NORDIC INVESTOR INSIGHT

2024

tell
MEDIA GROUP

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THE ROAD AHEAD...

On this page last year, I quoted a chief investment officer from a global asset manager who said that over the past 10 years, there were basically only three decisions investors needed to make: don't hold cash, own as much growth equities as possible and don't diversify. However, with higher inflation, higher interest rates as well as a war in Europe, that is probably no longer a guaranteed recipe for success. Over the past year, we have seen that investors have indeed moved with the times and reconsidered their investment strategies.

In our annual asset allocation and outlook roundtable, hosted in Stockholm at the end of last year, one of the investors said: "I think that there will be a lot of things happening in markets for a lot of different reasons and that will create volatility. Coupled with the higher interest rate levels, this is exciting from an asset allocation point of view because of the larger opportunity set."

We regularly gain insight from Nordic asset owners and fund selectors during the roundtables we host across the Nordic region. We also frequently sit down with institutional investors and selectors to understand their strategies and investment thinking, which is reported on in our bi-monthly magazine Nordic Fund Selection Journal and online at fbnw.se. We bring some of that insight together in this report with the hope and ambition to provide a better understanding of the opportunities in the Nordic region.

The overall aim with the Nordic Investor Insight report is to provide insight on the current thinking among institutional investors and fund selectors in the Nordic region as well as identifying key trends likely to impact the industry over the coming year. In this year's report, we also put an extra focus on sustainability. On the pages 16 to 23 is a summary from a roundtable we hosted in January where we discussed the current state and future direction of ESG and sustainable investing.

To conclude, I would like to take this opportunity to thank all institutional investors, fund selectors and fund company representatives that participated in our surveys for this report as well as those that engage with us in our day-to-day work.

Niklas Tell
Founder & Chief Content Officer
Tell Media Group

Niklas Tell

CONTENT

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ABOUT THE REPORT

In contrast to many other reports, which are usually very much top-down and survey focused, the Nordic Investor Insight report draws mainly on the continuous interaction of the Tell Media Group editorial team with fund selectors, institutional investors and asset managers across the Nordic region. The main insight for this report has therefore been gathered from our interviews with Nordic chief investment officers and fund selectors, from regular roundtable events held across the Nordics as well as numerous other meetings and informal discussions with people across the industry. To use the words of Tone Danielsen, the anthropologists who earlier this year published her report on NBIM:

"Anthropologists work inductively – meaning bottom-up. Most sciences work deductively. Deductive research starts with a hypothesis, and the study is shaped to verify or falsify this. If we knew exactly what we were after, we could use questionnaires. It is both cheaper and faster. Surveys provide answers on the questions asked. In a face-to-face conversation we hear what is said but can also read body language and the context. Much of our work-related knowledge are muted, tacit, and embodied."[1]

In order to support our bottom-up and more qualitative approach, a total of 43 individuals responded to three separate online surveys where some 40 per cent of respondents were fund selectors, 46 per cent asset owners and 14 per cent responsible for sustainability.

Fund selectors participating in the survey have some EUR 131 billion invested with external managers while the institutional investors had combined assets of EUR 341 billion. The surveys were conducted at the beginning of the year.

40%

Share of fund selectors in our surveys

46%

Share of asset owners in our surveys

14%

Share of sustainability experts in our surveys

[1] *Report: Anthropological gaze, stories, and reflections on NBIM culture, by Dr Tone Danielsen, 2023*

CONTINUED INFLOW OF INTERNATIONAL ASSET MANAGERS

Intro: *The Nordics continues to be an interesting region for international asset managers looking to expand their business.*

Text: *Niklas Tell*

While the reasons for expanding into the Nordic region of course vary between different managers, there are some underlying common factors that have always been highlighted by asset managers. Things such as transparency and good English language skills are certainly contributing to the interest in the region, as well as the fact that institutional investors in the region are seen as being very sophisticated. Over the recent past, we have also seen an expansion of family offices in the Nordic region, adding a potential new client group for asset managers.

More specific insight on the Nordic opportunity, such as the tender process underway at the Swedish Fund Selection Agency, where some SEK 1 185 billion (EUR 100 billion) is to be invested in selected funds over the next three years, is outlined on the next two pages and also in our outlook on pages 28 – 29.

It is therefore no surprise that the region continues to attract international fund groups looking to expand their business. Two examples from last year were William Blair Investment Management and RBC BlueBay Asset Management who established local presence. This year we have seen the global multi-affiliate investment manager Fidante Partners adding to their local staff in Stockholm. Some well established players have also been adding to their local teams over the recent past. We did, however, also see Columbia Threadneedle Investments closing their Nordic offices last year and now covering the region from Amsterdam. That is, however, likely to be an exception to the general trend and we expect to see more international asset managers putting a focus on the region going forward.

35%

More than a third of fund selectors in our survey say that they expect to increase the number of external managers they work with over the next two years.

31%

About a third of fund selectors in our survey say that they plan to increase staff dedicated to research/ selection of external managers in the next 12 months.

35%

Some 35 per cent of fund selectors in our survey say that the asset managers they work with need to improve when it comes to ESG reporting & communication.

Photo: Niklas Tell

DENMARK
Population: 5 873 420
GDP growth 2024 (2025): 1,2% (1,5%)

FINLAND
Population: 5 548 241
GDP growth 2024 (2025): 0,9% (1,4%)

ICELAND
Population: 376 248
GDP growth 2024 (2025): 2,0% (2,3%)

NORWAY
Population: 5 425 270
GDP growth 2024 (2025): 0,5% (1,3%)

SWEDEN
Population: 10 452 326
GDP growth 2024 (2025): 0,9% (2,6%)

SOURCE: *OECD Economic Outlook (November 2023), Nordic council data (as of January 2022).*

GROWING OPPORTUNITIES DESPITE INSOURCING TREND

Intro: *The ongoing trend where asset owners across the Nordic region are managing more assets inhouse is likely to continue - but at a slower pace. Also, inflows and returns on the portfolios mean that the assets under external management will likely continue to grow even though the proportion decreases or stays the same.*

Text: *Caroline Liinanki & Niklas Tell*

Many on the Nordic sales side are often expressing despair about the shrinking asset pool in the Nordics that is outsourced to external managers, thereby limiting opportunities and increasing competition. While there most definitely has been a significant of trend of Nordic investors bringing more and more assets under internal management, it is not all bad news. Many Nordic institutional investors are experiencing significant growth, both due to inflows and returns on the portfolios, which means that the assets under external management will continue to grow even though the proportion decreases or stays the same.

One example is Denmark's Lærernes Pension which is set to become a much bigger player going forward. While the pension fund manages some DKK 150 billion today, its assets are expected to double in size over the next 10 years. Another investor that will have more assets to invest in financial markets going forward is Novo Holdings, which manages the assets and wealth of the Novo Nordisk Foundation. While Novo Holdings over recent years have brought parts of the listed equity and credit portfolios under internal management, Morten Beck Jørgensen said in a recent interview with Nordic Fund Selection Journal:"Using external managers is a good way for us to ensure diversification and we believe the managers we work with are all strong investors. We think we learn from them and it's a good network for us and a good way of sourcing ideas".

