



Fund Update

April 2018

Nordea 1 – Global Climate and Environment Fund

ISIN: LU0348926287 (BP-EUR)

Market commentary

Global climate and environment implications continue to take centre stage in a globally changing world. We are convinced that fundamentals for solutions addressing climate and environment issues are more attractive than ever. Even solutions like renewables which have previously been dependent on subsidies are now becoming very economic. The fact that wind and solar capacity additions in the US have accounted for more than 90% of total power generation additions so far this year gives a clear proof of this.

While society is slowly changing towards a more sustainable world, large investors continue to receive criticism for their investment policies. During April, the Swiss National Bank was scrutinised in a study published by Climate Alliance Switzerland which showed the central bank's annual emissions linked to its equity investments were equivalent to those of the entire nation.

Fund commentary

The Nordea 1 – Global Climate and Environment Fund returned 1.77% during the month¹.

At a stock level, the top contributors were:

- **Wacker Chemie**, the German polysilicon, silicone and other advanced materials producer, performed well during April. The company is experiencing solid growth and margins within a wide range of product categories. Verticals were mainly driven by lack of supply growth into the next decade and Chinese output constrained by environmental reforms. The company reported solid quarterly numbers during the month confirming our investment case.
- The German industrial gases leader **Linde** performed well in April on the back of a solid Q1 result. The company, which benefits from broad based demand for resource efficiency solutions, managed to post solid margin improvements even with less impressive revenue growth compared to its peers. Management's comments in relation to the on-going merger with its US peer Praxair were encouraging both in

relation to the progress of disposals and discussions with the EU Commission regarding the size of remedies.

- **Ecolab**, one of the world's leading providers of clean water solutions, performed well during the month as the market is gaining more confidence in Ecolab's growth and margin outlook. After a ramp up in systems investments, Ecolab is beginning to harvest cost efficiencies which combined with a pick-up in activities within its main markets are encouraging. Thus, solid growth trends, positive price momentum and cost savings will drive the earnings of Ecolab in the mid-term.

On the other hand, the main detractors to performance were:

- The energy efficiency beneficiary **Teradyne** which provides testing, inspection and diagnostics as well as co-bots automation equipment reported strong results, but significantly cut its outlook for Q2. The main reason is related to a slower innovation cycle in the smartphone area that had been very strong last year while growth in sensors and industrial automation continue unabated.
- Optical electronics provider **Acacia Communications** which helps to achieve better energy efficiency in data networks was hit by one of its key customers ZTE being banned from importing US products. The market lost confidence as short-term earnings will be negatively impacted.
- Vehicle parts recycling and waste management provider **LKQ** disappointed the market with results showing inflation headwinds leading to lower profitability.

Outlook

We believe the overall outlook is solid and 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. We continue to find great bottom-up investment opportunities in companies capitalising on global climate solutions which add economic and environmental value to end users.

¹) Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.03.2018 – 30.04.2018. 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 30.04.2018. 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.

We currently see significant opportunities for companies focussing 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. We also see that environment changes such as more volatile weather patterns and bad air quality are triggering a wave of investments in areas like clean water & air and environmental services.

We believe medium-sized growth companies are often better positioned to capitalise on climate & environment solutions. These companies are often innovators in their categories and either have strong industry positioning or offer specialised services to their clients. Companies with smart climate solutions which are global leaders in niche markets offer the best opportunity from our point of view.

We think neither the existing political and macroeconomic risks will outweigh opportunities nor the financial markets growing concerns will negatively impact this sector.

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