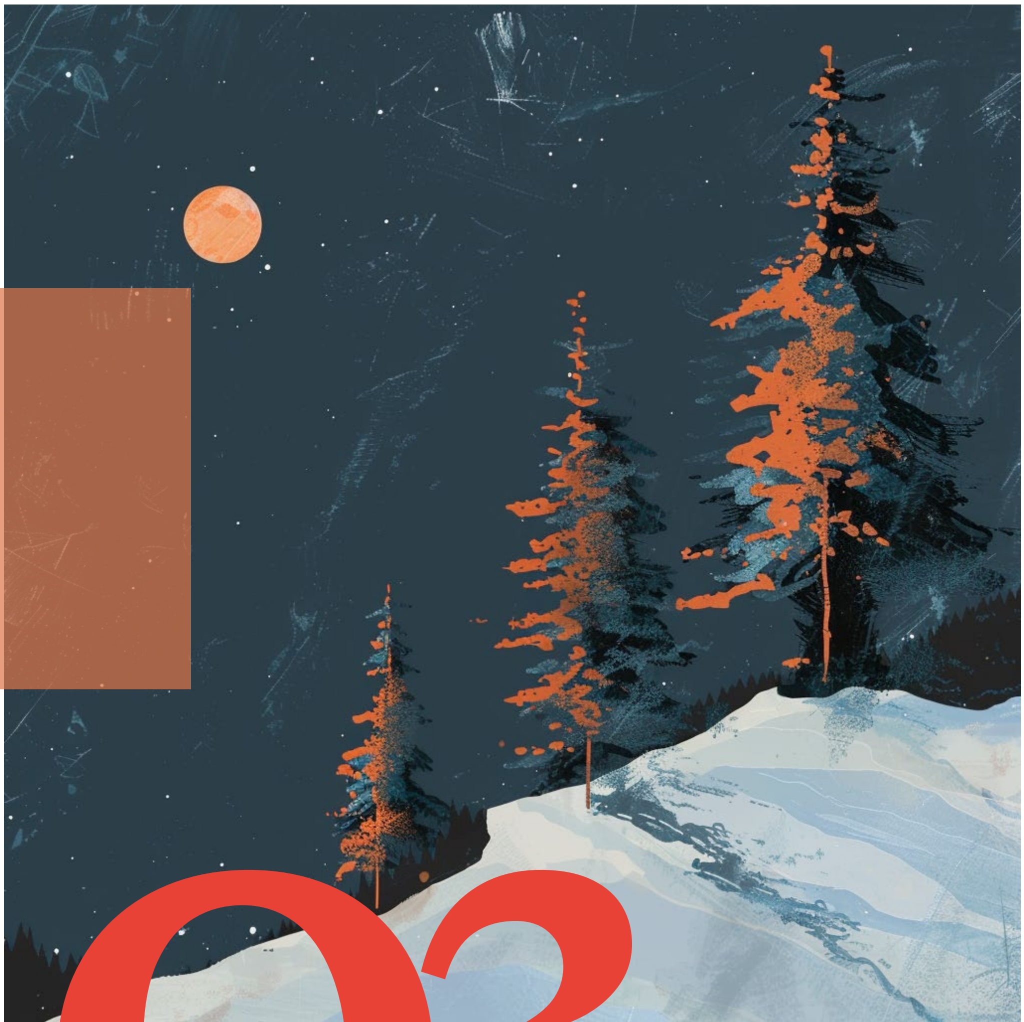
NORDSIP
NORDIC SUSTAINABLE INVESTMENTS

QUARTERLY PERFORMANCE
DECEMBER 2024

ARTICLE 9 FUND REVIEW



Q3 2024

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Big Green Tree Media AB
Kungsgatan 8
111 47 Stockholm
+46 70 9993966

Editor-in-Chief
Aline Reichenberg Gustafsson, CFA
aline@nordsip.com

Economics Editor
Filipe Albuquerque
filipe@nordsip.com

Senior Research Director
Richard Tyszkiewicz
richard@nordsip.com

Designer
Gülce Demirer
gulce@nordsip.com

For advertising or other sales-related enquiries
email: sales@nordsip.com

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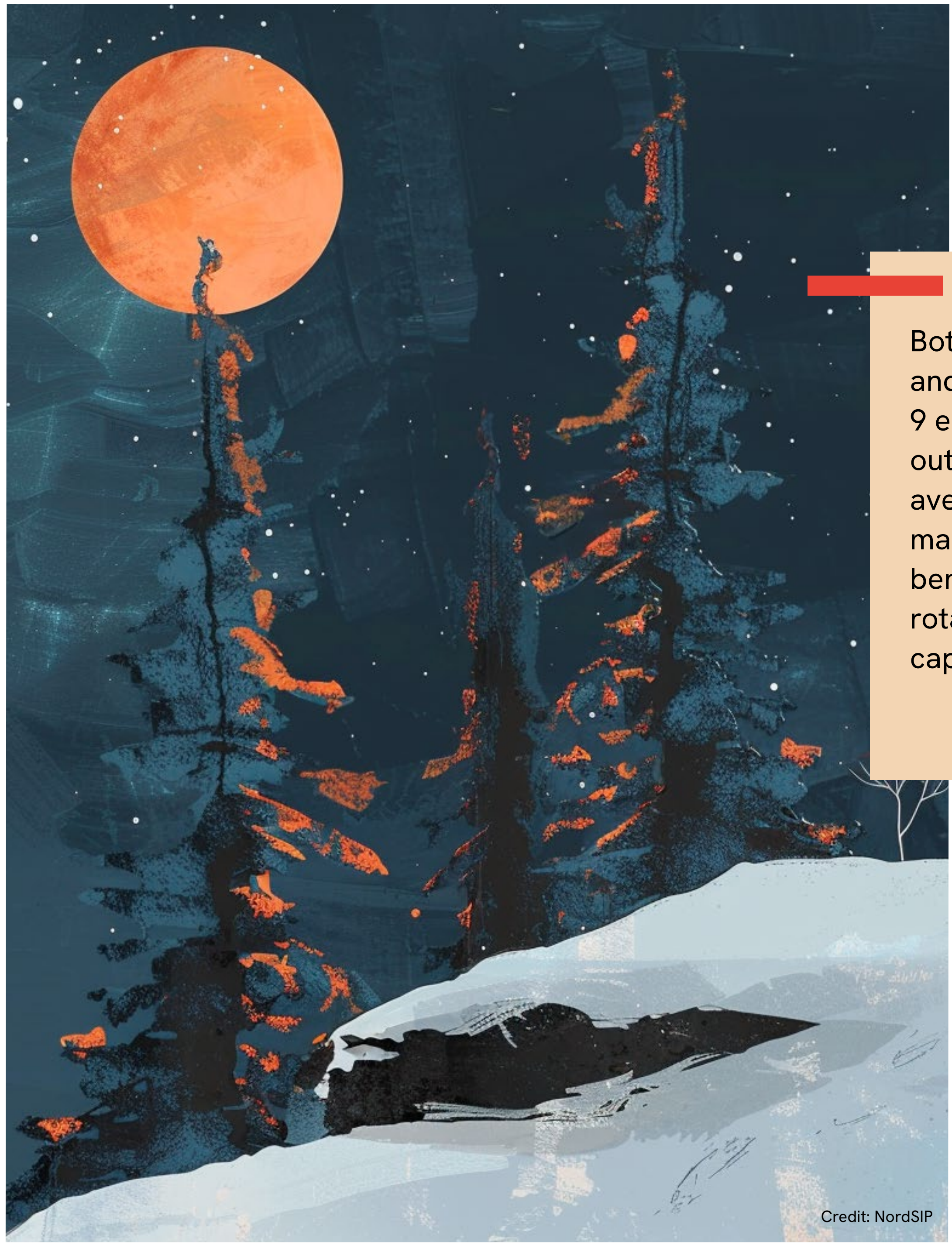
ARTICLE 9 FUND REVIEW

Third Quarter 2024



Credit: NordSIP

> Both international partners and Nordic global Article 9 equity managers outperformed in Q3 on average. In both groups, managers reported benefitting from the ongoing rotation away from large-cap growth stocks.

Aline Reichenberg Gustafsson, CFA

THE EDITOR'S WORD

In this edition of NordSIP's Article 9 Fund Review, we dive into the key trends shaping sustainable investments during the third quarter of 2024.

As the Article 9 fund universe continues to evolve in the third quarter of 2024, driven by ongoing regulatory developments and shifting manager priorities, it is evident that sustainable investing remains a long-term commitment. However, in an industry often shaped by short-term market dynamics, maintaining regular engagement with asset managers is essential to assess how their strategies and priorities are adapting to the changing landscape.

This review covers 55 global actively-managed Article 9 funds, encompassing 14 Nordic-based equity funds, 12 fixed-income funds, and 29 international funds, split between public and private asset strategies[1].

Both international partners and Nordic global Article 9 equity managers outperformed in Q3 on average. In both groups, managers reported benefitting from the ongoing rotation away from large-cap growth stocks. Indeed, smaller-cap stocks and value sectors' performance was spurred by the Federal Reserve's interest rate cuts and easing recession fears. IT, industrials such as water and cleantech and energy efficiency contributed positively, while renewable energy companies showed mixed performance. The healthcare sector's performance contribution also varied for different managers.

