Nordea ASSET MANAGEMENT

January 2021

Back to the Essential

Nordea 1 – Global Listed Infrastructure Fund

ISIN: LU1947902109 (BP-USD) / LU1927026317 (BI-USD)

Key points

- From **government initiatives** to flows targeting the **energy transition**, **strong tailwinds** are favouring infrastructure assets
- Listed infrastructure finds itself **exceptionally discounted**: versus global equities, global bonds and private assets
- Nordea's investment solution leverages **on the expertise and mindset of CBRE Clarion** to capture this unique investment opportunity

In 2020, equity markets embraced companies that embodied the "New Economy": businesses shining in a world pandemic like Peleton (home fitness/tech), Netflix (s treaming entertainment) or Zoom (virtual meetings). Much less excitement was triggered by the "Essential Economy" such as water, gas and electric utilities. **One should not forget that infrastructure companies form the backbone of every economy.** Their assets require investments to ensure that the everyday demands for water, heating, cooling and power will be met. Meanwhile, all eyes are on the new Biden administration in the US, and with Democrats winning the Senate - the so-called "Blue wave" - significant infrastructure spending should be facilitated on the political agenda. In reality, this is not one but **many political initiatives, with major investments, that establish positive dynamics for infrastructure companies globally**. So it's about time to go back to the essential!

Policy support re-energizing investments in infrastructure

Government policies are accelerating investments in infrastructure, and in particular in regards to **the upgrade of ageing infrastructure assets and the clean energy transition**.

A recent example is the big shift happening in the US from the Biden administration. During the presidential campaign, Joe Biden unveiled a **USD 2 trillion infrastructure plan, concentrating on roads, rails and bridges, developing zero-emission transport and electric-car infrastructure**. The "Blue wave" has now earmarked a huge infrastructure spend, tax credits and subsidies for clean energy, while new appointments are strengthening the EPA (the energy regulator).

These new measures accelerate the on-going phase out of coal plants and increase the amount of renewable development over the next decade. And this movement has been taking speed on a global scale! **From Europe to the US to China and Japan, this is far from an isolated shift – with major impacts ahead.**

A Global Shift!
Government initiatives over the last 6 months

E.U. Recovery and Resiliency Plan
E.U. Climate Law
China – Net Zero Carbon 2060
Japan – Net Zero Carbon 2050
Australia (NSW) Electricity Infrastructure Roadmap
U.K. Government Energy White Paper
U.S. COVID Relief Bill

Therefore, they are today clear top-down tailwinds for stable and predictable growth in infrastructures. **Growth capital expenditures' forecasts have increased to USD 740bn annual investment** until 2050 to reach net zero carbon goals, when prior estimates only amounted to USD 400bn[1]. And those capital intensive investments can be financed at historically low funding costs.

Strong dynamics across sectors

Listed infrastructure spreads across a variety of sectors, such as Communications, Midstream/Energy, Utilities and Transportation: **these companies run activities and operate assets strongly supported by recent and long-term dynamics.**

Information is the opinion of CBRE Clarion, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results. 1) Source: Transforming the Energy System – and holding the line on rising Global Temperatures, IRENA.

Generally, existing infrastructures already require ongoing investments, to enhance their safety, reliability and efficiency. **This consistent organic growth, the one benefiting "ageing assets", is reinforced by the recent initiatives targeting an infrastructure upgrade**. As an illustration, **clean energy transition should invigorate ageing network assets**. Undeniably, an energy transition requires significant investment in the network and electric grid: e.g. renewables need to be connected to the network, and the electrification of transport, heating and industry comes with new challenges to meet. Annual investments are therefore forecasted to increase by 50% from 2020-2030, driving growth and thus translating into attractive earnings and dividends.

For many infrastructure companies, **decarbonization has become a major theme, especially for utilities**. Many of them still own coal-fired power plants that are old and costly… with the potential to be replaced with renewables that are getting increasingly cheaper. Utilities that are also developers of those renewables are even better positioned! Finally, innovation drives investment opportunities in battery storage, smart meters and network efficiency.

