



## The Nordic Investor Podcast

### Transcript

#### Episode 2: Q2/21

**Tomas Hildebrandt:** Hello and welcome to the Nordic Investment Podcast by Evli for professional investors, following the Nordic capital markets. Every quarter, we present a short-term outlook for the Nordic market, extract learnings from the previous quarters, examine changing cross-asset trends and highlight key things to keep an eye on. My name is Tomas Hildebrandt and I'm the market strategist at Evli's institutional asset management in Helsinki.

Today, joining me for the Q2 analysis is Ville Tiainen, Evli's Nordic equities portfolio manager and Outi Helenius, head of sustainability at Evli. A warm welcome to you both. We will discuss the market situation, the outlook in the Nordic equity markets and hot ESG topics. Welcome to Evli's Nordic podcast.

**Outi Helenius:** Thanks Tomas, it's really nice to be here again.

**Ville Tiainen:** Thanks, it's a privilege.

**Tomas:** So, we're talking about the market situation. Let's start with you, Ville. The Nordic equity markets have rallied after the global outlook started improving last year. What do you think is behind the strong performance and can it last?

**Ville:** Yes, I should mention the Nordic equities have gone up in Q1 and have continued to do so also during Q2. The main reason behind this are really strong earnings revisions. Can it last? Well, as long as the liquidity remains there and the estimate revisions stay positive, the Nordic, and equities as a whole, should do pretty well.

**Tomas:** We expected a strong performance, but has it been stronger than expected?

**Ville:** I guess so. When I looked at our fund performance and the year-to-date figures, the small-cap funds in Finland have returned more than 20% and the benchmark indexes are up more than 16%. In Sweden, the same figures are that the fund has returned almost 15% and the benchmark has returned almost the same. So though last year was really strong for both funds and especially the small caps in the Nordics, and the year-to-date figures have been really strong. Also, in the large cap space.

**Outi:** Actually, I have a question if I may. Do you think that the ESG or the sustainability indicators have had any impact there? Since we know that the Nordic companies are usually forerunners in sustainability, so I'm thinking that has it had any impact there?

**Ville:** Based on our own knowledge and the research on this subject, the ESG factors drive the returns, and the driver is the kind of the trend in those ESG figures and ratings. But since the Nordics are so high currently on ESG rating topics, I haven't seen any stronger trend, I would say, than normal. The trend has been strong and is still strong, so I haven't seen any shift. It plays a role, but I haven't seen any kind of change in the momentum.

**Outi:** That is perhaps due to the fact that the baseline is already so high so you can't see any rapid shifts there.

**Ville:** Academic research so far has stated that ESG is the driver, as it is EPS figures. It's not the level but the trend that drives the returns.

**Outi:** Makes sense.

**Tomas: I'd like to turn now over to Outi. What are your observations of the Q1 and how this year has started?**

**Outi:** All in all, I would say that this year has really shown that sustainability is a strong driver and will be, even going forward. For example, we have had a lot of talk regarding climate change: how it will impact the companies, what are their actions on it and how investors are taking that into account. I would say that the Q1 has shown that sustainability is important for the markets and for the companies and for the investors.

**Tomas: It seems that everybody's now concerned with the EU taxonomy and this is the big issue right now. How are the Nordic companies meeting this taxonomy in their activities and their reporting?**

**Outi:** That is actually a really good question and that is something that we have been talking about with Ville earlier. All in all, I would say that we are still in a really pretty early phase for the taxonomy. Actually, only this week, we got the final criteria, and only for climate change mitigation and transition, so we don't even have yet all the requirements ready. But companies are still required to start the reporting for the taxonomy alignment as of 2022 and at the moment I think that they are kind of building up their reporting capabilities. Of course, we can see that some of the bigger companies have been already doing the calculations and can even report their taxonomy alignment. But then I would say that the most important or the most interesting thing will be to see what the real impact to the market is. Now I think that some of the investors are saying that this won't have any big impact, there are so few companies that have any businesses in line with the taxonomy criteria, so it won't have any impact. And then we have others that have been saying that yes, this will have a really big impact, that actually this will be the turning point. For example, we believe that companies that have a high amount of their business in line with the taxonomy will get the finance cheaper or things like that. I think we will still need to look and wait what will be the impact.