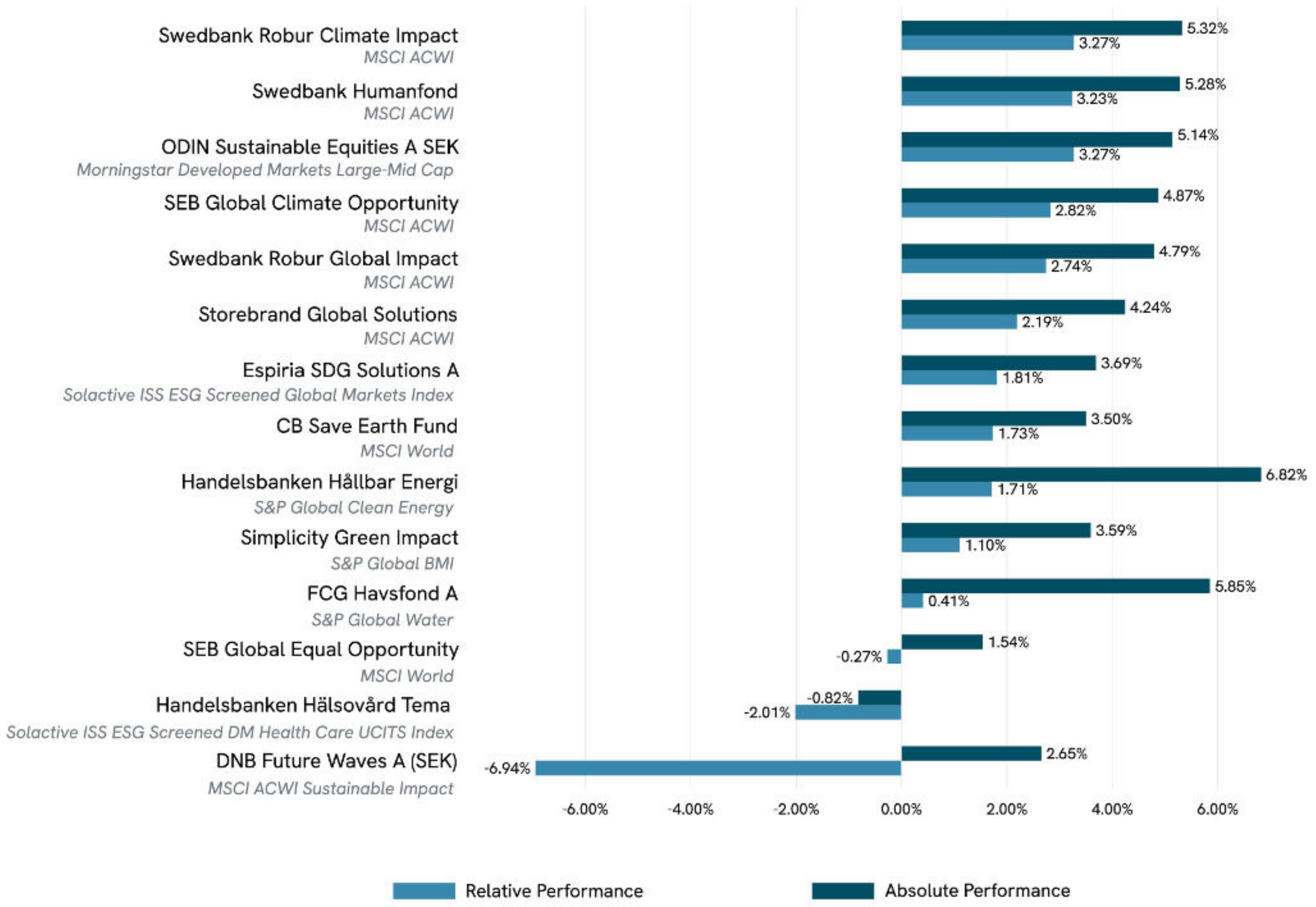
In the Fixed Income space, the rate cuts by the the Federal Reserve, European Central Bank, Bank of England and Nordic central banks drove bond yields lower and benefitted Article 9 funds. They saw improved absolute and relative returns, supported by macroeconomic conditions, duration management, and strong performance in the real estate sector. Fund managers noted market volatility preceding rate cuts, but resilient credit markets and narrowing credit spreads contributed positively.

Private market funds, meanwhile, exhibited mixed performance. Geopolitical instability and currency fluctuations, particularly the depreciation of the US dollar, posed challenges for some funds. Solar energy investments thrived, but issues like declining agricultural commodity prices and transaction costs impacted returns in other sectors. Fund managers remain optimistic about sustained growth, particularly in emerging markets, and the potential for further monetary easing to support future returns.

1 international managers included are NordSIP partners

Q3 2024

Relative Performance of Selected Nordic Actively Managed Global Equity SFDR Article 9 Funds (3Q 2024)



Source: Fund manager data

NORDIC MANAGERS

Equity Funds

Large Caps Rotation and Trump Fears

Filipe Albuquerque

During the third quarter of 2024, the MSCI ACWI, the MSCI World and the S&P 500 grew by 2.05%, 1.77% and 5.5%[1], respectively. On the monetary policy front, the central banks of the USA, the UK, the euro-zone, Sweden and Denmark all cut their interest rates. The Nordics experience differentiated levels of GDP growth[2]. While Denmark grew at a confident 3.9% compared to the same quarter of 2023, Finland and Sweden registered much more modest rates of 0.5% and 0.7% respectively.

1 Source: Investing.com
2 Source: eurostat

Geographic Breakdown of Selected Nordic-based Art9 SFDR Global Equity Funds (as of 30 October 2024)

	Nordic	Rest of Europe	USA	EM	Rest of the world
CB Save Earth Fund	8%	24%	56%	3%	5%
DNB Future Waves A (SEK)*	34%	22%	37%	0%	7%
Espiria SDG Solutions A	25%	31%	30%	14%	0%
FCG Havsfond A	5%	30%	42%	0%	19%
Handelsbanken Hälsovård Tema	11%	11%	70%	1%	5%
ODIN Sustainable Equities C SEK	8%	45%	45%	0%	0%
SEB Global Climate Opportunity	4%	22%	54%	11%	9%
SEB Global Equal Opportunity	4%	18%	64%	0%	14%
Swedbank Humanfond	9%	17%	58%	10%	7%
Swedbank Robur Climate Impact	8%	16%	56%	13%	7%
Swedbank Robur Global Impact	5%	24%	48%	9%	13%

Source: Fund manager data

Sectoral Breakdown of Selected Nordic-based Art9 SFDR Global Equity Funds (as of 30 October 2024)

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities	Cash
CB Save Earth Fund	0%	4%	0%	0%	0%	8%	65%	13%	5%	0%	0%	4%
DNB Future Waves A (SEK)*	0%	2%	7%	0%	5%	8%	49%	20%	4%	0%	4%	1%
Espiria SDG Solutions A	0%	5%	5%	0%	0%	29%	25%	22%	8%	0%	0%	2%
FCG Havsfond A	0%	4%	11%	0%	1%	1%	38%	18%	9%	0%	14%	3%
Handelsbanken Hälsovård Tema	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%	2%
ODIN Sustainable Equities C SEK	0%	0%	0%	0%	0%	26%	48%	20%	4%	0%	2%	2%
SEB Global Climate Opportunity	0%	8%	1%	0%	0%	0%	26%	23%	9%	16%	17%	0%
SEB Global Equal Opportunity	7%	10%	6%	0%	19%	14%	9%	25%	6%	2%	2%	0%
Swedbank Humanfond	0%	8%	2%	0%	1%	23%	19%	29%	7%	4%	5%	2%
Swedbank Robur Climate Impact	0%	14%	0%	0%	0%	3%	23%	28%	10%	6%	13%	3%
Swedbank Robur Global Impact	0%	8%	3%	0%	1%	24%	17%	28%	8%	5%	3%	3%

Source: Fund manager data

> In Q3 2024, market themes shifted significantly compared to the first half of the year. The initial half of 2024 saw a rally driven largely by large-cap growth and tech stocks, particularly those connected to AI advancements.

To better understand how these and other trends affected the performance of funds classified as Article 9 ("Dark Green") under the EU's Sustainable Finance Disclosures Regulation (SFDR), NordSIP reached out to 14 global funds actively managed by Nordic-based managers. Nordic fund managers highlighted the falling appeal of large caps, the effect of monetary policy accommodation, the mixed contributions of renewable energy companies and fears that the second Trump presidency will have a negative effect on sustainable investments.

Comparing the performance for the third quarter of 2024 with the preceding quarter shows that this quarter was more successful for sustainable fund managers, be it on absolute or relative terms.

Geographically, we can see that the funds are most fond of assets in the USA, and Europe-ex Nordics, the category Rest of the World and the Nordic region.

The sectoral distribution of assets echoes the appeal of large caps and the recent popularity of AI and obesity medicine. IT, industrials and healthcare were the three dominant sectors across most of the sustainable equity funds surveyed, with financials, real estate and utilities also representing an important share of the assets of some of the funds.

Shifting to Smaller Caps

According to Tom Santamaria Olsson, portfolio manager of the SEB Global Climate Opportunity and the SEB Global Equal Opportunity funds, the dominant trend in the market during the third quarter was the shift away from large caps.

"In Q3 2024, market themes shifted significantly compared to the first half of the year. The initial half of 2024 saw a rally driven largely by large-cap

Q3 saw a rotation in the market and even more dispersion than in Q2, although the market is still very concentrated.

growth and tech stocks, particularly those connected to AI advancements. This period emphasized the growth-driven sectors and mega-cap stocks, known as the "Magnificent Seven," which led market gains as interest rates remained high and inflation showed signs of easing but was still a concern," Santamaria Olsson explains.

"Entering Q3, however, the Federal Reserve's pivot toward rate cuts signalled a shift to a late-cycle economic environment. This led to a change in market leadership, favouring smaller-cap stocks, value sectors, and real estate. The Fed's rate cut in September helped un-invert the yield curve, signalling reduced recession fears and leading to positive performance across more diversified sectors, including REITs, utilities, and financials," Santamaria Olsson argues.

Marcus Grimfors, portfolio manager of the CB Save Earth Fund at CB Fonder, notes that "Q3 saw a rotation in the market and even more dispersion than in Q2, although the market is still very concentrated."

These shifts had concrete effects. "The SEB Global Equal Opportunity fund benefited from a reversal and come-back of smaller companies mainly driven by the softening of macro data that lead the way to FED cutting interest rates. The fact that Magnificent Seven did not have the strongest quarter was in favor for the fund, where not investing in Alphabet and Microsoft had the largest effects. Not being invested in the energy sector and being overweight financials also contributed to performance," Santamaria Olsson adds.

Good News from Asia?

Still on macroeconomic drivers, the third quarter of the year saw China engage in a monetary stimulus worth US$141.82 billion in long-term liquidity to the financial market. The policy, announced at the end of September had mixed effects on Nordic funds.

"For us the announced China stimulus packages that drove a short squeeze in China eroded a lot of the outperformance," Mikkel Tobias Hagen Nyholt, for the DNB Future Waves Fund says.

"The last main driver was the stimulus Chinese authorities injected just before their National Holiday that made the funds exposure to Chinese Wind and Solar companies jump," SEB's Santamaria Olsson explains.

Other fund managers focused on the interest rate cut conducted by the Bank of Japan. "In Japan, Q3 began on a positive note, with the Nikkei reaching its peak in mid-July. An interest rate increase by the Bank of Japan caused significant volatility in the Japanese stock and currency markets, with the yen strengthening substantially against the US dollar. This led to a tougher quarter for exporters, while domestic companies performed better. The Havsfonden fund saw positive results in the region, boosted by the yen's appreciation against the krona," Oskar Schyberg, portfolio manager of the FCG Havsfond explains.