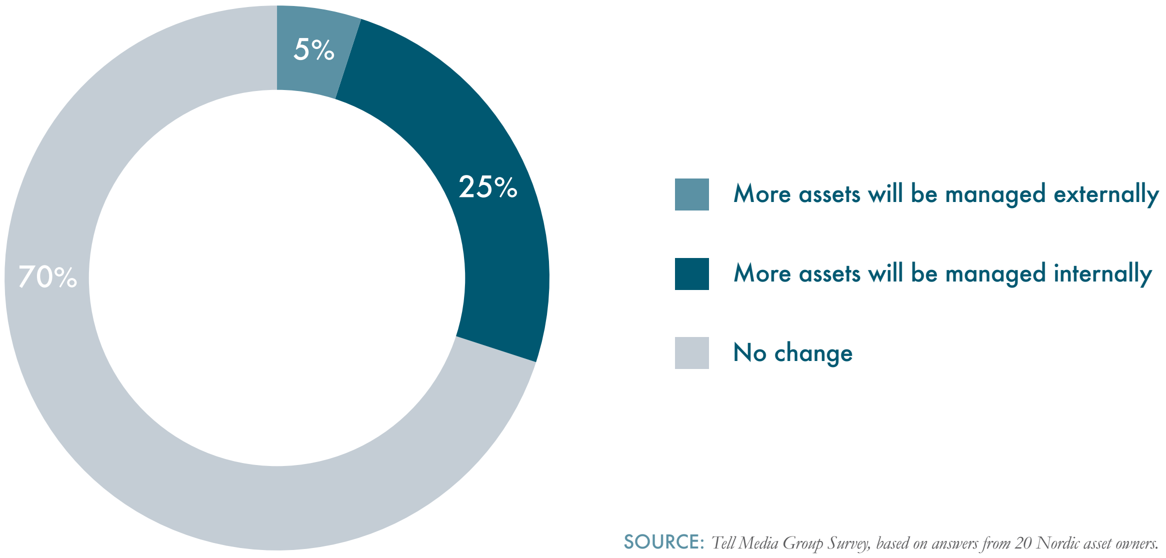
There are also signs that the insourcing trend is no longer accelerating in the same pace as previously. In our survey, which polled 20 institutional investors from all five Nordic countries with combined assets of EUR 341 billion, a lot of investors are happy with the current split between externally and internally managed assets. While 25 per cent of respondents plan to bring more assets under internal management (last year the number was 35 per cent) over the coming year, 70 per cent of respondents are making no changes to the balance between internal and external. These numbers have been pretty stable over recent years and represent a big change compared to some five or 10 years ago.

In our survey of manager selectors in the Nordic region, some 35 per cent say it is likely that they will increase the number of external managers they work with over the next two years. Only 12 per cent say they will decrease the number of external managers they work with.

Also, one big opportunity specifically for the Swedish market over the next couple of years is of course the tender process underway at Fondtorgsnämnden, the Swedish Fund Selection Agency. With some SEK 1 185 billion (EUR 100 billion) to be invested in selected funds over the next three years, it is understandable that the interest in its work is significant.

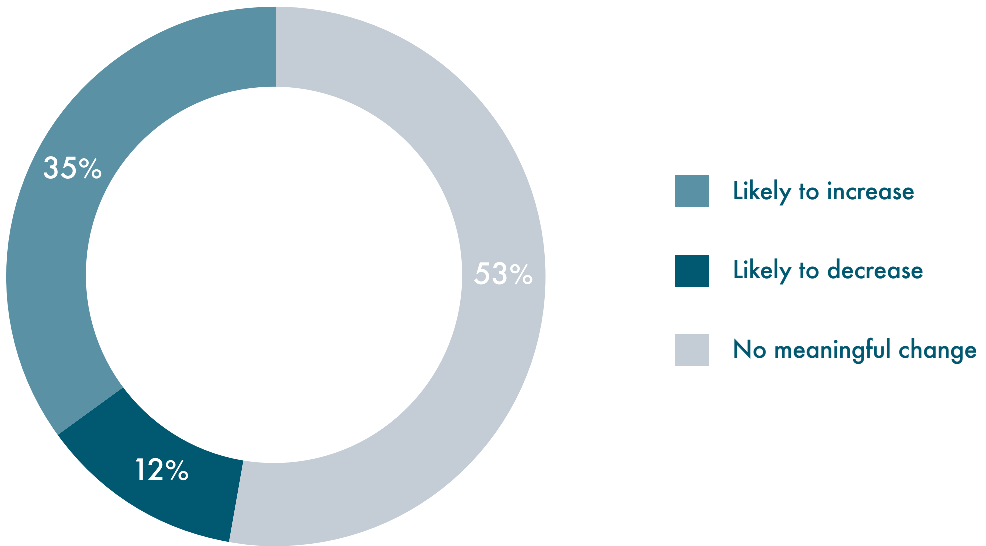
INSOURCING TREND CONTINUES, BUT AT A SLOWER PACE

DO YOU PLAN TO MANAGE MORE ASSETS INTERNALLY OR EXTERNALLY OVER THE COMING YEAR?



SOURCE: *Tell Media Group Survey, based on answers from 20 Nordic asset owners.*

HOW DO YOU EXPECT THE NUMBER OF EXTERNAL MANAGERS YOU WORK WITH TO CHANGE OVER THE NEXT 2 YEARS?



SOURCE: *Tell Media Group Survey, based on answers from 17 Nordic fund selectors.*

EQUITY ENTHUSIASM DESPITE ELECTION AND GEOPOLITICS CONCERNS

Intro: *Nordic institutional investors are set to increase their allocations to risky assets despite concerns relating to geopolitical uncertainties and inflation worries. They are, however, looking to pull back from emerging markets and domestic real estate.*

Text: *Niklas Tell & Caroline Liinanki*

Geopolitics, elections, inflation and central bank actions top the list when institutional investors in the Nordic region are asked about the biggest investment concerns going forward. These are some of the results of Tell Media Group's latest institutional investor survey, which polled 20 institutional investors from all five Nordic countries with combined assets of EUR 341 billion.

In addition to these main worries, which were mentioned by about 80 per cent of respondents, some investors also highlight the equity market concentration, refinancing problems in the real estate sector and valuations of private assets as potential risks.

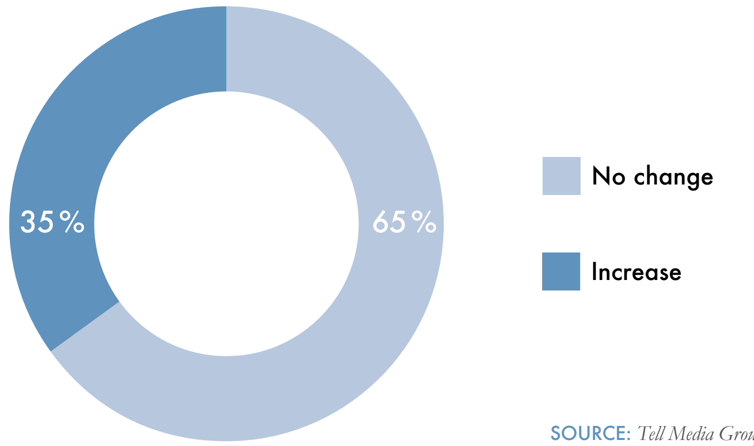
Similar to the last survey in the spring of 2023, Nordic investors are looking to increase their allocation to private equity, infrastructure and private debt/loans. Infrastructure is also the only asset class in the survey where an investor not just plans to increase the allocation but plans to increase the allocation by a lot. What stands out compared to the previous survey is the greater number of investors looking to increase their exposure to developed market equities. Some 40 per cent of investors plan to do so over the coming year.

When it comes to the listed equity exposure, more than a third of investors are looking to increase their allocation to small- and mid-caps, while 20 per cent are looking to decrease their large cap allocation. This corresponds with what was discussed in our Stockholm asset allocation roundtable in December. During the discussion, Magdalena Högberg, head of strategic allocation and quantitative analysis at AP4, commented that due to the weight of the "magnificent seven" in indices, the Swedish pension fund is looking at equal-weighted allocations and also small-cap stocks to improve diversification. In a roundtable discussion in Helsinki earlier this year, several of the Finnish investor participants concluded that this is probably not the worst time to go into small caps and start building a strategic exposure to the segment.

When asked about the asset classes or strategies that they are the most positive about for the coming year, the biggest proportion of investors mention private market investments, especially private credit but also private equity. Listed equities, as well as investment-grade credit, are also high on the list. Furthermore, a smaller number of investors believe hedge funds will provide some interesting investment opportunities in the year ahead.

At the other end of the spectrum, 40 per cent of investors are looking to decrease their allocation to domestic real estate and 20 per cent of investors are looking to decrease their exposure to international real estate and private equity respectively.

