NORDIC FUND SELECTION FORUM 2020

Jack Holmes
Fund Manager

Artemis Funds (Lux) –
Global High Yield Bond

Artemis Funds (Lux) –
Short-Dated Global High Yield

Opportunities in High Yield

The opportunities in the High Yield market remain attractive. Jack Holmes explains how an active, unconstrained approach can help identify mispriced assets.

Capital at risk. This content has been prepared for professional investors only. All financial investments involve taking risk which means investors may not get back the amount initially invested.

It won't surprise anyone to hear that the High Yield market still exhibits many price dislocations. While we have moved considerably from the lows in March, High Yield remains cheap compared to other markets. According to Bloomberg, spreads over government bonds are just over the 57th percentile – which brings opportunities for active investors.

To help quantify the opportunity, consider that spreads have been tighter 57% of the time since the beginning of data in 1998. Compare that to the S&P 500 Index over the same time period. Its estimated price to next year's earnings (thereby avoiding distortions from Covid-19 in 2020) is in the 90th percentile. In other words, stocks in the S&P 500 have, by this measure, only been more expensive 10% of the time during the past two decades.

Looking across the whole spectrum

For an unconstrained approach such as that followed by the Artemis Funds (Lux) - Global High Yield Bond fund, this market environment brings opportunities. We can find bonds issued by good companies which offer attractive yields. Because we can take exposure across the maturity spectrum, we have the ability to combine some attractive income yields with even more attractive total returns.

One of the larger positions in the fund is in bonds with an 8% coupon maturing in 2031. They were issued by Ally Financial, a US banking and consumer finance firm. These bonds yielded 6.2% in mid-May – an attractive yield for a good-quality company (the bonds are at the highest end of the High Yield credit rating spectrum). However, because of the longer maturity on these bonds, the total return since the middle of May has been even more impressive – almost 25%. By investing across the maturity spectrum within High Yield and being highly active, we can take advantage of opportunities in high-quality bonds such as these.

Recovering from the sell-off

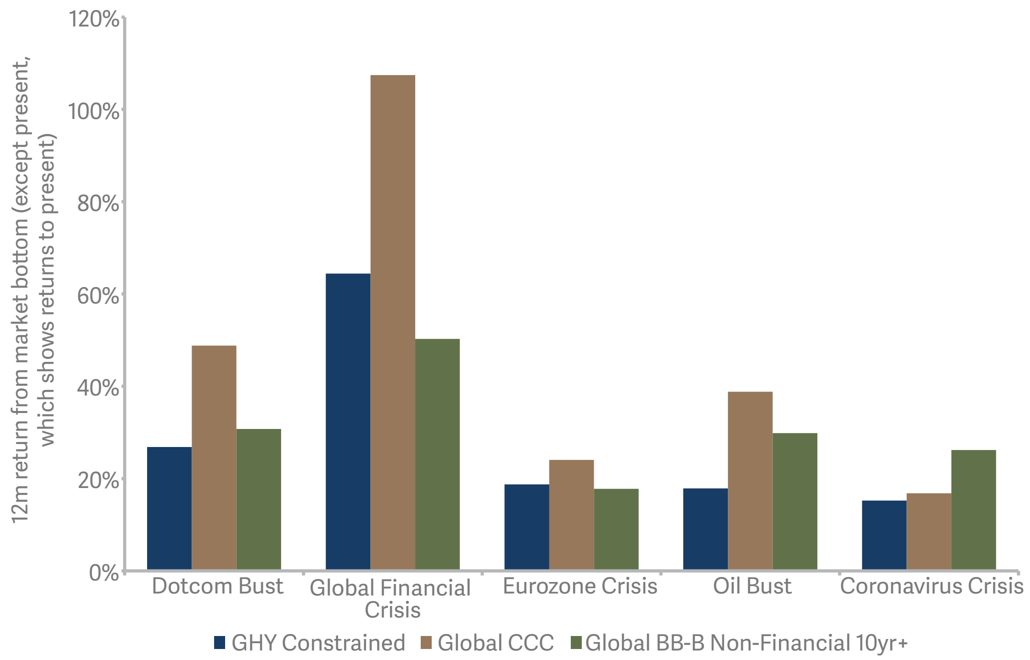
The Artemis Funds (Lux) - Global High Yield Bond fund also has the ability to invest up to 20% of its assets in CCC-rated securities, the other end of the quality spectrum within High Yield. In most market conditions, we have a relatively limited allocation towards these credits as they tend to experience a lot of volatility and offer little further return for this. Historically, however, there is one period in the cycle where these credits do tend to significantly outperform – the period coming out of a large sell-off.

