

Fund Update – Special Edition

September 2020

Resilience and growth potential... at historical discount! Nordea 1 – Global Listed Infrastructure Fund

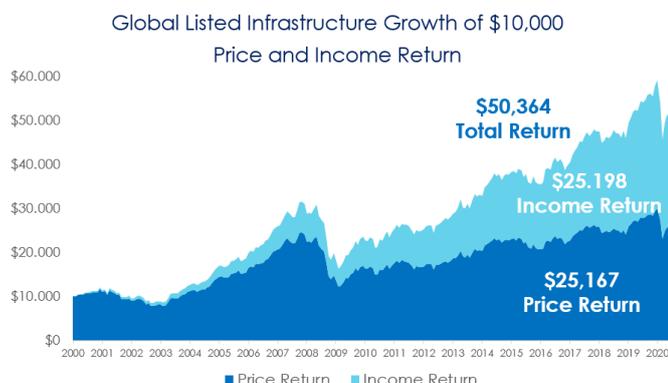
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*Global listed infrastructure companies have distinct investment characteristics: **a combination of defensive features and long-term growth potential**. In the wake of the market shock of 2020, **infrastructure valuations are compelling**... an opportunity for us to explore further this asset class **in the eyes of an active manager**.*

The Resilience of Essential Assets

Infrastructure companies own the physical assets that provide essential services that underpin society's function and economic growth. In sectors such as Communications, Midstream/Energy, Utilities and Transportation, **these long-duration assets typically offer limited competition and high barriers to entry**. This means listed infrastructure is less affected by economic cycles than other investments. Over the past 20-years, listed infrastructure has **captured only 65% of the global equity market downside while capturing more than 80% of the market upside***.

Listed infrastructure has historically delivered attractive income-driven total returns across market cycles. In this space, total return is supported by relatively stable and predictable cash flows and are **driven by both price and income (dividend) appreciation**. Over the last 20-years, income growth has accounted for approximately 50% of listed infrastructure's total return.



Listed infrastructure is a strong complement to investor's portfolios. A listed infrastructure portfolio has limited overlap with a typical global equity investment. Supported by its consistent cash flows, listed infrastructure may **enhance portfolio diversification and income growth potential** while mitigating downside risk.

The Uplift of Long-Term Tailwinds, at Attractive Valuations

Capital investment in underlying assets that earn a contractual or regulated rate of return drives the growth potential of listed infrastructure. On one hand, investors may benefit from the **consistent organic cashflows earned on investments to enhance and repair aging assets**.

On the other hand, we believe listed infrastructure to be **one of the best-positioned asset classes to benefit from the long-term secular trends** tied to global decarbonization initiatives and the rise of the digital economy:

