

Interview with Portfolio Managers René Møller Petersen and Frederik Nøkleby Weber

Nordea 1 – European Stars Equity Fund

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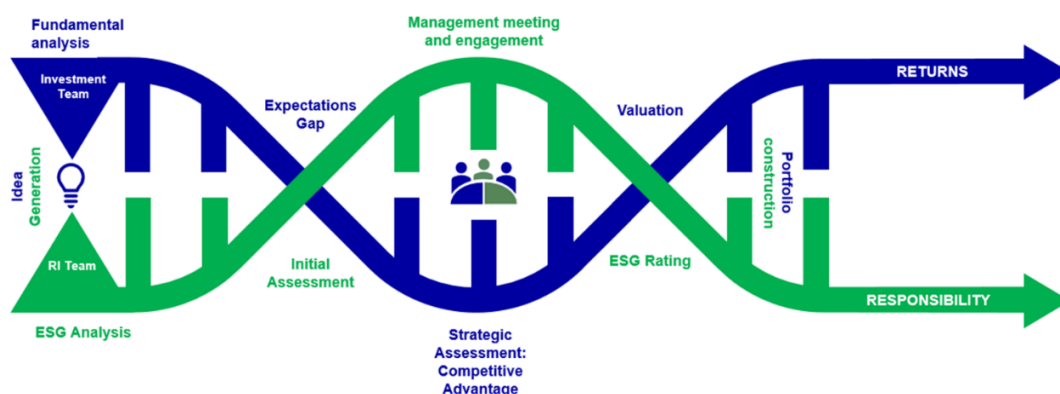
Please note that the conference call occurred on the 11th of November 2020. All market commentary and information refers to the period before then.

Key takeaways

- The aim of Nordea’s ESG STARS family is to beat the benchmark¹, meet Nordea’s ESG standards and create change through active ownership.
- European companies tend to have a larger stakeholder focus than US and emerging market peers.
- In terms of politics, Europe is the world’s environmental and decarbonisation leader. This tailwind will benefit companies providing solutions for decarbonisation and those already displaying a green profile.

The European Stars Equity Fund, which celebrates its third birthday this month, has delivered solid alpha for investors since launch. What do you put this down to?

Weber: We are extremely pleased with how the strategy has progressed. We certainly attribute our success so far to our integrated approach – which combines positive ESG selection with strong bottom-up fundamental analysis. Like all of Nordea’s ESG STARS funds, our investment team works closely with the Responsible Investment team. Our performance over these first three years demonstrates investors do not have to sacrifice returns when focusing on sustainability – it is the opposite, in fact.



Can you talk us through how this integrated approach works?

Petersen: Of course. When undertaking a 360° look at a company, the ESG and the fundamental analysis processes are interlinked. Typically, the starting point is looking at a company from a fundamental perspective – such as its growth rate, profitability and standing in its marketplace. In parallel we look at ESG factors – like management incentive schemes and remuneration packages, as well as board diversity. A company with a more sustainable competitive edge can deliver for all stakeholders – shareholders and others.

¹ There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money

European equity markets are well covered by external ESG ratings, why is there a need for investors to conduct their own internal analysis?

Weber: This is simple – it adds value. One of the key differentiating elements of our ESG STARS range is our focus on positive selection. This approach is designed to identify future ESG winners, rather than simply exclude ESG laggards. Look at the investment implications of the world's goal of limiting global temperature increases to well below 2°. For some companies we simply have to exclude - we avoid areas like oil and coal. However, we can go one step further and look for companies offering solutions for the future, here making positive selection. French global automotive supplier Valeo is a good example. It used to supply parts for internal combustion engines but made the decision a number of years ago to focus its R&D budget on the electrification of cars. It is now the leader in the space and is benefitting from the major structural changes underway in the auto industry. When we identify such an opportunity, we work closely with the Responsible Investment team to ensure the company is truly on the right side of change in the world.

Are there areas within ESG where Europe is still lagging?

Weber: There are – especially in relation to the 'S' and 'G'. For example, there are many examples of companies with combined CEO and chairperson roles, while we often see European companies lagging international peers in terms of gender diversity. In addition, Europe is home to many conglomerates that have displayed poor capital allocation decisions. So, even though European corporates may be ahead of global peers in the 'E' component of ESG, there is still work to be done. This is where engagement and investment flows can make an impact in driving corporates in a more sustainable direction – while also boosting the return potential of a company.

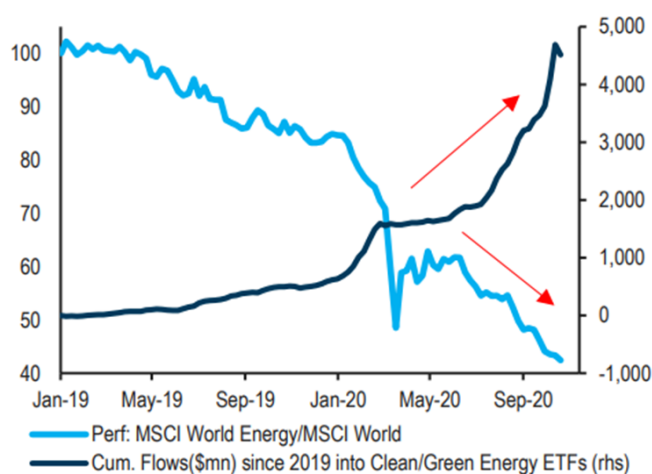
You just touched on the engagement efforts you undertake alongside Nordea's Responsible Investments team, do you have an example of this?

Petersen: German company GEA Group, one of the largest technology suppliers for food processing, is a good example. The company had grown sustainably through acquisitions, but profitability lagged due to integration issues. ESG-related metrics were also declining, such as in its high labour turnover, which resulted in falling employee satisfaction. Along with fund manager Elliott, we began an engagement process with the company in 2017 and took it all the way to the board the following year. A new management team was installed in 2019 to improve integration and get the company back on the right track. We recently had a follow up meeting with the new management team, and we are seeing promising signs.

For investors seeking to boost their equity allocations in Europe, why should they choose an ESG strategy?

Petersen: There are many reasons why it makes a lot of sense to invest with an ESG focus. We see a clear path towards increased sustainability in broader society, which is driven by both politicians and consumers. We believe the winners of tomorrow will be the companies providing solutions to the sustainability transition we are witnessing across the world. On the flipside, it will be extremely difficult for many 'old economy' companies to adapt and become ESG positive. Investors are already taking action, with strong flows into ESG-influenced strategies. We believe it is dangerous to be on the wrong side of this trend.

Traditional Energy sector performance keeps hitting new lows while alternate energy space surges



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