



RCP & Partners GmbH

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

NIM – Nordea Investment Management Bank A/S

**2 –
Very good**

Manager Rating – Parameters

Date	2003–09–30
Units	Nordea Investment Management Bank A/S (NIM), Nordea Asset Management (Europe) AG (NAMAG), Nordea Investment Funds S.A. (NIFSA)
Client Groups	Institutional Clients
Asset Classes	Global Equities (TIP), European Fixed Income (incl. Danish Mortgage Bonds)

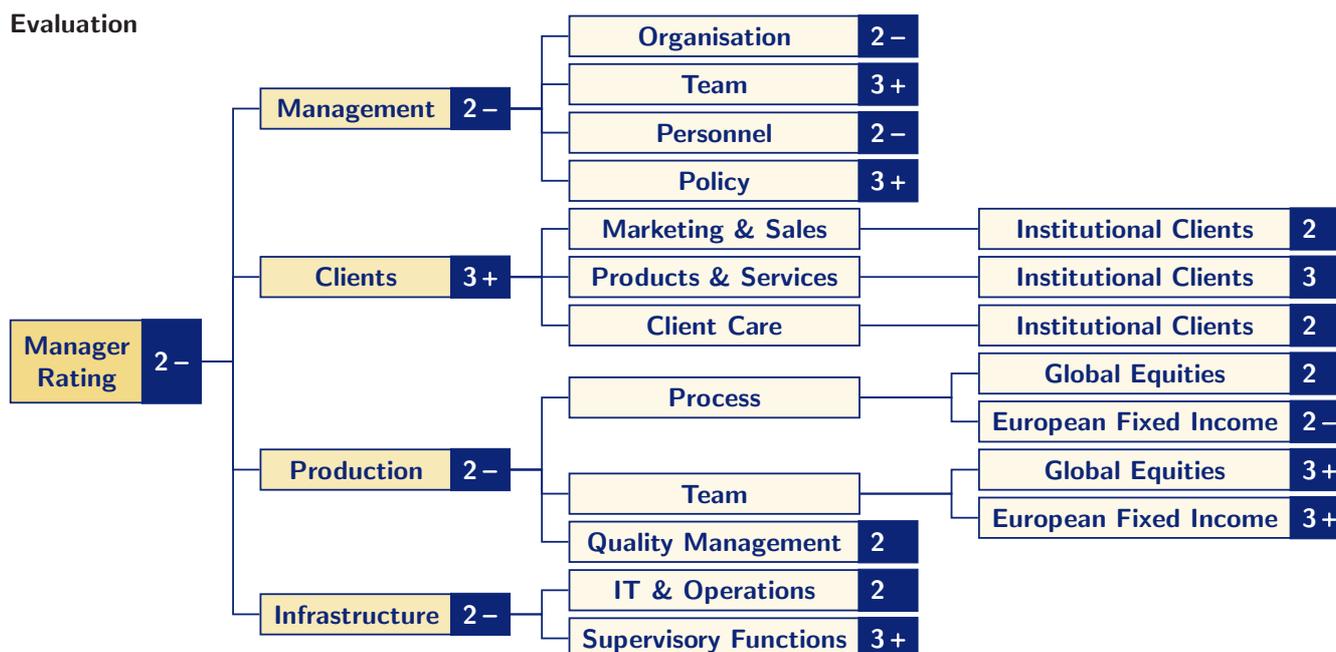
Manager Rating	
+1	Excellent
2–	Very good
+3	Good
+4	Satisfactory
+5	Inadequate
+6	Insufficient

Contact

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Manager Rating – Results

Evaluation



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Introduction

NIM is to a large extent identical with *Nordea Investment Management*, a department within *Nordea AB (publ)* which obtained in the previous rating an evaluation of **2- (very good)** according to the new rating scale. In the meantime NIM was spun-off successfully as a legally separate entity located in Copenhagen.

Management

Within the *Nordea* group, the largest financial services organisation in the Nordic region, NIM is responsible for institutional asset management, including the management of almost all mutual funds for other group entities. NAMAG, located in Königstein (close to Frankfurt am Main), is a sales and client relationship management subsidiary of NIM. It is not a KAG according to German law and therefore works with other KAGs in Germany which allows for a very lean structure for this entity. NIFSA in Luxembourg is responsible for distributing mutual funds. NAMAG and NIFSA are both active in all of Europe outside of the Nordic region.

NIM is soundly capitalised and has been profitable during its brief time of legal independence. Between NIM and *Nordea* there is no agreement to pass on or consolidate profits and losses, neither has *Nordea* issued guarantees for NIM, which would have been especially desirable when it was separately incorporated. Some other holdings of NIM do not belong in the category of institutional asset management and call for a realignment.

NIM has a market share of 20% in the Nordic region, supported by the awareness of the *Nordea* brand in the region. NAMAG is still a small player in the German market, but participates in the growing awareness of the brand due to the successful distribution of its mutual funds, e.g., *North American Value Fund*, by NIFSA.

The NIM management team has long experience in the investment industry at a comparatively young average age. Despite the latest changes at the top of NIM and the board of NAMAG, continuity of personnel and process is judged to be adequately stable.

In respect of remuneration two models apply: a partnership model based on synthetic shares for management and key personnel, and a bonus programme for all other staff. The size of the bonus is tied to objectives based on NIM's *Balanced Scorecard*. In the investment area the bonus depends on concrete objectives in respect of relevant performance ratios. This aligns the remuneration of employees with client objectives and the strategic goals of the company.