**Ville:** One thing to add is just like Outi said, I would say on average, bigger companies are better prepared and that shouldn't be a surprise. There are still companies that at

least claim to be global planet savers and doing responsible business and saving this planet. But still, for example a company that we met this week, which is contemplating an IPO, even though they claim that they would be an ESG or a green name, they haven't heard about the taxonomy and even their investment bankers haven't heard about this taxonomy. So, there's a discrepancy between the claims and the reality in that sense. But on average, just like Outi said, the bigger companies on average are better prepared for this legislation.

**Outi:** That's a really good point. I would add that it looks like the companies who have been claiming to be the most sustainable companies, could be that they have a really low amount of their revenues coming from taxonomy services. So, then it is really interesting to see how the markets will react to this that some companies have been claiming to be the most sustainable and then with this new EU criteria they don't have any business coming from it.

**Ville:** Then there are some of our brokers and analyst partners from Nordic investment banks, they have made calculations about different companies and there's some interesting results. For example, Outokumpu and SSAB, the Nordic steel producers, score pretty high on this legislation. Based on some calculations their revenue might be hundred percent taxonomy aligned. Which is kind of interesting, because then you can claim that these companies are set in the world, which would have been outrageous made by steel companies a couple of years ago. But this is a feature of this legislation.

**Tomas: Very interesting. The follow-up question obviously is, Ville, how do you incorporate the ESG issues in your selections that you are making in the fund?**

**Ville:** The short answer is that we try to invest in companies that are part of the solution and not part of the problem. That is the short answer. I'll give you an example: we took part in the IPO of Renewcell, this textile recycling company from Sweden. They turn old textiles to new textiles and that will reduce the use of cotton, which is not that sustainable a material. All in all, that's our focus. Of course, we follow Evli's general ESG principles and we incorporate positive and negative screening into all of our Nordic funds. To sum it up, we focus on companies that deliver solutions.

**Outi:** I would say that Ville's team has been incorporating the ESG factors already for decades. It's not something that they have just now come up with. Ville is working with a portfolio manager called Janne Kujala, and he has been asking these ESG questions from the companies, I don't know, for such a long time.

**Ville:** That just reflects the fact that these are not exhaustive, or that you should choose one or the other, responsibility and sustainability or good returns and return potential. No, they go hand-in-hand. That's a really cool thing about investing currently in the Nordics that you know that you're at least trying to save the world while you're delivering good returns or return potential for your clients.

**Tomas: That's great. Outi, what would you say, does the SFDR for example now show the true color of a fund when we have this new reporting?**

**Outi:** Thomas is now referring to the new legislation that just came into force in March. It's called Sustainable Finance Disclosure Regulation, SFDR. There you have to classify all the funds you have; they are either article 6, which means that the ESG matters aren't integrated in the investment decisions, or they can be article 8, which means that

you are promoting the ESG matters or then they can be article 9, which means that you have sustainability as a goal. Coming back to your question, I think that it's a really interesting question. I don't have a black and white view about this, I think that's a tricky thing with the legislation still is that we only have kind of the first part of the legislation ready, so we are still waiting for the second part to come in. And so far, it has been looking like that quite many of the Nordic funds are actually classified to be kind of ESG funds, which makes sense. It still feels that we don't have all the needed information there that we could, you know, go and check where the funds are doing what they are promising. I think that we'll have to wait and see more reporting coming in, for example about the ESG characteristics that they are claiming to promote.

**Tomas: How is it all in all, if you talk about the Nordics, would you anyway be confident about the ESG elements in in the Nordic funds and companies?**

**Outi:** I would definitely say yes. If you look at any of the ESG indicators or even the historic ones you can see that the Nordic companies have had higher ESG scores already for several decades. I would say that the Nordic funds have in their DNA a high level of sustainability. And then the other driver is of course the governance. For example, if we look at climate change, quite many of the Nordic countries are aiming to be climate neutral already by 2035, which is 15 years before the Paris agreement goals.

**Tomas: How is it, Ville, does it feel like you can rely on company information and do you get an honest picture of the companies you are talking with?**

**Ville:** That is at least my humble opinion that the reporting and disclosure standards here in the Nordics are top notch in a global context. I may be wrong, but that's my humble opinion. If you look at the Corporate Knights ranking for this year, the top ten has three companies from the Nordics. It says that this region produces a disproportionate amount of these global champions that are part of the solution and not part of the problem. It's somewhat of a cliché to say that the responsibility and sustainability are in our Nordic DNA, but I would still say that we have some relative advantage in that sense. A that's why we have, I think we said this in another interview, that that's why the Nordics are a platform or source of this sustainable alpha.