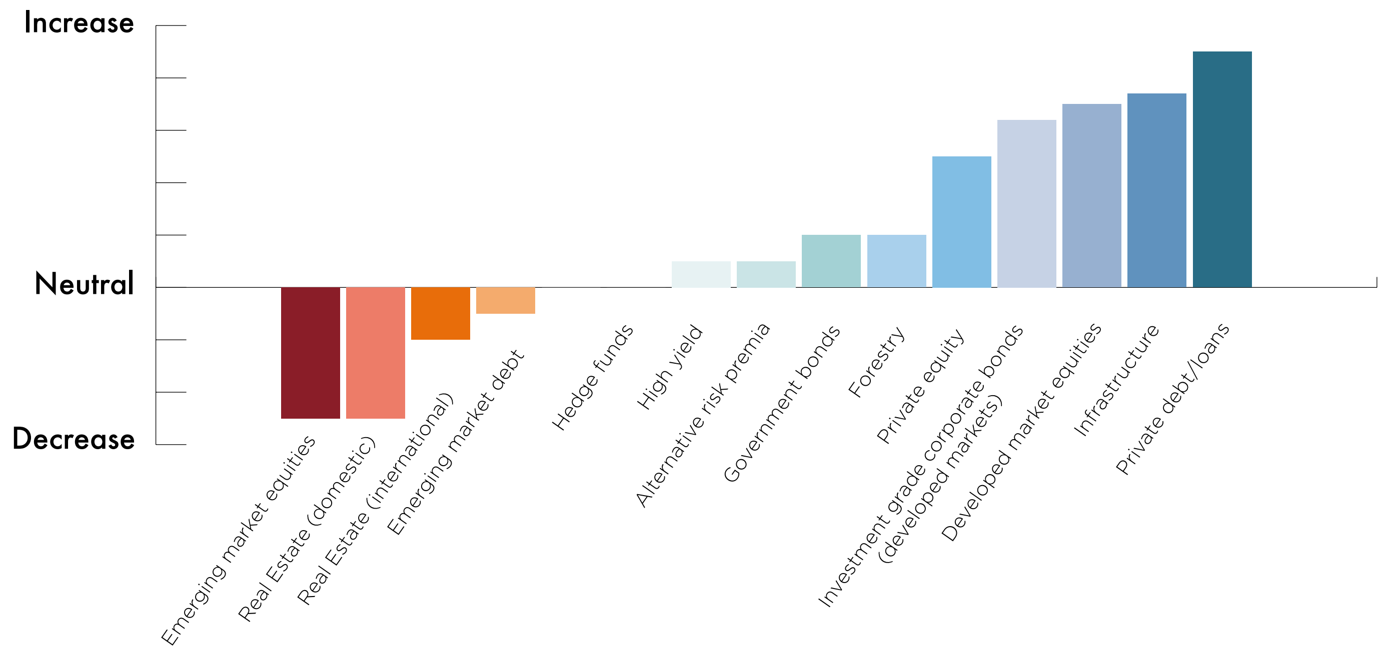
CHANGES IN NORDIC INSTITUTIONAL INVESTOR ALLOCATION TO SMALL- AND MID-CAPS OVER THE NEXT YEAR



SOURCE: *Tell Media Group Survey, based on answers from 20 asset owners*

There is also a fair degree of pessimism about emerging market investments. Only one investor plans to increase the allocation to emerging market equities while 30 per cent are looking to decrease their exposure. ESG has been one of the key drivers behind many Nordic investors taking a step back from emerging markets but the recent bad news coming from China might be an additional reason for caution. Growth in China is indeed mentioned by several investors as one of the key investment-related concerns going forward. Compared to the last survey, investors are undoubtedly more negative about Asian equity markets with no investor looking to increase the exposure to Asian equities while 25 per cent of investors are looking to decrease their exposure.

EXPECTED ALLOCATION CHANGES IN THE NEXT 12 MONTHS



FUND SELECTION TRENDS

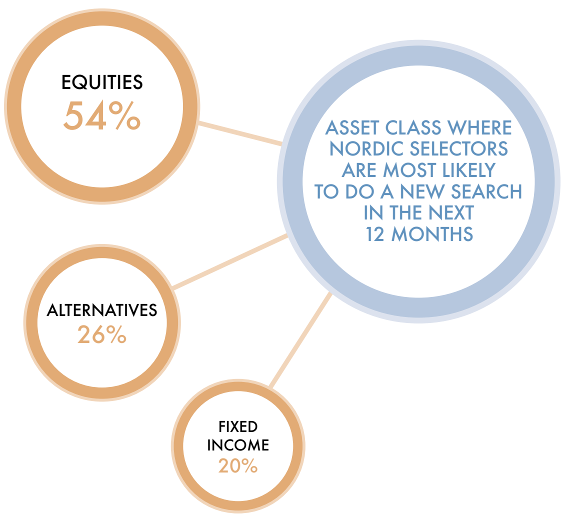
GROWING FOCUS ON ALTERNATIVES AMONG NORDIC SELECTORS

Intro: *A majority of selectors in the Nordic region will be focusing their search efforts in the equity space over the next year but interest in alternatives is growing.*

Text: *Niklas Tell*

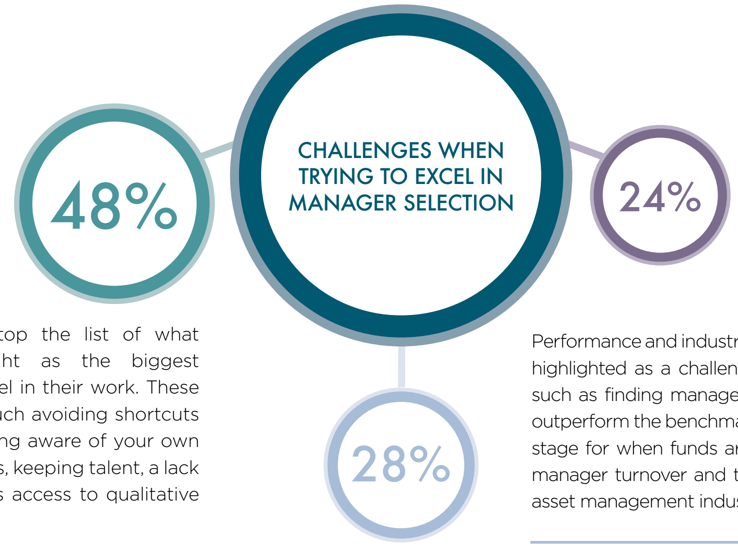
When asked about which fund categories they are most likely to perform new searches in over the next 12 months to add or replace managers, a majority of respondents to Tell Media Group's survey of Nordic selectors highlighted equities. Within equities, most selectors mentioned global equities and small caps. However, this is a lower proportion compared to last year when 64 per cent of selectors pointed to equities. This year, it is instead alternative assets that are growing with 26 per cent of respondents saying that this is where they are most likely to do new searches in the next 12 months – up from 16 per cent last year.

Internal factors are mentioned by half of the selectors when asked about the biggest challenges to excel in their work. These includes things such avoiding shortcuts ("old truths"), being aware of your own behavioural biases, keeping talent, a lack of time as well as access to qualitative information. Some 28 per cent highlight performance and industry related factors, such as finding managers that consistently can outperform the benchmark over time, manager turnover and the concentration in the asset management industry.



SOURCE: *Tell Media Group Survey, based on answers from 17 fund selectors in the Nordic region.*

Asked about the biggest ESG challenges in 2024, a third of selectors in the survey mention challenges relating to data, such as data management, data quality and ESG data definitions and comparability. Some also mention challenges related to regulatory changes and reporting, for example a lack of guidance from the EU on the SFDR framework and the fact that fund providers have interpreted the regulations differently.

