

September 2020

## Staying true to yourself pays off

### Nordea 1 – Emerging Stars Equity Fund

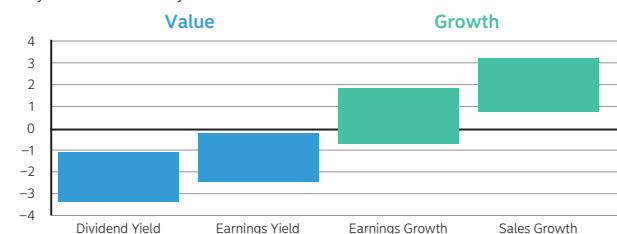
ISIN: LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

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<sup>1</sup>. Given that more than 2.5 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.

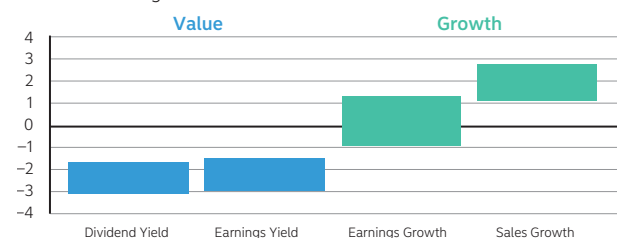
#### Same proven investment philosophy and process ...

##### Style skylines – Value and Growth tilts

May 2011 to February 2018



March 2018 to August 2020



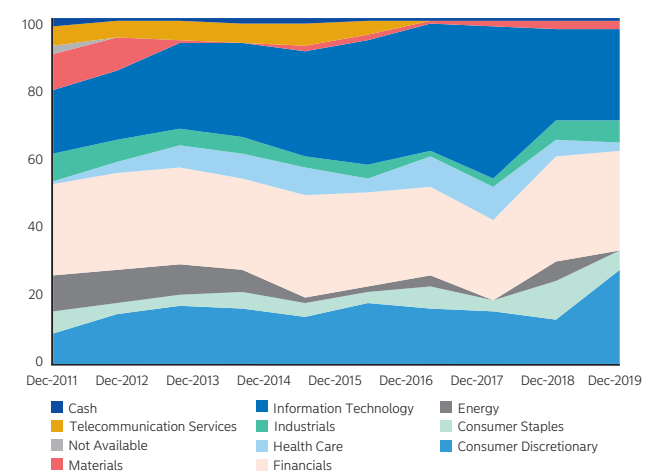
Note: Benchmark is MSCI Emerging Markets net return index, USD. Source: StyleAnalytics.

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.

The key components of the investment philosophy and process remain unchanged:

- **High conviction ideas with a long-term thinking:** 7 out of the 10 main positions did not change over the last 2 years.
- **Investing in pockets of growth:** The portfolio managers have been investing in companies benefiting from technology penetration (Tencent Holdings), and increase of disposable income (Ping An Healthcare & Technology) leading the fund being overweight in India and IT for example.

