



# Fund Portrait

Third quarter 2018

## Nordea 1 – Global Climate and Environment Fund<sup>1</sup>

ISIN: LU0348926287 (BP-EUR) / LU0348927095 (BI-EUR)

### Highlights

- **Climate change** can represent an attractive investment opportunity
- Companies that use their talent and innovation to identify a solution to climate and environmental challenges benefit from a **strong growth in demand**
- This is especially true when selecting companies operating in **resource efficiency** and environmental protection
- Investing in a fund that can **generate attractive returns** and have a positive impact on the environment is very powerful. **Everyone wins**



### Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. Furthermore, we've put a lot of emphasis on launching outcome – as opposed to benchmark – oriented investment solutions whose basis, "stability investment philosophy", is designed to meet clients' risk appetite and needs.

The Nordea 1 – Global Climate and Environment Fund has been managed internally by Nordea's Fundamental Equity team since its launch in 2008. The investment team, based in Copenhagen, uses a bottom-up investment process to identify and analyse companies that are mispriced in respect to their ability to generate future cash flows.

### Climate Change: an investment opportunity

For years, investors have held the conviction that in order to invest in companies exposed to climate and environment, one would have to sacrifice returns. However, selecting 'green' companies or avoiding carbon-intensive stocks in your portfolio are not the only options.

**Nordea's distinct approach** has proven to be very effective. Rather than selecting companies based on their sustainability impact, the team focuses on selecting companies that use their talent and innovation to identify solutions to climate and environmental challenges. Hence, these companies benefit from a strong growth in demand.

As such, climate change represents an attractive investment opportunity, which is **accelerated by a number of drivers**. There is a push from society and consumers who ask companies to be more 'responsible', as well as a push from politicians, who feel the urge to develop better environmental policies. However, in our opinion, the biggest push is the economic incentive that comes from adopting these technologies.

"It simply makes economic sense," says Thomas Sørensen, one of the two co-portfolio managers. "If companies can buy a new product that allows them to cut the energy bill and reduce the cost of material used in the production phase, and if all of this comes with a very short pay-back period, it is a no brainer." Saving energy and material will have a direct impact both on the company's balance sheet and the company's sustainability impact. Everyone wins.

Following this approach, the Nordea 1 – Global Climate and Environment Fund (BP-EUR) has consistently delivered better returns compared to its peers, represented by the Morningstar category Equity Sector Ecology<sup>2</sup>. While most of these competitors have "sustainable" and ESG mandates, Nordea's innovative strategy has proven to be particularly effective.

1) On 23 August 2016, the sub-fund Nordea 1 – Climate and Environment Equity Fund was renamed to Nordea 1 – Global Climate and Environment Fund. 2) Source - © 2018 Morningstar, Inc. All Rights Reserved as of 11.07.2018, EAA OE Sector Equity Ecology. Performance in EUR. Period under consideration: 01.01.2009 – 30.09.2018. 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 30.09.2018. 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.

## The investment approach

The **Nordea 1 – Global Climate and Environment Fund** was launched in 2008 to invest in innovative companies that advance an environmentally sustainable society and generate attractive returns by recognising the research gap in this area<sup>3</sup>.

“Our fundamental, bottom up investment process aims to identify a portfolio of high conviction ideas (**40–60 undervalued stocks**) that derive significant future cash flows from their innovative climate solutions,” says Thomas Sørensen. The fund focuses on global equities, typically with a **mid-cap, growth bias**, that derive significant future cash flows from businesses contributing to solutions to climate change. “We invest in three main investment areas, namely **innovators** within the alternative energy sector, **optimisers** aiming at resource efficiency, and **adapters** focusing on environment protection,” says Henning Padberg, co-portfolio manager of this fund.

**Alternative Energy:** We capture companies that typically focus on eco-friendly and innovative technologies to generate cleaner energy – **Innovators**. The world is still very much dependent on traditional energy and growth comes at the expense of negative externalities for the environment. The global share of primary energy from renewable sources is still very low, but emission-free renewables like solar and wind have shown their economic feasibility and further improvements will lead to higher adoption. Our research leads us to believe that electricity, in the long run, will become the primary form of energy used for consumption, bringing the age of oil and coal to an end.

