



# Quarterly Report

Third quarter 2018

## Nordea 1 – European Value Fund

ISIN: LU0064319337 (BP-EUR)

### Overview

- The Nordea 1 – European Value Fund delivered -0.11%<sup>1</sup> during the third quarter, underperforming the MSCI Europe Net Return Index by 1.44%<sup>1</sup>
- Ongoing themes that continued to weigh on European markets during Q3 were tariffs and the escalating potential for a trade war, growing problems for emerging markets, uncertainty about how Brexit will play out and concerns around Italy's fiscal stability
- During Q3 we exited our positions in Anima, NKT and Novartis. After the populist government's election in Italy, we no longer trusted our margin of safety in Anima. The rebound of the high voltage market cycle has yet to materialise for NKT. This will happen, but difficult to gauge when. Novartis reached our fair value, following almost nine years of ownership and an annualised total return in excess of 13%

1) Sources: Nordea Investment Funds S.A. and Bloomberg. 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 investment team seeks to provide durable positive absolute returns by applying a disciplined value style approach. They consider themselves as business, rather than stock market investors. Their approach concentrates on long-term investment and not on market specific factors and short-term phenomena. This means focusing on selecting businesses that will offer upside potential with limited downside risk. The belief that certain businesses have a greater earnings power forms the basis of this process. Earnings power is defined as a company's ability to generate substantial discretionary free cash flow over a sustained period of time. The team believes that only in this way can a company generate wealth for its shareholders, and provide long-term capital appreciation. Investments are made on a business by business basis, irrespective of market capitalisation, sector or industry, and only when share prices represent a significant discount to the intrinsic value of the business.

### Fund data

Share class	BP-EUR
Fund category	Accumulating
NAV in EUR	64.47
Base Currency	EUR
Fund AUM Million (EUR)	1,283.66
Front end fee in %	Up to 5.00
Annual management fee in %	1.50
Launch date	15.09.1989
ISIN	LU0064319337
Sedol	4703350
WKN	973347
Bloomberg ticker	FRTIEEQ LX
No. of holdings	37

Data as of 30.09.2018.

### Portfolio Managers

#### Mensarius



Tom Stubbe Olsen  
Portfolio Manager



Cédric Jacque  
Portfolio Manager

## Quarterly commentary Q3 2018

The unstable situation between the US and its trading partners around the world has dominated headlines and impacted markets. As stated in last quarter's report, tariffs will result in higher input prices and put upward pressure on inflation.

One trend emerging through the noise is the return of price inflation. Commodity prices have been rising for some time now, companies have started to experience higher input prices and expectations of an increase in inflation have begun to be factored into the valuation of financial assets. How high inflation rates will go in the near future remains to be seen. But it is clear most companies now have to deal with a rise in raw material costs and wages – while the possibility of tariff hikes from a trade war would further inflate their input prices. In this environment, we believe investing in companies with a strong franchise, which gives them the power to raise prices if required, is the best way to protect investments.

When the tide of inflation turns, pricing power will again be crucial to companies' sustainable profitability and ability to produce strong earnings. Aggressive monetary policy had reduced the importance of pricing power, as multiple expansion has been a stronger driver of stock prices than earnings. As further multiple expansion seems unlikely in the presence of modestly rising interest rates, we firmly believe that pricing (and earning) power will be the main driver of future stock prices – and become all the more important if it has to offset some contraction of valuation multiples.

A modest inflationary environment is also positive for companies that possess pricing power, as prices have a positive effect on the top line, while maintaining or even expanding margins. Within various sectors and value chains, it will become apparent which companies can pass cost inflation through to defend their profit margins, and which will see profits come under pressure.

It is therefore pleasing – though not surprising – to see many of our holdings demonstrating their pricing power capabilities as they adjust their prices in the face of higher costs. For example, trailer components manufacturer SAF-Holland confirmed in its last quarterly earnings release that it will be able to offset steel price increases within six months. Krones, a bottling equipment specialist, has announced it will apply the most meaningful price increase of its industry in years, while Viscofan, a sausage casing producer, told us higher prices were already applied to most of its customers.

