In Focus

Nordea ASSET MANAGEMENT

July 2022

Sustainable Investments with resilient returns

Nordea 1 – Global Sustainable Listed Real Assets Fund

ISIN: LU2500361329 (BP-USD) / LU2500361675 (BI-USD)

Key points

- Real assets are essential to accelerate the shift towards energy independence and energy efficiency
- Real assets combine two important features:
  - high level of inflation protection and resilience in stressed markets and
  - tailwinds for a sustainable and secular growth
- An Article 9 Fund[1] managed by Nordea and CBRE, a partnership that boasts unparalleled expertise in responsible investment, institutional scale and an information edge for sustainable real assets

Inflation and recession fears, rising geopolitical tensions, and as a result traditional correlation and hence diversification between asset classes failing to work: investors are more than ever wondering where to turn. With the current inflation shock and falling growth, both bonds and equities have been hit hard. However, challenges can become opportunities, and at this point, **sustainable real assets may be the answer**. Real assets – infrastructure and real estate – have the ability to provide resilient and attractive returns with sustainability both driving future-proof growth and delivering a meaningful impact towards environmental stewardship and social equality goals.

The world is at an inflection point

Our global economy is changing. The war in Ukraine and rising geopolitical tensions have driven energy prices to unprecedented levels fuelling an inflationary shock that is threatening both industry and consumers alike. This is being compounded by the high food prices that have resulted from both war and changing weather patterns. The climate crisis is now spilling over from the environment into our human lives.

We need to find new ways to meet this challenge. We need to innovate and be ready to retrofit our current lifestyles. We need to reduce our reliance on fossil fuels, cut our energy usage, and adopt every method we can to address the climate crisis.

How can we achieve this? We need to **accelerate our shift to renewable and alternative energy in power generation, in industry, buildings and transport**, to move towards energy independence. But it´s not only about energy transformation: the world needs to become more **energy efficient**. There are huge opportunities for change within industrial processes, our transportation systems and the way we build. Smart building systems for example can significantly reduce power consumption and increase energy savings, cutting costs and reducing their environmental impact. Within Sustainable housing, for example, green building materials, techniques, and appliances can reduce energy consumption by an average of 33%[2].

These changes need to be made, and the current crisis is making it more urgent. The will to change is no longer being driven by just sustainability concerns, but by hard cold economics. At the same time, technological innovation and developments are bringing the changes we need to make within financial reach. Now, it makes sense on every level. But how will we bring about the green transition in practice?

Infrastructure (such as utilities and transport) and real estate will play a crucial role in driving this change. Industries in these sectors are responsible for half of all carbon emissions, and they currently make up nearly three quarters[3] of the current capital spend directed towards decarbonization, improving energy efficiency, and promoting lower-carbon economic growth. They are installing solar farms, upgrading transmission lines, and improving building energy efficiency. Indeed, global real assets – infrastructure and real estate – are **at the forefront of net zero action**. By addressing energy usage and emissions, they are not only protecting the environment but are also having a tremendous impact on society. The current energy threat is exacerbating social inequalities which have been widened by the Covid-19 pandemic. It has been made abundantly clear that facilities impact not only community health, but also employment, quality of life and well-being. Infrastructure and housing has not kept pace with demographic and societal change, and significant investment is needed to make them future-proof.

1) SFDR classification as per EU regulation 2019/2088. For more information on sustainability-related aspects of the fund, please visit nordea.lu/SustainabilityRelatedDisclosures. 2) Source EPA: United States Environmental Protection Agency 3) Source: Global Infrastructure Hub and International Renewable Energy Agency (IRENA)

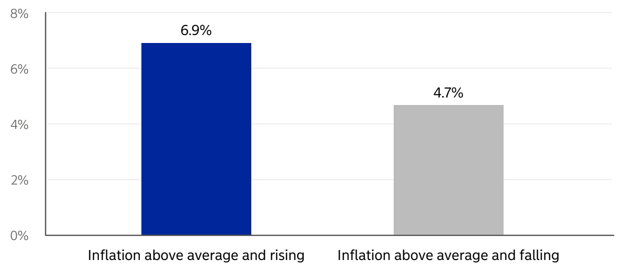
The unique characteristics of real assets

What was initially expected to be a transitory period of moderately higher consumer price inflation across the globe has morphed into a persistent, exceptionally high inflation rates, driven by global political de-stabilization and over-stimulative central bank policies.