**Resource Efficiency:** We identify companies that help optimise the existing resource base and improve efficiency with their products and services – **Optimisers**. We believe this is the most economically sensible area to achieve lower emissions and reduce energy consumption. This may not be one of the most visible areas in the universe, but it is one of the most diverse and interesting as it includes capabilities ranging from smart farming via advanced navigation systems to energy efficient cooking and lighting to energy efficient process equipment and building material applications.

**Environmental Protection:** We select companies with strong offerings around protecting the environment and safeguarding nature – **Adapters**. This area is often driven by environmental regulation and risk management considerations, as well as constant improvements in the quality of products and services. Preventing potential future costs of negative externalities is just as important as dealing with existing issues.

### Example of an “optimiser”

Among the **optimisers** – companies that enhance the existing resource base and improve efficiency – Hexcel has a very exciting story. The company is one of the leading carbon fibre producers in the world, supplying the largest airplane manufacturers such as Boeing and Airbus. The new generation of airplanes (B787, A350) is now built with ~50% of carbon fibre, resulting in **20% more fuel efficiency** than older airplanes of equal size. Because fuel is one of the highest costs for airlines (typically 25%–30% of their cost structure), this results in significant savings for airline companies as well as value creation for shareholders. At the same time, Hexcel provides a “solution” to improve the efficiency of the airline sector.

## A proprietary investment universe is vital

When the fund was launched in 2008, there was no well-defined universe available. Our team wanted to make sure they captured a very **broad opportunity set**, ranging across regions, company sizes and different exposures to the Climate and Environment trend. To do this, they built a proprietary investment universe. Over time, this has given the fund a leading edge in this evolving market segment. IPOs, M&As and insolvencies are very common. As such, on-going monitoring has been vital.

Today, the fund benefits from an investment universe consisting of more than 1000 companies with a combined market capitalisation of above 6 trillion euros<sup>4</sup>.

## Climate & Environment investment universe

### Optimisers



Energy Efficiency  
Smart Grid  
Eco-Mobility  
Intelligent Construction

Advanced Materials  
Smart Farming

### Adapters



Clean Water & Air  
Waste Management  
Environmental Services  
Green Consumerism

Sustainable Forestry

### Innovators



Renewable Power  
Solar  
Wind

## Investment process and portfolio management

The fund follows a structured, disciplined and well documented investment process with long-term thinking, fundamental bottom-up analysis and proprietary modelling at its core. We seek to identify stocks where the current market price implies future expectations that are materially different from our expectations. We call this an **“attractive set of expectations”** and it can arise for a number of reasons such as:

- Underestimating future growth from climate opportunities
- Failure to correctly value the structural impact of regulation
- Underestimating technology change as risk or opportunity for a company
- Fading returns on capital too quickly
- Lack of confidence in management/the business case
- Stock falling out of favour/depressed expectations on business outlook
- Failure to appreciate a turnaround in a business (internal or external factors)



Portfolio Manager,  
Thomas Sørensen

**// We have developed a proven process and offer investors a unique concentrated portfolio of high conviction ideas.**

Identifying whether an inefficiency is sufficiently attractive requires an in-depth understanding of the business, value chains and valuation. We work on both the strategic and the valuation angles for all the companies we analyse. Great companies are not necessarily great investments just as bad companies are not necessarily bad investments. The key for us is if a stock implies a future which is materially different from the one we see – when there is a different “set of expectations” and potentially an attractive investment.

In the portfolio construction process, the portfolio management team constantly quantifies the relationship between upside and risk of each existing and potential investment. Portfolio weights are enhanced towards high conviction names, sell-discipline is enforced and risk management tools are utilised to create the optimal portfolio.

## Unique product characteristics

The Nordea 1 – Global Climate and Environment Fund is managed by an experienced and stable portfolio management team, supported by a strong research platform and a highly reliable operational setup.

In comparison with a broader international index, such as the MSCI World, the Nordea 1 – Global Climate and Environment Fund offers unique differentiating benefits. Generally, about 90% of the stocks in the portfolio are different than those in the MSCI World. This means that, on occasion, the investment in the Climate and Environment mega-trend will deliver returns which are uncorrelated to traditional style-factor investments (see table below).

As the table illustrates, thanks to the fund’s unique characteristics (thematic approach with sector tilt, mid-cap and growth bias), the **Nordea 1 – Global Climate and Environment Fund** tends to often out-perform the MSCI World Index when the MSCI World High Dividend Yield Index and the MSCI World Minimum Volatility Index under-perform. Therefore, in an asset allocation context, the fund will offer **diversification** when combined with other global equity segments.

