels, and positive productivity changes, when compared to developed markets.

The macroeconomic picture may vary from country to country, but the reality is that growth rates overall remain well above most developed markets. The valuation of emerging markets in aggregate is at very reasonable levels close to the long-term average and we see significant potential for an improvement in returns. On a stock specific level we see a large mispricing and significant investment opportunities.

## Cumulative returns as of 30.09.2018 in %

Time frame	Fund <sup>4</sup>	Index <sup>5</sup>
Year to date	-15.39	-7.68
1 month	-3.06	-0.53
3 months	-6.00	-1.09
6 months	-13.07	-8.84
1 year	-8.23	-0.81
3 years	36.32	41.85
5 years	25.34	19.42
Since launch	19.61	6.83

## Calendar year returns in %

Time frame	Fund <sup>4</sup>	Index <sup>5</sup>
2017	45.88	37.28
2016	5.77	11.19
2015	-13.71	-14.92
2014	6.22	-2.19
2013	0.95	-2.60

## Performance of the fund versus index (since inception on 15.04.2011)



4) ISIN Code LU0602539602. Inception date: 17.07.2011. 5) MSCI Emerging Markets – Net Return Index. Sources: Nordea Investment Funds S.A. and Bloomberg. Period under consideration: 15.04.2011 – 30.09.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.**

## Quarterly sector contribution in %

Sector	Average fund weight <sup>A</sup>	Relative fund weight	Non-weighted		Weighted	
			Index performance	Fund performance	Fund absolute contribution <sup>B</sup>	Fund relative contribution
Communication Services	0.00	-4.49	1.62	-1.51	0.00	-0.07
Consumer Discretionary	8.53	-0.51	-10.46	-16.67	-1.57	-0.56
Consumer Staples	4.58	-1.99	-2.78	-0.75	-0.22	-0.04
Energy	0.00	-8.22	14.30	0.00	0.00	-0.98
Financials	23.43	0.22	1.31	0.10	0.05	-0.23
Health Care	5.50	2.46	-7.16	-6.19	-0.35	-0.12
Industrials	5.87	0.43	3.08	-11.14	-0.45	-0.61
Information Technology	43.32	16.40	-4.57	-3.76	-1.63	-0.40
Materials	1.12	-6.77	4.07	-14.13	-0.17	-0.45
Real Estate	5.01	2.23	-6.00	-21.53	-1.34	-1.16
Utilities	1.11	-1.30	-1.91	13.43	0.13	0.18
			-1.10 <sup>C</sup>	-5.56 <sup>D</sup>	-5.56 <sup>D</sup>	-4.46 <sup>E</sup>

A) Rebased to 100. B) Sum of individual contribution equals to the fund's performance for period of report. C) The figure represents the overall performance of the index over the quarter expressed in the fund's share-class currency. D) The figure represents the gross of fees performance of the fund in USD from 30.06.2018 to 30.09.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.** E) Sum of relative contribution equals to the fund's excess return. Source: Nordea Investment Funds S.A. Date: 30.09.2018.

## Quarterly country contribution in %

Country	Average fund weight <sup>A</sup>	Relative fund weight	Non-weighted		Weighted	
			Index performance	Fund performance	Fund absolute contribution <sup>B</sup>	Fund relative contribution
China	28.78	-2.21	-7.52	-13.65	-3.99	-1.57
Republic Of Korea	15.00	0.11	0.69	4.95	0.68	0.58
India	13.88	5.35	-2.25	-12.94	-2.01	-1.79
Taiwan, Province of China	11.67	-0.62	6.55	6.70	0.64	-0.07
Brazil	7.92	1.73	6.07	-0.51	-0.06	-0.41
South Africa	5.34	-0.75	-7.40	-11.62	-0.62	-0.16
Hong Kong	3.24	3.24	0.00	2.68	0.08	0.07
United Kingdom	2.96	2.96	0.00	-8.35	-0.25	-0.26
United States	2.89	2.89	0.00	6.85	0.19	0.18
Mexico	2.68	-0.48	6.90	3.81	0.10	-0.10
Other	5.66	-12.21	3.44	-5.65	-0.32	-0.94
			-1.10 <sup>C</sup>	-5.56 <sup>D</sup>	-5.56 <sup>D</sup>	-4.46 <sup>E</sup>

A) Rebased to 100. B) Sum of individual contribution equals to the fund's performance for period of report. C) The figure represents the overall performance of the index over the quarter expressed in the fund's share-class currency. D) The figure represents the gross of fees performance of the fund in USD from 30.06.2018 to 30.09.2018. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.** E) Sum of relative contribution equals to the fund's excess return. Source: Nordea Investment Funds S.A. Date: 30.09.2018.