Healthcare Giants Fall Short

Sectorally, healthcare remains a market mover. "Healthcare kept being a strong contribution to performance," says Linnea Zanetti, portfolio manager of the Swedbank Robur Climate Impact, Swedbank Robur Global Impact and Swedbank Humanfond.However, the month was marked by disappointment with large players, leaving others to benefit.

"Performance was negatively impacted by companies with strong year-to-date returns but recent hiccups. For instance, Novo Nordisk's Q2 report fell slightly short of the market's expectations, and AstraZeneca have faced mixed data outcomes for Dato-Dxd," Caroline Banér, co-head portfolio manager of the Handelsbanken Hälsovård Tema Fund at Handelsbanken.

"Positive contributors to performance included UnitedHealth Group and HCA Healthcare, as well as Sanofi which reported favorable study results for its drug candidate tolebrutinib in a specific form of multiple sclerosis (MS)," Handelsbanken's Banér notes.

Energy Efficiency and Renewables

With interest rates falling, debt-dependent renewables are making to recover. "Several segments contributed strongly to performance, most notably companies that contribute with efficiencies within industrials as well as wind power companies, while segments for solar energy posted weakness," says Patric Lindqvist, portfolio manager of the Handelsbanken Hållbar Energi fund. DNB's Nyholt agrees noting that wind power company Vestas was a net positive contributor to his fund's performance.

"The strong performance within energy efficiency continued, however not as strong as in 1st half of 2024 and the companies performing well differentiated a bit. Renewables recovered somewhat but still had a rather weak performance during the quarter. Residential US solar companies like Sunnova Energy and Sunrun were the winners, driven by tax incentives for installation under the Inflation Reduction Act," Swedbank Robur's Zanetti notes.

In his quarterly letter, Patric Lindqvist, portfolio manager of the Handelsbanken Hållbar Energi fund highlights the positive and negative contributions of for companies. Enovix, a batteries related to energy density company, was the strongest performer in the period. The company has begun scaling up its battery production and announced that they have concluded agreements with a number of major customers. Cadeler, which installs offshore wind turbines, and TSMC, a world leader within the development of semiconductors, were also strong contributors.

On the other hand, Lindqvist notes that Array, a manufacturer of solar tracking systems for solar power plants, was a negative contributor to the performance of the Handelsbanken Hållbar Energi fund. Despite a strong report, the equity has been volatile due to concerns about project delays. Shoals, a developer of electrical systems for solar power plants, also showed some weakness," Lindqvist adds.

"The SEB Global Climate Opportunity fund benefited from a reversal and come-back of smaller companies mainly driven by the softening of macro data that lead the way to FED cutting interest rates. This also drove REIT's and companies involved in the Green buildings theme upward," SEB's Santamaria Olsson says.

Water

Havsfond's Schyberg noted that shifting expectations regarding the direction of US interest rates impacted the

> We continue to see strong long-term prospects for sustainable investments in the blue economy, which is growing rapidly and is projected by the OECD to reach USD 3 trillion by 2030. In the short term, we assess that market volatility may impact the sector, but our strategy is designed to manage such patterns.

quarter and resulted in varied performance across sectors. "In the US equity market, Havsfonden achieved strong gains in the utilities sector and growth in clean energy technology, even as the broader energy sector posted negative returns. Amid expectations of lower interest rates, the utilities sector in the Eurozone delivered strong returns. Havsfonden also experienced robust growth in its investments in renewable energy production and distribution," Schyberg says.

CB Fonder's Grimfors agrees, noting that "the Water and Cleantech sectors both performed well during Q3. During the third quarter, Belimo, Badger Meter and Tetra Tech were the largest individual contributors to performance within the Water and Cleantech sectors." However, not all water-related companies contributed to returns. DNB's Nyholt noted that Organo Corp, Core & Main were negative contributors to the fund's returns.

Equity Markets to Spread Out

Going forward, several fund managers have expressed a belief that the shift away from large caps will become a trend beyond the third quarter of 2024. "We remain positive on the sector. Several interesting readouts from clinical studies are due during the 2H of the year. We specifically see a significant future potential within oncology and obesity/diabetes. We also see potential in smaller companies in the sector in earlier stages of clinical development in areas where there is a large unmet medical need and potential for medical progress," argues Christopher Sundman, co-head portfolio manager of the Handelsbanken Hälsovård Tema Fund at Handelsbanken.

"We believe the market will continue to normalize in terms of concentration and that this will increase opportunities compared to MSCI World Net. 2023 saw the most concentrated market since 1998 and in 2000 the outperformance reversed. It is very possible that this will happen again. In Europe we have already seen the previous outperformers starting to lag," CB Fonder's Grimfors adds.

It may however be too early to ignore the appeal of healthcare and AI. "Additional rate cuts from the FED are anticipated, which could stimulate sectors like healthcare, consumer staples, and utilities that typically perform well during easing cycles. However, the IT sector driven by AI hype, will most likely continue to do well despite their high valuation," SEB's Santamaria Olsson says.

Bullish on Sustainable Investments

Article 9 equity fund managers remain optimistic about the ability of sustainable investments to generate returns. "We continue to see strong long-term prospects for sustainable investments in the blue economy, which is growing rapidly and is projected by the OECD to reach USD 3 trillion by 2030. In the short term, we assess that market volatility may impact the sector, but our strategy is designed to manage such patterns. By adjusting exposure based on quantitative models and diversifying investments (maximum 3% per company), we maintain stability even in challenging market environments. So far this year, sustainable markets have demonstrated resilience, and we expect them to perform well in the final quarter of the year, particularly with the increasing focus on biodiversity and the long-term value of blue assets,"Havsfond's Schyberg says.

"In terms of sustainable investments, we still expect a demand for these products and our base case is that they will do well given the macro back drop. While sustainable markets have trailed the strong performance of high-growth tech stocks earlier this year, the ongoing rotation toward small- and mid-cap stocks, along with sectors aligned with sustainable themes (such as healthcare and utilities), may lead to outperformance," SEB's Santamaria Olsson adds.

Trump Fears

However, Swedbank Robur's Zanetti, DNB's Nyholt and SEB's Santamaria Olsson all warn against the risks of the upcoming Trump presidency.

"After Trump won the US election, we anticipate that setbacks for climate-related stocks, especially in renewable energy, will likely continue. However, we don't expect this to completely slow down the sector, as there are still market forces in favour of these companies, such as the large energy demands for clean energy from major tech companies to run their data centres. For the rest of the year, however, we think that it is likely that the uncertainty surrounding Trump's presidency will not favour sustainable investments," Swedbank Robur's Zanetti concludes.

