For professional investors only

2021

nikko am
Nikko Asset Management

Green Bonds are now mainstream, we look at the opportunities

By Steven Williams, Nikko AM Global Green Bond Lead Portfolio Manager

Nikko AM's London-based Global Fixed Income team is a **pioneer in Green Bonds** having launched one of the world's first Green Bond funds in 2010, the fund invests predominantly in **AAA rated Global SSA issuers**.

The Green Bond market is now nearly as large as the US and European High-Yield credit markets in size, with **USD 1 trillion** of issuance in 2020. The maturation of the asset class has created the liquidity and diversity needed to meet a growing range of investor objectives, including climate change mitigation and investment returns.

While investors are increasingly signing up to environmental principles, they still need to ensure investment objectives are met. Nikko AM sees its role as a **key capital allocator** in ensuring climate change mitigation and adaption, and we believe our experience in actively managing green bonds throughout their evolution best positions us to help you navigate the next stage of growth currently underway.

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Paris Agreement provides long-term green opportunities

+ LEARN MORE

The benefit of transparency with SSA Green Bonds

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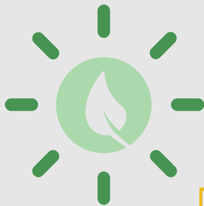
Changing investor appetite deepening the Green Bond market



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Green Bond pricing

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Proven track record from an experienced team

4 Green Bond investment professionals

15 Global Fixed Income professionals

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Nikko AM Global Fixed Income

Green Bond strategies

£35 million

Global Fixed Income AUM

£8+ billion

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Paris Agreement provides long-term green opportunities

We have recently observed a significant rise in climate awareness in political debates, financial markets and public opinion. As we look to 2021 and beyond, climate change will remain high on the political agenda and drive increased investor support for green bonds as the climate crisis will continue to be a pressing issue. However, as we emerge globally from the COVID-19 induced recession, it will be essential for issuers of debt, especially sovereign, supranational and local governments, to use green bonds to kick-start investment and provide the capital to fund their investment agenda. The COVID-19 pandemic has been the greatest economic threat in peacetime, and will require unprecedented collective action to combat and control. The next phase is to define and guide the global recovery for a more sustainable economy and planet in the post-COVID era.

Instead of de-emphasising long-term climate policies in favour of short-term macroeconomic intervention, the COVID crisis has increased the centrality of the European Green Deal as one of the key policy levers to restart the EU economy. A recent analysis by the International Renewable Energy Agency (IRENA) estimates that investments in energy transition could have a 5x multiplier effect on GDP.

As a result, we expect green bonds to make up an increasingly larger share of the overall global debt market and become a key financial instrument to fund the recovery. Additionally, the significant growth already experienced in the green bond market is now attracting attention from traditional fixed income investors who previously did not have an efficient way to "green" their portfolios. With green bonds, fixed income investors are finding that they can fulfil their investment objectives while still making a positive impact and contributing financial support to drive the COVID recovery.

