



Quarterly Report

Fourth quarter 2018

Nordea 1 – Emerging Stars Equity Fund

ISIN: LU0602539602 (BP-USD)

Overview

- Over the fourth quarter of 2018, the fund returned -7.68%, outperforming the broader market (measured by the MSCI Emerging Markets – Net Return Index in USD) by 0.09%¹
- Performance was driven by both positive security selection and asset allocation. Country-wise, China and India were among the top contributors to performance, while Financials 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. 2019 is likely to be another challenging and volatile year given continued uncertainty around trade relations with China and the US. However, in our view emerging markets have priced in much of these risks already after last year's performance and we see a lot of value emerging in certain countries like China and Korea. We are also positive on Brazil

1) Sources: Nordea Investment Funds S.A. and Datastream. Period under consideration: 30.09.2018 – 31.12.2018. 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	47
Morningstar Rating Overall ²	★★★★

Data as of 31.12.2018. 2) Data Source – © 2019 Morningstar, Inc. All Rights Reserved. Date: 14.01.2019, 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 Q4 2018

During the fourth quarter of 2018 global stock markets had their worst quarter in many years, falling more than 13%, while Emerging Markets outperformed the global index, falling 'only' 7.8%. Concerns around the impact of the escalation of the trade war between the US and China, interest rate hikes by the Federal Reserve, a strong dollar, and falling crude oil prices all contributed to volatility in global and emerging markets. On the positive side the election of market-friendly Jair Bolsonaro in Brazil sparked a strong rally in that country, and Xi Jinping and Donald Trump did agree to begin formal trade talks and pause additional tariff increases while the talks were taking place in the first quarter of 2019.

In this environment, the Nordea 1 – Emerging Stars Equity Fund (BP-USD) slightly outperformed the benchmark (the MSCI Emerging Markets – Net Return Index) by 9bps³. The performance was driven by both positive 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 China. Sector wise, Financials, Real Estate and Consumer Staples were the main contributors, while Consumer Discretionary and Utilities contributed negatively. In terms of asset allocation, the overweight in IT was negative for the fund.

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

- Itau Unibanco Holding (Brazil, Financials) was supported by the outcome of the presidential elections in Brazil where Bolsonaro won and is expected to have a market-friendly agenda. Stocks in Brazil have been under pressure due to uncertainty around the future of economic policy, dependant on who won the elections. We agree that there is great necessity and potential for reform under the new administration, and we also believe that removing the uncertainty will go a long way towards accelerating economic growth in the coming months. This should be positive for Itau's loan growth.
- Azul (Brazil, Consumer Discretionary) also benefitted from the expectation of reform and fiscal prudence after the outcome of the elections in Brazil. Azul has reported good operating numbers throughout this year, and the market may be catching up to the reality that the business has been doing quite well and management is delivering on all of their guidance for margin and yield improvement.
- HDFC (India, Financials) outperformed as smaller competitors struggled due to higher funding costs caused by a bankruptcy of a so-called non-banking finance corporation. HDFC is likely to gain market share thanks to this volatility.

Among the bottom contributors to performance we find:

- Han's Laser Technology (China, Industrials) shares underperformed especially in October due to a combination of factors. The company posted earnings that were uneventful, with continued strong growth offset by general concern over the trade war making many of their SME customers reluctant to invest in new equipment. This led to weak growth in the sales of high-power laser and low-power laser. The team remains positive on the long-term growth prospects of Han's Laser, as we see them as the key beneficiary of the upgrading of Chinese manufacturing capabilities.
- Samsung Electronics (Korea, IT) performance was weak due to growing concerns about high inventory in the semiconductor industry. High-end smartphone sales have been lower than expected, and indications are that data centre capex growth might not be as strong as 2018. These factors affect both Samsung's smartphone business as well as its memory chip business. The stock's valuation reflects a very severe slowdown and reduction in long-term profitability, which we do not believe is the case, so recent events have not changed our positioning.
- Shenzhen Inovance Technology (China, IT) suffered from concerns over weakening demand in the industrial automation and robotics markets in China as small businesses and manufactures reign in their capex plans due to uncertainty over the trade war. The structural trend for greater industrial automation in China is here to stay and we are not concerned about Inovance's ability to be national leader in the space on a three to five-year horizon