NORDIC MANAGERS

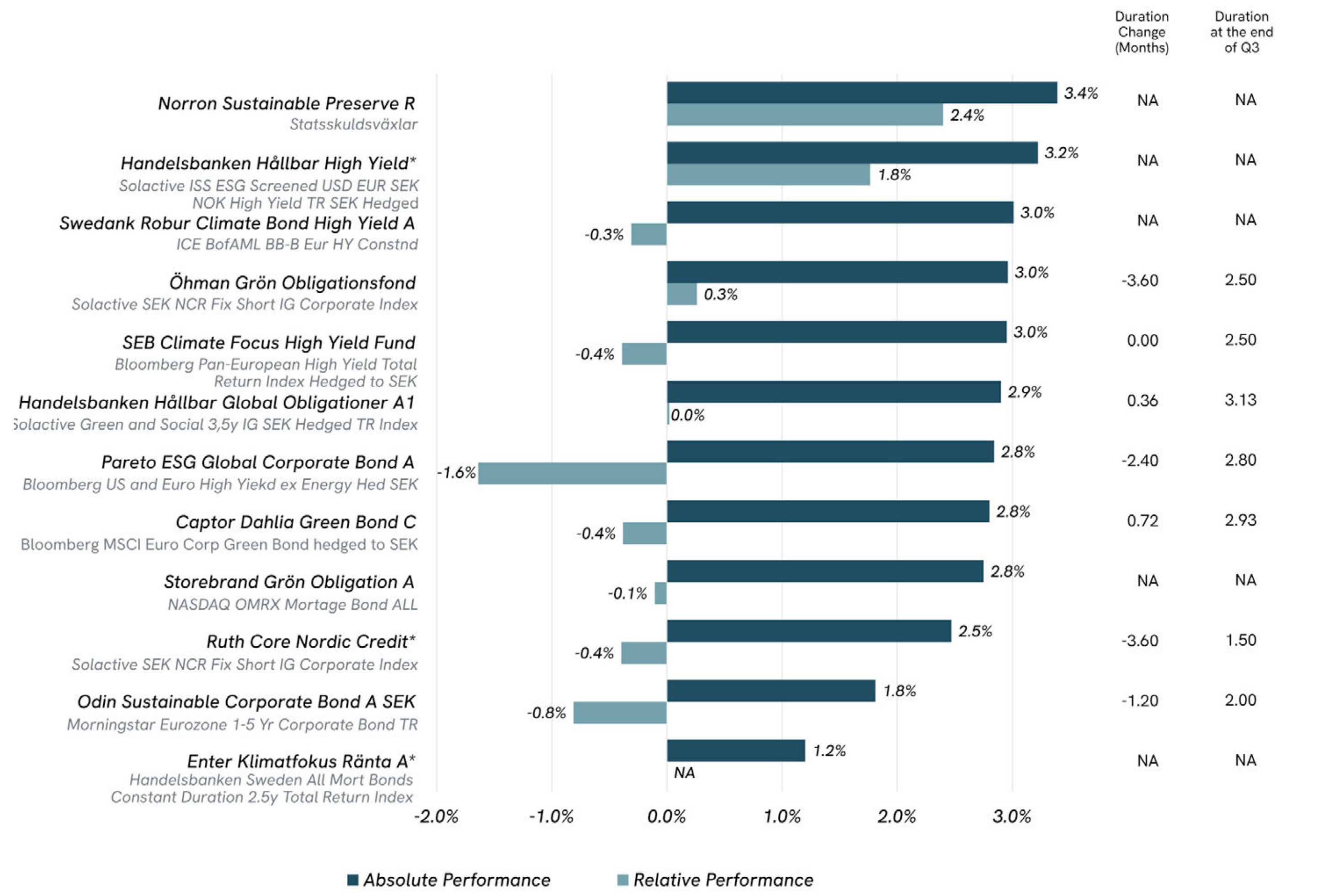
Fixed Income Funds

Rate Cut Momentum Supports Nordic Fixed Income

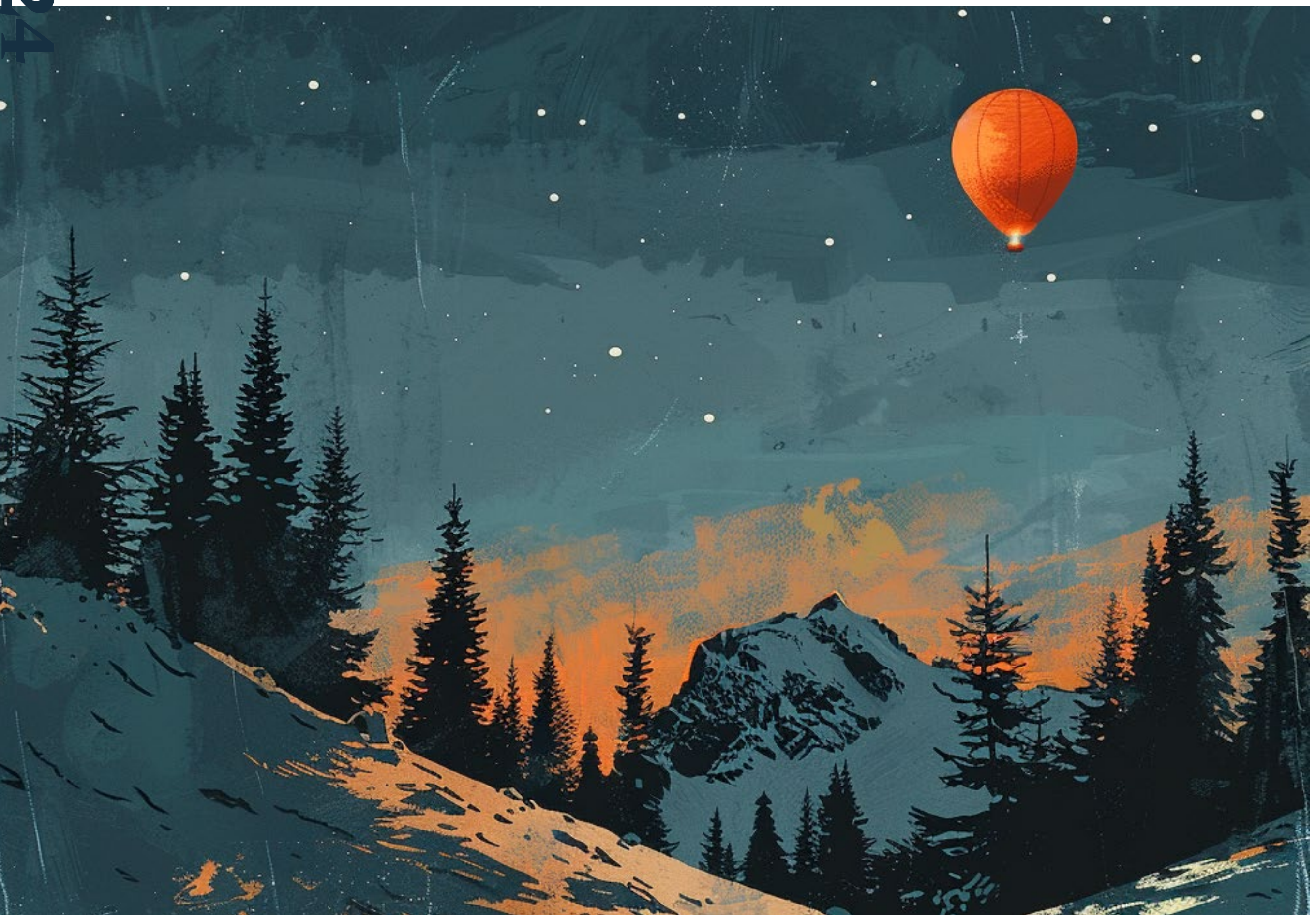
Filipe Albuquerque

The third quarter of 2024 saw the US Federal Reserve and the Bank of England join the rest of central banks in cutting interest rates. During the quarter, policy rates in the USA and in the UK fell by 50 and 25 basis points (bps) to 5%, respectively. In the Eurozone, the ECB lowered its policy rate from 4.25% to 3.65%.

Performance of Selected Nordic-based Art9 SFDR Fixed Income Funds (3Q 2024)



Source: Fund manager data, except funds denoted with an asterisk (*). Benchmarks used for relative performance figures listed under fund names
The selected asset managers include Nordic, European as well as Global strategies, with different durations and risk preferences, which will inevitably be reflected in the funds performances. The benchmarks for the different funds also vary and are either the official or unofficial benchmarks that the fund managers shared with NordSIP as reference. The choice of the benchmarks will inevitably have an impact on the relative performance of the funds. The figures illustrate the multitude of performances available depending on the funds' specific strategic preferences and choices
*These performance figures could not be confirmed by the fund managers and were obtained from the publicly available fund data on Avanza.
"NA" stands for cases where estimates of duration and relative performance were not available.



In Scandinavia, the central banks of Sweden and Denmark also cut their monetary policy rates. Sweden experienced two rate cuts during the third quarter of 2024. Riksbanken cut its policy rate by 25bps first on August 20th and then again on September 25, to close the quarter at 3.25%. Across the straight of Öresund, the Danish National Bank cut its main policy rate by 25bps to 3.1%, on September 12th. In currency markets. Swedish Krona appreciated 4.3% and 0.4% vis-à-vis the US Dollar and the Euro, respectively[1].

To better understand how these dynamics played out and how these developments affected sustainable investors during the third quarter of 2024, NordSIP reached out to the portfolio managers of 12 actively managed Nordic-based fixed-income funds classified as Article 9 (dark green) under the EU's Sustainable Finance Disclosures Regulation (SFDR), available to retail investors in Sweden.

The most salient fact regarding the returns provided by actively managed Nordic-based fixed-income funds classified as Article 9 SFDR is that absolute returns have increased significantly in comparison to the previous quarter. Similarly, the scale of relative returns has also increased. Fund managers highlight macroeconomic conditions as well as the importance of duration, real estate and risk management.

Monetary Policy Uncertainty Creates Market Volatility

Although the interest rate cuts appear predictable in retrospect, the market appears to have experienced some uncertainty in the lead up to the central bank announcements, with Nordic fund managers noting market volatility.

"During the summer, we saw some stress in the stock market, which caused interest rates to fall. This was driven by weaker economic data and uncertainty about the Fed's monetary policy. This caused interest rates to fall," says Cecilia Dahlstedt Myrgård, portfolio manager of the Captor Dahlia Green Bond fund.

Charlotte Lind, portfolio manager of the SEB Climate Focus High yield fund shares a similar view."The volatility in interest rates and central banks have been the main theme. During the summer bond yields tightened sharply as the market believed that there would be more and quicker rate cuts. A lot of focus was turned to the US ahead of the presidential election. The Federal Reserve cut interest rate with 50 basis points in September which started their easing cycle but the number of cuts priced in have decreased. Europe, and especially Germany, is facing headwinds as data shows and the quarter was dominated by lower bond yields," Lind adds.

1 The Danish Crown (DKK) is pegged to the euro, which makes its evolution relatively irrelevant from an analytical perspective.

Julia Stålbro, portfolio manager of the Öhman Grön Obligationsfond, also agrees. "The Nordic credit market remained calm and resilient despite increased volatility in the global market during the quarter. Credit premiums continued their journey lower, largely driven by a limited supply of corporate bonds. In mid-August, activity in the primary market picked up and year-to-date issuance volumes are now in line with the record year of 2021," Stålbro explains.

Karin Göransson, portfolio manager of the Handelsbanken Hållbar Global Obligationer fund, takes a broader view, arguing that "financial markets were influenced by many factors during the third quarter, but geopolitics, central banks, and the U.S. election were the most central."

Duration Matters

Several managers pointed to duration as an important source of performance for their fund. According to Philip Lindgren, portfolio manager of the Pareto ESG Global Corporate Bond fund, "performance in Q3 was (...) driven by the yield carry and duration." Captor's Dahlstedt Myrgård also considers duration to have been an important contributor to performance, noting that "as interest rates fell, it was good to have a slightly longer duration and less credit risk," says. "Our shorter duration than benchmark was the main reason for the slight underperformance as bond yields once again tightened," SEB's Lind argues.

"During the period, interest rates continued to fall, and the market started pricing in too many rate cuts in our opinion; therefore, we went from being long duration relative to our index to having a neutral duration position of 2.5 years. Our long duration position also had a positive impact on the fund's absolute and relative performance during the period," Öhman's Stålbro adds.

Real Estate Returns to Form

However, duration is only part of the picture. Asset allocation is an important factor. Geographically, the share of assets of responding Article 9 fixed income fund managers were overwhelmingly concentrated in the Nordics and the rest of Europe.

Sectorally, responding fixed income fund managers appear to have invested the most in financials, real estate, industrials and consumer staples. Real estate as the sector representing the largest share of the assets of Norron's, Öhman's and Captor's funds.

Feedback from fund managers echo the data's evidence regarding real estate. "A positive market sentiment together with large cash positions among investors have made the market absorb the large supply of corporate bonds quite easily while credit premiums have continued their journey lower. During the period, the real estate sector has taken advantage of the positive market sentiment and is once again the sector with the highest issuance volume," Stålbro explains. "Swedish real estate was the best performing sector both in absolute terms and relative to benchmark," SEB's Lind agrees.