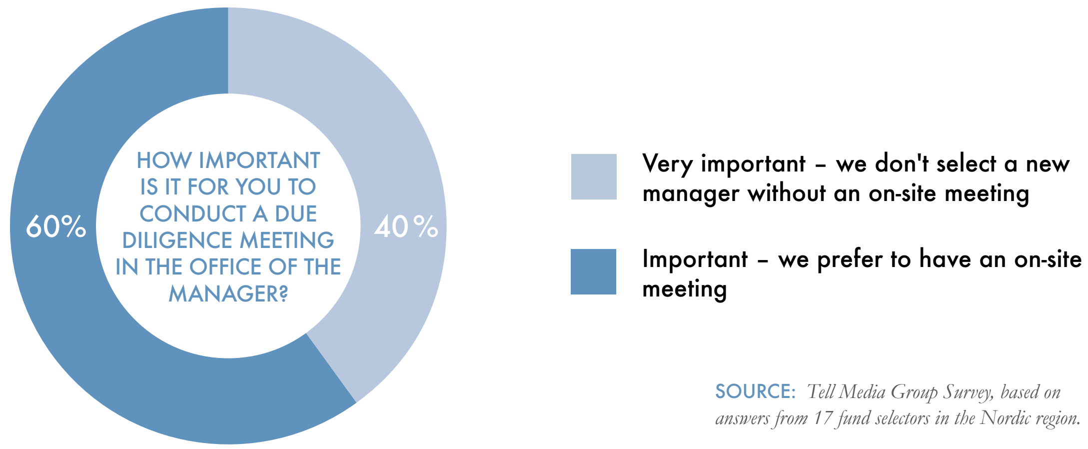


Challenges related to ESG are also highlighted by selectors as a challenge – for example the abundance of not meaningful ESG ratings and finding fund managers that are aligned with internal ESG policies.

Internal factors top the list of what selectors highlight as the biggest challenges to excel in their work. These includes things such avoiding shortcuts ("old truths"), being aware of your own behavioural biases, keeping talent, a lack of time as well as access to qualitative information.

Performance and industry related factors are also highlighted as a challenge. This includes things such as finding managers that consistently can outperform the benchmark over time, setting the stage for when funds are expected to perform, manager turnover and the concentration in the asset management industry.

SOURCE: *Tell Media Group Survey, based on answers from 17 fund selectors in the Nordic region.*



SOURCE: *Tell Media Group Survey, based on answers from 17 fund selectors in the Nordic region.*

WHAT'S THE POINT OF MEETING MANAGERS?

Some four years ago Roland Meerdter, a former selector and co-founder of DOOR Ventures, a company focused on bringing efficiencies to the engagement between asset and wealth managers, posted a question on Linkedin headlined "What's the point of meeting managers?". The question was, of course, debated at the time considering the move to online meetings during the Covid pandemic. Interestingly, it was recently brought back with a post asking: "How do we think the last three years have played out since posting your intriguing question Roland Meerdter ... did we revert to business as usual or did that shift stick?".

The answer from Nordic fund selectors is clear. Some 41 per cent of respondents say that visiting a manager is very important and that they don't select a new manager without an on-site meeting. Another 59 per cent say that it is important and that they prefer to have an on-site meeting. One selector commented: "We're practical. We would prefer to have an on-site visit but at the end of the day, meeting the key personnel in person at some other location is often sufficient as well."

"IT IS TIME TO ACCELERATE OUR NET ZERO AMBITIONS"

The world is changing dramatically, driven in large part by three interlinked secular sustainability challenges – climate change, ecosystem degradation and inequality. To address these societal-scale problems, significant disruption to current industrial economies will be required. Indeed, the scale of necessary change is unprecedented in human history.

For investors, navigating this changing landscape will require them to reposition their portfolios for sustainable growth. This means investing for resilience in line with the just transition to a low carbon economy, but also using capital allocation and stewardship as means of promoting the outcomes needed to avoid the systemic risks posed by a changing climate, biodiversity loss and rising inequalities. For the investors managing trillions in capital which have committed to net zero, this will not be an easy undertaking. It likely requires significant reformation of existing investment processes and new ways of thinking about portfolio management. Bold leadership is required to guide the way forward.

Today many investors have committed to net zero but lack clarity on what to do next. To help tackle this topic, we are pleased to publish a short paper together with Catherine McKenna's Climate and Nature Solutions and the NYC Comptroller's Office.

The paper sets out a number of case studies where investors are taking action aligned with the 10 recommendations put forth by the United Nations' High-Level Expert Group on the Net Zero Emissions Commitments (which Catherine chaired), in their 2022 report Integrity Matters.

The 10 recommendations are:

1. Announcing a net zero pledge
2. Setting net zero targets
3. Using voluntary credits
4. Creating a transition plan
5. Phasing out fossil fuels and scaling up renewable energy
6. Aligning lobbying and advocacy
7. People and nature in the just transition
8. Increasing transparency and accountability
9. Investing in just transitions
10. Accelerating the road to regulation

The case studies compiled in this new paper are meant to serve as a guide, providing inspiration and insight even for investors already well on their way toward net zero.

One of the recommendations in the paper emphasises the importance of net zero pledges being publicly announced and containing interim targets with plans to reach net zero in line with IPCC or IEA modelled pathways. Non-state actors should strive for having short-, medium- and long-term absolute emissions reduction targets across their value chain. The use of voluntary carbon credits is discussed, highlighting that they should be used for beyond value chain mitigation and not counted toward a non-state actor's interim emissions reductions required by its net zero pathway.

In order to support a just transition it is of high importance to create actionable net zero transition plans that detail the actions to be undertaken to meet all targets and align both governance and incentive structures.

> "At BNP Paribas Asset Management, our Net Zero Roadmap outlines our strategy for aligning our practices and portfolios with a low carbon future. Not finding any measurement solutions available which provided us with the tool we needed to track our progress holistically, we built the NZ:AAA methodology which is highlighted in this report. Thus far our commitment covers 50% of assets under management, and we aim to extend this to 100% in due course, and welcome collaboration with our clients and peers on this topic in the years to come."

- Jane Ambachtsheer -

Global Head of Sustainability
at BNP Paribas Asset Management

Biodiversity and nature loss may have historically taken a back seat to climate change among environmental priorities, but initiatives like Nature Action 100 and the Taskforce on Nature-related Financial Disclosures (TNFD) are gaining traction. It calls for financial institutions to have policies against investing in businesses linked to deforestation and to eliminate agricultural commodity-driven deforestation from their investment and credit portfolios by 2025.

It goes without saying that transparency and accountability are crucial to disclose greenhouse gas data, net zero targets, and plans for meeting those targets, with progress reported annually. Gathering these data may not always be the easiest part. Furthermore, independent third-party verification of reported emissions reductions is strongly recommended.

While many financial institutions have committed to net zero, actual progress unfortunately has been slow, with global emissions rising in 2022. It calls for collective action to avert the climate crisis and to reduce associated risks to financial markets. The insights in the paper are meant to galvanize further individual and collective action to tackle the urgent challenges posed by climate change.

Collaborating with peers and clients is an important element in achieving our commitment to the Net Zero Asset Managers initiative (NZAM). It focuses on our investments, stewardship and our own operations. BNPP AM is a strong supporter of collaborative engagement to manage systemic risks, hence our participation in Climate Action 100+ and Nature Action 100.

We remain firmly committed to delivering long-term sustainable returns to our clients in this world in transition and hope this paper 'Accelerating Net Zero Ambition' provides useful insights for those who are embarking on this journey alongside us.

THE FUTURE OF ESG & SUSTAINABLE INVESTING

Intro: *At the beginning of the year, Tell Media Group, in cooperation with BNP Paribas Asset Management and Impax Asset Management, hosted a roundtable to discuss the current state and future direction of ESG and sustainable investing.*

Text: *Niklas Tell* Photo: *Christer Salling*

When it comes to ESG and sustainable investing, terminology and different interpretations can sometimes be a challenge. To kick off the discussion, the participants were asked about their thoughts on the development and how we ended up where we are today.

LISA BEAUVILAIN: "I would like to think of it as a spectrum and it goes back hundreds of years. The Quakers had investment rules and originally it was very much about exclusions and we still have that. Certain investors, based on beliefs, don't want to invest in certain types of companies or activities. That will always be there. Then, around 2004 ESG was coined to capture the thinking that there are other things aside from pure financials to take into account when analysing companies. The third element that has been developing over the last 10 years or so is impact. All of these elements still exist to some extent but I do think that what will matter going forward is having an impact. So exclusions are subjective and will still be there and we might even see some exclusions in regulatory requirements going forward. ESG analysis in my view is about risk management. Even if it's now often used as a noun, it's simply part of the investment process. But the big question is what impact investments have on the real world."

GABRIEL LUNDSTRÖM: "I think a problem in the industry is that many I argue that they have an impact just because they take ESG considerations when investing and are active owners. The word impact should be used with much more caution in my opinion and only used when additionality can be proofed and measured. I also think there's too much talk about impact when it comes to listed equities. I think there are more interesting asset classes to look at when it comes to impact such as infrastructure and private equity. So I agree with you that ESG analysis will be seen as mainstream risk management and maybe we won't talk very much about it in 10 years' time. I also think we will see more focus on impact and I think that's where the discussion will be when it comes to sustainability."