During the quarter, the most significant investments were:

- The Hungarian bank OTP (Hungary, Financials) was added to the portfolio on the back of a strong retail franchise among several CEE markets
- Banorte (Mexico, Financials) is a Mexican bank. The bank has strong retail franchise benefiting from low levels of credit penetration and its realizing synergies from a recent acquisition.
- The private healthcare insurance in Brazil (Brazil, Financials) was bought due to its exposure to the structurally growing demand for quality private healthcare.

In the meantime, we have divested from:

- Qualicorp (Brazil, Healthcare) was sold due corporate governance issues.
- JD.com (China, Consumer Discretionary), the Chinese e-commerce company was sold because the team lost the conviction about the case.

2019 is likely to be another challenging and volatile year given continued uncertainty around trade relations with China and the US as well as continued liquidity pressure that will arise from the Federal Reserve's balance sheet reduction program and interest rate hikes. Brexit negotiations are another exogenous political risk which could have a significant adverse effect on demand for risky assets and global growth. However, in our view emerging markets have priced in much of these risks already after last year's performance and we see a lot of value emerging in certain countries like China and Korea. Chinese growth is likely to continue to slow down during the first half of the year. We do not believe the government will enact a full-blown stimulus as they have done in the past, being very cognizant of the need to reduce leverage in the economy. However, we do think they will step in with measured support to keep growth around 6% during 2019, but we are likely to see the impact of limited stimulus measures towards the second half of the year.

We are quite positive on Brazil as we see good chances of important economic reforms and cyclical recovery which was delayed last year due to presidential elections. India remains one of our largest overweight's as a country, though we recognize some risks can emerge this year due to presidential elections and are increasingly selective due to valuations. We believe India continues to present some of the best long-term secular growth investments in the world. In summary, in 2019 we are prepared for another bumpy ride but excited at the opportunities this might present to find some excellent businesses at good prices. As always, we will continue to focus investments that fit our philosophy and generate long-term value for our clients.

Cumulative returns as of 31.12.2018 in %

Time frame	Fund ⁴	Index ⁵
Year to date	-21.89	-14.85
1 month	-3.89	-2.97
3 months	-7.68	-7.77
6 months	-13.22	-8.78
1 year	-21.89	-14.85
3 years	20.53	29.98
5 years	10.48	8.17
Since launch	10.42	-1.46

Calendar year returns in %

Time frame	Fund ⁴	Index ⁵
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 – 31.12.2018. **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 ^A	Relative fund weight	Non-weighted		Weighted	
			Index performance	Fund performance	Fund absolute contribution ^B	Fund relative contribution
Communication Services	11.60	-2.52	-3.72	-3.91	0.07	0.37
Consumer Discretionary	10.35	-0.08	-13.52	-20.55	-2.16	-0.76
Consumer Staples	5.03	-1.68	-4.59	2.02	0.10	0.40
Energy	0.00	-7.96	-10.60	0.00	0.00	0.90
Financials	29.02	4.22	-0.88	1.30	0.42	0.58
Health Care	4.08	1.26	-16.18	-12.86	-0.57	-0.06
Industrials	5.70	0.18	-3.78	-6.93	-0.42	-0.20
Information Technology	24.70	10.46	-12.71	-12.74	-4.52	-1.55
Materials	1.69	-5.99	-10.75	-10.45	-0.11	0.75
Real Estate	5.73	2.70	1.43	11.49	0.50	0.44
Utilities	0.97	-1.71	3.62	-25.22	-0.30	-0.37
			-7.48^C	-7.00^D	-7.00^D	0.48^E

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 30.09.2018 to 31.12.2018. **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: 31.12.2018.