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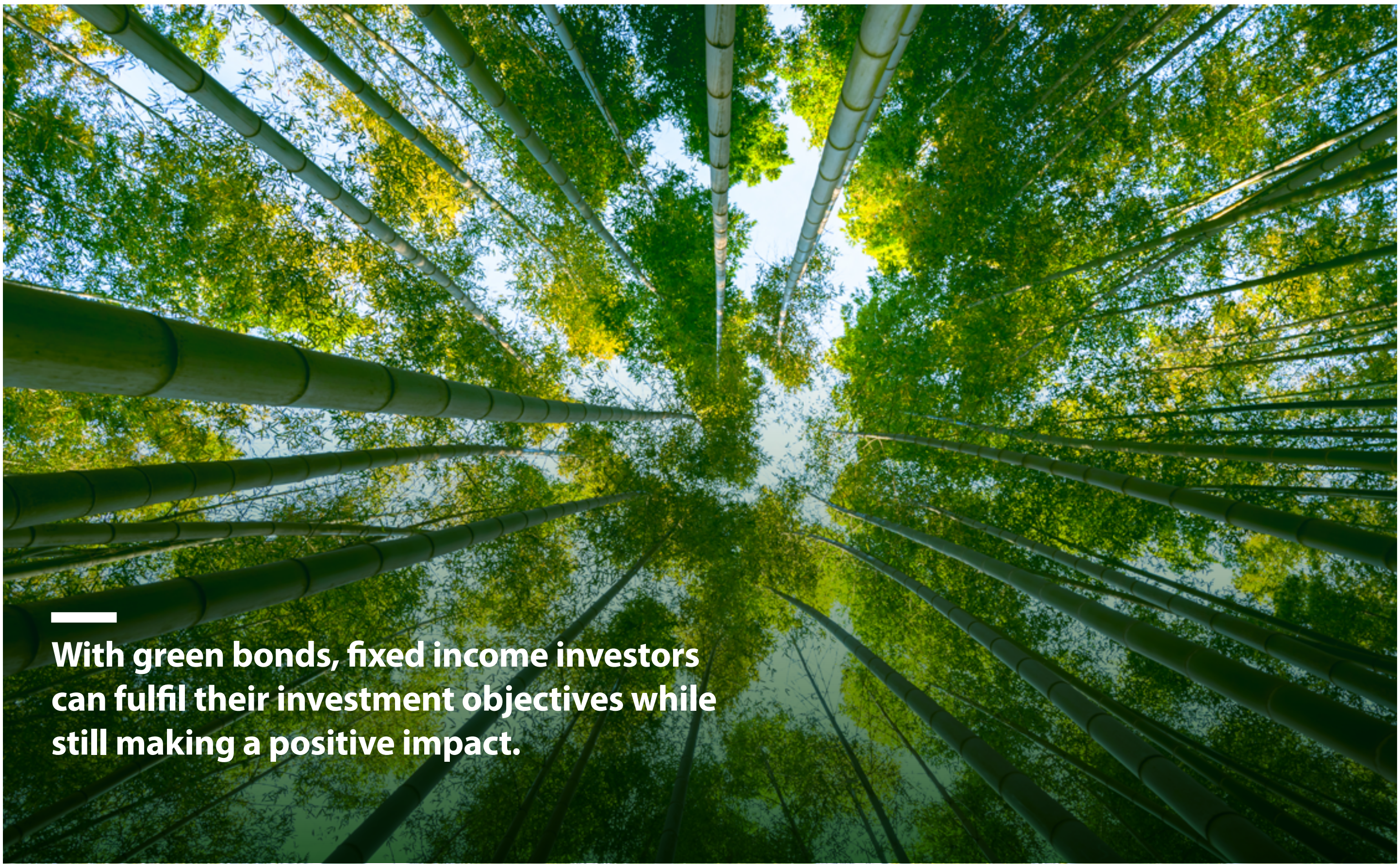

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The benefit of transparency with SSA Green Bonds

Real economy investments create environmental impacts that fulfil Europe's climate goals and other long-term environmental objectives

Supporting the gold-standard in green projects

When evaluating green bonds from an investment perspective, alongside traditional metrics – like credit quality, maturity and price – there also needs to be an assessment of the projects that the bond will support. Our investment team believes strongly in transparency which entails close inspection of the quality of reporting and availability of information before making an investment. This is a key reason why the Nikko AM Global Green Bond Fund has been structured to invest predominantly in AAA rated Global SSA issuers.

Developed regulation provides a common language

As the green bond market has matured, improved regulation has further contributed to transparency. The EU Green Bond Standard is a practical and secure financing tool to ensure that real economy investments create environmental impacts that fulfil Europe's climate goals and other long-term environmental objectives. It is an official European and international standard representing best practices in reporting and verifying sustainability matters, and in improving comparability. This ensures a common language for investors that will lead to increased investment flows into green and sustainable projects. This effort will continue to evolve and better clarify the definition of what is green and shed light on the varying degrees of green quality.