THIBAUD CLISSON: "I think we're talking about two different things here. In my view, impact is very well defined and it needs to fulfil the criteria of additionality, intentionality and you need to be able to measure it. Not all investments can fulfil these criteria. We need to be very clear what we're talking about. From that point of view, I think the way we're classifying funds in SFDR makes a lot of sense and help investors understand what funds are doing or promoting from a sustainability point of view."

NIKLAS TELL: IF IT'S IMPORTANT TO HAVE A VERY CLEAR DEFINITION OF IMPACT, IS IT PROBLEMATIC THAT WE TRY TO HAVE CLEAR DEFINITIONS ON THE REST OF IT AS ESG IS MORE ABOUT ANALYTICS AND RISK MANAGEMENT AS HAS BEEN MENTIONED?

KRISTOFER DREIMAN: "I think a challenge from the regulatory point of view, especially in EU, is that they've tried to regulate too much to a point where I think we risk losing momentum. We've been too busy trying to interpret and respond to all the new regulations rather than focus on finding investments that can change things for the better. Minimising greenwashing is obviously important but it need to be balanced against the urgent transition needs."

LISA BEAUVILAIN: "I do think excessive new regulation could stifle innovation. Many of us came into sustainable investing in order to do things differently – to do investing better and in a more future proofed way and now it feels as if we're being somewhat penalised in terms of increased costs and an increased regulatory burden. I do, of course, understand why because there has been some over exuberance in parts of the industry and consumers need to have more clarity and transparency of sustainable investments. Regulators across jurisdictions need, however, to ensure regulatory inter-operability to minimise the burden and complexity."

KRISTOFER DREIMAN: "Yes, some things need to be regulated, such as ESG service providers that have been given access to a goldmine for decades without any regulatory scrutiny. Black box 'ESG scores' have been delusive for both the industry and targeted companies."

LISA BEAUVILAIN: "I would like to come back to the discussion on impact. I agree on the definition criteria of additionality and intentionality but I do think you can and should aim to have an impact through engagement and stewardship also as an owner of, for example, public equities. I do view that as a form of impact. However, in some regions of the world, I also think we need to influence policy makers and regulators in order for things to move in the right direction."

GABRIEL LUNDSTRÖM: "I agree that you can have an impact through engagement but it's just very hard to prove and measure that impact. In the end, there's someone that will be buying your investment product and the question is how you prove to them that you're having an impact. I also think that it should be in the

PARTICIPANTS

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- **LISA BEAUVILAIN**
  Global head of sustainability & stewardship at Impax Asset Management
- **THIBAUD CLISSON**
  Climate change lead at BNP Paribas Asset Management

KRISTOFER DREIMAN
Head of responsible investments at Länsförsäkringar Liv. Before joining the company in 2018, he spent some four years at PwC as a responsible investment and sustainability advisor in Stockholm and London. He has also worked as a reporting & assessment project manager at PRI in London.

GABRIEL LUNDSTRÖM
Head of sustainability at Skandia. Before joining Skandia at the end of last year, he was head of ESG at SEB Life & Pension. He joined SEB in 2013 and has held several senior roles related to sustainability since 2014. He joined the board of directors of UN Global Compact Sweden in 2018 and was named chairman in 2022.

interest of all investors to actively work with the companies they own but I question if asset managers should make a big thing of the fact that they do engagement. When it comes to regulation, such as SFDR, I have to say that the intention has been good but it's a bit too detailed and that can have negative effects. I do like the discussion that's on the table right now if Article 8 and 9 should be used as a classification – that was not the intention from the regulator but I do think that's what retail investors need."

THIBAUD CLISSON: "We should remember that the plan was to mobilise private savings to the transition and I think it's fair to say that it has worked. Regulation has played a critical role and we have more transparency today than we used to have. Yes, there are some challenges in the short term and maybe one could argue that the regulator did it in the wrong order when they introduced regulation for us before they launched it for the companies that we finance. Greenwashing was and still is a key issue but today, thanks to regulation, which provides common language, common definitions and set up the minimum expectations, it's easier to identify it. In the past, we debated what was green and today we have the taxonomy, which has created a common definition."

LISA BEAUVILAIN: "The intent is good and I do understand why we need regulation as we've seen a lot of claims related to ESG that have no foundation. However, apart from steering capital towards the transition, another main objective was to create clarity for consumers and here I think the regulator has failed. I think SFDR was rushed and we didn't have enough practitioners involved. Surprisingly, the EU has now said they will reform the SFDR. That's an unusual admission and I think it's great that they're willing to take another look, although it will again require that the industry spends more time and resources on the new future regulations."

KRISTOFER DREIMAN: "The industry as a whole has spent a lot of time interpreting the SFDR and now they are likely to reform it again. I think we need to put this in the context of what actually needs to be done for the planet and societies. We're violating a lot of nature's boundaries and I think we need to spend more time taking care of real-world problems rather than spending more time on interpreting new regulatory frameworks. Standardised disclosure across the industry is important but it needs to be reasonable and easy to understand for end-consumer."

NIKLAS TELL: HOW MUCH OF A CHALLENGE IS IT TO BALANCE THE ALLOCATION OF CAPITAL IN ORDER TO SUPPORT THE TRANSITION WITH THE NEED TO ALSO PERFORM MORE SHORT TERM? AS WE'VE SEEN, THERE CAN OF COURSE BE PERIODS WHEN NOT SO GREEN COMPANIES PERFORM VERY WELL.

GABRIEL LUNDSTRÖM: "The underlying reason for why many institutional investors in this part of the world have exclusions is not because they necessarily think that these are bad investments over time – you want to be dynamic as an investor – it's because of values and ethical considerations. For many end investors, it doesn't feel good to earn money on what they see as unethical industries. I have respect for that and I would never argue against that. If you don't take your customers preferences into consideration, you simply won't to sell any products."

NIKLAS TELL: LISA, I WOULD LIKE TO COME BACK TO YOUR ARGUMENT REGARDING THE IMPACT YOU CAN HAVE AS AN INVESTOR. I GUESS IT WILL MAKE SENSE, BOTH FROM A SUSTAINABILITY POINT OF VIEW AND FROM A RETURNS POINT OF VIEW, TO OWN COMPANIES THAT ARE NOT GREEN TODAY BUT THAT ARE MOVING IN THE RIGHT DIRECTION. OR IS THAT TOO MUCH OF A HEADLINE RISK?

LISA BEAUVILAIN: "Yes, this is interesting. I recently saw a very serious impact investor being aggressively quizzed in the media for having an Article 9 fund with some of these more problematic companies in the portfolio. They explained that it's their approach – they have very few holdings and work with the companies through engagement to influence for improved processes, which can have significant positive and additional impact and that's why it's an Article 9 fund. But it's difficult if you only look at the holdings in a portfolio without understanding why each company is there and what the sustainability strategy is. I think this relates to what you said, Gabriel, around engagement and impact, which can be hard to measure. I do think it's important and we shouldn't be cynical – I've seen again and again how effective this can be. Just the fact that we ask companies about something is raising the awareness of the issues and new processes or disclosures have been implemented. I also agree that it's not about the number of engagement meetings but whether the meetings have led to change and improvements, so positive outcomes. We've challenged ourselves over the last five years or so to report on where we think we were the main drivers for change. It's not a big number but I do think it's important."

KRISTOFER DREIMAN: "We as asset owners have been criticising asset managers in general because what we've received in the past has been a report stating how many meetings they've had and how many emails they've sent. We're a bit critical because we haven't seen much proof of serious engagement efforts with companies historically."

NIKLAS TELL: FOR ASSET OWNERS, I ASSUME THERE'S A BALANCE BETWEEN HAVING A PORTFOLIO THAT LOOKS GOOD FROM A SUSTAINABILITY POINT OF VIEW AND ACTUALLY HAVING AN IMPACT IN THE REAL WORLD.