### Top ten weights contribution during the quarter in %

Company	Average weight	Performance <sup>6</sup>	Absolute contrib.
Samsung Electronics	7.75	0.60	0.04
Taiwan Semiconductor Manufacturing	7.55	21.01	1.24
Tencent Holdings	7.23	-17.69	-1.42
Alibaba Group Holding ADR	6.42	-11.20	-0.75
Ping An Insurance Group Co of China	4.16	11.34	0.41
Naspers	4.13	-15.06	-0.66
Samsung SDI	4.05	21.41	0.69
Alia Group	3.20	2.62	0.07
Itau Unibanco Holding	3.19	7.22	0.21
Housing Development Finance	3.15	-12.38	-0.44

6) The performance is expressed in the fund's base currency based on the holding period of the stock and is gross of fees. **The performance represented is historical; past performance is not a reliable indicator of future results.** Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2018 – 30.09.2018.

### Market capitalisation as of 30.09.2018 in %

Mn USD	Fund
< 1,000	6.17
1,000 – 2,000	9.16
2,000 – 5,000	4.10
5,000 – 10,000	9.71
10,000 – 20,000	11.02
20,000 – 30,000	3.84
30,000 – 40,000	1.74
40,000 – 50,000	5.06
50,000 – 100,000	12.15
100,000 – 200,000	7.47
>200,000	29.38
Other	0.21

Source: Nordea Investment Funds S.A. Date: 30.09.2018

### Top ten contributors during the quarter in %

Company	Average weight	Performance <sup>6</sup>	Absolute contrib.
Taiwan Semiconductor Manufacturing	7.55	21.01	1.24
Samsung SDI	4.05	21.41	0.69
Ping An Insurance Group Co of China	4.16	11.34	0.41
Itau Unibanco Holding	3.19	7.22	0.21
MercadoLibre	1.67	13.94	0.18
Samsung Fire & Marine Insurance	2.29	8.08	0.16
China Resources Pharmaceutical Group	1.12	14.65	0.13
Infraestructura Energetica Nova	1.11	13.43	0.13
Bank Rakyat Indonesia Persero	1.45	6.68	0.08
Raia Drogasil	1.79	5.28	0.08

6) The performance is expressed in the fund's base currency based on the holding period of the stock and is gross of fees. **The performance represented is historical; past performance is not a reliable indicator of future results.** Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2018 – 30.09.2018.

### Bottom ten contributors during the quarter in %

Company	Average weight	Performance <sup>6</sup>	Absolute contrib.
Tencent Holdings	7.23	-17.69	-1.42
JD.com ADR	1.76	-33.02	-0.81
Sunny Optical Technology Group	1.72	-37.86	-0.79
Alibaba Group Holding ADR	6.42	-11.20	-0.75
Naspers	4.13	-15.06	-0.66
Phoenix Mills	2.19	-21.85	-0.65
Housing Development Finance	3.15	-12.38	-0.44
Shenzhen Inovance Technology	1.79	-18.68	-0.37
eMemory Technology	0.93	-22.90	-0.26
Sberbank of Russia PJSC	2.67	-10.72	-0.26