Risk and Sustainability Labelling

As far as labelling is concerned only Pareto appears to have a majority of non-sustainability labelled bonds. It is also one of the funds with the most high yield assets

Geographic Breakdown of Selected Nordic-based Art9 SFDR Fixed Income Funds (as of 30 October 2024)

	Nordic	Rest of Europe	EM	RoW	Rest of the world
Captor Dahlia Green Bond C	75%	25%	0%	0%	0%
Handelsbanken Hållbar Global Obligationer A1	32%	63%	5%	0%	0%
Norron Sustainable Preserve R	100%	0%	0%	0%	0%
Odin Sustainable Corporate Bond A SEK	43%	57%	0%	0%	0%
Öhman Grön Obligationsfond	100%	0%	0%	0%	0%
Pareto ESG Global Corporate Bond A	20%	40%	39%	0%	1%
Ruth Core Nordic Credit	97%	3%	0%	0%	0%
SEB Climate Focus High Yield Fund	47%	48%	4%	0%	0%

Source: Fund manager data

Sectoral Breakdown of Selected Nordic-based Art9 SFDR Fixed Income Funds (as of 30 October 2024)

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Government	Health Care	Industrials	IT	Materials	Real Estate	Utilities	Cash
Captor Dahlia Green Bond C	3%	2%	2%	14%	21%	4%	0%	6%	0%	10%	23%	14%	2%
Handelsbanken Hållbar Global Obligationer A1	4%	6%	6%	0%	27%	7%	4%	9%	1%	8%	7%	15%	6%
Norron Sustainable Preserve R	4%	2%	5%	1%	37%	0%	2%	19%	0%	8%	14%	6%	3%
Odin Sustainable Corporate Bond A SEK	5%	1%	7%	0%	49%	1%	0%	9%	0%	0%	3%	19%	7%
Öhman Grön Obligationsfond	2%	6%	11%	5%	18%	0%	0%	14%	0%	5%	24%	5%	10%
Pareto ESG Global Corporate Bond A	6%	11%	5%	0%	15%	0%	15%	18%	3%	18%	0%	10%	0%
SEB Climate Focus High Yield Fund	10%	11%	1%	1%	20%	0%	0%	15%	3%	13%	9%	13%	3%

Source: Fund manager data

Bond Types in Selected Nordic-based Art9 SFDR Fixed Income Funds (as of 30 October 2024)

	Labelled Bonds*	Regular Bonds	IG	HY
Captor Dahlia Green Bond C	100%	0%	100%	0%
Handelsbanken Hållbar Global Obligationer A1	100%	0%	100%	0%
Norron Sustainable Preserve R	51%	49%	91%	9%
Odin Sustainable Corporate Bond A SEK	80%	13%	100%	0%
Öhman Grön Obligationsfond	100%	0%	85%	15%
Pareto ESG Global Corporate Bond A	28%	72%	25%	75%
Ruth Core Nordic Credit	NA	NA	68%	27%
SEB Climate Focus High Yield Fund	75%	26%	12%	86%

Source: Fund manager data *Labelled bonds include: green bonds, social bonds, sustainability bonds, etc.

on its balance sheet, second only to the SEB Climate Focus High Yield Fund. "Spread widening contributed slightly negative to the performance. The themes in Q3 were much in in line with the fund's mandate and overall strategy. We continue to invest in high quality and sustainable credits. Although we appreciate a green labelled format in general, our main priority is the company's overall sustainability work and ambitions. A thorough ESG analysis are made for all investments to ensure they met the fund's investments objectives," Pareto's Lindgren notes.

The Norron Sustainable Preserve fund, is fairly split between labelled and regular bonds while overwhelmingly invested in investment grade securities. The Öhman Grön Obligation is entirely invested in labelled bonds, while slightly more invested in high yield bonds than Norron's fund. The Captor Dahlia Green Bond fund, was also one of only two funds fully invested in IG sustainable labelled bonds. The other fund with such an investment profile, the Handelsbanken Hållbar Global Obligationer fund.

"The credit markets have functioned well, but it is clear that the returns have mainly come from falling global interest rates, and where IG credit spreads have moved mostly sideways during the quarter," Handelsbanken's Göransson adds.

"Credit spreads have continued to come down, which is positive for the fund's performance. Compared to index, the fund can have up to 30% exposure towards high yield bonds, which has had a positive impact on the fund's performance during a period of lower credit spreads," Öhman's Stålbro adds.

Robustness in the Face of Change

With an easing interest rate environment, fund managers were optimist, believe sustainable funds will continue to provide good returns going forward.

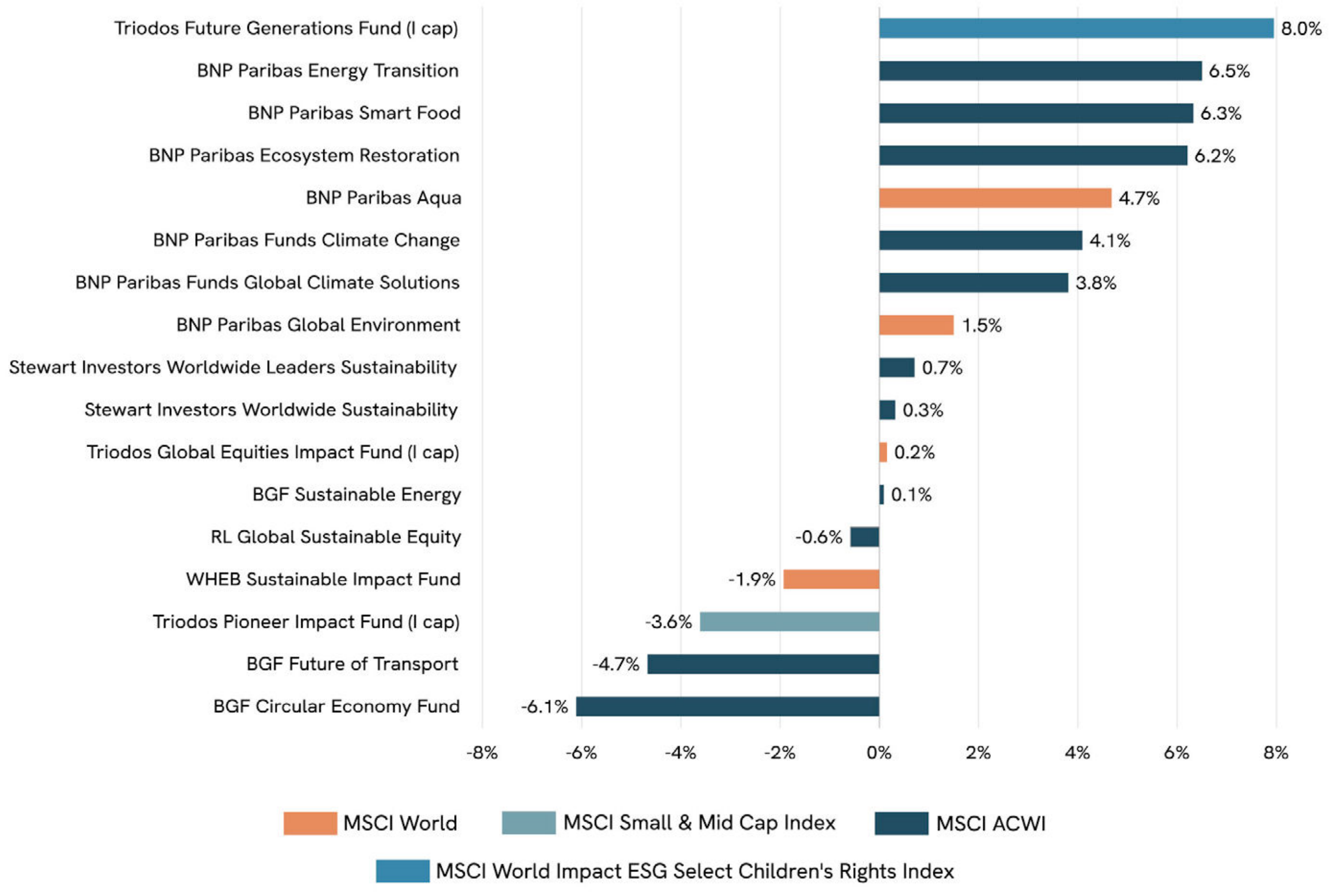
"We believe that the market for sustainable bonds will keep on rolling for the rest of the year. No major changes. In December, the new European green bond standard (EuGB) will be introduced, but we do not believe that it will affect the market to a large extent," Captor's Dahlstedt Myrgård says.

"Data in Europe is coming in weaker and a Trump win brings a number of uncertainties. Earnings reports are also showing a mixed picture with the manufacturing sector struggling and service-oriented sectors and technology doing better. Despite the uncertainties we remain cautiously optimistic on the credit market. As a fixed income portfolio has the ability to invest in green bonds, the sector diversification of SEB Climate Focus High Yield is well diversified. We continue to believe that our portfolio of environmentally sustainable companies and projects will continue to generate steady returns into the year end," SEB's Lind adds.

"We remain positive and believe that the sustainable markets will continue to perform for the remainder of 2024; however, we aren't anticipating Q4 to perform as well as the first three quarters of the year as credit spreads are trading quite low already and have less room for continued tightening," Öhman's Stålbro continues.

"The average coupon in the fund has steadily increased during the recent months. We believe this will be an important return contributor to the overall fund performance onwards. Although it is uncertain how sustainable investments will perform in the short-term, we strongly believe sustainability will be a great investment in the medium- to long term, as both decarbonization and sustainable innovation accelerates," Pareto's Lindgren concludes.

Relative Performance of Selected Global Article 9 SFDR Equity Funds in EUR (1Q 2024)



Source: Fund manager data

INTERNATIONAL PARTNERS

Public Market Funds

Is the Market Tiring of Large Caps?

Filipe Albuquerque

During the third quarter of 2024, USA GDP grew by 2.7%, 1.7 percentage points more than in the EU, according the EU's statistical agency, Eurostat[1]. The third quarter of the year also saw the US Federal Reserve, the ECB and the BoE cut interest rates from 5.5% to 5%, from 4.25% to 3.65% and from 5.25% to 5%, respectively. The S&P 500 index grew by 5.4% and the Euro appreciated 3.9% vis-à-vis the US Dollar.

1 Source: Eurostat

To understand how international active asset managers with global mandates performed under these conditions, NordSIP reached out to our partner asset managers to hear about their performance during the first three months of 2024.

NordSIP surveyed the performance of 20 global actively managed funds classified as Article 9 under the Sustainable Finance Disclosures Regulation (SFDR):17 equity funds and 3 global fixed-income funds, from non-Nordic asset managers with whom NordSIP has an ongoing partnership. Article 9 funds not only invest in sustainable assets, but also have sustainable investment as their objective. They are also referred to as "dark green" funds.

Comparing these performances with the ones witnessed in the second quarter of 2024 shows a marked improvement in returns. While most of the funds surveyed were in the red last quarter, the tables have turned and most are now beating their benchmark indices.

The geographical and sectoral distributions of assets among the funds surveyed show them to be concentrated in the USA and Europe and dominated by investments in healthcare, industrials and IT, a trend that's prevailed for quite some time.

Interest Rate Cuts Comfort Investors

Generally speaking, the international investors surveyed were in agreement that monetary policy easing was the dominant thread during the third quarter of 2024 among.