To be absolutely clear, we are highly likely to experience defaults amongst these bonds – and indeed already have had one company enter into administration. But with default-likely bonds trading between 20 and 40 cents on the dollar, we believe this to be largely priced in. Not every 'risky' High Yield bond will default, but at times like this valuations factor in a large amount of potential defaults. All that is needed is for the worst case scenario to not occur in order for this part of the market to generate significant performance.

A flexible approach

For investors willing to accept a higher level of volatility, the all-maturity Global High Yield Bond strategy's flexibility in taking advantage of longer dated securities and CCCs – two sources of potential additional returns – may enable them to access both a high yield and the potential for higher total returns.

CCCs and longer-dated High Yield have historically offered opportunities for outperformance following large sell-offs



Past performance is not a guide to the future. Source: Bloomberg from 31 December 1998 to 30 July 2020.

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Earlier this year, we thought we would be safe moving the Nordic Fund Selection Forum from its original date in May to September 25 and that the problems and restrictions caused by Covid-19 would be mostly behind us. We were wrong and things are far from business-as-usual.

Many are still restricted from travel, working from home and are instructed to avoid personal meetings. We are therefore grateful to the investors and selectors who were able to join us at Operaterrassen in Stockholm for the 13th annual event. I'm also grateful that the technology worked and enabled people from across the Nordics to participate digitally – and also enabled fund managers from across Europe to present to the audience without being present in Stockholm.

With fewer selectors being able to join us this year, we decided to publish this supplement to give you a glimpse of what took place. In the pages ahead, you will find a discussion with our exhibition sponsors, a summary and Q&A with the fund managers who presented on the day as well as some insight from our external speakers. You will find our photo gallery on pages 14–15.

I hope you will enjoy this supplement and I do hope that we will be able to invite all of you to a live event in 2021. Can't wait to meet and exchange ideas with you.

Niklas Tell
Founder & Chief Content Officer
Tell Media Group

NORDIC FUND SELECTION FORUM 2020

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CONTENT

LOOKING BACK – THE HISTORY OF NORDIC FUND SELECTION FORUM

2008

Location: UKK Uppsala
Sponsors: Jupiter & PwC
Number of delegates: 16
External speaker/s: Susan Douse, Douse Associates

2009

Location: Berns, Stockholm
Sponsors: Aviva, Barings, Jupiter, Martin Currie, Standard Life Investments
Number of delegates: 47
External speaker/s: Tommy Söderberg, Swedish National Coach for the Under 21 team in football

2010

Location: Scandic Anglais, Stockholm
Sponsors: Aviva, Barings, Janus Capital, Jupiter, Martin Currie, Markov Processes International, Standard Life Investments
Number of delegates: 45
External speaker/s: Antony John, CEO FundQuest UK

2011

Location: Scandic Anglais, Stockholm
Sponsors: Barings, Janus Capital, Jupiter, Legg Mason, Standard Life Investments
Number of delegates: 37
External speaker/s: Hanna Ojanen from the Swedish Institute of International Affairs / Pelle Tornell on making better decisions.

2012

Location: Scandic Anglais, Stockholm
Sponsors: Aberdeen, Barings, Janus Capital, Jupiter, La Française AM, Standard Life Investments
Number of delegates: 40
External speaker/s: Daniel Enskat, Head of Global Consulting, Strategic Insight / Henrik Fexeus on understanding non-verbal communication.

2013

Location: Operakällaren (the Opera Terrace), Stockholm
Sponsors: Aberdeen, M&G, Pictet, Threadneedle Investments
Number of delegates: 42
External speaker/s: Johan Norberg on the return of politics and the way forward / Fredrik Sträng, Swedish mountain climber, adventurer and documentary film maker.