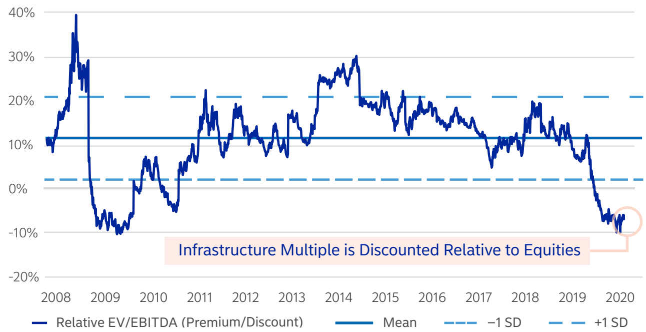
On a more general view, looking ahead, **the rollout of an effective vaccine should support the outlook for the more traffic or volume-exposed businesses** like toll roads, passenger rail companies and midstream companies. Besides, we remain positive on the **data growth theme which remains secular and structurally supported by increased digitalisation and the internet of things**.

In the eyes of investors

Why considering listed infrastructure now? After a year where infrastructure performance disconnected from fundamentals, **the asset class offers outstanding valuations, and on a triple level**:

1. Infrastructure trailed global equities by 20% last year. The EBITDA multiple de-rated to levels last seen post-Global Financial Crisis. The asset class displays now **a 10% discount to global equities, versus a long-term 10% premium**!

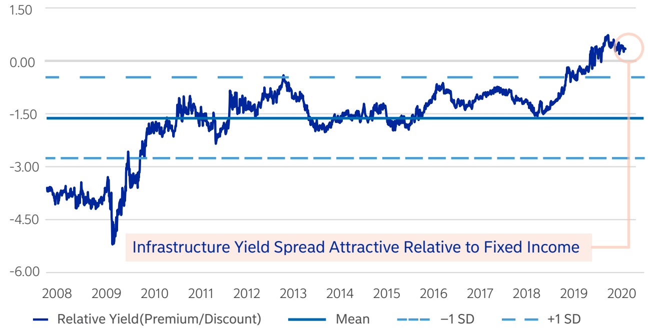
Relative EBITDA Multiple
Global Infrastructure vs Global Equities



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 31.12.2020.

2. Corporate bond yields have been compressing over the years, while listed infrastructure dividend yields have remained firm. **The spread between the two asset classes has been boosted to all-time highs.**

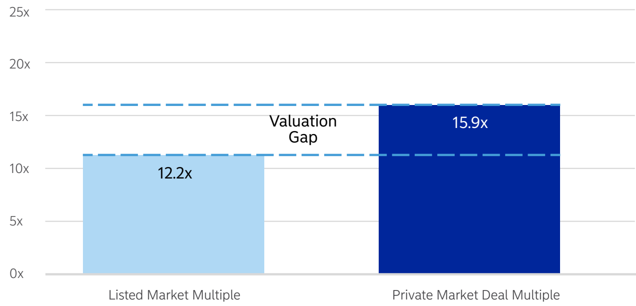
Relative Yield Spread
Global Infrastructure vs Corporate Bonds



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 31.12.2020.

3. Infrastructure assets in the listed markets are **trading at a 20%+ discounts to private market values**, which has been confirmed by the transaction activity post COVID.

Listed vs. Private Infrastructure Market Multiples Average



Source: CBRE Clarion as of 31.12.2020. Comparison of average EV/EBIDTA Multiples on 128 private infrastructure market transactions from 01.01.2016 – 31.12.2020 vs. listed infrastructure market multiples over the same period.

This gap is supported by a "wall" of private market capital, only waiting to be invested, that distorts asset valuations. The M&A potential for listed assets should not be ignored neither: **the listed space displays an attractive picture for institutional investors** given discounted valuations and scarce availability of similar assets in the private markets (the pension fund AustraliaSuper bidding for Infratil at a high premium to market price last year as a recent example).

For traditional equity investors sailing away from high valuations, for fixed income investors facing depressed yields and seeking assets with visible and steady cash flows, and even for the private investors turning away from the scarcity of opportunities in their market, listed infrastructure is appealing! And a last trend doesn't go unnoticed: **the interest that responsible investors take in listed infrastructure**.

Infrastructure companies generate social, environmental and economic impacts, such as contributing to greenhouse gas emissions reduction, revitalizing disenfranchised areas and improving access to services. Listed infrastructure underpins thus many of the 17 UN Sustainable Development Goals; and we witness **growing ESG fund flows seeking investments in themes key to the asset class, such as decarbonization and clean water.**

With strong drivers supporting future growth, current valuations, and increased attention from investors, we believe that infrastructure is poised to offer very attractive absolute returns.

Our investment edge to seize this opportunity

To capture the unique benefits of a listed infrastructure allocation, one needs a strong partner, with a well proven expertise and approach to invest in that market.

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.