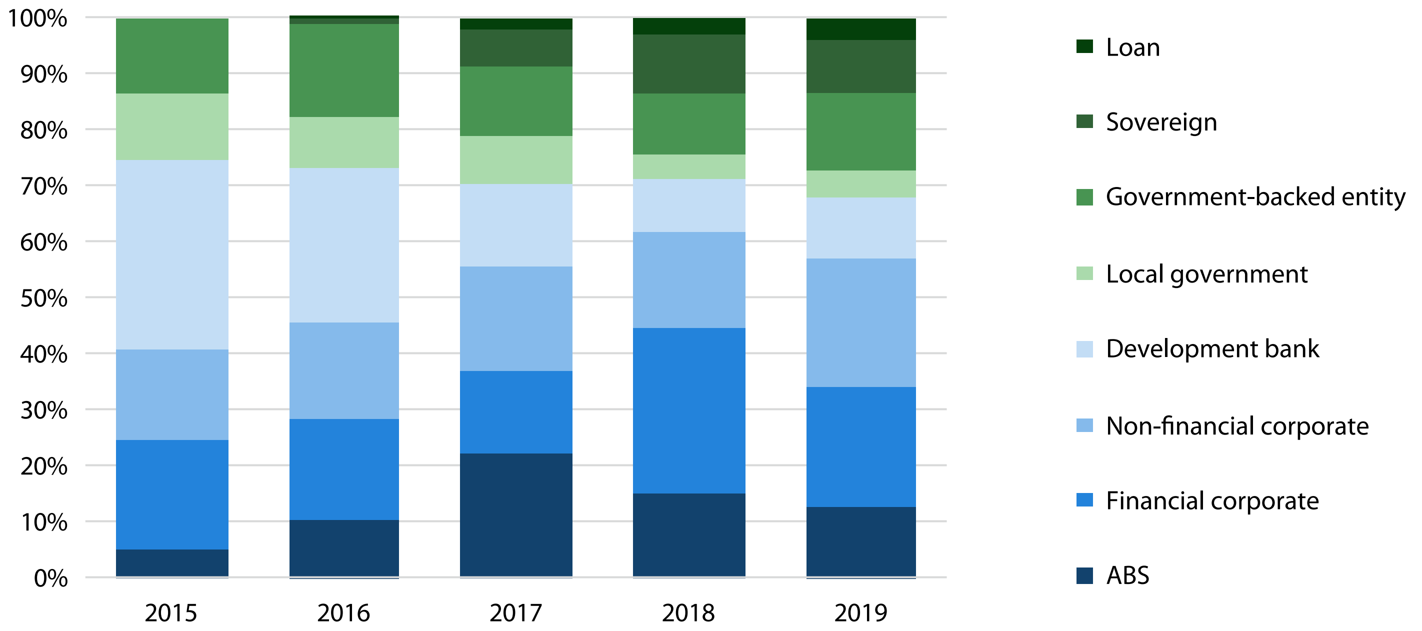
Our experience threads the needle to ensure we support truly green causes

Nikko AM's history and experience in the green bond market informs our analysis and verification of the underlying projects in which we invest. The team has built relationships with all SSA issuers that participate in the green bond market. This access to issuers not only helps in gaining insights into current trends in the green bond market but importantly, it further empowers the team to assess the quality of the projects being financed by green bonds. The combination of our in-house analysis with the Global Green Bond Fund's emphasis on SSA Green Bonds best ensures, in our view, that the green bonds in our portfolio truly support green causes.

Changing investor appetite deepening the Green Bond market

In recent years, green bond issuance has grown substantially, confirming the validity of the investment approach, and raising expectations of the benefits of further expansion. Green bond investing was initially driven by Multilateral Development Banks, however there has since been tremendous diversification of issuers led by an evolving investor appetite – this is acting as a positive catalyst for innovation, better choice and improved return potential.

Issuance by issuer type - Evolution



Source: Climate Bond Initiative

With the accelerating technological shift towards renewable energy, it is becoming apparent that green bonds are set to be a significant mechanism in addressing climate change. With the increasing global response to climate change, we are starting to see the same shift for sustainable technologies in energy, electric vehicles, energy efficient buildings and water treatment.

The ongoing development of these technologies will be expensive and capital intensive, prompting the question of how these projects can or will be funded? We believe that much of the necessary investment will come from the green bond market. Strong demand from private investors is helping to drive this massive growth, with investment policy shifting in public pension funds, and interest from insurance companies also making a significant contribution.

We believe that we are witnessing an increasing reallocation within the USD 100 trillion global bond market toward green bonds, this will provide the necessary capital for the above infrastructure development and should inform an investor's approach to fixed income. This trend in green bonds is disrupting traditional segments of the global fixed income market and opened up a number of exciting investment opportunities.

Green Bond Pricing

Beyond the positive impact of green bonds on climate adaptation and mitigation, there is now no clear systematic pricing difference between green bonds and conventional bonds from issuers. Green bonds typically have the same yields and pricing characteristics as traditional bonds. This and the growing demand, transparency and diversification of green bonds mean that the asset class is likely to develop into a mainstream part an investor's global fixed income portfolio.