2014

Location: Operakällaren (the Opera Terrace), Stockholm
Sponsors: Aberdeen, GAM, Henderson, Legg Mason, Oyster Funds, UBS
Number of delegates: 38
External speaker/s: Mårten Lindeborg, Head of Strategic Asset Allocation at AP3 / Katarina Gospic on being deceived by the brain - how to make selections.

2015

Location: Operakällaren (the Opera Terrace), Stockholm
Sponsors: Deutsche Asset & Wealth Management, GAM, Jupiter, M&G, Schroders, UBS
Number of delegates: 30
External speaker/s: Dr. Philippa Malmgren on geopolitics and markets.

2016

Location: Operakällaren (the Opera Terrace), Stockholm
Sponsors: BMO, GAM, Lazard, Matthews Asia, NNIP, Vanguard
Number of delegates: 36
External speaker/s: Elizabeth Walentin, CEO, Crimson Clarke / Mårten Lindeborg, Head of Strategic Allocation, AP3

2017

Location: Grand Hôtel, Stockholm
Sponsors: AXA, BMO, BNY Mellon, GAM, Kames Capital, Lazard
Number of delegates: 30
External speaker/s: The Political Keynote: Johan Norberg / The Academic Keynote: Lasse Heje Pedersen

2018

Location: Grand Hôtel, Stockholm
Sponsors: Artemis, Aviva, AXA, Baillie Gifford, BMO, M&G, Matthews Asia, Vanguard
Number of delegates: 26
External speaker/s: Mussie Kidane, Head of fund and manager selection at Pictet Wealth Management / Andreas Ekström on seven ways to own the world.

2019

Location: Operakällaren (the Opera Terrace), Stockholm
Sponsors: Aegon, Artemis, Aviva, BMO, Franklin Templeton, M&G, Pimco, PGIM
Number of delegates: 29
External speaker/s: Kathryn Saklatvala, Director – Investment Content and Thought Leadership at bfinance / Märtha Rehnberg on technological intuition – the must-have skill of the digital era

Program | September 25th 2020

08.30 – 09.00	**Registration: Coffee in exhibition area**
09.00 – 09.10	Introduction: Niklas Tell, Chief Content Officer at Tell Media Group
09.15 – 10.00	Elizabeth Walentin on US presidential election
10.00 – 10.30	**Coffee in exhibition area**
10.30 – 11.50	Fund manager presentations
	• **Artemis Investment Management LLP**: Jack Holmes – Global High Yield Bond Strategies
	• **Aviva Investors**: Françoise Cespedes – No Short Lived Trend: Climate Protection and Capital Growth
	• **BMO Global Asset Management**: Jamie Jenkins – Engage and Improve in Global Equities
	• **Wellington Management**: Louise Kooy-Henckel: Global Impact – Invest in the world you want to live in
12.00 – 13.00	**Lunch**
13.15 – 14.00	Filippa Strandänger, KPMG: Leads KPMG´s Sustainable Finance Services within Financial Risk Management – EU's green taxonomy and its implications to investors and asset managers
14.00 – 14.30	Panel: Beyond ESG integration – how should ESG considerations impact the fund selection process going forward?
14.30 – 14.45	Conclusions from the moderator

tell
MEDIA GROUP

ELIZABETH WALENTIN

Joe Biden or Donald Trump?

In her keynote, expert commentator **Elizabeth Walentin** provided insight on the upcoming US presidential election and concluded that it's even more uncertain than usual.

Text: **Caroline Liinanki**

One of the biggest events taking place this autumn is the US presidential election, which will have an impact on everything from climate change, global security and financial markets.

With less than six weeks before the US election, Elizabeth Walentin, CEO of the PR and public affairs agency Crimson Clarke and a frequent commentator on US politics, kicked off the event by reflecting back on her previous Nordic Fund Selection Forum keynote speech four years ago. At the time, she noted that she, as well as most other political analysts, wrongly expected Hillary Clinton to win.