**Tomas: Sustainable alpha, interesting concept.**

**Outi:** There, I'd actually add that then we see that the smaller companies that Ville is for example meetings, they might not have, you know, really extensive ESG reporting in place, but still, they are really sustainable. They have really high-quality procedures of ESG in place already even though they are not reporting on it.

**Ville:** And they are really responsive when you engage with them and you want to get more disclosure, or some kind of figures or facts related to ESG and sustainability issues. They're really responsive and they want to cooperate. I would say that when the attitude towards these things or themes is like that, in the long run, you're pretty well off. Attitude towards these kinds of topics has been really good and remains to be so.

**Tomas: So it's a combination of the strong ESG culture we have in many Nordic countries and it's also companies taking care of their shareholders and other interest groups, being responsible actors in the economies and societies.**

**Outi:** Exactly. For example, if you look at the attitude that the Nordic companies have to their employees, taking care of the employees is part of the business that they do. Nowadays you can even prove that that is actually good business. It's a normal procedure that they have already in place, which then gains more revenues to them.

**Tomas:** And this has to do with the governance of the Nordic companies, which in general is also on a very strong level.

**Ville:** I believe that the consensus between Nordic investors and companies is that ESG and returns or return potential go hand-in-hand.

**Tomas:** Does this consensus mean also that the AGMs in Nordic companies are so boring that there's nothing happening, no voting, nothing or what is it about?

**Outi:** Well, basically yes. I was just reading about Shell's AGM that's coming up in May. As one of the items on the agenda they have Shell's climate strategy. We don't see anything like that in Finland. Basically, all the items in the agenda are coming directly from the governance requirements or things like that. I would say that all in all the Finnish AGMs are pretty much non-events. Of course, I would not like to take down the importance of the AGMs because those are the only events where the smaller investors can perhaps ask matters from the CEO. That's why I think it is an important procedure to have. But to be thinking that okay, we have this AGM coming up and we really want to impact the companies and we will have these and these shareholder resolutions, that isn't happening in Finland. Usually, I would say that the Nordic and even Finnish investors, if they have some issue with the agenda or with the AGM, they usually try to talk with the company before the AGM confidentially and try to impact the company. We have even seen that some of the agenda or the topics might change slightly due to the impact.

**Tomas:** Dialogue with the companies. How many dialogues have you had with the companies and how many AGMs have you attended this year?

**Outi:** I'd say that this year we are planning to attend 20 AGMs and we have had roughly 10 discussions I would say.

**Tomas:** And the companies are listening?

**Outi:** Yeah, yeah, they are listening. And we have seen some impact happening: for example, if we have been asking already for several years for certain reasonings, what is the reason that you have been doing this and this and this, now it can be that these reasonings are listed there already. You don't have to even ask about them anymore.

**Ville:** I can add here, based on my own personal experience for this year's AGMs 95% are so-called non-events. This spring, there might be one or two where there will be voting and some kind of propositions against the board of directors' propositions. But those are really rare. One might say that in these topics, boring might be good.

**Outi:** Exactly. Because then you don't have any huge surprises.

**Ville:** But still, of course, like Outi said, we engage with companies and have dialogue with them and that's our fiduciary's duty toward our clients. That's kind of business as usual every spring.

**Tomas: Good. One more topic I would like to take up, that has to do with climate change and the Paris alignment. That is now very high on the agenda in many places. How would you say that the Nordic companies are meeting this challenge, what do you hear in the discussions and talks we have with the companies?**

**Outi:** I would say that companies are really taking climate change and its impact seriously. It isn't anymore that if you discuss with the company, they would be saying "what's climate change?" They have been thinking about it, they have been thinking what the impact to their business is, should they do some changes or what are the risks and what are the opportunities. But then the tricky thing is that even if you start looking at how many percent of the global companies are now in line with the Paris agreement, that isn't that many. I think that even though the companies have now kind of realized what they should be doing they are not ready yet. And, of course, we still have time but I would say that to find the company that is in line with the Paris agreement it isn't that easy. For example, if we look at Finnish companies, 30 of them have set climate targets that are in line with the Paris agreement, these are called science-based targets. But only 30. That's not that high a figure.

**Ville:** And every week we get more news from the companies that are issuing these science-based targets at Outi just mentioned. But my personal take currently is that companies that are bigger than average and have easier methods to reach those targets, the companies that have the chance to pick those low-hanging fruits are issuing those targets. But the trend is clear: more companies are issuing these targets.