SUSTAINABILITY ROUNDTABLE

LISA BEAUVILAIN
Global head of sustainability & stewardship and co-head of the sustainability centre at Impax Asset Management and a member of the firm's senior leadership team. She previously worked at Goldman Sachs as an executive director in the investment management division. She is actively participating in industry sustainability working groups and advisory councils, such as the Glasgow Financial Alliance for Net Zero and the International Corporate Governance Network.

THIBAUD CLISSON
Climate change lead at BNP Paribas Asset Management. He joined the asset manager's ESG research team in 2009 and is in charge of the energy and utilities sectors. He is also responsible for the ESG integration within private debt and real assets investment strategies. He is a member of the IIGCC Corporate programme and of the Scientific Committee of the Euronext Low Carbon 100 Europe index and a member of the Technical Advisory Group of the Transition Pathway Initiative.

GABRIEL LUNDSTRÖM: "We're not going down that path towards a net-zero portfolio. We need to find a way that works for us and that's credible. Simply decarbonising our equity portfolio will not make a big difference. As a large asset owner, we have a large illiquid portfolio and we can allocate a lot to infrastructure and to other interesting impact investments that retail investors are unable to do. We're in the middle of the process right now to decide on how to take the next steps."

KRISTOFER DREIMAN: "We have decarbonisation targets for our portfolios and I think we face the same challenge of real impact. We aim to reduce our CO2 intensity by 50 per cent by 2027 and we're on the right path against the chosen KPIs but we've mainly achieved that through allocation changes so far. It's not that companies in our portfolio have decarbonised, at least not yet to the extent required. To achieve change, we have instead during recent years among other things increased our investment in sustainability bonds where assets are used to finance environmental and/or social projects with real and measurable impact. Those investments now representant more than 23 per cent of asset under management and we can aggregate significant CO2 savings/avoided emissions."

LISA BEAUVILAIN: "With regards to names that could be seen as problematic from a sustainable point of view, I don't think those parts of the economy can be ignored. For an orderly climate transition, the large emitters today and whose emissions are hard to abate will need to be part of the solution and those successfully transitioning could represent good investment opportunities. We've started to look at transition pathways in order to identify companies and activities that are not viewed as green today but where we see a credible path of transition, for example towards net zero."

GABRIEL LUNDSTRÖM: "I think the problem for a large asset owner is that if you have one of these companies in your portfolio, you become an easy target for NGOs providing interesting news to the media. Even if your answer to why you own that company makes sense, it's hard not to take a hit from a reputational point of view."

NIKLAS TELL: SO IF IT'S PROBLEMATIC FOR YOU AS AN ASSET OWNER TO OWN THESE COMPANIES THAT SEEN AS BAD BUT ARE IMPROVING, WHO SHOULD OWN THEM?

GABRIEL LUNDSTRÖM: "From a responsibility point of view, we should probably be the owners but then you could also ask if it's really our role to be the change makers of the oil industry or if our main job is to provide pensions to our clients."

KRISTOFER DREIMAN: "We have a public exclusion list and we also have a list of transition companies and we're able to explain in detail our reasoning behind each name on that transition list. But it's, of course, hard to get the attention and time with media or end clients to make sure they fully understand our reasoning."

THIBAUD CLISSON: "I think these are very important discussions because we've had a problem with greenwashing but an equally big challenge is green hushing – so not saying everything that we're doing from a sustainability perspective should be penalised just as greenwashing is."

KRISTOFER DREIMAN: "I also think we could collaborate more in the industry. We manage the pensions for many Swedes and it's of course our responsibility to provide a good pension but also to stimulate the transition. A decent pension is a very important social aspect of what we do. As an industry, we could speak more with one voice on these issues."

NIKLAS TELL: I'M LOOKING FORWARD TO YOUR JOINT STATEMENT!

GABRIEL LUNDSTRÖM: "Yes, we're in a good position as we're both owned by our clients. That would be interesting from two long-term competitors."

NIKLAS TELL: WHEN IT COMES TO CLIMATE CHANGE, WE KNOW THAT WE NEED TO START NOW BUT THEN A LOT OF THE RESULTS WILL NOT BE SEEN FOR DECADES TO COME. AT THE SAME TIME, YOU NEED TO BE ABLE TO SHOW RESULTS OVER SHORTER PERIODS OF TIME AS WELL. HOW MUCH OF A CHALLENGE IS THAT?

LISA BEAUVILAIN: "We would start by looking if firms have credible assessments of climate risks and if they have credible scenarios for both transition and physical climate risks. The second element is that we want to see companies setting shorter, medium and longer term targets for emissions abatement pathways and I do think that SBTI (the Science Based Targets Initiative) is a decent framework. While it's an initiative that started somewhat shakily, they have evolved and are continuously updating the methodology. There's still work to do on Scope 3, for example. However, what I do like is the fact that you get external verification – it's not just a promise from a company. Then importantly, we want to understand what strategies management have to reach the targets. We want to see strategic and capex plans over time and interim targets. It can also be relevant to link these plans and targets with management compensation."

THIBAUD CLISSON: "I think one interesting development would be if companies were

SUSTAINABILITY ROUNDTABLE

penalised by the market if they fail to reach their stated sustainability targets, just as they are when they fail to reach their financial targets. That would be a gamechanger. I agree that SBTI is good because it forces companies to make shorter term commitments and rather than lofty promises aimed somewhere in the future. But we need to track those climate targets to make sure companies deliver."

NIKLAS TELL: AS INVESTORS, HOW DIFFICULT IS IT TO UNDERSTAND IF AN ASSET MANAGER REALLY HAS SUSTAINABILITY AS A CORE PART OF THEIR INVESTMENT PROCESS AND THAT IT'S NOT JUST PART OF THE MARKETING?

GABRIEL LUNDSTRÖM: "When it comes to listed equities, we manage a lot of assets internally and I think we have a strong ESG team. That means that when we work with external partners, we understand what's needed to do this well. I wouldn't say it's easy but at least we're in a position to make that call."

KRISTOFER DREIMAN: "I think this is especially interesting when it comes to alternatives. When we present our requirements to private equity or private debt managers, often the GPs come back and say that most investors have accepted much lower requirements and ask why we can't adjust to the majority. As Nordic investors, I think we tend to see ourselves as more proactive in this area but sometimes we also wonder how some competitors of ours can accept the conditions that are outlined in the legal documentation when it comes to ESG. Sometimes we also wonder how managers of private equity funds that are labelled as Article 8 can have such weak legal wordings when it comes to ESG."

LISA BEAUVILAIN: "I don't think it's always easy to assess the ESG credibility of an asset manager from the outside. If you have access to the manager, I think the key question is to ask for concrete examples that would show the level of integration. For example, what changes have been made to the portfolio due to ESG or engagement reasons in the last six months."

THIBAUD CLISSON: "I do think regulation will help investors to make that assessment. Maybe even more importantly whether the manager has embraced this across the organisation or whether it's only for one or two products."

LISA BEAUVILAIN: "I do agree that the SFDR regulation should help on this and to an extent, it does. However, there's currently such a wide scope of different approaches when it comes to Article 8 funds, for instance, with only exclusions at one end and sophisticated impact measurement and metrics on the other that I don't think we're there yet."

NIKLAS TELL: DO YOU THINK THAT THE INDUSTRY HAS BEEN TOO PRE-OCCUPIED WITH SIGNALLING THAT THEY'RE DOING THINGS IN THIS SPACE? I GUESS IT STARTED WITH PRI BUT NOW WE HAVE A LOT OF DIFFERENT INITIATIVES THAT YOU CAN SIGN UP TO.

GABRIEL LUNDSTRÖM: "It depends on the initiative but I do think it has a lot to do with commercial aspects rather than anything else. Some are good and some are meaningless but at the same time, it's a way to signal what you stand for."

THIBAUD CLISSON: "Again, I think it's about change management. As investors, we can put pressure on companies that have signed up to sustainability-linked initiatives because once they have made a public commitment, we have a lever to pressure them to deliver. It's the same for our clients when we've signed up to different initiatives – then they can evaluate us on our ability to deliver on those commitments."

LISA BEAUVILAIN: "I think joining initiatives can have different purposes. I think it's fair to say that we sign up to some initiatives mainly to show our support and then we focus more time and resources on a few of them where we're really active, for example in leading working groups."