Quarterly country contribution in %

Country	Average fund weight ^A	Relative fund weight	Non-weighted		Weighted	
			Index performance	Fund performance	Fund absolute contribution ^B	Fund relative contribution
China	23.29	-6.92	-10.70	-15.26	-4.28	-0.86
India	17.23	7.84	2.53	13.27	1.95	1.62
Republic Of Korea	13.85	0.03	-13.13	-13.88	-2.08	-0.09
Taiwan, Province of China	11.31	-0.12	-13.67	-12.19	-1.44	0.26
Brazil	9.50	1.97	13.42	12.24	0.91	0.07
South Africa	5.30	-0.94	-3.78	-6.24	-0.28	-0.07
Hong Kong	3.29	3.22	-18.08	-7.32	-0.23	-0.23
Mexico	3.22	0.44	-18.78	-29.50	-1.04	-0.42
Russia	2.44	-1.26	-8.97	-13.65	-0.37	-0.01
Indonesia	1.84	-0.45	9.70	19.95	0.31	0.10
Other	8.72	-3.81	-0.05	-0.05	-0.44	0.13
			-7.48^C	-7.00^D	-7.00^D	0.48^E

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 30.09.2018 to 31.12.2018. **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: 31.12.2018.

Top ten weights contribution during the quarter in %

Company	Average weight	Performance ⁶	Absolute contrib.
Tencent Holdings	7.52	-2.92	-0.20
Taiwan Semiconductor Manufacturing	6.90	-14.75	-1.11
Samsung Electronics	6.87	-16.62	-1.31
Alibaba Group Holding ADR	5.73	-16.86	-1.07
Itau Unibanco Holding	4.23	24.36	0.78
Naspers	4.09	-6.91	-0.26
Housing Development Finance	3.91	16.43	0.54
Ping An Insurance Group Co of China	3.85	-13.08	-0.56
Samsung SDI	3.63	-15.33	-0.63
AlA Group	3.15	-7.05	-0.22

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: 30.09.2018 – 31.12.2018.

Market capitalisation as of 31.12.2018 in %

Mn USD	Fund
< 1,000	6,65
1,000 – 2,000	5,68
2,000 – 5,000	8,65
5,000 – 10,000	7,93
10,000 – 20,000	12,61
20,000 – 30,000	2,46
30,000 – 40,000	1,83
40,000 – 50,000	3,99
50,000 – 100,000	18,84
100,000 – 200,000	10,89
>200,000	20,47

Source: Nordea Investment Funds S.A. Date: 31.12.2018

Top ten contributors during the quarter in %

Company	Average weight	Performance ⁶	Absolute contrib.
Itau Unibanco Holding	4.23	24.36	0.78
Azul ADR	1.69	55.59	0.59
Housing Development Finance	3.91	16.43	0.54
Hindustan Unilever	2.26	18.05	0.34
Apollo Hospitals Enterprise	1.54	25.28	0.31
Bank Rakyat Indonesia Persero	1.82	20.30	0.30
Advanced Ceramic X	1.66	17.53	0.23
HDFC Bank	2.46	9.81	0.21
Sobha	1.03	18.65	0.14
Yoma Strategic Holdings	0.68	28.74	0.13

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: 30.09.2018 – 31.12.2018.

Bottom ten contributors during the quarter in %

Company	Average weight	Performance ⁶	Absolute contrib.
Samsung Electronics	6.87	-16.62	-1.31
Taiwan Semiconductor Manufacturing	6.90	-14.75	-1.11
Alibaba Group Holding ADR	5.73	-16.86	-1.07
Samsung SDI	3.63	-15.33	-0.63
Han's Laser Technology Industry Group	1.45	-28.18	-0.56
Ping An Insurance Group Co of China	3.85	-13.08	-0.56
Shenzhen Inovance Technology	1.35	-26.99	-0.50
Sunny Optical Technology Group	0.46	-22.11	-0.41
Alsea	1.24	-23.73	-0.40
Kingdee International Software Group	1.67	-18.84	-0.38

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: 30.09.2018 – 31.12.2018.

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.09.2018–31.12.2018. 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 31.12.2018. 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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