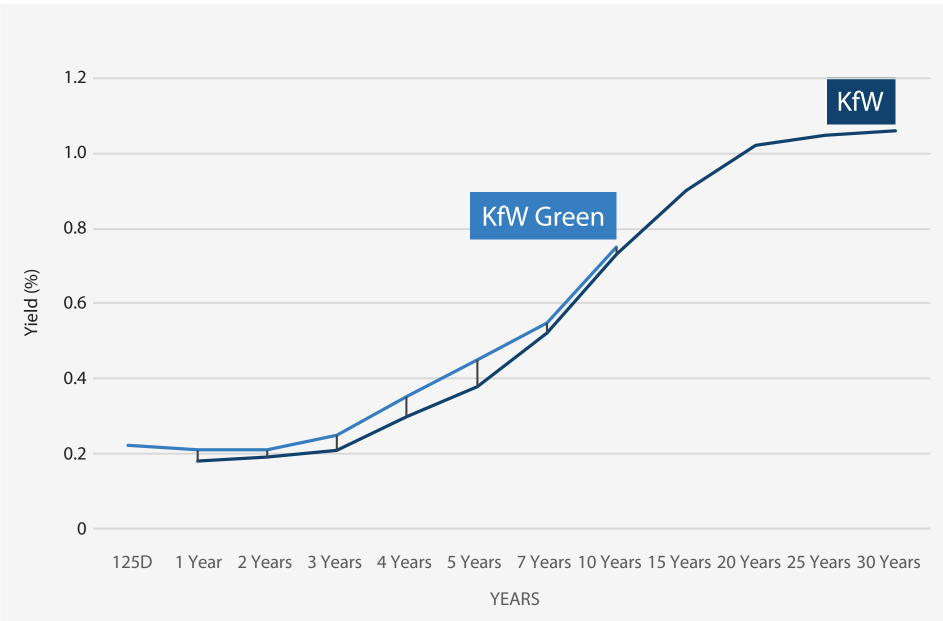
When the market was at its infancy there was evidence of a slight price premium in the purchase of green bonds known as "greenium", particularly in secondary markets. This was likely to occur as a result of the high demand for green bonds from ESG-focused investors relative to the available supply. However, as additional issuance has come to market it has helped to satisfy demand and remove any yield differential. As a result the pricing levels of green and conventional bonds have narrowed and are highly correlated.

A more in depth analytical comparison is needed to account for all differences between different issuances which include; liquidity, optionality, investor base, benchmark inclusion. However, what is clear is that the pricing levels of green and conventional bonds have narrowed and are highly correlated and as the market has matured it has become cheaper to purchase green vis-a-vis conventional as evidenced by the KfW's Green Curve.

KfW is a German state-owned development bank, and one of the world's leading promotional banks with a clear ESG mission statement at its core. As of 31 March 2021 KfW has issued more than EUR 33 billion of green bonds and we have long been supportive of their green bond programme, given its selection of projects, transparency of proceeds and gold standard of reporting. Below you can see how the KfW Green Curve, as an approximate proxy for the wider Green Bond market, and the KfW Conventional USD Curve has narrowed demonstrating the disappearance of the pricing disparity that used to be prevalent.

The pricing levels of green and conventional bonds have narrowed and are highly correlated.

KfW USD Green Curve vs KfW Conventional USD Curve



Source: Bloomberg, Nikkko AM. Data as of 29 July, 2020

Proven track record from an experienced team

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Nikko AM's Global Green Bond Fund is managed by an experienced and performance driven Global Fixed Income team based in London with responsibility for over £8 billion in assets under management, with £35 million concentrated in Green Bonds. Steve Williams is the Lead Portfolio Manager and has been involved in the investment management of the strategy since 2015. The co-Portfolio Manager is Raphael Marechal, Head Portfolio Manager of Emerging Markets.

The portfolio managers are supported by two analysts in Lucas Irisik and Matthew Holdgate, with a combined two decades of investment experience. The team has built relationships with all SSA issuers that participate in the green bond market. The access to issuers helps gain insights into current trends in the green bond market and potential opportunities. These relationships better allow the team to assess the quality of the projects being financed by green bonds. This depth of experience within the team and the strong knowledge of the development of the green bond market has enabled the team to build a portfolio that meets client investment objectives as well as supporting climate adaptation and mitigation.