The team has a clear information edge, **thanks to CBRE Clarion's established investment platform and cooperation in both private and listed markets.** This setup provides a significant advantage in gaining insights on e.g. regulation, fundamentals, underwriting assumptions, transactions and capital flows... which are the exact dynamics we are willing to capture in investment analyses! This edge goes hand in hand **with the astute positioning towards the key secular growth drivers** we know well, i.e. decarbonization, ageing assets and data growth.

On top, **infrastructure is an evolving field**. **Hence, the investment universe of the fund is unconstrained by labels**, focusing on the fundamental definition of such companies: the marriage of durable cash flows and the ownership of essential assets. The fund can therefore closely follow the private market trends – where new dynamics emerge! - while benefiting from a greater diversification and an opportunity set open to innovative businesses.

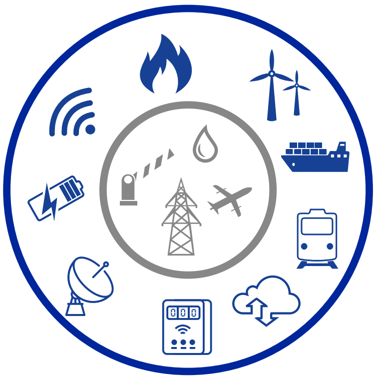
This expertise and mindset make the strategy of CBRE Clarion successful in generating performance for its investors, with an **outstanding track of outperformance over major infrastructure indices since inception!** [2]

2) **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. Comparisons with other financial products or reference indices are meant for informational purposes only.**

The mindset to capture listed infrastructure opportunities...

"PURE PLAY" UNIVERSE CONSTRAINED

- Narrowly defined
- Poor sector diversification
- Concentration risk
- Capacity constrained

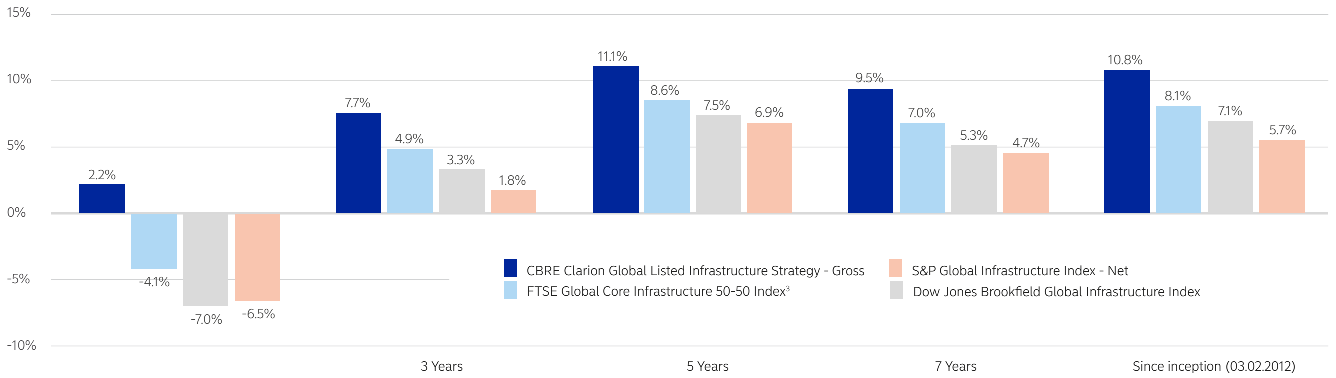


CBRE CORE INFRASTRUCTURE UNIVERSE UNCONSTRAINED

- Aligned with the private market
- Focused on physical assets and cash flow resilience
- Greater diversification
- Access to innovation and growth potential

... for outstanding results!

CBRE Clarion Global Listed Infrastructure Strategy as of 31.12.2020



Source: CBRE Clarion as of 31.12.2020. This is supplemental information. Gross returns do not reflect the deduction of advisory fees, but are net of transaction costs and include the reinvestment of dividends, capital gains, and other earnings. Actual returns will be reduced by the advisory fee, as described in Part 2A of CBRE Clarion's Form ADV, plus any other costs a client may incur directly. An index is unmanaged and not available for direct investment. **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. Comparison with other financial products or benchmarks is only meant for indicative purposes**. 3) Performance from 01.03. 2012 – 28.02.2015, the Composite's benchmark was the UBS Global Infrastructure & Utilities 50/50 Index – net of withholding tax; beginning March 1, 2015, the Composite's benchmark is the FTSE Global Core Infrastructure 50/50 Index – net of withholding tax. Net returns will be reduced by the advisory fee, plus any other costs a client may incur directly.