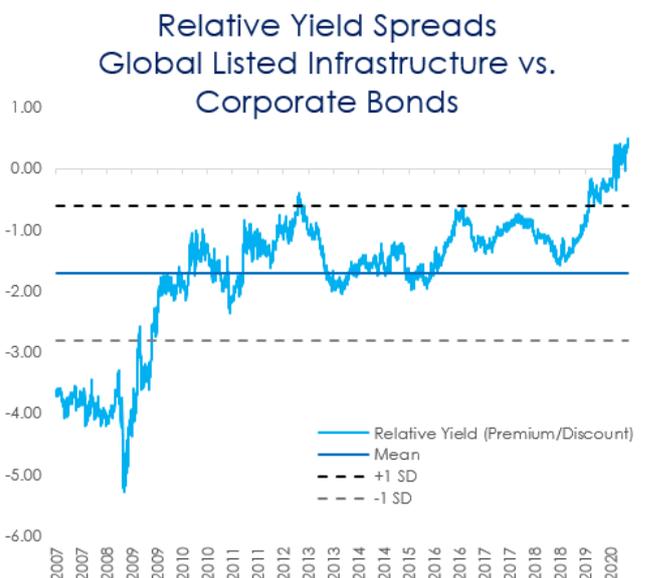
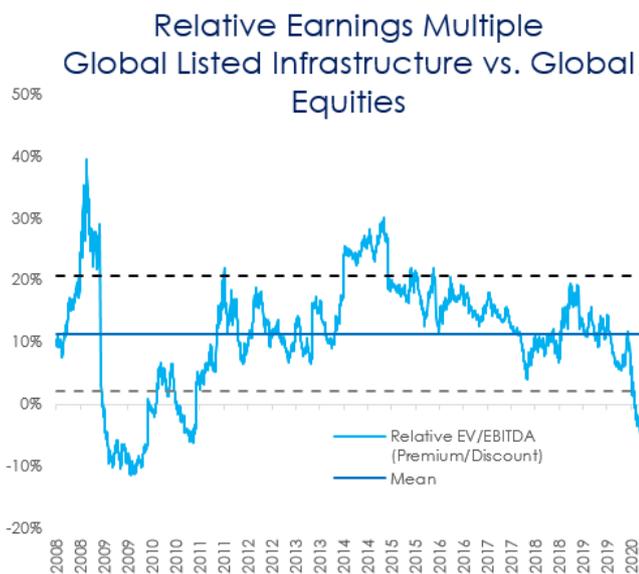
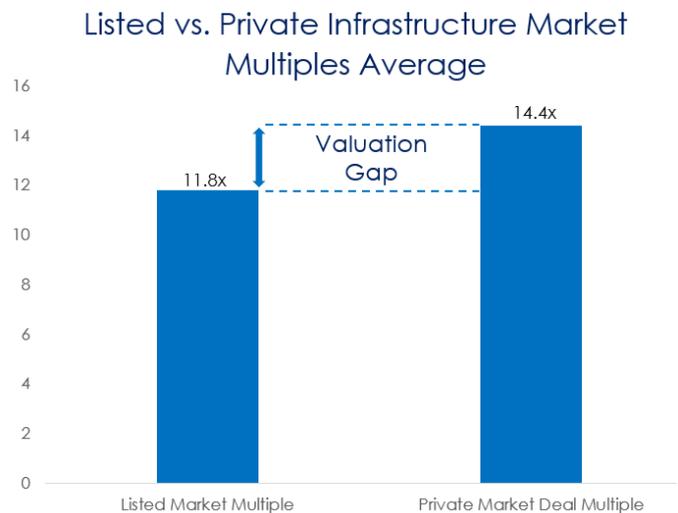
- Critical role in decarbonization initiative:** Infrastructure companies across each sector are playing a key role in reducing carbon emissions that affect long-term change through critical investments in the replacement of existing infrastructure and the development of new, sustainable infrastructure.
- The backbone of the digital economy:** The growth of mobile data and cloud-computing traffic and the development of new technologies only accelerate the structural need for enhanced communications infrastructure.

The rising secular demand for essential services drives the long-term potential of the asset class. And, while it has historically traded at a premium relative to global ...

Source of the Chart: CBRE Clarion, UBS Global Infrastructure & Utilities 50/50 Index, beginning March 1, 2015, the FTSE Global Core Infrastructure 50/50 as of 06/30/2020. *Source: CBRE Clarion as of 06/30/2020 (USD). MSCI World Index, UBS Global Infrastructure & Utilities 50/50 Index, beginning March 1, 2015, the FTSE Global Core Infrastructure 50/50.

Listed infrastructure is trading at a discount relative to equities and bonds, as well as the private market value of similar assets.

Source: CBRE Clarion as of December 2019. Comparison of average EV/EBITDA Multiples on 88 private infrastructure market transactions from 01/01/2016 through 12/31/2019 vs. listed infrastructure market multiples over the same period.



Source: CBRE Clarion, iShares MSCI ACWI ETF, SPDR S&P Global Infrastructure ETF, ProShares Dow Jones Brookfield Global Infrastructure ETF, Moody's Bond Indices Corporate BAA, FTSE Developed Core Infrastructure Index, FTSE Global Infrastructure Index of 06/30/2020.