Green Bond portfolio management team:

2 Portfolio managers

20+ years' industry experience avg.

Green Bond analyst team:

2 analysts

10 years' industry experience avg.

Why Green Bonds for your Asset Allocation

WATCH VIDEO

Steve Williams
Global Green Bond Lead Portfolio Manager

ESG within Fixed Income Investing

WATCH VIDEO

Andre Severino
Global Head of Fixed Income

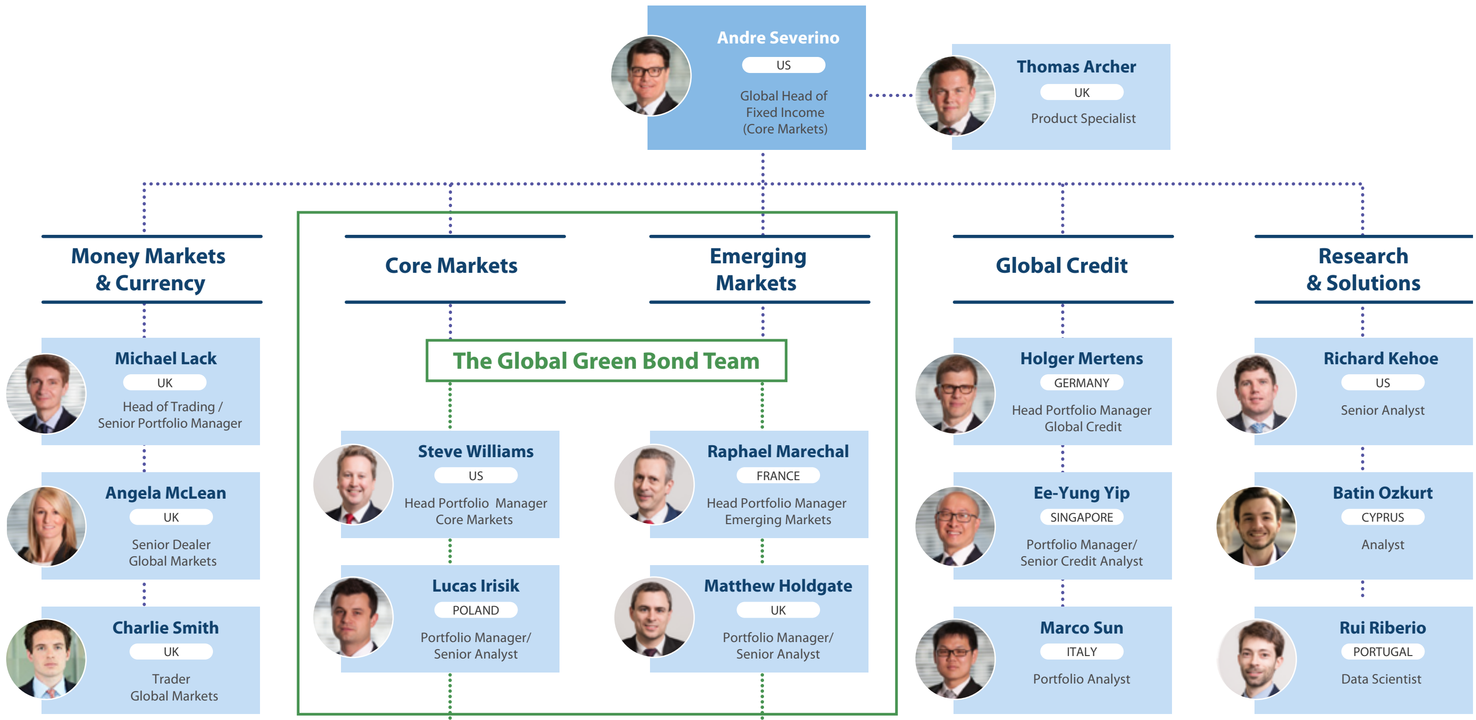
Thomas Archer
Global Green Bond Product Specialist