NIKLAS TELL: IF WE LOOK MORE BROADLY ON ESG, WOULD YOU SAY THAT CLIMATE HAS TAKEN TOO BIG OF A ROLE AND HAVE WE FORGOTTEN ABOUT OTHER IMPORTANT AREAS?

GABRIEL LUNDSTRÖM: "I think it makes sense that we focus more on climate and the environment more generally as it's more investable. You can just look at the difference between social bonds and green bonds. That doesn't mean that it's not important but it's more complex from an investment point of view. You consider, of course, all of the ESG aspects in the investment analysis but from an investment opportunity point of view, it's not surprising that there's more focus on climate and the transition."

THIBAUD CLISSON: "There are, of course, different parts to the environment and I think we've focused on climate because we have more data available. It's easier compared to biodiversity, for example, where we need more metrics. As you said Gabriel, social factors are more complex because there are geographical biases. But climate, biodiversity and equality are interconnected and should not be treated in silo."

KRISTOFER DREIMAN: "The thing with climate change is that it comes down to a few things and even if it's a challenge, we can measure it globally and relate to it. When it comes to biodiversity, it's much more complex and local. I read in the background material to TNFD (Taskforce on Nature-related Financial Disclosures) that they had surveyed stakeholders and had identified some 3000 different indicators for biodiversity. That makes it a much more complex area."

LISA BEAUVILAIN: "I agree that it's very important not to work in 'topic silos' when it comes to sustainability, which I think has been the case before. I think it was good that the new TNFD framework is now bringing a lot of these issues together by including climate and human health within the biodiversity framework for example. They're all linked."

NIKLAS TELL: LOOKING AHEAD, WHAT ARE SOME OF THE KEY STEPS THAT YOU WOULD LIKE TO SEE TAKEN TO MOVE FORWARD WHEN IT COMES TO ESG AND SUSTAINABLE INVESTING?

THIBAUD CLISSON: "Data. I think data will be key going forward for sustainable investment to be credible and for us to measure what we're doing. We need more data to do better especially on the poorly addressed areas like social and biodiversity, for example."

GABRIEL LUNDSTRÖM: "I think the best prediction was made by you Lisa at the beginning of this discussion where we will see a clear division of investing according to value and ethics on one end of the spectrum – so basically exclusions – and true impact investing on the other end. Then we will have the mainstream in

the middle where we will use ESG analysis as a risk management tool. Then I think and hope that we will continue to see innovation in the industry when it comes to blended finance, public/private collaborations and de-risking with public capital. I think that's needed to make these big transitions because the public side will not solve it by themselves and private capital will not be enough. We need innovation and collaboration."

KRISTOFER DREIMAN: "I think the just transition will be key because unless we get there, we will have a debate that's too polarised and that will not get us to the end goal. I also think that we as asset owners need to step up our game. We need to become better at looking at these issues more holistically and pass on expectations to both external investment managers and companies. It's not enough to do a good job in listed equities."

LISA BEAUVILAIN: "I think that the sustainable investment industry needs to become better at demonstrating the outcomes from integrating sustainability in investments. What risks were avoided and what opportunities were captured? What were the financial, environmental and/or social outcomes and impact from the integration of sustainability? These are not always easy to measure but we need to be able to demonstrate the value add and outcomes more concretely. That is also how we can avoid getting more of the polarisation and politicisation of ESG and sustainability as we've seen in the US."

Case closed: Climate change impacts financial performance

By Julie Gorte, Ph.D. Charlie Donovan

11 September 2023

Understanding risks and rewards in the transition to a sustainable economy

Is climate change material to investment decision making? As asset managers, it's a question that's core to our fiduciary duty.

Recently, we've heard that requiring climate and other sustainability disclosures constitutes "mission creep" by the US Securities and Exchange Commission (SEC).[1] In our view, that talk is just noise in the system. We consider the SEC's actions an overdue recognition that climate risks and opportunities are material to investment outcomes.[2]

For 25 years, Impax has analysed the impact of environmental and social trends on global economic activity and investigated how climate change impacts financial performance.

Our conclusion: climate risks and opportunities are often mispriced by the market. To model the risks accurately, however, investors need companies' climate disclosures to be both appropriate and comprehensive. Meanwhile, we believe deep research can help us understand the opportunities presented by companies that provide solutions to climate challenges. By avoiding depletive products and processes, these companies enable climate adaptation and mitigation.

Understanding the risks and seizing the opportunities

In our paper, Climate change: the impact for investors, we describe the points of consensus emerging from years of academic, industry and government research around two main sets of climate risk: 'transition' and 'physical' risks.

Transition risks are disruptive economic changes caused by shifts in regulation, technology and consumer preferences. The move toward net zero is creating differentials in corporate competitiveness. From adoption of low-carbon products and services to impairments against assets that are no longer viable, all of this is happening in real time.

The second family of risks – physical risks – is related to damages caused by more frequent and/or severe weather events and chronic conditions. There are acute physical risks, like hurricanes and heatwaves, and chronic physical risks, like sea level rise and permafrost melt.

As we've seen again this year, the consequences of these risks are enormous. Swiss Re estimates, for example, that global GDP could be 11% to 14% lower in 2050 than it would be in a world without climate change.[3] It is becoming clear that the transition to a more sustainable economy isn't unaffordable, but rather the hesitation to act on risks is.[4]

1 Ramonas, A., 29 June 2021: SEC 'Mission Creep' on Climate Ups Republican Lawsuit Threats, Bloomberg Law
Chon, G., 22 July 2022: Gary Gensler has set the SEC on a perilous path, Reuters
Pino, D., 19 January 2023: The SEC's Political Games, National Review
2 This view is confirmed by recent IFRS Guidance on Climate-Related Disclosures, as at July 2023
3 Swiss Re Institute, 2021: The economics of climate change: no action not an option
4 International Monetary Fund, 2022: The Great Carbon Arbitrage

Transition and physical risks have already affected firm-level financial performance and are likely to be much greater than most expect. Insurers have raised prices for fire, flood and drought coverage, dampening real estate markets. Emissions regulations are raising the cost of carbon-intensive products for both producers and consumers, and carbon border adjustment taxes will only add to this. Appropriate company disclosures will allow us to better gauge the future ranges of these impacts.

We do expect firms generating solutions to create opportunities for investors in the years ahead. As detailed in our series The Transition Will Not Be Televised, we see clean electricity becoming the new backbone of our energy system, with high-growth firms emerging in upstream, midstream and downstream segments. This has the potential to help deliver a cleaner, safer and more affordable energy system in the US and beyond.

At Impax, we aim to price climate risks in every investment we make. Our goal is to make our portfolios resilient to transition and physical risks, while capturing the potential upside from higher growth rates associated with clean technology, renewable energy and enabling infrastructure. The data, methods and tools at our disposal are not perfect. But despite underlying uncertainties, we are well beyond a binary debate about whether climate change matters. We work toward a more sophisticated, probabilistic view of the magnitude of its financial impacts on assets, firms and portfolios.

To do that we need better company disclosure. While most large companies in developed markets currently report certain climate data, it is much more limited amongst smaller companies and those in emerging markets. Moreover, Scope 3 emissions reporting is broadly inadequate for investors to make fair comparisons among peers in any market.

The SEC, the world's major central banks and recent international guidance all recognise the importance of this data.[5,6] Only with more robust climate disclosure will we be able to gain a more complete picture of our investee companies and ultimately fulfil our fiduciary role.

5 The International Financial Reporting Standards Foundation, July 2023: Guidance on Climate-Related Disclosures
6 Network for Greening the Financial System, 2023: Monetary policy and climate change: Key takeaways from the membership survey and areas for further analysis

NET ZERO CHALLENGES AND PRIVATE MARKET OPPORTUNITIES

Intro: *Nordic asset owners share their insights on the next steps for reaching net zero and transition opportunities in private markets.*

Text: *Caroline Liinanki*

Most large Nordic asset owners aim to achieve a net zero portfolio in line with the Paris Agreement. While the interim targets may have seemed far off when many investors began their net zero work, the years are going by quickly and things are likely to become more challenging going forward.