... equities, listed infrastructure is **currently trading at a 5% discount (i.e. 15% below last 12Y average)**, well over one standard deviation below its average, and **levels not seen since the 2008 global financial crisis**. Relative to corporate bonds, it is equally discounted. Over the long-term, its dividend yield has tended to be about 1.7% below Baa corporate bond yields. Today, it is offering a **dividend yield premium to corporate bonds, a rare occurrence**. This is particularly compelling when considering that listed infrastructure companies' have historically delivered dividend growth at a compound average growth rate of 7%** . Relative to their underlying assets, listed infrastructure is also trading at a sizeable discount. We estimate listed infrastructure **trades at 20% discount to the value of similar private market assets**.

**CBRE Clarion investable universe as of 12/31/2019

How to seize this opportunity?

One should not forget that 2020 came with unique challenges. This diversified USD 3.3tn market is in that aspect a perfect ground for active management to add value to investors' portfolio. The **Nordea 1 – Global Listed Infrastructure Fund** offers the **expertise from CBRE Clarion: more than 30 years' experience in managing real assets** with one of the most seasoned and well-resourced portfolio management teams covering listed infrastructure. Their top-tier investment strategy benefits from **the stamina of a broad diversified allocation**, while key insights consistently sustain the active stock selection thanks to **the incorporation of infrastructure private market knowledge into the research**.

Our Diversified Exposure is a Must!

Our investment universe encompasses the full listed infrastructure space. The portfolio has maintained **at any point in time investments into the four main sectors** (Communications, Midstream/Energy, Utilities and Transportation), which is not the case for most indices and portfolios. During the COVID-19 sell-off, we could well witness that **all sectors have not been offering the same defensiveness**, e.g. the communication sector proved very resilient compared to the challenges that hit the transportation sector. The wide dispersion in performance has highlighted why active management is necessary to **capture the full market opportunity set, as well as manage the risk profile.**

Our Investment Edge is a Strength!

The team has a clear information edge, thanks to CBRE Clarion's **established investment platform and cooperation in both private and listed markets.** The setup provides a significant advantage in gaining insights on e.g. regulation, fundamentals, underwriting assumptions, transactions and capital flows. This edge goes hand in hand with the willing exposure to key secular themes. **Ageing assets, decarbonization and data growth are deeply rooted tailwinds supporting stable and predictable growth of the companies we select** - which becomes even more important in the uncertain times we are living. In that context, some of our investments are illustrated below.

LONG-TERM SECULAR TAILWINDS: A CLOSER LOOK AT OUR INVESTMENTS

Ageing Assets

Consistent organic growth driven by need for ongoing investment in existing infrastructure assets to upgrade and enhance for safety, reliability and efficiency purposes.



- Second largest publicly traded water utility in the US
- ≈70% of earnings from water and wastewater utilities with the balance from a gas utility.
- Weight in Portfolio: 2.8%

There are **decades worth of pipe replacement and reliability capex** in the water and gas systems which **helps provide a stable outlook of needed infrastructure** investment.

Decarbonization

Political pressure to decarbonize continues to mount and curbing the greenhouse effect has become a decisive factor for energy policies worldwide.



- US Integrated Utility
- The world largest generator of renewable energy from wind and solar through NextEra Energy Resources
- Weight in Portfolio: 4.5%

NextEra Energy Resources is in a strong position to mitigate Covid headwinds, **reaffirming earnings and growth expectations with no delays in its renewable development or supply chain.**

Data Growth

The coronavirus is reshaping the way society lives and works. The wide-scale digital adoption by individuals and industries will outlast well beyond the pandemic in our view.



- The largest European Tower company owning mobile phone broadcasting infrastructure
- Acquiring portfolios of broadcasting towers for synergies
- Weight in Portfolio: 3.4%

Cellnex receives fixed rental payments for leasing the infrastructure on **long term contracts.** The **demand for its essential service has increased** in an environment of home working.

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