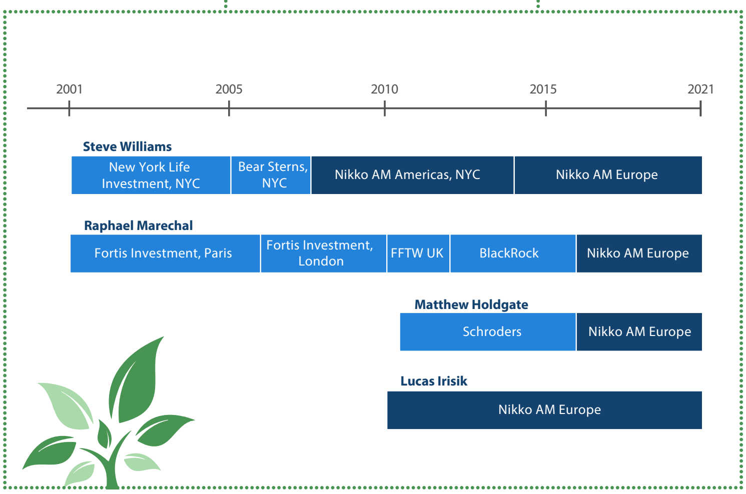
Source: Nikko AM

Proven track record from an experienced team *(continued)*

The Global Fixed Income Team

The Global Green Bond team operates within the wider Nikko AM Global Fixed Income team. The team comprises of eight Portfolio Managers and five Assistant Portfolio Managers/Analysts. The structure is designed to maximise their ability to capture the best ideas into client portfolios while minimising behavioural biases that may prevent them from achieving optimum returns. The London-based team brings a diversity of experience and perspective to client portfolios with nine nationalities represented.





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The Nikko AM Global Green Bond Fund

Information about the Nikko AM Global Green Bond Fund (as of 31/03/2021)

The Nikko AM Global Green Bond Fund	
Total Fund Size:	GBP 11,585,190
Legal Structure:	Sub-fund of Luxembourg SICAV qualifying as a UCITS
Investment Adviser:	Nikko Asset Management Europe Ltd
Management Company:	Nikko Asset Management Luxembourg S.A
Portfolio Manager:	Steven Williams

Portfolio Holdings

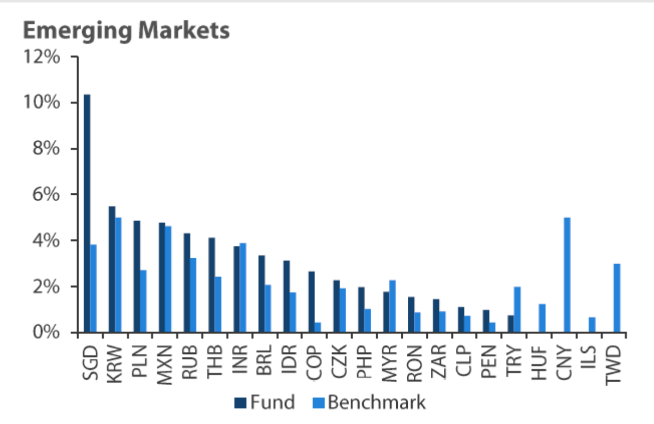
Top 5 Absolute Holding Weights	Fund
INTL FINANCE 8% 10/09/23 IDR	11.79%
IBRD 1.5% 12/07/2022 (USD)	9.92%
KFW 2% 09/29/22	8.60%
EIB 1.9% 22/01/2025 (CAD)	7.22%
NEDER WATERSC 1% 09/03/25/EUR	6.44%

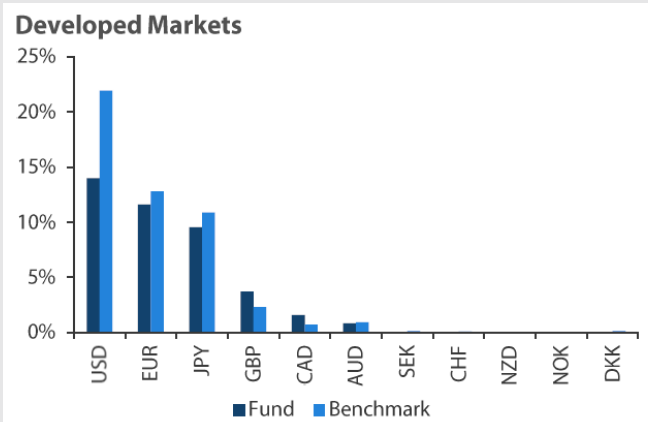
Net Performance Returns of Fund[1]

		1Mth	3Mth	6Mth	1Yr	3Yr	5Yr	SI
Class A USD	Fund	-2.33%	-4.03%	-0.05%	4.28%	-0.02%	0.67%	0.23%
	Benchmark	-1.61%	-3.12%	0.79%	5.07%	-	-	-
Class A GBP	Fund	-1.02%	-5.03%	-6.37%	-6.37%	0.52%	1.49%	0.81%
	Benchmark	-0.43%	-4.09%	-5.61%	-5.46%	-	-	-

Please note: Steve Williams assumed fund management duties on 1st May 2015.
[1.] Please see Important Information for disclaimer.