Being underpinned by essential needs —housing, power, transport, communications— rather than optional desires, real assets provide **resilient income streams**. As they are frequently monopoly businesses, they often exhibit contracted or regulated returns. These returns provide a strong bedrock of stability during economic stress. On top, the vast majority of real assets have the **ability to pass on inflation** to their customers or end users. No matter if we speak about real estate, where property values tend to rise with the overall price environment due to rising costs of labour, land and materials, or infrastructure, where the vast majority of cash flows and asset values may have direct or indirect links to inflation, inflation protection is an embedded feature of Real Assets. So it comes with little surprise that Real Assets historically outperformed global equities during periods of above-average inflation.

Global real assets vs. global equities during inflation regimes

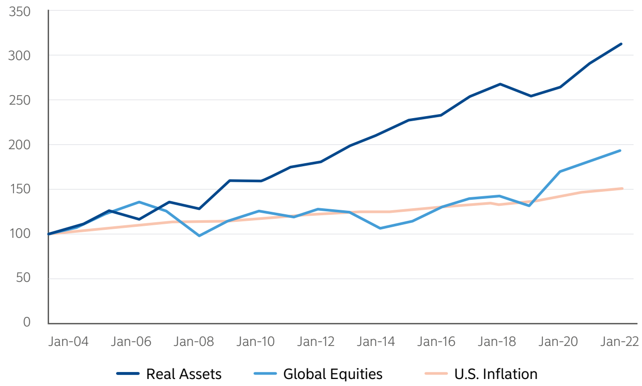
Average annualized relative outperformance



Source: CBRE Investment Management, U.S. CPI, UBS Global Infrastructure & Utilities linked to FTSE Global Core Infrastructure 50/50 Index, FTSE EPRA Nareit Developed Index, MSCI World Index as of 30.06.2022. Trailing 20-years based on average monthly total returns during inflation regimes, annualized. Inflation Regimes calculated using the year-on-year change in the U.S. CPI, normalizing its history using a z-score, and tracking the 3-month moving average of that z-score. The Inflation Regime is determined by both the level and the change in the indicator, requiring two months in the same cycle in order to confirm a new regime. **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 your investment can go up and down, and you could lose some or all of your invested money.**

Thanks to this unique combination of durable returns and secular growth, real asset cash flows have proven to be resilient amidst slowing economies, to **act like a shield during high inflation periods and to outperform over the long-term**. Over the last year, as an example, we have seen volatile markets, and real assets have outperformed global equities and bonds. The same pattern has been seen over the last 20 years with financial markets navigating through multiple cycles:

Real assets boast resilient and durable cash flows



Source: Global real assets are represented by CBRE Investment Management Infrastructure investable universe and the FTSE EPRA/NAREIT Developed Index, Global Equities: MSCI AWCI Index and U.S. Inflation: U.S. Consumer Price Index data as of 31.12.2021. 2021 is preliminary. **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 your investment can go up and down, and you could lose some or all of your invested money.**

Real assets: At the forefront of sustainable and secular growth

Real assets bring valuable inflation support to portfolios, but they are also the right choice for far-sighted investors. Not only can real assets benefit from the crucial role they can play in meeting the pressing need for energy transition, they will also benefit from other long-term **secular tailwinds**:

- **Disruptive technological innovation** like cloud computing, cybersecurity and artificial intelligence are leading to a huge upward shift in the demand for digital infrastructures. This upward trend is expected to continue also in the future, boosted by the fast-growing amount of data created. By 2025, every person in the developed world will have at least one 'interaction' with a data centre every 18 seconds of their lifetime and data centres will consume 20% of the world´s power supply.[3] So while being essential for society, it is vital to call for a more sustainable and energy efficient future of data centres.

- **Environmental stewardship**: The demands of a growing population have put enormous pressure on global resources. It´s time to invest in sustainable assets that help to protect the planet. No matter if we speak about the energy transformation and further investments into wind, solar and hydro power, the access to clean water and sanitation or green housing and building efficiency: in total, 65tn USD are needed to support environmental stewardship for the next two decades[4]

- **Societal stewardship**: Changing demographics are bringing changing needs, ranging from affordable housing, clean urban living, medical office, elder care, and road networks to ease congestion and support commuters. Currently, 60% of all global emissions are produced from cities, where over half of the global population resides. Retrofitting these cities with more energy efficient solutions while also creating a higher accessibility, affordable housing and healthy environment is not only a pressing social need, it also represents a huge investment opportunity.

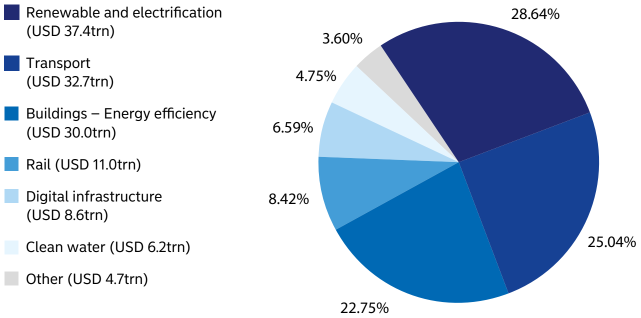
3) Source: Digitalinfranetwork, June 2022. 4) Source: Global Infrastructure Hub and International Renewable Energy Agency (IRENA)

These secular tailwinds are opening up an investment opportunity worth 130trn USD over the coming three decades, as can be seen in the image below:

Building a sustainable real assets universe

Real assets are essential for sustainable investment

The real asset investment opportunity totals over USD 130T during the next three decades



Sources: Global Infrastructure Hub, International Renewable Energy Agency (IRENA) and CBRE Investment Management, June 2021

With its globally integrated real assets research platform, CBRE leverages a deep knowledge of private and listed real asset solutions. Now CBRE is partnering with Nordea's Responsible Investments team, making it possible for us to create a **new sustainable real asset reality**.

We believe that a **Framework for Investment in Sustainable Real Assets**, ("FISRA") is a key step in identifying sustainable real assets. On top of a "do no significant harm" test, CBRE's proprietary FISRA methodology uses one of the below key sustainability characteristics to qualify as sustainable investment:

1) **Social alignment**: only top-quartile companies are considered based on 7 social factors and alignment with selective Sustainable Development Goals

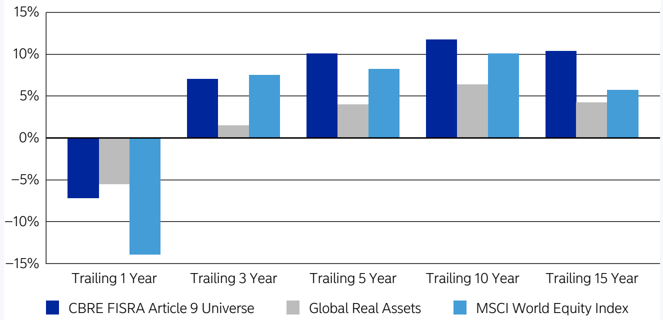
2) **Environmental alignment**: companies that have superior environmental credentials and meet revenue or capex thresholds on environmental criteria qualify for the universe

3) **Subsector alignment**: minimum sub-sector specific thresholds for environmental or social sustainability with a revenue eligibility for SDG-aligned activities