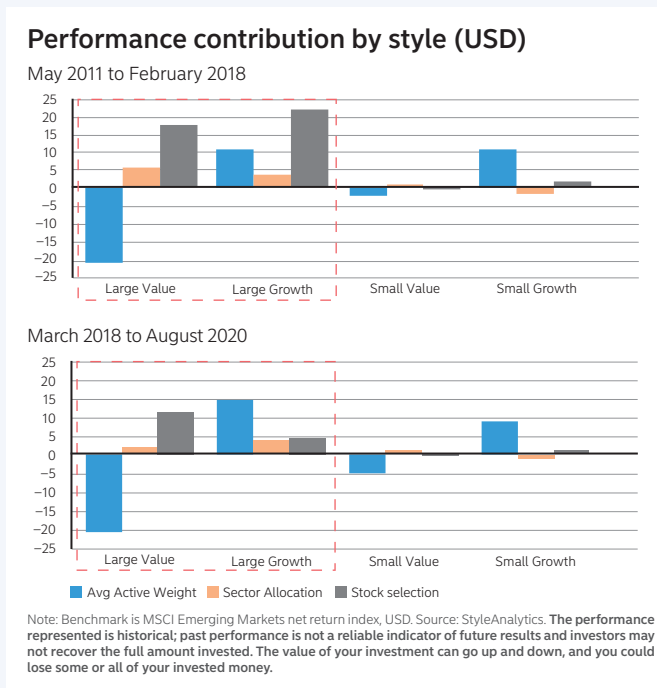
##### Sector breakdown evolution



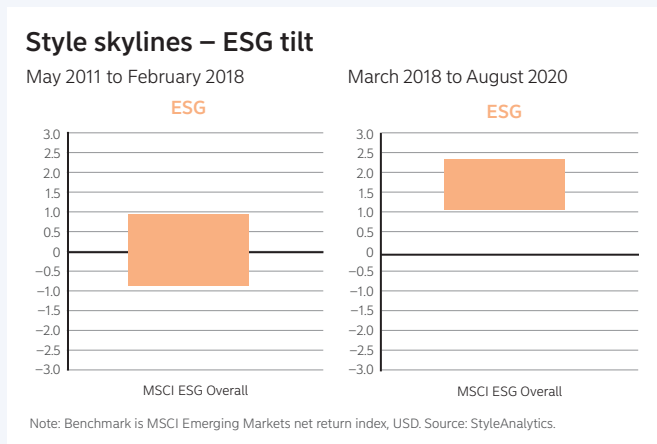
The fund remains a **fundamental, bottom-up, long-term, high conviction fund** with a **growth tilt** – as illustrated in the charts above. ESG is fully integrated in the investment process as the portfolio managers and our dedicated Responsible

<sup>1</sup>) 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.

- **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.

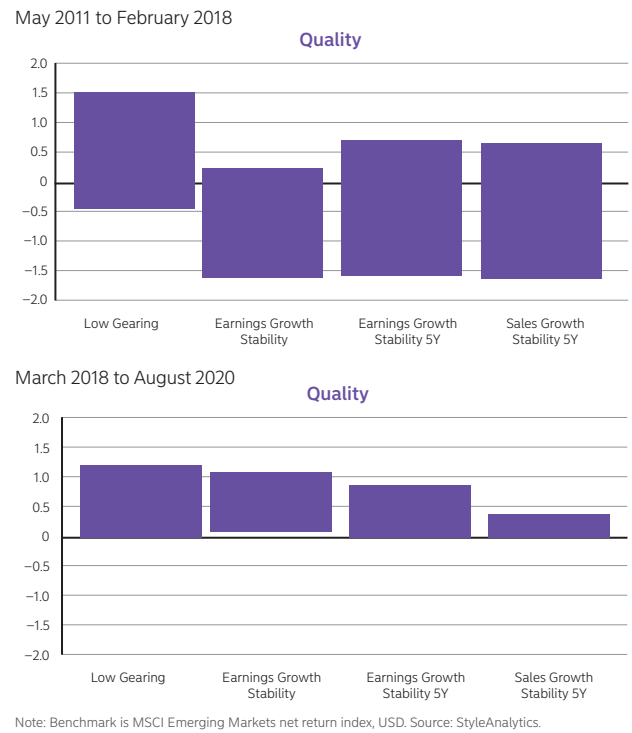


- **ESG Integration:** The fund approach remains unchanged with regards to proactively selecting high quality ESG companies, with the portfolio currently lying within the high end of the ESG range as depicted in the charts right.



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

### Style skylines – Quality tilt



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 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 2.5 years**. The current quality tilt (lower gearing, more stable earnings) lies within the high end of the historical range as emphasized in the charts left.

To give a concrete example, in 2018 the team sold, among others, State bank of India due to concerns around its risk management. This has proven to be a positive change given India's 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.