6) The performance is expressed in the fund's base currency based on the holding period of the stock and is gross of fees. **The performance represented is historical; past performance is not a reliable indicator of future results.** Source: Nordea Investment Funds S.A. Period under consideration: 30.06.2018 – 30.09.2018.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.06.2018–30.09.2018. 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. The sub-funds mentioned are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d'Investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009. **This document is advertising material and does not disclose all relevant information concerning the presented sub-funds.** Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without charge upon request from Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, from the local representatives or information agents, or from our distributors. Investments in derivative and foreign exchange transactions may be subject to significant fluctuations which may affect the value of an investment. **Investments in Emerging Markets involve a higher element of risk. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured. Investments in equity and debt instruments issued by banks could bear the risk of being subject to the bail-in mechanism (meaning that equity and debt instruments could be written down in order to ensure that most unsecured creditors of an institution bear appropriate losses) as foreseen in EU Directive 2014/59/EU. For further details of investment risks associated with these sub-funds, please refer to the relevant Key Investor Information Document (KIID), available as described above.** Nordea Investment Funds S.A. has decided to bear the cost for research, i.e. such cost is covered by existing fee arrangements (Management-/Administration-Fee). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. **Please note that all sub funds and share classes might not be available in your country of jurisdiction. Additional information for investors in Switzerland:** The Swiss Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland. **Additional information for investors in Germany:** The Information Agent in Germany is Société Générale S.A. Frankfurt Branch, Neue Mainzer Straße 46-50, D-60311 Frankfurt am Main. A hard copy of the above-mentioned fund documentation is also available from here. **Additional information for investors in Austria:** Sub-paying Agent and Representative in Austria is Erste Bank der Österreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna. **Additional information for investors in the Netherlands:** Nordea 1, SICAV is a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS) registered in the Netherlands in the register kept by the AFM, and as such is allowed to offer its shares in the Netherlands. The AFM register can be consulted via [www.afm.nl/register](http://www.afm.nl/register). **Additional information for investors in France:** With the authorisation of the AMF the shares of the sub-funds of Nordea 1, SICAV may be distributed in France. Centralising Correspondent in France is CACEIS BNP, located at 1-3, place Valhubert, 75013 Paris. **Investors are advised to conduct thorough research before making any investment decision. Additional information for investors in Belgium:** The Representative Agent in Belgium is BNP Paribas Securities Services S.C.A., Brussels branch, 25 Rue de Loxum, Brussels, B-1000-Belgium. A hard copy of the above-mentioned fund documentation is available upon demand free of charge. **Additional information for investors in Spain:** Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. The Depository of the SICAV's assets is, J.P. Morgan Bank Luxembourg S.A. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription. The Representative Agent is Allfunds Bank S.A., Paseo de la Castellana 9, ES-28046 Madrid, Spain. A complete list of the authorised distributors is available in the CNMV's webpage ([www.cnmv.es](http://www.cnmv.es)). **Additional information for investors in Portugal:** The Management Company of the SICAV, Nordea Investment Funds, S.A., and the Depository of the SICAV's assets, J.P. Morgan Bank Luxembourg S.A., are validly formed and existing in accordance with the laws of Luxembourg and authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Our distributor in Portugal is BEST – Banco Electrónico de Serviço Total, S.A., duly incorporated under the laws of Portugal and registered with the CMVM as a financial intermediary. **Additional information for investors in Italy:** Fund documentation as listed above is also available in Italy from the distributors and on the website [www.nordea.it](http://www.nordea.it). The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at State Street Bank International GmbH – Succursale Italia, branches (located in the main towns of each region), BNP Paribas Securities Services – Succursale di Milano, Banca Sella Holding S.p.A., Banca Monte dei Paschi di Siena S.p.A., Allfunds Bank S.A., Succursale di Milano, Société Générale Securities Services S.p.A. and on the website [www.nordea.it](http://www.nordea.it). Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus and the KIID carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. **The prospectus and KIID for the sub-funds have been published with Consob. Additional information for investors in the United Kingdom:** Approved by Nordea Bank Abp, 5 Aldermanbury Square, London EC2V 7AZ, which is regulated by the FCA in the United Kingdom. **Additional information for investors in Sweden:** The Paying Agent is Nordea Bank Abp, filial i Sverige, Smålandsgatan 17, Stockholm SE-105 71. The Representative Agent is Nordea Funds Ltd, Swedish Branch, Mäster Samuelsgatan 21, Stockholm, SE-105 71. **Additional information for investors in Denmark:** The Information and Paying Agent is Nordea Danmark, filial af Nordea Bank Abp, Finland, Strandgade 3, Christiansbro, DK-1401 Copenhagen K. A hard copy of the above-mentioned fund documentation is available here. **Additional information for investors in Norway:** The Paying Agent is Nordea Bank Abp, filial i Norge, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. The Representative Agent is Nordea Funds Ltd, Norwegian Branch, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. **Additional information for investors in Finland:** The Paying Agent is Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. The Representative Agent is Nordea Funds Ltd, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. **Additional information for investors in Latvia:** The Representative and Paying Agent is Luminor Bank AS, Līvālaļa 45, 10145 Tallinn. **Additional information for investors in Lithuania:** The Representative and Paying Agent in Lithuania is Luminor Bank AB, Konstitucijos pr. 21A, 03601 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. **Information for investors in Brazil:** This is a strictly privileged and confidential document for the purposes of a potential investment in foreign securities on a one-on-one basis with potential investors with a pre-existing relationship with Nordea Investment Funds S.A. This document contains information addressed only to a specific individual and is not intended for distribution to, or use by, any other person. This document (i) is provided for informational purposes only, (ii) should not be construed in any manner as any solicitation or offer to buy or sell any securities or any related financial instruments, (iii) should not be construed in any manner as a public offer of any securities or any related financial instruments, and (iv) will be addressed to a potential investor with restrict access of information. Nordea 1, SICAV have not been, and will not be, registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM), and must not be offered or sold in Brazil except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. Any public offering, placement or distribution, as defined under Brazilian laws and regulations, of securities in Brazil, is not legal without prior registration under Law No. 6,385 of December 7, 1976, as amended. Documents relating to the offering of the Nordea 1, SICAV, as well as information contained therein, must not be supplied to the general public in Brazil (as the offering of the Nordea 1, SICAV is not a public offering of securities in Brazil) or used in connection with any offer for subscription or sale of the Nordea 1, SICAV to the general public in Brazil. Investors within Brazil should consult with their own counsel as to the applicability of these laws and regulations or any exemption therefrom. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration.