

Interview with Portfolio Manager Thede Rüst

Nordea 1 – Emerging Stars Bond Fund

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Please note that the conference call occurred on the 21st of October 2020. All market commentary and information refers to the period before then.

Key takeaways

- A powerful and underappreciated way for individuals to make an impact on carbon emissions is through investment allocations.
- Nordea Asset Management was a first mover in questioning the actions of Brazil, followed by other asset managers.
- Even with the whole world transitioning to less intensive carbon footprints, many emerging market corporate debt issuers remain high emitters

Firstly, what is the broad appeal of emerging market debt (EMD) today?

To put it simply, in the low yield environment we are currently witnessing across the world, there are some interesting return and income opportunities on offer in EMD. In addition, investors are now able to access this asset class in a sustainable way.

You touched on sustainability. Nordea’s renowned ESG STARS range expanded into fixed income last year – why is ESG so important?

There are always ESG challenges when investing in EMD. For example, we have been faced with governance issues in relation to Brazil and its exploitation of the Amazon region. We are also confronted with the challenges of investing in non-democratic systems. In addition – and this is a very important theme – there are always concerns surrounding carbon footprints, as many emerging markets economies remain energy hungry.

Staying on this topic, there are many ways for people to reduce their carbon footprint. Where can we make the most impact?

You are right. Nordea research found if you shorten showers by two minutes, you save 1.06 tons of CO2 emissions – while if you take a train instead of a car, you save 26.73 tons. In addition, taking one less international flight per year saves 18.93 tons of CO2 emissions and eating only one piece of meat each week saves 35.68 tons.

Also, if you are fortunate to live in a democracy, as an individual, you can make a systemic impact at the polls. For example, in the upcoming US election, it is safe to say a Biden presidency would be more climate-friendly than another four Trump years.

In addition, one powerful and underappreciated way to make an impact is through investment markets. In fact, moving your pension savings to sustainable funds can save 2,222.67 tons of CO2 emissions – which is a staggering 27 times the lifestyle choices I mentioned earlier.



Move your pension savings to sustainable funds – you save **2,222.67** tons of CO2 emissions



- 1.06 tons



-26.73 tons



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27 times more impactful...

Dedicated ESG strategies in the fixed income space are relatively new in our industry. What are the differences in your approach?

While many EMD managers have had a focus on governance for many years, it has tended to be more short-term in nature – in areas such as political transitions in Africa or Latin America. However, there is significantly more depth of focus today, with the S element clearly in the spotlight because of the ongoing Covid-19 pandemic.

As for the E element, this is where we can talk about our suspension of Brazilian government bond purchases, which I alluded to earlier. Our efforts here demonstrate our role as good stewards of capital and the impact we can have through engagement. Engagement has always been a key pillar of Nordea's ESG STARS funds, with many successful interactions on the corporate side. We also brought this approach to the sovereign space – which initially raised questions about just how much impact was possible in this area. However, we did engage with the highest governmental levels in Brazil and had an incredibly rewarding dialogue related to green bond frameworks.

While it may have been somewhat controversial at the time, more and more asset owners have joined us in questioning the actions of Brazil over the past two years. It shows you always need to have an eye on the long-term economic picture. It could have been argued that it was positive for Brazil to exploit its resources to generate short-term economic growth. However, in the long run, the loss of biodiversity and the negative reaction of trading partners can prove even more harmful.



Despite sovereign-level issues, are you witnessing positive corporate actions in Brazil?

Absolutely. It is clear some of the corporate citizens of Brazil are realising these pressures and are seeking innovative solutions. For example, paper and pulp company Suzano, a group we are invested in, came up with an interesting structure of issuing carbon-linked bonds. This essentially means if Suzano does not reduce its emissions, it will have to pay a higher coupon.

Sticking with corporates, why are you underweight this area relative to sovereigns?

Within corporate fixed income in general – and even more so in emerging markets – there are large weightings in commodity intensive industries. With the whole world transitioning to less intensive carbon footprints, we do not believe this is the right area to be exposed to. We exclude all issuers that obstruct the UN SDGs.

Finally, how challenging is it to engage with sovereign and corporate entities?

It is sometimes quite difficult. This is especially the case in the quasi-sovereign space. For example, no investors are really engaging with Mexican giant Pemex – one of the largest oil producers in the world – as equity managers have no interest in the company. When addressing an issue, the company points to the state, and the state then directs it back to the company. While other oil companies, such as Shell, are developing plans to become more sustainable, Pemex is falling behind. In the work we are undertaking with initiatives such as Climate Action 100+, we are attempting to develop more commercial mentalities.

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