## 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 (outperformance of 3.7%)<sup>2</sup>**. In line with our bottom-up approach this outperformance was mostly driven by stock selection. **Moreover 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 subsectors were the most impacted. Our gradual shift towards quality with a focus on strong balance sheet companies contributed significantly to reduce downside risk.

On top of this downside protection when it was most needed, the Nordea 1 – Emerging Stars Equity Fund (BI-USD) also showed a superior upside participation rate during the rebound starting April. Since then the fund outperformed its benchmark by 9.66%<sup>3</sup>, generating a YTD excess return of 12.31%<sup>4</sup>. During this period, we benefited from our strong stock selection in IT, Consumer Discretionary and Consumer services sectors. Structural trends like the growth in e-commerce and thereby exactly the pockets of growth we are looking for and we invest in proved to be the most successful. After all, the pandemic has brought an additional tailwind to this existing trends.

Over the last 3 years the Nordea 1 – Emerging Stars Equity Fund (BI-USD) delivered an annual return of 8.46% (net of fees), translating into a 5.63% annual excess return compared to its benchmark (MSCI Emerging Markets net return index).

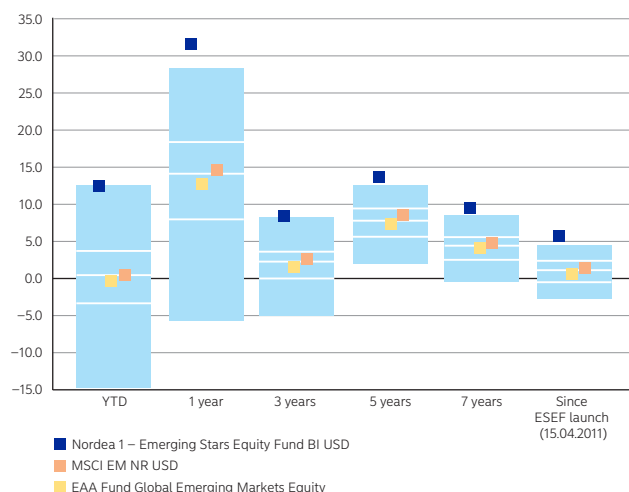
## ... exhibiting top quartile performance in a competitive space

With a track record of 9 years and top-quartile performances according to Morningstar<sup>5</sup>, the fund remains one of the most attractive solutions with the longest track record within the ESG Emerging Equity investment universe.

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 devel-

oped 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 - © 2020 Morningstar, Inc. All Rights Reserved as of 31.08.2020. European Open End Funds database, Morningstar EAA OE Global Emerging Market Equity category. Period under consideration: 16.04.2011 – 31.08.2020. 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.**

## Finding pocket of structural growth:

To illustrate our focus on long-term structural drivers, one interesting company to look at is Li Ning. Chinese sportswear retail sales per capita is very low compared to some developed markets. This is to be expected, as Chinese GDP per capita is lower. However, we see real potential as Chinese consumers increasingly get wealthier – with higher growth expected in sportswear than in many other areas of consumer goods. In fact, we believe sportswear spending in China could grow by about 50% over the next four years. We recently spoke to a consultancy that undertakes consumer surveys in China, and its research identified sportswear as a key area of likely spending as the Chinese emerge from the coronavirus crisis. The Chinese are increasingly looking to take responsibility for their own health, and being more active is vital component to this. As for Li Ning, while it was founded by the famous Chinese athlete, this leading brand is now led by a professional team and has come a long way from a history of mismanagement and distribution issues. The quality of its product has also improved, leading to increased brand power and consumer adoption. In addition, there is a growing sense of pride in owning Chinese products in the sportswear space.

2) Period under consideration: 01.01.2020 – 31.03.2020. The performance represented is gross of fees, composite and 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. For illustrative purposes only. 3) Period under consideration: 01.04.2020 – 31.08.2020. 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. 4) Period under consideration: 01.01.2020 – 31.08.2020. 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. 5) Data Source - © 2020 Morningstar, Inc. All Rights Reserved as of 31.08.2020, 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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