CBRE's FISRA is more than an exclusionary screen. In fact, it is a detailed evaluation of the listed real asset universe informed by both quantitative and qualitative assessments. FISRA relies upon the real asset specialization of the broader CBRE platform, the expertise of the investment staff, and the responsible investment insights of Nordea Asset Management. Starting at a 8trn USD market cap universe consisting of around 1235 companies, the combined application of FISRA leads to a highly selective group of companies considered for investment. It results in an investible universe of over 140 companies representing USD 2.1 trillion in market cap that is diversified across real asset sectors with superior sustainability credentials. The investable Sustainable Real Assets Universe holds crucial sectors like the utilities showing a **64% of capital dedicated towards energy transition**, while Real Estate companies within the universe are directing more of **70% of their capital expenditure** towards **high energy efficiency projects**.

This universe not only forms the most sustainable part of the Real Assets universe, it has also historically shown superior characteristics, which is quite intuitive. Companies that meet the challenges of their stakeholders often have better community relations and shorter development hurdles. Shorter development drives lower construction costs and better returns on capital. Those companies with exposure to renewable development, led by net zero targets, or green building certification can see superior growth rates in cash flow or command premium pricing in their rents. Lastly, FISRA-eligible companies tend to have superior governance characteristics relative to peers. With this backdrop, it is unsurprising that the FISRA investible universe, as determined today, has **outperformed collective real assets in the past**.

The current FISRA Article 9 investible universe has historically outperformed peers



Source: CBRE Investment Management. Global Real Asset returns consider the blended performance of the FTSE Global Core Infrastructure 50/50 Net Tax Index and the FTSE EPRA Nareit Developed Index as of 30.06.2022. **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 your investment can go up and down, and you could lose some or all of your invested money.**

A fully integrated ESG Process.

Next to this proprietary investment universe, we firmly believe that specialized ESG integration is crucial, given the unique nature of real assets, the inconsistency of third-party ESG ratings agencies, and the quality of data available to the broader market. We strongly believe that management teams who are mindful of the needs of all stakeholders and articulate, enact, and measure ESG issues are more likely to make superior business decisions, and enhance the long-term value of their enterprise. This is reflected in CBRE's valuation model and the investment decision making process. As such, an in-depth analysis of the most relevant factors for the asset class is done and a **proprietary ESG score for each company** is calculated, which directly impacts portfolio construction.

Proactive engagement is another fundamental pillar of our philosophy. Across our several holdings, we have often reviewed and engaged with companies to improve shortfalls reported by the Transition Pathway Initiative, Bloomberg, and Sustainalytics. Our rigorous review then feeds into an analysis that prioritizes future developments in company fundamentals.

This unique combination of the FISRA process and its qualifying criteria to enter the sustainable investment universe, the rigorous ESG integration throughout all levels of the investment process and the engagement with the invested companies sets a **robust framework to invest with the highest possible level of impact for listed infrastructure and real estate** available.

A strong partnership to form an Article 9 product

More than anything else, we know that to provide the best to our investors we need the best possible approach. Combining the extensive expertise and in-depth knowledge of CBRE in both listed and private real asset solutions with the extensive knowledge of Nordea's Responsible Investment team, we have developed a solid framework to create a sustainable Article 9 compliant fund in listed real assets.

Conclusion

When we look at listed real assets, we find an undeniable value proposition: an historic track record of resilient returns and the ability to invest in society's sustainable future.[5] Real assets – real estate and infrastructure – are essential to these efforts. Nordea and CBRE combine their institutional scale, responsible investment expertise, and an information advantage in the real estate and infrastructure asset classes to create a unique Sustainable Real Assets Fund. At this moment, we see an opportunity for global investors: an opportunity to initiate a responsible investment that shares a history of resilient returns of sustainable global real assets.[5]

5) 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 your investment can go up and down, and you could lose some or all of your invested money.