"A combination of weaker US economic data and an interest rate hike from the Bank of Japan saw stocks hit particularly hard in early August. However, the US Federal Reserve's interest rate cut, along with a less hawkish tone from Japanese policymakers and new stimulus in China, helped to support a strong rally in stocks into quarter end. With inflation cooling, the European Central Bank delivered its second rate cut in September taking interest rates to 3.5%. The Bank of England also cut rates by 25bps at its August meeting," says Ted Franks, Partner and Fund manager of the WHEB Sustainable Impact Fund.

"The quarter has seen some market turbulence, driven by uncertainty over interest rates and geopolitical developments, as well as emerging questions over the ability of the largest technology stocks to continue their upwards trajectory," says Clare Wood, Portfolio Specialist at First Sentier Investors.

"Despite 2024 turning out to be a much better year for equity investors than many expected, we continue to be constructive on the backdrop for markets. We are in the early stages of seeing central banks across developed markets cut interest rates and are seeing China take steps to stimulate its economy. Both should be supportive for broad based economic growth," George Crowdy, Fund Manager at Royal London Asset Management argues.

Geographic Breakdown of Selected Art9 SFDR Global Equity Funds (as of 30 October 2024)

	Nordic	Rest of Europe	USA	EM	Rest of the world
WHEB Sustainable Impact Fund	4%	0%	27%	62%	6%
Stewart Investors Worldwide Sustainability	8%	12%	37%	37%	6%
Stewart Investors Worldwide Leaders Sustainability	2%	24%	19%	47%	7%
RL Global Sustainable Equity	2%	8%	30%	50%	9%
responsAbility Impact - Transition to Net Zero Fund	3%	3%	48%	45%	2%

Source: Fund manager data

Ted Franks
WHEB

"The third quarter of 2024 ended with healthy returns across most major asset classes, despite several bouts of market volatility. The MSCI World Index posted a slightly positive return, rising +0.33% (in British Pounds)," WHEB's Franks adds.

Rotating Away from Large Caps?

While some fund managers chose to highlight the geographical and sectoral performance highlights of the third quarter of the year, others pointed the finger at the opportunity cost of equity markets that are too concentrated around large caps.

"Asia ex-Japan was the best-performing region over the quarter by a significant margin, supported by the new stimulus measures by Chinese policymakers. Japan was the weakest region following the Bank of Japan's interest rate hike in July. Interest rate-sensitive sectors Utilities and Real Estate were the strongest in the global market, posting double-digit returns, while Energy was the biggest laggard. Value outperformed growth," WHEB's Franks notes.

"The third quarter saw a rotation in markets versus the first six months of the year with interest rate sensitive sectors, such as real estate and utilities, being the best performing sectors, and energy and information technology being the worst," Royal London's Crowdy agrees. He also notes the quarter was marked by "heightened market volatility". According to the asset manage, "the market volatility was caused by large moves in inflation and interest rate expectations and, at the end of the quarter, the surprise announcement of economic stimulus plans from China. During the quarter we also witnessed a market rotation away from mega-cap technology companies into smaller-cap and more value-orientated companies" Crowdy adds.

Sectoral Breakdown of Selected Nordic-based Art9 SFDR Global Equity Funds (as of 30 October 2024)

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities	Cash
WHEB Sustainable Impact Fund	0%	3%	0%	0%	0%	30%	32%	23%	11%	0%	2%	1%
Stewart Investors Worldwide Sustainability	4%	2%	8%	0%	10%	17%	26%	31%	1%	0%	0%	1%
Stewart Investors Worldwide Leaders Sustainability	0%	8%	7%	0%	7%	10%	35%	30%	2%	0%	0%	0%
RL Global Sustainable Equity	2%	12%	3%	0%	14%	15%	24%	24%	0%	2%	2%	0%

Source: Fund manager data

George Crowdy
Royal London
Asset Management

AI might be an example of the trend Crowdy describes. Despite the continued popularity of AI, which led NVIDIA's market capiltalisation to exceed US$ 3trillion in June 2024, one of the asset managers expressed a concern that the market's passion for this theme might be blinding investors to other opportunities. "The strong focus on technology, and particularly artificial intelligence (AI), over the past year means that other sectors have been neglected. As a result, there are many quality stocks that are now attractively priced for long-term growth, most of them addressing problems in the real world," First Sentier's Wood warns.

A Smorgösbård of Performance Contributors

There did not appear to be any systematic trend to the companies that contributed to fund performance. This could be consistent with the hypothesis of the market moving away from large caps. Despite her suspicion vis-à-vis the market's ongoing affair with AI, First Sentier's Wood singles out an American IT company as a one of the main drivers of performance. "Contributors to performance included Fortinet (United States: Information Technology) whose stock rose sharply due to recovering revenue growth alongside impressive margin expansion leading to strong growth in profits, MonotaRO (Japan: Industrials) where sales growth saw a return to its long-run trajectory after a post-COVID period of weakness in three key customer industries; manufacturing, construction and auto repair, and Adyen (Netherlands: Financials) whose stock price rose when it released solid half year results and encouraging indications for future growth as its investment over the past year bears fruit," First Sentier's Wood explains.

Online retail in Latin America and Asian insurance were also singled out. "At a company specific level, we have a portfolio exposed to some exciting and powerful multi-year structural growth themes – the key ones being the ongoing digitalisation of society through things such as cloud computing and AI, which we think we're incredibly early in. In terms of individual securities, Latin American ecommerce and payment platform MercadoLibre was the top contributor to performance as the company delivered another strong set of results. Another positive contributor was AIA, a leading provider of life insurance across Asia. AIA benefitted from robust results and more positive sentiment towards China as the government announced various economic stimulus measures" Royal London's Crowdy explains. He also notes his enthusiasm for companies enabling the development of a more sustainable and resilient physical world, such as those operating in healthcare, HVAC (heating, ventilation, and air conditioning), building electrification and more sustainable transport, such as rail

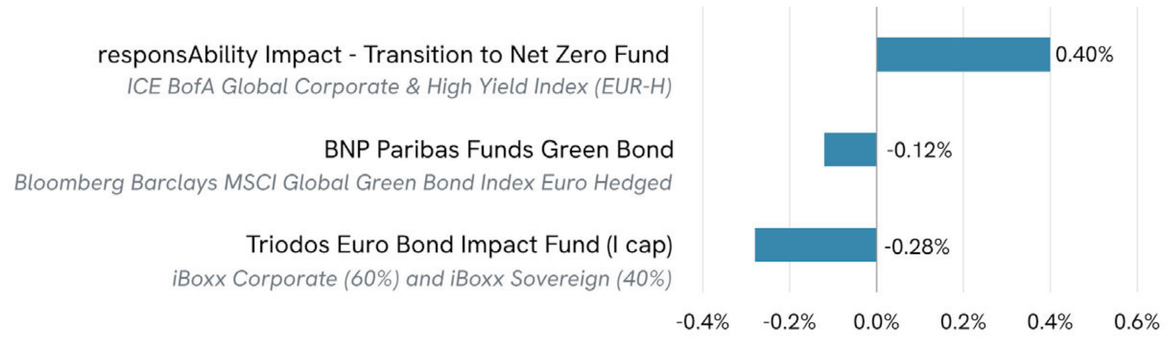
WHEB's Franks echoes some of Crowdy's enthusiasm for the HVAC industry. "The largest positive stock contributor was Trane Technologies in the Resource Efficiency theme, which is a world leader in air conditioning systems and services. The company continued to see strong demand for sustainable HVAC solutions, with an interesting new demand strand from its data centres business. Bureau Veritas in the Safety theme also performed well. The company is a world leader in testing, inspection and certification. The outperformance was driven by its strong half-year numbers where the company surprised positively organic revenue growth above 9% and a raise in its revenue guidance," Franks says.

Healthcare and Semi-Conductor Struggles

Despite its significant share of article 9 funds' balance sheet, shifting views on healthcare companies are distinctly different from the enthusiasm of the last year. Semi-conductor companies also struggled. The difficulties of these two sectors are also consistent with markets moving away from large caps.

Jeremy Sitruk
responsAbility

Relative Performance of Selected Global Article 9 SFDR Fixed Income Funds in EUR (3Q 2024)



Source: Fund manager data

As WHEB's Franks notes, "the fund delivered positive performance over the quarter, but lagged the benchmark. The Health theme was the largest detractor from returns, with negative contributions from several holdings. These included AstraZeneca, which struggled after the failure of two drug trials. AstraZeneca has an industry-leading pipeline and these readouts are only a small part of it, but naturally the market was disappointed. Diabetes and obesity specialist drugmaker Novo Nordisk also suffered a setback. Phase 2 data of small molecule weight loss drug monlunabant showed lower than anticipated weight loss and was seen as disappointing. This drug development is not part of Novo's market-leading GLP-1 obesity franchise, but the market is interested in Novo's ability to maintain its leadership position. Gerresheimer, the German drug delivery equipment company, was also weak. The company issued a profit warning because demand is recovering in its glass vials business more slowly than expected, and because their manufacturing plant in North Carolina has also been impacted by flooding caused by Hurricane Helene. In the meantime, however, Gerresheimer's key Plastics and Devices business unit continues to grow strongly," Franks explains.

The semi-conductor industry was another sector that struggled. Royal London's Crowdy points to ASML, while WHEB's Franks points to Infineon Techologies as detractors of performance. "ASML is a leading provider of semiconductor manufacturing equipment and was subject to profit taking after announcing lower than expected future growth guidance. This lower guidance is partly due to execution challenges at some of its customers and partly due to a slowdown in growth from China," Crowdy adds. "Positioning in the Sustainable Transport theme also hurt performance, driven by the holding in semiconductor maker Infineon Technologies. The share price was weak due to the persistent headwinds in the automotive sector and weakened demand in the industrial sector," Franks continues.

Companies in the Solar energy sectors and providing hygiene solutions were also singled out for their negative contributions to fund performance. The Cleaner Energy theme further detracted, due to positions including NEXTracker. The company is a leader in the solar tracker market and investors are concerned about the growing risk of deceleration of projects in the industry. This fear appeared vindicated when management did not raise guidance when reporting second quarter earnings, despite easily outperforming expectations in the first two quarters of the year. We think the NEXTracker stock represents a real opportunity, with a longer-term lens," WHEB's Franks says. "Rentokil, a global leader in pest control and hygiene solutions, declined after reporting slower than expected growth in its North American business," Royal London's Crowdy explains.