Italian stocks and bonds fell sharply on 28 September, as the country's populist government announced its budget and fiscal targets for 2019. Investors are concerned about the country's fiscal stability and its large debt as a percentage of GDP. Italy has the second largest debt in the eurozone after Greece.

The Five Star Movement/League coalition that governs the country has pledged higher welfare spending and tax cuts. With these promises, the Italian government is widening the

country's budget deficit, bringing it closer to the EU's limit of 3% of GDP. The target for 2019 is 2.4% of GDP (triple what the previous government had planned), suggesting the new Italian leaders intend to stick to the election promises that brought them to power. The announcement pushed the Italian 10Y government bond yield up from 2.8% to 3.3% (as of 02.10.2018), while the spread against German Bunds – which gauge the market appetite for Italian debt – soared from late September lows of around 2.3% to 2.9% (as of 02.10.2018). Together with the bonds, Italian banks and financials were some of the hardest hit. The budget is now sent for approval by the cabinet on 20 October, after which the Italian parliament has until the end of 2018 to approve it. However, the European Commission will also scrutinise the budget and can reject it before then.

Italy is currently seen more as an idiosyncratic case. Nevertheless, with this move putting Italy, one of the eurozone's biggest government borrowers, on a collision course with the European Union, we cannot underestimate the impact it could have.

We do not hold shares in any Italian bank, but previously held Italian asset manager Anima Holding SPA in the portfolio. We reduced our position in Anima in Q2 2018 and completely sold it in late July on fears it could be indirectly impacted by the consequences of the political situation in Italy. Salvatore Ferragamo and Tenaris remain the only two Italian holdings in the portfolio, with a 2.3% and 2.9% weight respectively. These are very much international companies, especially Tenaris, which is an oil service equipment supplier.

### Top Contributors<sup>2</sup>

Amer Sports (+30.25%) saw strong performance this quarter after Chinese sporting goods company Anta indicated its desire to buy the company. Anta's bid of EUR 40 per share is at a healthy premium to the market price and we think the transaction makes strategic sense. The stock contributed +86bps to the fund's performance.

Ericsson (+15.14%) continues to execute on its turnaround plan, with both gross and operating margins in all three divisional segments showing improvement in the Q2 results. With its SEK 10bn cost cutting plan now complete, we expect to see further improvement in the second half of the year. The company has also benefited from sanctions on Chinese competitors, which allowed Ericsson to pick up new contracts from operators it has not previously worked with. We expect this trend to continue, with Ericsson gaining radio access network (RAN) share in most of its key markets. Ericsson contributed +61bps to this quarter's performance

Frank's International (+11.85%) continued to recover this quarter with the tightening oil market. Offshore is clearly needed as a source of supply to meet demand over the medium term. Frank's International, as the leader in tubular running services, will see sales pick up once international oil companies start to invest again in their offshore plays. Frank's added +44bps to performance.

2) Performance contributions are gross of fees.

## Bottom Contributors<sup>2</sup>

The Swatch Group, Danske Bank and Hugo Boss detracted -1.24% in total from the fund. After a period of good performance, the Swatch Group (-15.36%) and Hugo Boss (-14.72%) both took a breather this quarter. No meaningful fundamental news emerged to explain these gradual retracements. We think the Swatch Group will still see its earnings lifted by the recovery of the watch cycle, while the restructuring plans at Hugo Boss continue to be well executed.

Danske Bank (-15.63%) has published the findings of its internal investigation into the EUR250bn money laundering scandal from its Estonian operations. While no details of the size, timing or nature of any potential fine have been disclosed, there are concerns the bank will have to reduce the size of its previously announced buybacks and dividend payouts. In light of the scandal, the CEO resigned and there are calls for the Chairman of the Board to step down. In terms of underlying operations, the bank reported a weaker-than-expected set of Q2 results, driven by poor trading income. The weak trading income resulted from a flatter yield curve and less activity from corporate clients as they wait to see whether trade wars will

impact their business plans. The stock detracted -37bps from performance during the quarter.