**Tomas: Typically, larger companies have bigger footprints. It's crucial these do the job first.**

**Ville:** Exactly.

**Outi:** That's true.

**Tomas: It's interesting that you mentioned the Nordic steel producers and how they are meeting these carbon targeting requirements.**

**Ville:** If we go back to the EU taxonomy, that's the reason why both of these companies, Outokumpu and SSAB, have high revenue aligned with the taxonomy: they're producing steel from scrap or scrapped steel. They're doing the same with steel what Renewcell is doing with clothes or textiles. Again, this is a good example that the definition of what is sustainable or ESG is evolving all the time.

**Tomas: That has a lot to do with the circular economy that you can reuse many of the products already used.**

**Ville:** And the actual definitions of what is green, what is grey, what is sustainable and what is not, are moving targets, I would say. The EU taxonomy is a step in the right direction, but that legislation is also evolving all the time. A thing that might be sustainable today might not be sustainable in five years.

**Outi:** There has already been some discussion regarding the taxonomy criteria, that it will get tighter as the time goes on.

**Tomas: And actually, the underlying actions are key to the improvement. It's not the reporting, it's the underlying actions of companies and people.**

**Outi:** Exactly.

**Ville:** We come back to the attitude the companies have. The attitude comes from their own employees and their customers and the attitude is that we want to move in the right direction and be part of the solution, not the problem. I think that's the fundamental thing that is driving the companies in the right direction.

**Tomas: And driving the Nordics as well, as a whole.**

**Ville:** I would say that on short term, disclosure or that kind of changes won't have that big of an impact, since like mentioned before, the level of disclosure and reporting in the Nordics is quite high, I would say. Our work as portfolio managers, and doing that successfully, isn't about the quality of the reporting because it's so high at the moment. So, whether we can succeed or not in our job, the difference maker is somewhere else, at least in the Nordics.

**Tomas: Outi, you have highlighted many times that company ESG is actually a relative play so when everybody is improving it seems like you're standing still. But the Nordics are really frontrunners here and all the time improving a little bit better than most of the others.**

**Outi:** Yes, and I really see ESG as more of a development function. It isn't any indicator that you're constantly reporting on, but it is actually the kind of attitude that Ville has been also talking about; what are the things that we can do better, with the environment or social matters or governance matters. You can all the time develop your own procedures there.

**Tomas: Looking forward, for example this year, what are your priorities and what are you going to improve?**

**Outi:** A really good question. I would say that we have had the same theme and will have the same theme, which is climate change. We are all the time looking to have better data on the climate change impacts we are planning to set concrete climate targets. These are the kinds of priorities that we have.

**Ville:** For this year and maybe next couple of quarters, the prediction is always very hard, especially in times like these. But the thing about equities is, as long as you have this ample liquidity and the positive earnings revisions trend that you have especially here in the Nordics, I don't see any problem with equities going up or trending up even more.

**Tomas: If we're talking about the outlook and the coming quarters: What are the factors that make you shift in company selection or styles? What do you foresee?**

**Ville:** That's a really good question. Our investment philosophy is fundamental bottom-up stock picking. We don't take big views about macro-related things or do some sector rotation based on our macro view. Of course, we consider the macro figures and where the overall economy is going and the investor sentiment. But all in all, it doesn't change our approach that much, since we pick companies, and we pick stocks. It doesn't

matter if it's bull market or bear market, there's always plenty of possibilities especially in the Nordics to pick and choose from. So, we do bottom-up stock picking and there's always possibilities out there.

**Tomas: So good stocks to choose from.**

**Ville:** Yeah, luckily.

**Tomas: Great, this brings us to the end of this discussion today. We have talked about the market situation and the market outlook and we had a very nice talk about ESG and taxonomy issues. So at this stage, I just have to thank you Outi Helenius and Ville Tiainen for being in this podcast, thank you for your time, it has been a pleasure talking to you.**

**Outi:** Thank you Thomas, thank you Ville, it has been a really good discussion.

**Ville:** Thank you both.

**Tomas: In our next episode, released in the summer, we will have a look back at the Q2 and see what learnings we have before moving on to the discussion regarding the rest of the year 2021. Until then, dear listeners, please visit our Evli blog hub and feel free to send us questions at [fundinfo@evli.com](mailto:fundinfo@evli.com). I'm Thomas Hildebrandt and this the Evli Nordic investor podcast. Bye bye, adios, au revoir.**