Monetary Policy Helps Fixed Income Funds

The changes in interest rate are immediately pertinent to fixed income funds, where performance was notably improved from the first half of the year. While two of the three funds are still reporting negative relative performances, overall the benchmark spread is smaller than in the recent past.

"All euro bond market segments performed strongly in September. The weakening macro picture and lower inflation numbers warranted looser monetary policy from central banks. Both the Fed and ECB lowered policy rates, leading to lower yields with the short end of the curve

Clare Wood
First Sentier Investors

outperforming longer maturities. Spreads on sovereign bonds from southern-European countries tightened, whereas France widened on the back of a deteriorating budget deficit. Corporates outperformed sovereign bonds, with Financials outperforming the broader market," says Jeroen van Herwaarden, Rosl Veltmeijer and William de Vries, portfolio managers of the Triodos Euro Bond Impact Fund explain.

Looking at the evolution of the holdings of the responsAbility Impact Transition to Net Zero Fund between the end of June and the end of September 2024, a number of factors emerge that may have contributed to the outperformance of the fund. Looking at the distribution of its asset along credit rating buckets, it appears that the fund has increased its cash holdings (from 0.33% to 4.77%) and increased its risk exposure. Holdings of AAA, A, BBB and BB rated securities fell from 2.7%, 42.34%, 39.95% and 11.56% to 2.05%, 38.9%, 38.14% and 11.08% respectively. Meanwhile, holdings of B-rated securities increased from 1.35% to 3.29%.

Sectorally, the responsAbility fixed income fund decreased its exposure to the financials, consumer staples, industrials and technology sectors to the benefit of communications, discretionary consumer goods and utilities. Geographically, the fund appeared relatively more exposed to Germany and France and less exposed to the USA and the Netherlands by the end of the quarter.

At the other end of the performance spectrum, the managers of the Triodos Euro Bond Impact fund highlight the gains of underweighting government bonds and the costs of ignoring financials. "Gross of costs, the fund had a strong performance which was almost in line with its reference index over the month. The allocation effect was positive, stemming from the underweight position in government bonds and overweight in government-related entities. The selection effect was negative, mainly resulting from our non-allocation to Financials. The curve change effect was neutral," Triodos' van Herwaarden, Veltmeijer and de Vries explains.

Divergent Environments and Political Shifts

Going forward, there was some optimism regarding the ability of an accommodating monetary policy to overcome depressed demand for electric vehicles and political instability.

"In the short-term, we see a divergence in the operating environments of the sectors in which we invest. Some, like electric vehicles, remain more challenged as they adjust to weaker short-term demand. Others are seeing more promising signs. In the Health theme, for example, we see the inventory destocking process coming to an end as orders show signs of improvement. Finally, there are also several sectors where we are seeing strong positive momentum, such as electrification and environmental consulting," Royal London's Crowdy explains.

"We are also seeing significant political shifts. In Europe, significant gains for right-wing parties have increased concerns about the future of sustainability initiatives. However, there are reasons for optimism as the results of the UK and French elections suggested that voters haven't yet given up on climate action. Importantly, all eyes will be on the US election in November," Crowdy adds.

"As in previous quarters, the long-term structural opportunities are being complicated by short-term macro concerns. With declining interest rates, the trend should benefit smaller, growth-oriented impact stocks, although the exact timing remains uncertain," Crowdy concludes.

There did not appear to be any systematic trend to the companies that contributed to fund performance. This could be consistent with the hypothesis of the market moving away from large caps. Despite her suspicion vis-à-vis the market's ongoing affair with AI, First Sentier's Wood singles out an American IT company as a one of the main drivers of performance.

INTERNATIONAL PARTNERS

Private Assets

Growth Continues in Private Markets in Q3

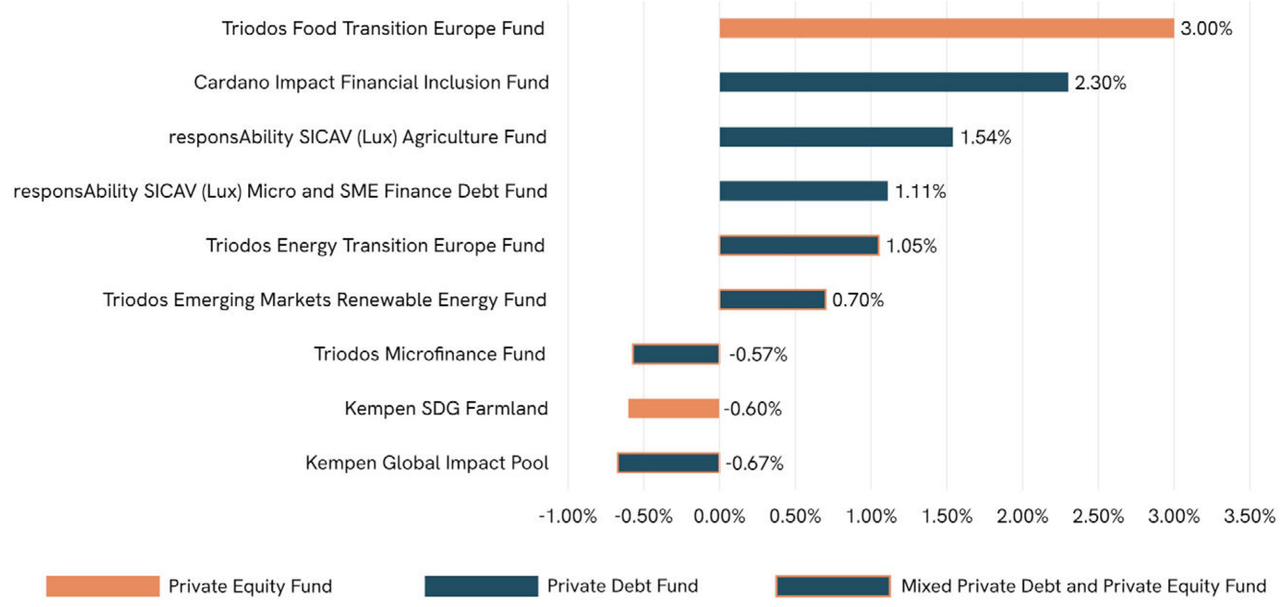
Filipe Albuquerque

One of the main appeals of sustainable private markets is that investments in this space are seen to provide better and more material channels for assisting companies fuelling development growth in a sustainable manner.

To better understand the performance of private debt and private equity markets during the third quarter of 2024, NordSIP approached a range of such Article 9 funds to hear about their experiences. Our survey covered nine private market funds. Three Article 9 private debt funds replied to our inquiries: the Cardano Impact Financial Inclusion Fund, the responsAbility SICAV (Lux) Agriculture Fund and the responsAbility SICAV (LUX) Micro and SME Finance Debt Fund. Their replies were complemented by feedback from the portfolio managers of two Article 9 SFDR private equity funds: the Kempen SDG Farmland Fund and the Triodos Food Transition Europe Fund. Finally, we also received feedback from four mixed private debt and private equity funds: the Triodos Microfinance Fund, the Triodos Emerging Markets Renewable Energy Fund and the Triodos Energy Transition Europe Fund,which invest in both private equity and private debt, and the Kempen Global Impact Pool Fund, a private debt and private equity fund of funds.

A majority of the funds surveyed appear to have benefitted from an easing macroeconomic environment, facilitated by a shift towards more accommodating monetary policy in the first half of 2024. Three funds however appear to have struggled , it appears that green shoots of monetary policy easing during the second quarter of 2024 facilitated better returns for private market funds, more so than their private equity counterparts. The depreciation of the US Dollar vis-à-vis the Euro appears to have been an important deterrent of performance for some of these funds.

Performance of Selected Article 9 SFDR International Private Market Funds in EUR (2Q 2024)



Source: Fund manager data

Geographic Breakdown of Selected Art9 SFDR Private Asset Funds (as of 30 October 2024)

	Nordic	USA	EM	Rest of Europe	Rest of the world
Triodos Food Transition Europe Fund (Q cap)	NA	NA	NA	100%	
Cardano Impact Financial Inclusion Fund	0%	0%	100%	0%	0%
Kempen SDG Farmland	0%	28%	3%	40%	29%
responsAbility SICAV (Lux) Agriculture Fund	0%	0%	0%	0%	100%
responsAbility SICAV (LUX) Micro and SME Finance Debt Fund	0%	0%	0%	0%	100%

Source: Fund manager data

There was also some diversity in the geographical distribution of investments across funds. Some funds were exclusively focused on a specific region, whether it be in developed or in emerging markets, while others were very diversified in the geographical distribution of their portfolios.

Geopolitical Instability and Macroeconomic Considerations

From a top down perspective, asset managers expressed a concern regarding geopolitical developments, while at the same time expressing a relief that central banks had been able to provide a more accommodating macroeconomic environment.

"Country and geopolitical risks have intensified. The situation in the Middle East remains very tense. Iran launched missile attacks on Israel in retaliation for the assassination of Hezbollah's leader. Ukraine and Russia war is still an important factor. Due to active portfolio management we have been able to avoid conflicted regions/countries. This has helped us to maintain stable fund performance," says Sinisa Vicuk, portfolio manager of the Cardano Impact Financial Inclusion Fund, in the

fund's September 2024 factsheet.

"In Q3, leading Central Banks, led by the ECB, BoE and the Fed, started their rate cut cycles. Europe is expected to benefit from interest rate reductions and the further recovery in real incomes as a result of falling inflation. In the third quarter, surveys on Europe's manufacturing activity showed sluggishness, while services showed somewhat more resilience. Unemployment was practically unchanged in this period. Upside risks to inflation in Europe are related to an escalation of the war in the Middle East, which remains highly uncertain. Consumer confidence continues to show signs of recovery, positioned at -12.2 in August (see above) This is up very significantly from its lows of the past few years," says Adam Kybird, portfolio manager of the Triodos Food Transition Europe Fund.

Developed market confidence appears to have spilled over to emerging markets. "Emerging markets (EMs) continued to show resilient economic activity through the third quarter of 2024, outperforming developed markets, according to S&P Global PMI surveys. While overall growth moderated slightly, clearer signals from the U.S. Federal Reserve regarding (further) potential interest rate cuts created a favorable environment for investments," says Suhasini Singh, Portfolio Manager of the responsibility Agriculture Debt Fund

"On the market and performance front, EMs demonstrated robust growth in Q3 2024, driven by the manufacturing and services sectors. Furthermore, easing inflation pressure and an initial rate cut in September created a more favorable investment environment. Jaskirat Chadha, Portfolio Manager of the responsAbility Financial Inclusion Debt Fund.