5-year excess return correlation over the broad equity market<sup>5</sup>

MSCI World High Dividend Yield Index	-0.14
MSCI World Minimum Volatility Index	-0.23
MSCI World Growth Index	0.12
MSCI World Value Index	0.05
MSCI World Small Cap Index	0.43

Note: A correlation 1.00 would indicate that one of the Indices mentioned in the table outperforms the MSCI World Index every month when the fund also outperforms it – high correlation. A correlation -1.00 would indicate that one of the Indices mentioned in the table underperforms the MSCI World Index when the fund outperforms it – negative correlation.

Source – © 2018 Morningstar, Inc. All Rights Reserved as of 30.09.2018. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. Data: in EUR for the fund and in USD for the various Indices used.



Portfolio Manager,  
Henning Padberg

**// With the Nordea 1 – Global Climate and Environment Fund, investors can get exposure to a global equity portfolio that consists of direct beneficiaries of the long-term sustainable growth opportunities.**

<sup>5</sup> The excess return correlation measures the dependence of the alpha generation between the above mentioned fund and indices compared to the MSCI World Index. Combining the Nordea 1 – Global Climate and Environment Fund with different equity-style factors should deliver positive diversification benefits. Please note that the fund does not have an official benchmark. The MSCI World Index and the other indices representing the various equity-style factors have been used for comparison only.

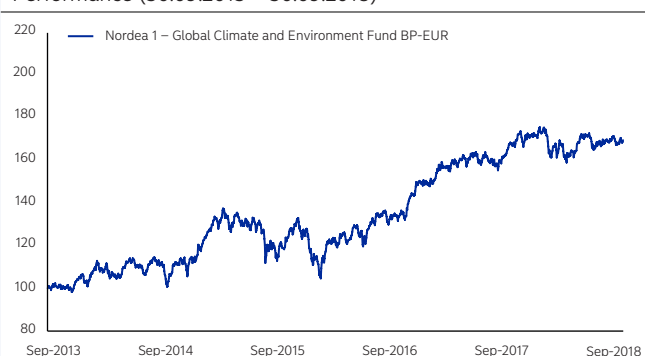
Cumulative returns in % (30.09.2018)	Fund <sup>6</sup>
YTD	-0.86
1 month	-0.81
3 months	1.65
6 months	5.38
1 year	2.13
3 years	47.81
5 years	69.62
Since launch (13.03.2008)	72.50

Calendar year returns in %	Fund <sup>6</sup>
2017	15.38
2016	16.36
2015	11.44

Sector breakdown (top 10) in % (30.09.2018)	
Industrials	30.48
Materials	19.80
Information Technology	18.53
Utilities	12.45
Health Care	4.80
Consumer Staples	4.53
Consumer Discretionary	2.88
Financials	2.81
Real Estate	2.33
Net Liquid Assets	1.38

Nordea 1 – Global Climate and Environment Fund	
Fund manager	Fundamental Equities Team
Fund domicile	Luxembourg
ISIN codes*	LU0348926287 (BP-EUR) LU0348927095 (BI-EUR) <sup>7</sup>
Annual management fees	1.50% p.a. (BP-EUR) 0.85% p.a. (BI-EUR) <sup>7</sup>
Base currency	EUR
Fund size in millions	927.22
No. of holdings	49
Launch date	13.03.2008

#### Performance (30.09.2013 – 30.09.2018)



#### Country breakdown (top 10) in % (30.09.2018)

United States	54.87
Germany	16.30
France	7.86
Japan	6.89
Netherlands	4.08
Ireland	2.69
United Kingdom	1.70
Sweden	1.51
Denmark	1.00
Australia	0.92

#### Risks

Please be aware that there are risks associated with investing in this sub-fund. For further details, please refer to the Key Investor Information Document, which is available as described in the disclaimer at the end of this document.

#### To find out more, visit our local microsite:

[nordea.lu/climatesolutions](http://nordea.lu/climatesolutions)

[nordea.ch/climatesolutions](http://nordea.ch/climatesolutions)

[nordea.co.uk/climatesolutions](http://nordea.co.uk/climatesolutions)



\*Other share classes may be available in your jurisdiction. 6) BP-EUR share class. 7) BI-EUR share class: only for distribution towards institutional clients. Minimum investment amount: EUR 75,000 (or the equivalent).

Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 13.03.2008 – 30.09.2018. 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 30.09.2018. 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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