In hindsight, Elizabeth Walentin observed that analysing the election through the lens that whoever was running the best and the biggest campaign would win turned out to be an outdated model. Looking ahead, she noted that the waters were even more uncertain and choppy this time around. Some of the factors that she observed makes this election different include the coronavirus pandemic, the Black Lives Matter movement and the question around whether the US postal system will be able to handle the unprecedented amount of postal votes. From a more general perspective, she emphasised how dramatically the pandemic has changed the lives of ordinary Americans with many people living almost like during wartime.

Nevertheless, she observed that the polling averages look different this time around. While the polling numbers between Hillary Clinton and Donald Trump kept on swinging throughout the race, Joe Biden has held a constant and solid lead over Donald Trump.

Whoever wins will also have an impact on the economy and financial markets. Oil and gas, the defence industry and big tech were outlined as some of the winners from a Trump victory, while capital goods, construction and renewables are likely to gain from a Joe Biden presidency.

As for some of the outstanding questions, Elizabeth Walentin mentioned the usual October surprise. That did, however, perhaps arrive early as it was revealed in early October that Donald Trump and a big part of the White House had tested positive for the coronavirus. Another question for later this autumn, however, will be whether the outcome of the election would be accepted. At the same time, Elizabeth Walentin added that it would be unthinkable in the US to not have an orderly political system. However, she noted that there is a lot of talk in Washington that Donald Trump is fed up with being president due to it involving a too big of a workload and being less fun than he thought it would be.

EU's green taxonomy and its implications for investors and asset managers

Filippa Strandänger, who leads **KPMG**'s sustainable finance service line within financial risk management and represents Sweden in KPMG's global working group on sustainable finance, took the stage after lunch to discuss sustainability in general and the EU's green taxonomy in particular.

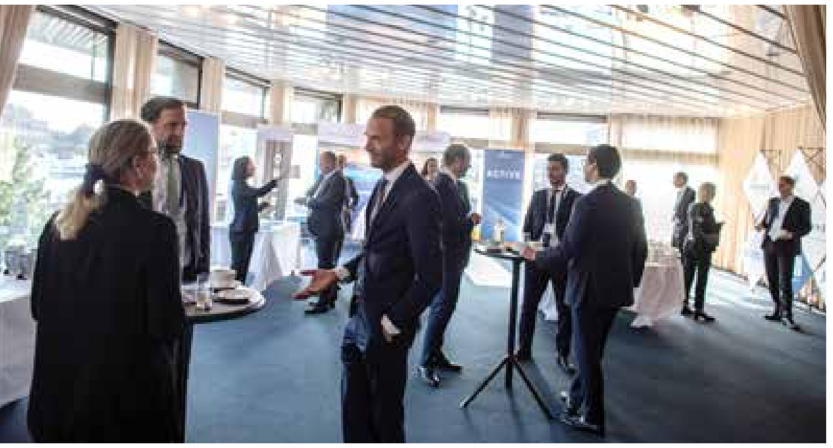
By: **Niklas Tell**

Filippa Strandänger started out by outlining ten key drivers in sustainable finance. These included the Paris Agreement, the UN sustainable development goals as well as the Task Force on Climate-related Financial Disclosures (TCFD) and climate stress testing of banks.

She continued to say that to achieve the EU's 2030 targets agreed in the Paris Agreement, including a 40 per cent cut in greenhouse gas emissions, the EU has to fill an investment gap estimated at EUR 170 to 290 billion per year. Filippa Strandänger also highlighted that the financial sector has a key role to play in reaching those goals by re-orienting investments towards more sustainable technologies and businesses and by contributing to the creation of a low carbon, climate resilient and circular economy.

Some of the slides shown during the presentation attracted a lot of interest by the audience with many taking photos with their phones. One of these slides are shown below, outlining the timeline for when things are taking place.

FILIPPA STRANDÄNGER, KPMG






Niklas Tell, Tell Media Group

Elizabeth Walentin on the US presidential election

Networking

Francoise Cespedos, Aviva Investors

Breakfast networking

Staffan Ifvarsson, Independent advisor

Per Lindgren, Skandia Liv

Jamie Jenkins, BMO Global AM

Susanne Bolin Gärtner, Danske Bank Wealth Management

Nathalie Lundberg, Pensionsmyndigheten

Linda Haraké, Handelsbanken Liv

Louise Kooy-Henckel, Wellington Management

Petra Ljungberg, SEB / Therese Axelsson, Wellington / Henrik Andersen, SEB

Event booklet

Jack Holmes, Artemis Investment Management

ESG panel: Niklas Tell / Linda Haraké, Handelsbanken Liv / Filippa Strandänger, KPMG / Susanne Bolin Gärtner, Danske Bank Wealth Management


Insight from the sales side

Before the event on September 25, **Tell Media Group** took the opportunity to speak to the exhibition sponsors **Carneo**, **Columbia Threadneedle** and **Jupiter** about their experience of working with clients during the Covid-19 pandemic and trends in the market.