Falling Inflation

Although consumer goods inflation appears to have fallen enough so as to allow central banks to lower interest rates, the detail of how certain elements of consumer price inflation are moving matters to different fund managers.

"Concerns at the start of 2024 over the market outlook for agriculture unfortunately ring true. At the beginning of 2024, there was a relative weakening of prices for various agricultural commodities compared to the previous year. This was mainly due to subdued global demand, which impacted energy prices, as well as the expectation of abundant crop yields, which pushed agricultural commodity prices down. Forecasts point to a downward trend in global commodity prices over the course of the year," says Alice MacNeil , portfolio manager of the Van Lanschot Kempen SDG Farmland fund.

"Food inflation rose slightly to 2.4% in August 2024, from 2.3% in July due to a higher annual rate of change in unprocessed food prices. Critically, the general trend continues downwards and has stabilised at a lower level than in the past few years. (...) In conclusion, the European macroeconomic path remains unchanged since last quarter. A trend towards increased growth and decreased inflation is slowly resulting as an outcome of ECB's efforts combined with a steady response from consumers," Triodos' Kybird adds.

"European power prices have fallen below zero for a record number of hours this year. While this benefits consumers, it poses a threat to the long-term viability of renewable energy projects across Europe. In a recent report on EU competitiveness, Mario Draghi calls for more investment in energy storage and grid infrastructure to support the growth of renewables," Sonja de Ruiter, portfolio manager of the Triodos Energy Transition Europe Fund, in the fund's September 2024 factsheet.

Booming Private Equity

The present accommodating macroeconomic environment appears to have had a positive effect on the performance of most funds.

"The fund delivered another positive quarter with its strongest increase since Q4 2021. After a challenging period, the fund is performing more strongly. This reflects an improvement in our market, but also the strength of our portfolio and strategy," Triodos' Kybird strikes a similar upbeat note. Notwithstanding falling European energy prices and other challenges, the portfolio managers of the Triodos Energy Transition Europe Fund was also optimistic.


Suhasini Singh
responsAbility


Adam Kybrid
Triodos

Generally speaking equity investments were celebrated. "Private Equity as an asset class is also improving. We see several significant mark-ups for our [Private Equity] portfolio companies within this asset class," Titus Witteveen and Sarah Stols, portfolio managers of the van Lanschot Kempen Global Impact Pool fund say. "Within Private Equity, our co-investment with HealthifyMe saw a strong valuation uplift due the conversion of our convertible note into equity at favorable terms in a new financing round," van Lanschot Kempens' Witteveen and Stols explains.

Triodos's Kybird provides another example. "The addition of Ocean Rainforest to the portfolio is exciting. It is a highly impactful business and increases our diversity across the value chain. Challenges remain for our sector, however improving performance and our delivery on exciting new pipeline underpins our optimism for the coming months."

Solar Power Shines Through

"Despite challenges in offshore wind and recovery in battery storage, solar is thriving, set to meet COP28 goals, and EU power grid investment is crucial for a reliable 24/7 energy system," Triodos' de Ruiter says.

"Shifts are taking place across the producers of solar panels in emerging markets. Indian companies are moving to fill the gap left by the exclusion of China's exports from the fast-growing US solar industry, after the implementation

Alice MacNeil
Van Lanschot Kempen

of US tariffs on Chinese companies. High oil prices, driven by Middle East tensions, could accelerate investments in renewables, given their affordability," say Tim Crijns and Willy Bulsink, portfolio managers of the Triodos Emerging Markets Renewable Energy Fund agree.

Venture Capital, Transaction Costs and Climate Cast a Shadow

However, not all forms of private market equity performed well. van Lanschot Kempen's Witteveen and Stols note that "there was a slight negative contribution from the Venture Capital exposure. Although the results were mixed amongst our investment partners we clearly see signals of recovery within the Venture Capital market."

Still on the negative side, Tim Crijns and Florian Bankeman, portfolio managers of the Triodos Microfinance Fund, highlight the negative effect of a revaluation. They single out "the valuation adjustment of our equity stake in BancoSol, Bolivia, reflecting the broader economic challenges in Bolivia, including dwindling foreign reserves, a rising fiscal deficit, and declining natural gas revenues. While BancoSol continues to perform well, the country's difficult macroeconomic environment has influenced its valuation."

Other managers pointed to a mix of technical and climatic issues. "The slight decline in the returns for Q3 2024 was driven by a variety of issues. Firstly, the fund undertook a significant number of transactions, incurring considerable transaction costs, particularly from acquisitions in the United Kingdom and Uruguay. Secondly, the Euro's rise against the US dollar (+4.1%) and the Canadian dollar (+2.8%) has had a negative impact on the value of our assets when measured in euros. Additionally, our citrus plantation in Spain faced adverse conditions, further affecting returns. For our North American assets, climatic issues resulted in underperforming yields for the wheat crop in particular. In the context of the relative weakening of prices for various agricultural commodities compared to the previous year, this has affected the profitability of farm businesses," van Lanschot Kempen's MacNeil adds-.

Private Debt Stabilises

Private debt investments were also seen as a net positive contributor of performance. van Lanschot Kempen Witteveen and Stols add that "the performance of Infrastructure and Private Debt remained stable. Private Debt added to performance on the back of strong interest income [and] all infrastructure funds continued to advance their renewable energy projects, leading to valuation gains." ResponsAbility's Chadha agrees noting that "clearer signals from the Fed regarding potential additional rate cuts positively impacted market conditions. Income from the debt portfolio increased, driven by higher yields."

"The debt performance continued to be steady in September. The equity performance in September was driven by strong Q2 figures of the Construction Equity Fund (CEF). The fund has a strong investment pipeline that may lead to future new investments in Chile, Kyrgyzstan, Armenia, Bangladesh, and Zambia, covering a wide range of investment themes from wind, hydro, solar, and energy efficiency," say Triodos' Crijns and Bulsink.

For Cardano's Vicuk, the focus was on the solvency and liquidity of investments. "The key is that there were no credit events in the Q3. Further, we have focused a bit more on fixed interest rate deals given downtrading interest rates environment. In addition, currency risk is tightly managed,"

Jaskirat Chadha
responsAbility

Dollar Depreciation makes for Mixed EM Experiences

Perspectives on emerging markets were mixed. Some argued that that the increasingly accommodating global monetary policy environment had been a net positive. According to responsAbility's Singh, this economic environment "led to a marked uptick in our investment pipeline across multiple regions above and beyond typical seasonal patterns. Additionally, the impact of El Niño was milder than expected, resulting in a stronger-than-anticipated coffee and cocoa harvest. This improved financial conditions of the fund's portfolio companies, particularly in Latin America."

"In the past quarter, we were able to increase our financing volume and further diversify our investments, especially in coffee and cocoa-linked companies. This was driven mainly by favorable weather conditions that led to strong coffee and cocoa harvests in our markets. We are optimistic that we will also experience a strong fourth quarter for the fund this year," responsAbility's Singh adds.

"During the third quarter, we saw a strong investment pipeline across several geographies, driven in part by typical seasonal factors. Our team capitalized on [favourable macroeconomic] conditions , particularly in Latin America, Eastern Europe, Central Asia, and Africa, with strong results across these regions," responsAbility's Chadha agreed.

Replies from the asset managers who reported overall negative performances focus on the effect of exchange rate dynamics. "This month's performance was affected by the appreciation of the euro relative to US dollar and other currencies," Tridos' Crijns and Bankeman say. "On a local currency basis, most of the asset categories contributed positively to performance. The main detractor over the quarter was the Euro/Dollar exchange rate development," van Lanschot Kempen's Witteveen and Stols agree.

Growth on the Horizon?

Going forward, private market fund managers are confident that economic growth will translate in investment returns.

"We remain confident about the fund's outlook for the remainder of 2024 and into next year. The fund is well-positioned to benefit from its attractive yields, stable provisioning levels, and diversified exposure across regions where we have a strong local presence," responsAbility's Singh says, adding that he is looking forward to remain invested in cocoa in Central America, and that he is looking at investments in Turkey and Vietnam.

"In general, we continue to see good growth and revenue patterns with our companies, as the demand for their impactful products increases. In addition, our investment partners have been able to expand their portfolio by making investments in markets that offered good opportunities at attractive valuations. Combined with the market's expectation on further interest rate cuts, and an improvement in overall liquidity, we are optimistic about future returns," van Lanschot Kempen's Witteveen and Stols agrees. "Year-to-date, our fund has been outperforming European bonds as well listed EM funds/ indices. We anticipate to maintain such outperformance during the last quarter of 2024 as well," Cardano's Vicuk adds.

"We continue to experience a steady demand for investments in natural capital, particularly around the farmland asset class. We are seeing a natural value alignment between institutional investors who have a multi-generational mindset and are committed to longevity – an outlook that is shared with many farmers in the transition of the food system to a sustainable state at commercial-scale," van Lanschot Kempen's MacNeil continues.

The trend of buoyant economic growth is not constrained to large developed markets but extends also into EMs, according to Triodos and responsAbility's fund managers

"The strongest growth in power demand will come from non-OECD countries due to population growth, economic development and current electricity deficits. At Triodos we're well positioned to support this essential transition by financing clean energy opportunities that otherwise may not be funded, thus offering additionality to investors," Triodos' Crijns and Bulsink say.

"We remain optimistic about the outlook for the remainder of 2024. The funds should continue to benefit from attractive yields and anticipated stable provisioning levels. GDP growth in our key EMs is expected to remain strong. S&P Global Ratings economists expect most EMs to see even faster growth in 2025 compared to 2024. Additionally, with the potential for further rate cuts in the U.S., we foresee increased capital flows to EMs, which should create a supportive environment for our investments. Overall, we expect financial inclusion and SME growth to continue to gain momentum across our target EM regions," responsAbility's Chadha agrees.

"In terms of global trends, sustained lower oil prices are expected to help most EMs. While oil revenues provide fiscal benefits to some EMs through state-owned oil companies, most major EMs are net energy importers. Sustained lower oil prices could also speed up the normalization of monetary policy across EMs. As we enter the last quarter of 2024, micro and SME finance in EMs remains resilient and continues to offer strong risk-adjusted returns. All funds remain well positioned to benefit from diversification across our target EM economies, where we have a strong local presence," responsAbility's Chadha concludes.

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