## Purchases and Sales

We disposed of Anima, NKT and Novartis during Q3. After the populist government's election in Italy, we no longer trusted our margin of safety in Anima to be ample enough to make it an attractive risk/reward proposition.

The rebound of the high voltage market cycle has yet to materialize for NKT. We believe this will happen at some stage, but cannot gauge when. The longer it takes, the higher the risk the company's balance sheet might appear to be stretched (a strong balance sheet is key in tendering for this kind of contract). We also see a risk of fierce price competition emerging between incumbents, as they will soon need to clinch contracts to deal with their increasingly underutilised capacity.

We sold our position in Novartis after the stock price reached our fair value, following almost nine years of ownership and an annualised total return in excess of 13%.

2) Performance contributions are gross of fees.

## Cumulative returns as of 30.09.2018 in %

Time frame	Fund <sup>3</sup>	Index <sup>4</sup>
YTD	2.41	0.84
1 month	-0.75	0.53
3 months	-0.11	1.33
6 months	6.11	5.38
1 year	4.51	1.48
3 years	22.78	20.10
5 years	42.66	39.74
Since take over <sup>1</sup>	320.85	142.82
Since launch <sup>11</sup>	544.70	589.18

## Calendar year returns in %

Time frame	Fund <sup>3</sup>	Index <sup>4</sup>
2017	10.30	10.24
2016	3.93	2.58
2015	13.40	8.22
2014	5.24	7.22
2013	14.23	19.78
2012	22.13	16.92
2011	-9.35	-8.50
2010	22.82	11.95
2009	42.40	31.20

3) ISIN Code LU0064319337. Inception date: 15.09.1989. 4) MSCI Europe – Net Return Index. 1) 01.11.1998 is the date at which the current fund manager took over the management of the fund. 11) The current management team is not responsible for the since-inception performance, as they took over the fund on 01.11.1998. Sources: Nordea Investment Funds S.A. and Datastream. Period under consideration: 15.09.1989–30.09.2018. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested.

## Performance of the fund versus reference index (since 01.11.1998<sup>5</sup>)



5) 01.11.1998 is the date at which the current fund manager took over the management of the fund. Sources: Nordea Investment Funds S.A. and Datastream. Period under consideration: 01.11.1998–30.09.2018. 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 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
Austria	1.95	1.57	0.77	-8.39	-0.22	-0.23
Belgium	0.00	-1.61	-4.70	0.00	0.00	0.08
Denmark	12.17	9.51	2.84	0.34	-0.02	-0.10
Finland	3.69	2.02	3.71	30.25	0.86	0.81
France	5.98	-11.78	3.36	-0.94	-0.05	-0.62
Germany	12.99	-1.91	-0.05	-2.91	-0.49	-0.48
Ireland	0.00	-0.82	-4.92	0.00	0.00	0.04
Italy	5.30	1.67	-3.95	-4.92	-0.31	-0.16
Netherlands	2.48	-2.80	-1.01	1.05	0.02	0.09
Norway	1.68	0.45	7.20	8.12	0.12	0.04
Portugal	0.00	-0.25	-0.03	0.00	0.00	0.00
Spain	2.60	-2.08	-1.86	7.62	0.18	0.27
Sweden	11.06	6.73	7.54	9.81	0.96	0.66
Switzerland	10.53	-2.54	7.82	-3.35	-0.35	-1.31
United Kingdom	25.17	-2.55	-1.15	-3.12	-0.76	-0.45
United States of America	4.39	4.39	0.00	11.74	0.44	0.44
			<b>1.33<sup>C</sup></b>	<b>0.39<sup>D</sup></b>	<b>0.39<sup>D</sup></b>	<b>-0.93<sup>E</sup></b>