Text: **Niklas Tell**

ROGER JOHANSON, HEAD OF ALTERNATIVES AT CARNEO

”If you have mainstream products that are not very different from the competition, it's difficult to get access to investors or even to get a meeting today. We're lucky that we're offering something that many smaller institutional investors still don't have in their portfolios," says Roger Johanson, head of alternatives at the Swedish multi-boutique Carneo. He joined the firm in the spring of 2017 from Skandia, where he spent more than 12 years as head of venture capital and infrastructure investing.

Roger Johanson says that a lot of smaller investors are interested in alternatives and want to invest but are hesitant and don't know when to take the leap. ”What I've learnt is that you can't time these things. You must make the decision and then you start building the portfolio," he comments. He says that he always tells investors that they are on a 10-year journey.

”Larger institutional investors across the Nordic region know this, of course, but it's still an educational process with smaller investors. They want the exposure, and their portfolios need it, but it's hard for them to make the decision to start," he says. He explains that part of the concept at Carneo is to help out in that process. "If you're an investor and would like to get exposure today, you can buy into our existing fund, which will give you a portfolio that's already diversified across different vintages," he says.

He adds, however, that it's not only about providing access and making the investment. "It's also about creating an understanding inside the investors' organisations and helping them with what this investment would mean for their total portfolio. It becomes a close relationship and we spend a lot of time in front of white boards in boardrooms – or these days in video meetings," he says.

When talking about Carneo more generally, Roger Johanson explains that C WorldWide and Carnegie Fonder are still the biggest parts of the group in term of assets under management but that the group as a whole wants to grow. "On the alternative side, we have good products and our job is to attract more capital from investors. On the traditional side, growth will be a combination of organic growth but also acquisitions. Our ambition is to grow significantly over the coming years," he says. ●

“Larger institutional investors across the Nordic region know this, of course, but it's still an educational process with smaller investors. They want the exposure, and their portfolios need it, but it's hard for them to make the decision to start”

– Roger Johanson, Carneo

MAGNUS JAHNKE, HEAD OF THE NORDICS AT JUPITER

"I used to make my plans for the year around roadshows with managers. That's obviously not working right now," says Magnus Jahnke, head of the Nordics at Jupiter Asset Management. He joined the asset manager from a position as head of fund selection at Lancelot Asset Management in the fall of 2016.

He says that the big news at Jupiter this year is the acquisition of Merian Global Investors, which was completed in July. For Magnus Jahnke, it means a broader product platform to offer Nordic investors.

"There are some overlaps and we're currently looking into that but the acquisition has also given us strategies that we didn't have before, such as systematic strategies," he says, adding that this means he will be able to approach new clients. Many systematic strategies have, however, had a difficult time recently and Magnus Jahnke says it will be important to find investors that are willing to look beyond recent historical performance. Other news are more niched strategies such as Gold & Silver and also absolute return strategies within fixed income and equities.

When talking about the spring and doing business during a pandemic, Magnus Janke says that Jupiter in the Nordics had a good pipeline before the world closed down. "Some of that has turned into new inflows, even if some of the bigger tenders have been put on hold," he says.

On the topic of clients, he also recognises the difficulty of reaching out. "I used to be a fund selector myself and I know how the inbox can fill up," he says. "It has always been a challenge to reach out to investors and to know that they're actually reading what we're sending. The competition in the Nordic region is fierce and the inboxes of fund selectors must have exploded during the spring with everybody offering webinars." He adds that he instead focused on existing investors, making sure they had all the information they needed.