Sector Allocation





Available share classes

	Launch Date	ISIN Code	Bloomberg Ticker	Management Fee	On-Going Charges
Class A USD	25 February 2010	LU0489503028	NKWGRAU LX	0.45%	0.65%
Class A GBP	22 March 2010	LU0489503374	NKWGRAS LX	0.45%	0.65%

For more information on how to invest in the Nikko AM Global Green Bond Fund please contact:
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Contact us at Nikko AM

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Risk Information

Operational risk – due to issues such as natural disasters, technical problems and fraud.

Currency risk – this exists when the Sub-Fund invests in assets denominated in a different currency. A devaluation of the asset's currency relative to the currency of the Sub-Fund will lead to a reduction in the value of the Sub-Fund.

Counterparty risk – the possibility that the counterparty, such as brokers, clearing houses and other agents be unable to perform its obligations due to insolvency, bankruptcy or other causes.

Derivative risk – the Sub-Fund may use derivatives as described in the Objectives and Investment Policy. Use of derivatives results in higher chances of loss due to the use of leverage, or borrowing. Derivatives allow investors to earn large returns from small movements in the underlying asset's price. However, investors could lose large amounts if the price of the underlying assets moves against them significantly.

Liquidity risk – investments that could have a lower level of liquidity due to (extreme) market conditions or issuer-specific factors and or large redemptions of shareholders. Liquidity risk is the risk that a position in the portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame as required to meet liabilities of the Sub-Fund.

Credit Risk – is the possibility that a bond issuer will fail to pay interest and principal in a timely manner

Emerging markets risk – the risk arising from political and institutional factors which make investments in emerging markets less liquid and subject to potential difficulties in dealing, settlement, accounting and custody.

Sustainability risk - the risk arising from any environmental, social or governance events or conditions that, were they to occur, could cause material negative impact on the value of the investment. Specific sustainability risk can vary for each product and asset class, and include but are not limited to: Transition Risk, Physical Risk, Social Risk and Governance Risk.

Important Fund Information

Nikko AM Global Umbrella Fund is an open-ended investment company established in Luxembourg (the "Fund"). This information has been issued by Nikko Asset Management Europe Ltd and is not aimed at or intended to be read by investors in any country in which the Fund is not authorised.

The Fund is registered in France, Germany, Italy, Luxembourg, Netherlands, Singapore (restricted registration), Switzerland and the UK. Some sub-funds and/or share classes may not be available in all jurisdictions. This material is for information only and is not a recommendation to sell or purchase any investment.

Any investment in the Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document (KIID), as well as the latest annual or interim reports. Please refer to the "Risk Factors" for all risks applicable in investing in this Fund. These documents are available from our website en.nikkoam.com or can be obtained free of charge from the Funds registered office in Luxembourg: Private Business Center 32 – 36, boulevard d'Avranches, L-1160 Luxembourg, Luxembourg. Swiss representative, Swiss paying agent and place of jurisdiction in Switzerland: BNP Paribas Securities Services, succursale del Zurich, Foreign Fund Representation, Selnaustrasse 16, 8002 Zurich. Telephone: +41 582 126374, Fax: +41 582 126360.

Past performance is not a guide to future performance. Market and currency movements may cause the capital value of shares and income from them to fall as well as rise and you may get back less than you invested.

[1] Past performance is not a guide to future returns. Returns are presented net of investment management fees, trading commissions and administrative fees. For risk and performance purposes only, Since 1 August 2018 the Global Green Bond Fund Benchmark has been used as a reference benchmark and comprises of 50% BoAML 1-10 Yr Global Sovereign Index and 50% JPMorgan ELMI+ Index. Prior to August 2018, a proprietary benchmark containing only World Bank Bonds was utilised. Returns are presented net of investment management fees, trading commissions and administrative fees. Please note returns for the GBP Class A Shares have been calculated by adding back annual dividends which have been distributed. Returns in excess of 1 year have been annualised. Data as of March end 2021.