

Q&A

Nordea 1 – Global Listed Infrastructure Fund: Conference call with Portfolio Manager Jeremy Anagnos

(BP-USD: LU1947902109 / BI-USD: LU1927026317)

Please note that the conference call occurred on the 28th of April 2020. All market commentary and information refers to the period before then.

Question 1: What are the key characteristics of Listed Infrastructure shares?

The global listed infrastructure market has over 350 companies across 4 main sectors: Communications, Mid-stream energy, Utilities and Transport. They tend to be either regulated businesses or have long term contracts: both situations offer high visibility of cashflows. Demand is usually stable - not very sensitive to economic growth - which also underpins the visibility of cashflows. Thirdly, these businesses typically have aging assets that require upgrading. Thanks to the predictability of their business models, infrastructure shares have traditionally been very resilient, with a typical downside capture ratio of 50-60%¹.

Question 2: How has the sector performed in Q1 2020? Has it shown its historic resilience?

The short answer is no, it hasn't held up as well as in previous market falls. Despite the very strong earnings resilience of the infrastructure sectors (there is no single sector), these shares have fallen in line with other equities. We have seen substantial dispersion in earnings revisions within the 4 infrastructure sectors, with 2020 earnings forecasts in the Transport area coming down 17%, Mid-stream down rather less, and Utilities and Communications barely being revised down at all. Overall, our universe has seen 2020 earnings revised down 6% which compares with a 25% downward revision for S&P 500 earnings². Therefore we see it as being rather oversold at the moment!

Question 3: What changes have you made to the Nordea 1 – Global Listed Infrastructure Fund and how has it performed?

Within the Nordea 1 – Global Listed Infrastructure Fund we have actually just continued to make adjustments that we were already making, namely reducing positions within the Transport (e.g. Airports) and Mid-stream energy sectors, while adding to holdings in Communications and Utilities. The dispersion of revisions within infrastructure equities highlights the advantage of active management, which has driven the fund's outperformance against global infrastructure market as a whole as well as against the wider equity market.³

¹ Source: CBRE Clarion

² Source: CBRE Clarion as of 03/31/2020. Information is the opinion of CBRE Clarion, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. **Forecasts and any factors discussed are not a guarantee of future results.**

³ Performance data as of 31/03/2020. Source: Nordea Investment Funds S.A.. Index performance reflects the reinvestment of earnings and gains but does not reflect the deduction of any fees or expenses, which would reduce returns. An index is unmanaged and not available for direct investment. Global Equities: MSCI World Equity Index, Global Infrastructure: FTSE Global Core Infrastructure 50/50 Index. Please note that the Nordea 1 – Global Listed Infrastructure fund does not have an official benchmark. The comparison with the FTSE Global Core Infrastructure 50/50 NR Index is for comparison purpose only. **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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Question 4: How do you see the outlook for listed infrastructure over the next 12-18mo? Will the reduced access to capital damage the sector's returns?

We expect earnings and cashflows to hold up well. Looking at a worst-case scenario, regulation allows businesses to claw back bad debts if utility customers, for example, do not pay. Investors worry about airports, but they are well-capitalised and we expect their customers – the airlines – to be bailed out rather than the whole air transport industry being allowed to fail. We do not have concerns about capital-raising needs within the sector, because these are large, well-capitalised companies which have continued to issue debt easily even in the last few months. Although spreads have widened, the fall in treasury yields has left the overall cost of capital for companies not much higher than before. As a result, we are looking at well-protected cashflows whose valuations have fallen sharply. In recent years, listed infrastructure assets have traded at around a 20% discount to private sale values⁴, so we see the recent falls in listed infrastructure prices as representing an even greater opportunity. The underlying stability of these businesses should make them doubly attractive in the current uncertainty.

⁴ Source: CBRE Clarion as of 31/12/2019. Comparison of average EV/EBIDTA Multiples on 82 private infrastructure market transactions from 01/01/2016 through 31/12/2019 vs. listed infrastructure market multiples over the same period. Information is the opinion of CBRE Clarion, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. **Forecasts and any factors discussed are not a guarantee of future results.**

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