The company has continued to launch new products during the spring and Magnus Jahnke has seen interest from Nordic investors in its new Pan-European smaller companies fund managed by Mark Heslop, who joined Jupiter last year from Columbia Threadneedle. ”We've seen strong interest from Nordic investors for the Pan-European smaller companies fund and now that the fund has passed the critical level in assets under management, some larger institutional investors are also starting to look at it," he says and adds that they also launched a pure global sovereign bond strategy in July.

In the pipeline is also a new fund which is expected to be launched in the coming months. It will be managed by NZS Capital in Denver, a firm that was founded in 2019 by former Janus Henderson managers and in which Jupiter became a minority shareholder earlier this year. ●

> We've run a lot of webinars during the spring and I understand from clients that we're not the only ones. Their inboxes are filling up with invitations"
>
> *– Victor Rozental, Columbia Threadneedle*

VICTOR ROZENTAL, SALES DIRECTOR FOR NORDIC WHOLESALE AT COLUMBIA THREADNEEDLE

"We've run a lot of webinars during the spring and I understand from clients that we're not the only ones. Their inboxes are filling up with invitations," says Victor Rozental, sales director for Nordic wholesale at Columbia Threadneedle, when describing the situation since the spring. He joined Columbia Threadneedle from Schroders in 2018 and is now covering the Nordic region together with Ulrik Holm Oxfeldt, who is based in Copenhagen.

He says that prior to Covid-19, the firm saw the biggest interest from investors in its global equity strategies but the focus going forward is to raise the profile of company's fixed income strategies. "We have a large, global credit research team that I don't think is very well known," Victor Rozental says.

Another strategy that is gaining popularity is the Columbia Threadneedle European sustainable infrastructure fund. "It's an open-ended fund and we've seen inflows also during the spring. There are a lot of interesting infrastructure projects out there, so the focus right now is to attract more capital to invest," he says. He explains that the existing investors are mostly mid-sized institutions but as the fund grows and can provide co-investment opportunities, it should attract interest from larger investors as well.

Talking about different trends in the market, Victor Rozental first mentions ESG as firmly established in the region. "We see it across assets. Obviously in equities but also in fixed income with green bonds and also social bonds," he says.

More broadly, he says there is – or maybe should be – a renewed interest in active management. "With all the stimulus packages from central banks, we can see risks building up in the system. We think that it might be time to take a step back from passive and look at active strategies to manage these risks," he says. When asked whether investors are on the same page, he says there is an understanding and that the dialogue is ongoing. "It's, of course, also a question of costs," he comments.

Investment insight

Four different fund managers presented their strategies at Nordic Fund Selection Forum. Due to the current Covid-19 pandemic, they were not able to join us on stage in Stockholm but participated via video link.

By: **Niklas Tell**

First out was Jack Holmes, a fund manager at Artemis Investment Management, who manages the firm's global high yield bond strategies alongside Stephen Baines and David Ennett. Jack Holmes joined Artemis in June 2019 from Kames Capital and he has also worked at Standard Life Investments.

AS AN INVESTOR, YOU GET A HIGHER YIELD WHEN INVESTING IN HIGH YIELD BUT HOW DO YOU MANAGE THE POTENTIAL RISKS THAT COMES WITH INVESTING IN THIS AREA?

"Management of risk is a key element in our investment process. As we run a high conviction portfolio, our primary defence against downside risk is in extensive credit research before and during our investment in the bonds of a company. In addition to this, we also regularly review the portfolio from a top-down perspective to ensure that our high conviction bottom-up views are not expressing an unwanted exposure at the portfolio level. Finally, we have regular meetings with both our investment risk and stewardship teams to check with a third party, and against data analysis, that we fully understand and are comfortable with the investment risks – including any downside ESG risks to either individual businesses or the overall portfolio – that we're taking."

HOW IMPORTANT IS ACTIVE MANAGEMENT IN HIGH YIELD?