In an interview earlier this year, Morten Malle, chief investment officer of Denmark's Lærernes Pension, commented on the pension fund's new equity strategy that has a significantly lower CO2 footprint than its previous strategy. "We're close to achieving our goal for 2030 of reducing our carbon footprint by 66 per cent already today but we have grabbed the low-hanging fruit. It will be much more challenging going forward – if you want to do it in the right way and influence the real economy," Morten Malle says. Lærernes Pension also has a target allocation for climate solution investments by 2030 of 15 per cent of the total portfolio to be invested across asset classes.

Similarly, Erik Kleväng Callert, chief investment officer of Sweden's AP2, commented in a recent interview: "Almost all large institutional investors have reduced their CO2 footprint but the world's CO2 emissions have increased. Everyone has allocated away from the highest emitters and bought more technology companies. We've reduced our CO2 footprint by 30 per cent but most of it comes from reallocations within equities. But it should be about real world impact – helping the companies that are the highest emitters to transition," he says.

Investors are, of course, dependent on change taking place among the underlying companies and assets. While things so far have been moving slowly, Erik Kleväng Callert is hopeful that it will start picking up going forward. "We and many others have engaged with companies about having transition plans and most of them have now got science-based targets. There are not that many that have started to act on them yet but I hope that things will start moving soon," he says.

Fredric Nyström, head of sustainability and governance at Sweden's AP3, further highlights the need to stay flexible and adaptable when it comes to challenges in implementing a net-zero strategy. "I think it's important to have a continuous discussion and you shouldn't be afraid to revise your presumptions. This is living materia that needs to be reevaluated all the time to ensure that we get it right," he says.

On the topic of net zero, Fredric Nyström further argues that the climate perspective has been too centred on the global north while neglecting the challenges that the low carbon transition is presenting for the global south, which may not be able to transition as quickly. In the short term, this may, for example, mean moving from coal to natural gas. "You need to recognise the complexities," he says.

When it comes to interesting green transition opportunities, Morten Beck Jørgensen, managing director for capital investments at Denmark's Novo Holdings, mentions investments in private markets, especially in the venture space. "We have committed to some funds that try to decarbonise on smaller scale, for example within agriculture. But it's also a crowded space. We try not to be too carried away and try to focus on the underlying businesses."

AP2's Erik Kleväng Callert also highlights private market investments. "Looking ahead, we believe we need to identify new innovations that can contribute to the green transition," he says. "Our private equity portfolio is very tilted to innovation within, for example, technology, biotech or health care. Biodiversity is also one of our focus areas and there could be interesting tech companies that can make the agriculture industry more efficient." Furthermore, he points to investments in solutions that can help reduce the CO2 footprint of high-emitting industrial processes, such as concrete and steel production.

AP2 is also currently looking into setting up a strategy targeting the laggards of the green transition within the energy sector with the aim of having an impact on them to become more sustainable. "We see investing in the fossil fuel industry as too big of a risk, so we've stayed clear of high-emitting oil and gas companies," he says. "Some of them might be winners but the rest will become stranded assets. But there could be an opportunity to put together a transition portfolio of cherry-picked companies that look brown today – companies that are emitting a lot of CO2 and few want to touch, which makes them cheap, but they might still have some inherent value. By buying those companies, we could have an impact on them transitioning to sustainable business models and thereby create value. So active ownership on steroids. We're looking into whether this will be possible to do."

ESG AND GREEN TRANSITION CHALLENGES

When asked about what they currently see as the key dilemma when it comes to ESG and the green transition, the responses from Nordic asset owners are rather diverse. Some investors mention lower performance and not being willing to sacrifice returns. Poor regulatory framework and issues around reporting standards are mentioned by others.

When it comes to the green transition, a few investors highlight the dilemma of wanting to invest in the green transition while it is much easier to just invest in what already is green. One investor also mentions the challenge that the interest from the investor side is ahead of the real-world adaptation and supply.

OUTLOOK 2024/2025

BUILDING A ROADMAP FOR THE NEXT 12 MONTHS

Intro: *By looking at the key challenges likely to impact the fund selection community as well as the investment-related themes that will be top of mind for institutional investor over the coming 12 months, we have tried to establish a roadmap for the year ahead.*

Text: *Niklas Tell*

The Nordic region is a crowded market and it is a challenge for asset managers to stand out and get airtime with gatekeepers. Making sure that you are in tune with the needs and worries of your potential clients is a good first step.

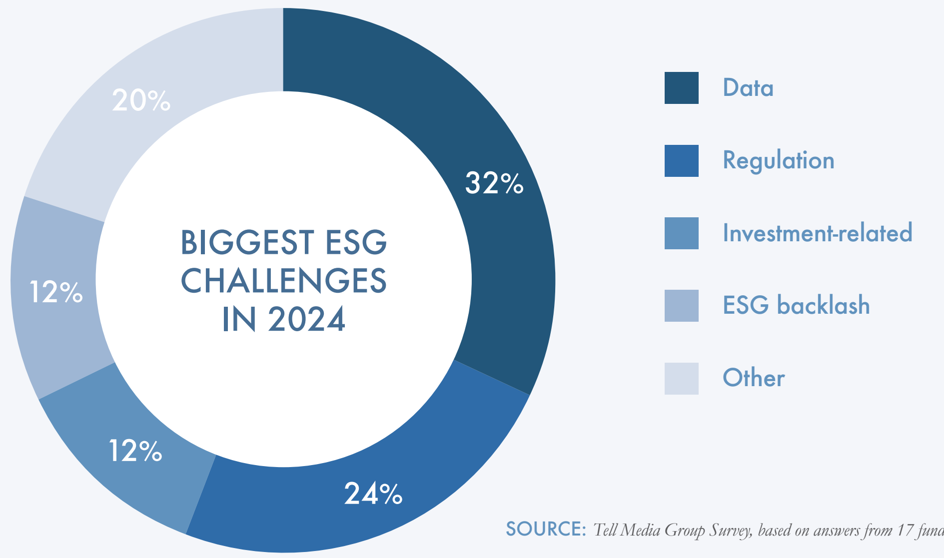
As outlined on pages 10 – 11, Nordic institutional investors are set to increase their allocations to risky assets despite concerns relating to geopolitical uncertainties and inflation worries. They are, however, looking to pull back from emerging markets and domestic real estate. For asset managers, it of course helps to be strong in the areas of the greatest interest to investors. However, we also think that asset managers that are able to provide insight and intellectual capital on the topics that are top of mind among institutional investors and fund selectors should be in a good position to offer insight, build trust and eventually relationships and business with potential clients.

Below, we have outlined key challenges likely to impact the fund selection community as well as the investment-related themes that will be top of mind for institutional investor over the coming 12 months.

KEY INVESTMENT-RELATED CONCERNS OVER THE COMING 12 MONTHS AMONG NORDIC ASSET OWNERS

INFLATION & CENTRAL BANK RISKS (42%)

1 Inflation and central bank action will be top of mind for Nordic investors over the next 12 months. Asset owners in our survey highlight things such as (sticky) inflation and central banks not fulfilling market expectations as some of the most important challenges in the year ahead.



SOURCE: *Tell Media Group Survey, based on answers from 17 fund selectors in the Nordic region.*

Challenges related to ESG and sustainable investing is one big topic. Some of this has been discussed in our roundtable discussion (pages 16–23) and also on pages 26 –27 where Nordic asset owners talk about the green transition. Among fund selectors in our survey, data and regulation feature as the biggest ESG challenges (see graph). This should be areas where asset managers can do more by working towards more streamlined and standardised ESG reporting and also by helping selectors navigate the increasing complexity of ESG products and regulation.

GEOPOLITICAL RISKS (40%)

2 Another theme likely to continue to be top of mind is geopolitical risks, mentioned by some 40 per cent of asset owners in our survey. The challenge for fund companies, as well as institutional investors, is not only how to collect and interpret signals from political events but more importantly how to translate them in a meaningful way in business development and in asset allocation.

MARKET RISKS (18%)

3 Some 18 per cent of asset owners point to market related risks, such as refinancing problems in the real estate sector, forced selling of alternatives and the fact that riskier assets are "priced to perfection" and that valuations are based upon rapid central bank easing.

SOURCE: *Tell Media Group Survey, based on answers from 20 asset owners*

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