



RCP & Partners GmbH

Risk rating of asset managers: the investor's measure of trust

Nordea Investment Management (NIM)



Fiduciary Rating	2002-01-25		Previous Rating	
Business Rating	A1+	Very good	○	○
Investment Rating	3+	Very good	○	○
12-Month Fiduciary Risk Outlook	→	Neutral	○	○
Asset Classes	Equities, Fixed Income		○	
Geographic Universe	global		○	
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Business Rating	Fiduciary Rating	Investment Rating
AAA	Excellent	1
AA1		2
AA2	Very good	3
A1		4
A2	Good	5
A3		6
BBB		7
BB1	Fair	8
BB2		9
B1	Unsatisfactory	10

12-Month Fiduciary Risk Outlook

✗ Positive → Neutral ✗ Negative

Assets under Management

2001-06-30	EUR m	Share	Portfolios
Total	71 475	100.0%	ca. 1 000
Institutional funds ¹	23 544	32.9%	ca. 500
Mutual funds	28 665	40.1%	ca. 300
Others	19 266	27.0%	ca. 200

¹ incl. Spezialfonds

This rating confines itself to the global equity and global fixed income **institutional** investment management operations of **Nordea AB**. Collectively known as **Nordea Investment Management (NIM)**, these operations are not yet separately incorporated but function as a unit within **Nordea Asset Management (NAM)**, a likewise unincorporated division of **Nordea AB**. Legal incorporation of both these units is in progress and should be completed in the first quarter of 2002. The report makes particular reference to **Nordea Asset Management AG (NAMAG)**, the German institutional marketing unit in Königstein, near Frankfurt.

Strengths	Weaknesses
<ul style="list-style-type: none"> ✗ Flexible, disciplined, and distinctive investment process ✗ Investment team cohesion ✗ Strong parent group ✗ Internal controls and compliance function 	<ul style="list-style-type: none"> ✗ Incomplete re-organisation, especially in back office ✗ Indifferent fixed income performance ✗ Underdeveloped marketing resources
Opportunities	Threats
<ul style="list-style-type: none"> ✗ Leading brand in Scandinavia ✗ Further acquisitions intended ✗ Continuing re-organisation benefits ✗ International expansion 	<ul style="list-style-type: none"> ✗ Growing competition in Europe ✗ Potential disruption from further acquisitions ✗ Lack of independence within Nordea group

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Business Rating	RCP Score	Investment Rating	RCP Score
Financial Strength	★★★★	Investment Process	★★★★★
Business Management	★★★★	Research	★★★★★
Administration and Risk Management	★★★★	People	★★★★
Client Care	★★★★★	Performance	★★★★
Checks and Balances	★★★★	Client Diversity and Stability	★★★
Coherence	★★★★★	RCP Score: Minimum = ★, Maximum = ★★★★★	

Business Rating

The Nordea group is a recent creation from cross-border mergers of various financial services groups. In due course, this should provide tangible rationalisation and cost-reduction benefits, but the necessary re-organisation is incomplete and, meanwhile, the group structure is partially undefined. In particular, the legal separation and incorporation of the group's asset management businesses has yet to take place, so separate assessment of those units' financial strength is impossible.

The unfinished re-organisation is also evident in the back office and in IT, where the pre-merger variety of software packages for investment administration has yet to be integrated and there are some weaknesses in security procedures.

Meanwhile, NIM has strong compliance rules and procedures, in part even tougher than SEC standards, in line with international best practice.

Nordea is also a universal bank in the classic European mould. Among other things, this means that use of group affiliates as custodians and administrators to the asset management division is standard, a practice that undermines the protection investors expect through a truly independent custody service. On the other hand, these conflicted arrangements are well policed through strong internal controls and good monitoring procedures.

The greatest weakness is the lack of a properly-resourced marketing operation, combined with the almost exclusively Scandinavian client base. Redress of this shortcoming will be crucial to the group's progress in fulfilling its ambition to become a leading asset management name across Europe. Efforts have been made to improve NIM's European distribution by installing local marketing teams, especially in Germany, where NAMAG plays an important and active role, making the Nordea name more visible.

The chief strength, in business terms, is the support the asset management operations get from a financially strong and diversified parent group.

Investment Rating

NIM applies a distinct well-disciplined team-based equity investment process called TIP (Thematic Investment Process) which was developed in 1990 by the former asset management division of Unibank. On top, NIM puts a portfolio construction process, based on filters and optimisation, which is not benchmark-conscious, even though this can produce high tracking errors. NIM's fixed income process is based on an approach that targets to manage different types of risk exposures.

Global equity performance — based on end-2000 figures — has been satisfactory, occasionally very good, but results in fixed income (which are difficult to assess since the composites cover only a small portion of the managed assets) have been close to their respective benchmarks.

The two most impressive aspects of NIM are, first, its punctilious approach to client reporting. This has included substantial investment to gain AIMR-PPS as well as GIPS compliance for its numerous performance composites. The second factor is the relatively strong cohesiveness of the investment team, despite the disruption and distraction of several successive mergers in recent years. We feel this reflects the attractiveness of the investment process, where individual managers retain a reasonable degree of initiative and discretion within a well-disciplined overall regimen.

On the other hand, given the current investment environment, work is needed to strengthen results on the fixed income side, while securities dealing arrangements also need improvement.

Outlook

Although still-developing rationalisation benefits should help to contain costs, NIM's lack of marketing resources will undermine growth in assets under management. Such growth is, therefore, likely to come from acquisitions and that will entail further disruption before the benefits are felt. On balance, we rate the Outlook as Neutral.

Company	NIM — Nordea Investment Management	NAMAG — Nordea Asset Management AG
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Founded	2000 ¹	2000
Employees	341	9 (+5 outside Germany)
Services	Management and administration of institutional funds	Marketing and sales for institutional clients in Germany, Austria, Switzerland, Benelux, Italy

¹ Actually, NIM is the result of merged asset management operations with much longer histories (described in more detail in the report)