"We believe that being active in high yield unlocks a superior opportunity set and produces better investment outcomes over the longer term. Being active allows you to avoid the unintended consequences of high yield index construction – where the largest exposures are simply to those companies that have borrowed the most. An additional important element is that it allows us to fully consider ESG threats and opportunities within our portfolio and ensure that we're benefiting from these – something that an index-led approach would miss. It's also the case that, put simply, for the vast majority of index-led investors in high yield, outperformance or underperformance will be driven by their positioning in the top 20 issuers within the market as these are the largest exposures. As such, the vast majority of analytical and portfolio management time and effort is spent managing exposures to these largest borrowers. By approaching the market in an unconstrained way, it allows us to identify bonds


JACK HOLMES, ARTEMIS INVESTMENT MANAGEMENT

that are under-covered by the market and offer significantly better risk/reward characteristics – and then invest in them in size. To put this in context, the average position size in our portfolio is currently 1.6 per cent, while the average issuer size in the BAML Global High Yield index is less than 0.1 per cent. This high conviction approach gives us and our investors a much greater ability to benefit from our active management.

WHAT ARE THE BENEFITS, AND POTENTIAL DOWNSIDES, OF RUNNING A CONCENTRATED PORTFOLIO IN HIGH YIELD?

"As I mentioned above, running concentrated high yield portfolios allows us to fully benefit from the impact of our stock selection. Our greater focus on a select collection of companies allows us to truly understand each of the elements that underlie our investments, including our ability to fully integrate ESG risk analysis into our investment process. This does mean that sometimes we can have considerable periods where our return profile looks quite different to the index, but overall we believe it allows us to offer a differentiated and attractive return profile to our investors."

FRANCOISE CESPEDOR, AVIVA INVESTORS

The second fund manager speaker of the day was Francoise Cespedor, a portfolio manager at Aviva Investors. She manages the SRI and Eurozone equity portfolios out of Paris as well as the climate transition strategy, which she covered at the event. In addition, she also runs the equity sleeve of Aviva Croissance Durable SRI, an ESG thematic fund focusing on three main themes: climate care, earth care and people care.

MANY ESG STOCKS HAS HAD A VERY STRONG RALLY. WOULD THE SMALL CAP TILT IMPLY THAT THE FUND IS NOT BENEFITTING TO THE SAME DEGREE FROM THE CAPITAL FLOW TO POPULAR GREEN STOCKS?
"On the contrary, mid and small caps are one of the strong beneficiary of these flows, renewable power producers for example. This small size companies are usually solution providers in niche segments. Since their market cap and free float are limited, ESG inflows have been a strong support to share price performances."

WHERE DO YOU SEE THE BIGGEST POTENTIAL RISKS IN THE PORTFOLIO AND HOW DO YOU MITIGATE THAT?
"The risk may be on the names that have been strong contributors to performance until now, for example renewable utilities, circular economy, electric equipment and semis, which are mainly solution providers and 'usual suspects' in ESG/climate strategies. The advantage of our process is to have two sleeves: solutions and transition. The latter is enabling us to diversify to other sectors and companies profiles that could be more 'defensive', like food or HPC, as soon as the companies meet our transition risk criteria."

YOU HAVE A DUAL OBJECTIVE: LONG-TERM CAPITAL GROWTH AND POSITIVE CLIMATE RISK MANAGEMENT. HOW DO YOU MEASURE AND REPORT ON CLIMATE IMPACT?
"We release an annual climate report where we give data on ESG/carbon intensity and also aligned temperature, which is 2-3 degrees currently. Otherwise, thanks to our ESG team of more than 20 analyst, we're able to engage with companies to improve their climate strategy and reporting, not only for the climate strategy but across the board at Aviva Investors."

JAMIE JENKINS, BMO GLOBAL ASSET MANAGEMENT

Next out was Jamie Jenkins, co-head of the global equities team at BMO Global Asset Management, who covered the BMO SDG engagement global equity fund where he is lead portfolio manager. He joined the firm in 2000 from a position as a Japanese equities fund manager at Hill Samuel Asset Management.

IN YOUR ENGAGEMENT WORK, YOU HAVE IDENTIFIED 80 SDG TARGETS TO FOCUS ON. IS THAT TOO MANY IF YOU WANT TO ACHIEVE IMPACT?
"We have identified 80 target that are relevant for equity investors. Since this fund addresses a wide cross-section of SDG targets, we feel that it's appropriate to focus on the most relevant targets for each individual company."