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 EUR 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 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	-3.18	-3.44	0.00	0.00	0.11
Consumer Discretionary	27.87	17.27	-0.23	-2.24	-0.58	-0.58
Consumer Staples	5.08	-8.27	0.96	4.31	0.20	0.08
Energy	16.78	8.22	3.24	-0.10	-0.02	-0.30
Financials	5.24	-13.88	0.61	-4.19	-0.24	-0.34
Health Care	6.23	-6.86	5.70	5.52	0.46	-0.24
Industrials	18.96	5.81	2.48	-0.28	-0.08	-0.41
Information Technology	14.08	8.48	0.74	6.14	0.79	0.75
Materials	2.97	-5.42	-0.23	-6.03	-0.18	-0.15
Real Estate	1.75	0.36	-3.78	2.74	0.04	0.10
Utilities	0.00	-3.57	-1.47	0.00	0.00	0.05
			<b>1.33<sup>C</sup></b>	<b>0.39<sup>D</sup></b>	<b>0.39<sup>D</sup></b>	<b>-0.93<sup>E</sup></b>

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 EUR 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.
SAP	4.85	7.11	0.33
Ericsson B	4.74	15.14	0.61
Frank's International	4.39	11.85	0.44
Royal Dutch Shell	3.99	0.54	0.03
Senior	3.77	2.00	0.07
Amer Sports	3.69	30.25	0.86
Novo Nordisk B	3.56	2.78	0.09
Hunting	3.48	-0.14	-0.01
Nilfisk Holding	3.44	5.04	0.15
Landis+Gyr Group	3.37	0.45	0.01

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 and investors may not recover the full amount invested.** 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.	Mn USD	Fund <sup>6</sup>
Amer Sports	3.69	30.25	0.86	> 1,000	6.89
Ericsson B	4.74	15.14	0.61	1,000 – 2,000	20.52
Frank's International	4.39	11.85	0.44	2,000 – 5,000	13.25
SAP	4.85	7.11	0.33	5,000 – 10,000	7.03
A.P. Møller – Mærsk B	2.84	13.37	0.31	10,000 – 20,000	10.32
LVMH Moët Hennessy Louis Vuitton	3.17	6.79	0.27	20,000 – 30,000	13.79
Shire	2.67	7.74	0.19	30,000 – 40,000	2.97
Novartis	0.00	9.56	0.18	40,000 – 50,000	2.69
Viscofan	2.60	7.62	0.18	50,000 – 100,000	7.87
Epiroc B	1.42	12.83	0.16	100,000 – 200,000	10.65
				> 200,000	4.02

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 and investors may not recover the full amount invested.** Source: Nordea Investment Funds S.A.. Date: 30.09.2018.

## Market capitalisation as of 30.09.2018 in %

Mn USD	Fund <sup>6</sup>
> 1,000	6.89
1,000 – 2,000	20.52
2,000 – 5,000	13.25
5,000 – 10,000	7.03
10,000 – 20,000	10.32
20,000 – 30,000	13.79
30,000 – 40,000	2.97
40,000 – 50,000	2.69
50,000 – 100,000	7.87
100,000 – 200,000	10.65
> 200,000	4.02

6) Rebased to 100. Source: Nordea Investment Funds S.A.. Date: 30.09.2018

## Bottom ten contributors during the quarter in %

Company	Average weight	Performance <sup>6</sup>	Absolute contrib.
Swatch Group	3.01	-15.36	-0.53
Danske Bank	2.33	-15.63	-0.37
HUGO BOSS	2.05	-14.72	-0.34
Publicis Groupe	2.80	-12.62	-0.32
Krones	1.33	-18.39	-0.29
Weir Group	1.89	-12.50	-0.26
Tenaris	2.97	-8.20	-0.25
Schoeller-Bleckmann Oilfield Equipmt.	1.95	-8.39	-0.22
Burberry Group	2.81	-7.40	-0.22
Pets at Home Group	2.48	-8.49	-0.21

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 and investors may not recover the full amount invested.** Source: Nordea Investment Funds S.A.. Date: 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. 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