

Nordea 1 – Global Climate and Environment Fund

2018 has been a tough year for the **Nordea 1 – Global Climate and Environment Fund**, both in absolute and relative terms. The fund was significantly hit by its underweight to US Equities on average across the whole calendar year, even if it proved to be positive in October and November 2018. The underperformance of cyclical stocks, where the fund has a large exposure, and the stock picking in this area were also detrimental to the strategy.

The fund delivered strong returns of 23.7% (BI-EUR, LU0348927095) during the 1st semester of 2019 and outperformed both relevant climate indices and the general equity market. The main contribution to this positive development came from stock selection. Hereafter we highlight some of the positive and negative contributors, share the outlook of the investment team and their 3 key themes for the future.

Performance commentary

Within the Energy Efficiency strategy, names that are providing solutions for efficient electronics like Synopsys, Acacia Communications, Altium and Ansys reported solid organic growth that was appreciated by investors against the backdrop of an overall slowing growth environment. Besides these technology beneficiaries, the fund also saw positive contributions from some of its core holdings like Hexcel (Advanced Materials), Linde (Energy Efficiency) and American Water Works (Clean Water & Air). On the negative side, stock specific events caused share price weakness. Infineon Technologies (Eco-Mobility) announced the intention to acquire a competitor, while Pentair (Clean Water & Air) reported weak organic growth.

Top contributors

At the stock level, the top contributors were:

Shares of leading global electronics design software provider Synopsys (Energy Efficiency) which helps to improve efficiency in multiple industries benefitted from improved sentiment towards technology spending and a tailwind from solid results. Additionally, the company announced a collaboration with Samsung for accelerated cloud design of electronics.

The carbon fiber manufacturer Hexcel (Advanced Materials) reported solid financial results driven by growth in commercial aerospace and higher content of composite material on blade production for wind turbines. The company gave encouraging guidance which was taken up well by the market.

Low-power photonic solution provider Acacia Communications (Energy Efficiency) which helps to improve Energy Efficiency in networking applications reported solid results. The company experienced better growth with new hyperscale cloud customers as well as a rebound in its Chinese business.

Top detractors

Shares of global electronics, sensor and power semiconductor provider Infineon Technologies (Eco-Mobility) which came under pressure. The company reduced its growth outlook for the year due to a weaker demand situation and high inventories in its automotive and general power management business, particularly in China. They were also impacted negatively by market fears of trade tensions between the US and China potentially leading to weaker demand trends. Still the company remains confident in its medium-term growth outlook and continues to invest in new capacities underpinned by semi content growth in several applications like cars, renewables and industrial equipment.

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Water specialist Pentair (Clean Water & Air) announced seasonally weaker quarterly earnings in April. The results missed estimates, and the company also gave a muted outlook for the remainder of the year. This was taken negatively by the market and the shares underperformed as a result. We remain confident in the long-term outlook for the company.

American agribusiness and food company Bunge (Smart Farming) reported a sharp decline in profits that missed expectations. The company continues to struggle with volatile soft commodities markets, overcapacities of crushing facilities and spillover effects from the US-China trade war. The company decided to change its management, but the market continues to be skeptical about the earnings power of the group.

Outlook

Portfolio Managers (PMs) believe the overall outlook is strongly driven by accelerating underlying drivers. Many solutions are economically viable, generate attractive returns and offer quick payback times, which is why they see increasing adoption. They continue to find great bottom-up investment opportunities in companies that can capitalise on global climate solutions which add economic and environmental value to end users.

They see significant opportunities for companies focusing on solutions within “Resource Efficiency” and “Environment Protection”. The main reason for the attractiveness of these areas is based on very attractive returns and payback times for these solutions. Saving electricity, using less resources or deploying more efficient products translates directly into a better value proposition for clients. They also see that changes in the environment like more volatile weather patterns and bad air quality are triggering a wave of investments in areas like Clean Water & Air and Environmental Services. Consumers are increasingly concerned about the environment and are therefore demanding products that are environmentally friendly, i.e. made from organic or natural ingredients and produced without causing pollution. It is also important for these “green” consumers that raw materials in the end-products are traceable and these are delivered applying sustainable packaging solutions.

In addition, the battle against climate change does not start and end with alternative energy. The opportunities created in the fast-growing and cost-efficient parts of the market may go unnoticed for many investors. For the duo of PMs, the 3 most overlooked investment areas are smart farming, intelligent construction and the green consumer story.

PMs are still convinced that medium-sized growth companies are often better positioned to capitalise on Climate & Environment solutions. These companies are often innovators in their categories have strong industry positioning or offer specialised services to their clients. Companies with smart climate solutions that are global leaders in niche markets offer the best opportunity.

Political and macroeconomic risks exist, but they don't think these outweigh the opportunities and are valid concerns for the whole of financial markets.

WS Partners view

The fund still ranks in 1st position in its Morningstar Ecology peer group according to our proprietary WSP scoring. Performance has been disappointing for the last 12 months but it is fully understandable given the biases of the strategy as explained above.

Flash Notes – Fund update

July 2019



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Over 1, 3 and 5 years, the relative performance has been robust compared to best peers. The fund is among the few thematic funds with an ESG tilt outperforming the MSCI World Index over a full market cycle.

We like the stable and experienced duo of PMs who have been managing the fund since inception in 2008. Process has been improved over the last decade, with enhanced risk limits to reduce volatility and drawdowns. Position sizing has been fine-tuned as well to better diversify idiosyncratic risks.

We remain confident in the PMs' ability and skillset to build a well-diversified portfolio of Climate Solutions-related stocks and sound ESG footprint. We maintain the “**selected**” status of the fund.