HOW DO YOU REPORT ON ENGAGEMENT PROGRESS?
"We report on progress using the SDG target and indicator framework. This allows us to monitor granular progress towards specific objectives and we aggregate our progress report through the annual impact report, which we have recently published."

HOW IMPORTANT IS IT THAT THE COMPANY IS OPEN TO ENGAGEMENT? DO YOU AVOID INVESTMENT IF YOU THINK ENGAGEMENT WILL BE DIFFICULT OR DO YOU SELL AFTER HAVING TRIED AND FAILED?
"Engageability is key for us. In order for a company to make it into the fund, our pre-investment analysis must conclude that the company is going to be neutral to our engagement advances as an absolute minimum. If we see signs that a company will be hostile to dialogue or intransigent in their positioning, then we simply rule that company out. With such a rich universe of companies to choose from, we want to partner with companies that are open or at least neutral to our engagement agenda."

LOUISE KOOY-HENCKEL, WELLINGTON MANAGEMENT

The final fund manager speaker on the day was Louise Kooy-Henckel. She is the associate director of investment products and strategies at Wellington Management and an investment director specialising in impact investing. In her role, she is responsible for the integrity of Wellington's impact investment approaches through her oversight of portfolio positioning, performance and risk exposures.

YOU FOCUS ON 11 DIFFERENT THEMES. HOW DID YOU DECIDE ON THESE?
"In 2012, Wellington collaborated on our 'future themes' research initiative on water scarcity. Future themes is a firm-wide effort to identify long-term thematic investment ideas. Their collective research on water scarcity sparked an interest in identifying potential investment opportunities where companies' fundamental business models address large-scale social and environmental challenges in differentiated and innovative ways. The working group sought to broaden the number of areas where investment opportunities may arise from linkages to large-scale social and economic problems. After conducting a significant amount of research, they concluded that there was the potential to create a compelling investment strategy that could combine the best elements of impact investing with the strengths of Wellington and the portfolio team. Over time, these categories/themes will likely evolve but are essentially thought of as long-term and evergreen – not tactical in any way. Today, we believe the 11 themes have around a 85 to 90 per cent overlap with the UN sustainable development goals."

ARE 11 THEMES TOO MANY FOR ONE PORTFOLIO AND ARE YOU ABLE TO ACHIEVE THE TARGETED IMPACT?
"We look to achieve impact based on the individual companies in the portfolio and meticulously measure the impact of each of our investee companies. Over the years, we've been able to map this impact and can see it has made a difference over vastly differing aspects of society and the environment. In 2019, companies held by our global impact portfolio, for example, provided education and job training to more than 1.5 million people, supplied more than 793 551 affordable housing units and cleaned more than 5.5 billion cubic meters of polluted water. The 11 themes also allow us to have a diversified and uncorrelated portfolio. This is especially important at two levels. Firstly, to create a rich, diversified opportunity set and secondly, to seek to manage the risk in the portfolio."

HOW IMPORTANT IS IT THAT EVERY INVESTMENT CAN TICK THE BOXES IN TERMS OF MATERIALITY, ADDITIONALITY AND MEASURABILITY?
"We start our investment process by understanding if the company is an impact company. What big world problem is the company trying to solve? We're seeking to understand the world's great social and environmental problems and the opportunity to identify companies that are uniquely addressing these needs. To do so, we conduct proprietary research and partner with Wellington Management's wide range of experts to understand the evolving challenges and investable solutions facing the world.

In our experience, there's no systematic screening process that can reliably capture impact companies. We rely on a bottom-up process within each thematic area for identifying and analysing candidate companies for our opportunity set. As an initial step, we source candidate companies from our own impact research process as well as our dedicated research associates, including Wellington Management's global industry equity analysts, credit analysts and our global network of in-house portfolio managers and analysts. Today, the idea generation is largely 50/50 between the impact team's own research and the broader resources supporting the team.

In defining the opportunity set we take into account both quantitative and qualitative considerations to fulfil each of the three impact criteria: material, additional and measurable. We designed our global impact portfolio based on what has worked well in impact investing in private markets – where impact investing originated. It's of outmost importance to us that we maintain an authentic approach to impact investing as we take impact investing concepts to public markets."

ABOUT

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