The supervisory board of NIM is solely composed of members of *Nordea*'s management. Although this reflects the group structure of *Nordea*, a larger share of outside directors would improve management controls to the benefit of clients in the sense of *corporate governance*. An internal *code of ethics* (so titled) puts the interests of clients in the forefront with a rare degree of precision. These rules are binding for all employees of NIM.

Clients

NIM has set itself the objective of visibly expanding its client base outside the Nordic region. An important part hereof is said to be mandates distributed by investment consultants. However, the resulting client relationships often are more volatile than for directly-acquired mandates. NAMAG continues to be a firm part of sales strategy, in particular because a local presence plays an ever more important role in German-speaking countries.

The core products of NIM are **Global Equities**, **European Equities**, both managed according to the firm's *Thematic Investment Process (TIP)*, and **European Fixed Income** with a speciality in **Danish Mortgage Bonds**, which in the past have earned higher returns at a lower duration than for instance German government bonds. The development of new products is principally designed to satisfy the demands of clients in the Nordic region. This entails a competitive disadvantage for their presentation outside of this region. Furthermore, the narrow product range resulting from this business strategy contains the risk that, in certain market cycles, sales successes will be rare despite good client relationships. Apart from TIP and fixed-income mutual funds, NIFSA successfully distributes a number of mutual funds which are managed on a value-driven approach in Luxembourg, partially with external partners. In Germany, the *North American Value Fund* has been among the equity mutual funds with highest capital inflows this year.

NIFSA's successful distribution of mutual funds contributes to the strengthening of the *Nordea* brand, which continues to support the group's institutional business. Value-products can be made available to institutional clients, although these funds are not yet considered ready for this client segment.

In Germany client relationships are managed by NAMAG, supported by the Client Management department in Copenhagen. The relationship managers there are central points of contact for clients with the aim of relieving portfolio managers from direct client contact.

In Germany reporting is provided by the respective KAGs with its corresponding benefits and disadvantages. NIM also provides clients with reports, but currently available only in English.

Although the centralisation of client relationship management and reporting in Copenhagen offers increased efficiency, it contains the risk of losing touch with international clients. It remains to be seen if the approach will work in practice.

Production

NIM's investment process for the **Global Equities** asset class has been based for more than 12 years on an innovative investment approach, the *Thematic Investment Process (TIP)*, and on a flexible organisational structure with flat hierarchies implemented according to text-books. In this network organisation the exchange of informal and formal information is fostered and team-based decisions are taken. The NIM corporate culture is deeply rooted in this approach. The difficult markets of the recent past have, however, led to

the assignment of clearer responsibilities.

TIP is not benchmark-driven but relies on the firm assertion that individual companies will benefit substantially from structural changes in their industries and markets and that these companies can be identified early by a suitable analysis. To achieve this, NIM's portfolio managers conduct their own theme and company research, the latter supported by information from selected brokers. Diverting from the pure thematic approach, some investments are also made to retain a certain style bias or to reduce portfolio risk in terms of excessive deviation from benchmarks.

The clear commitment to TIP as basically the only equities process is not without risk for a company of this size, especially when it has underperformed for several years because of its growth bias.

The investment process for the **European Fixed Income** asset class takes guidance from fundamental macroeconomic data and the analysis of corporate bonds. In addition, some investments are made in callable **Danish Mortgage Bonds**. This form of investment has carried a relatively high return compared with government bonds and NIM has both a high level of competence and an important role in this market. However, the stated performance of composites for the firm's European fixed income portfolios has barely or not at all beaten the benchmark.

Both equity and fixed-income teams have long-standing experience and some members have been with the company for many years. However, the assignment of individual positions, in particular in the fixed income area, has experienced significant change. Nonetheless, a well-balanced team structure ensures that succession and substitution is well provided for at any time.

Quality control is performed by a separate team which, however, is part of the fixed income area. In the equities area, marginal tracking error is the principal risk measure, although the investment process is not benchmark-driven.

In the fixed income area an in-house developed factor model is employed which allows calculation of performance attri-

bution and risk measurement. This approach broadly reflects the investment process and complements it well.

Performance data are regularly tested internally and also certified according to AIMR-PPS and GIPS by external auditors. We consider the current technical platform to be well-designed and efficient.

Infrastructure

With regard to infrastructure, NIM is totally integrated within the Nordea group. This also applies to the imminent outsourcing of IT production in a joint venture with an external partner and the expected cost advantages which come with it. The introduction of a modern, integrated portfolio management system is in its final phase, to be finished by spring 2004. Currently, the compatibility and system problems persist, raised by the succession of international mergers fully described in our previous rating. These will only be eliminated step-by-step with the introduction of the new system. Then, however, NIM should have an efficient overall IT from which NAMAG will also benefit.

The internal audit process so far plays a lesser role in asset management. For risk management outside of the investment processes (e.g., operational risk) there is neither an independent responsibility, nor a set of well-tested supervisory procedures. In this area there is certainly backlog demand in order to meet international standards. Regulatory tasks and the co-operation with the group are taken care of – as far as they exist – by the compliance department. In contrast, clear compliance rules mostly exceed international standards and also put the interest of clients at the forefront. For employees, the acquisition of securities, investment certificates, etc., is strictly limited, thereby reducing conflicts of interest.

Soft-dollar agreements with brokers do not exist. Nevertheless, rules on how to handle such – so far hypothetical – agreements have been drawn up.