Oct. 2020

Mutual Funds

Rating Report

Ninety One GSF Global Environment A Acc EUR

ISIN: LU1939256001

SCOPE A Fund Rating October 2020

Scope Analysis has assigned Ninety One GSF Global Environment with rating "A" (Very Good). Launched in February 2019, the fund is actively managed to capture opportunity of sustainable decarbonization benefiting from the ongoing energy transition. The strategy is benchmark-agnostic and follows a bespoke bottom-up approach imprinted with proprietary models striving to identify best ideas that focus on the structural growth, sustainable returns and competitive advantage. (*Note that the performance of the strategy is under influence of the pace of decarbonization, which is driven by regulatory and technological changes in the short term.)

Table 1: Fund Overview

Fund	Peer group	Volume in EUR m	Ongoing charges	Lauch year
Ninety One GSF Global Environment A Acc EUR	Equities Ecology	225.9	1.95%	2019

Rating assessment

The table provides an overview of the rating for each of the main indicators. They form the basis for the overall rating.

Table 2: Scope rating Summary

	Performance indicators	Risk indicators	Overall Rating
Score	84	64	78
Overall Rating	A	B	A

Quantitative indicators attributed to 15.3% of the analysis as of 30th of September 2020. Incorporating qualitative indicators, with a weighting of 84.7%, the overall result was a rating of **A ("Very Good")**

Table 3: Selected fund features

Investment Team	Investment process	Risk Management
Very Good	Good	Average

The investment team is, in Scope's opinion, adequately sized and facilitated to cover a dynamic spectrum of investment universe leveraging the profound industry experience of investment professionals and inhouse research intelligence. Scope believes the investment approach is highly systematic, disciplined and applied in a consistent manner. Observed throughout its investment horizon per 30. September 2020, the fund has outperformed its peer group with performance of 21.3% p.a. since inception and 20.2% p.a. over one-year period, well above its peer group averaged at 13.5% and 13.3% respectively. The fund depicted relatively higher volatility of 20.5% p.a. than its peer group averaged at 17.9% p.a. and maximum drawdown rolling over 6 months at -19.5% p.a., more than peer group average of -18.5% over 19 months period since inception.

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Company

Ninety One founded in South Africa in 1991 under its previous name of Investec Asset Management, initially offered strategies for the emerging market as a start-up. Since its foundation, Ninety One has successfully developed into an international asset manager with assets under management of EUR131.2 billion (as per 30. Sep 2020) and a global client base from the UK, Europe, the Americas, Australia, Asia and Africa.

Demerged from the Investec Group in 2020, Ninety One became an independent global asset manager listed on the London and Johannesburg stock exchanges with more significant and broadly held employee ownership. Ninety One is now owned by all its 1,165 employees (circa 21% shareholding), the Investec Group (circa 25% shareholding), and other shareholders (circa 54% shareholding).

Ninety One offers distinctive active strategies investing across equities, fixed income, multi-asset and alternatives. Their clients include some of the world's largest private and public-sector pension funds, financial institutions, corporates, foundations, central banks and intermediaries serving individual investors.

Team

Scope has gained a positive impression from the investment team of the Ninety One GSF Global Environment, which is specialized in thematic strategies.

The thematic equity investment team consists of 8 investment specialists, in which 4 members are dedicated fully to the Global Environment strategy. The team, which is part of Ninety One's Multi-Asset platform, is in active idea exchange and collaboration with other Ninety One global equity teams such as 4Factor and Quality in order to leverage inhouse research capabilities across the platforms.

The fund is managed in a collaborative manner by two portfolio managers, who have an average industry experience of 19 years and company tenure of 7 years.

Co-portfolio manager Deirdre Cooper has profound industry experience of 23 years. Prior to joining the team, she was a Partner, Portfolio Manager and Head of Research at Ecofin, where she was also Co-Portfolio Manager for 10 years on a segregated account in the environmental sector for a large European sovereign fund. Deirdre is a thought leader in the sector and sits on the advisory boards of the Climate Finance Centre at Imperial College in London and the Shell Foundation.

Co-manager Graeme Baker has profound industry experience of 14 years. He joined the natural resources team at Ninety One in 2010 as an energy analyst covering conventional and new energy companies. His co-authored work on the energy transition in 2016 has provided the theoretical basis for the team's investment process and its philosophy around the process of sustainable decarbonization.

The rest of the team whose expertise across battery metals, water/agriculture and energy/utilities help to facilitate the research capitalizing an average industry experience of 13 years and company tenure of 7 years. ESG is thoroughly integrated into the investment process with specialist ESG team working closely on this strategy from the screening level all the way through to company engagement and impact reporting.

In Scope's opinion, the investment team is of high level in experience and expertise. Despite the fact that three analysts of the team only dedicate 25% of their total workload to the fund, the strong support from cross-collaboration across the platform allows the investment team to capture highest conviction across wider spectrum of equity coverage at greater sector magnitude, which sharpens fund manager's business acumen and promotes market insights exchange during the course of fundamental analysis.

Investment discussions involve the whole team with two co-managers having ultimate responsibilities for final portfolio compositions and investment decisions.

The remuneration structure is appropriate, in Scope's view. A clearly defined performance measure framework is implemented to align the interest and drive incentives, which includes annual discretionary variable compensation and deferred bonus scheme in order to align portfolio managers with the objectives of their clients and the organization.

Investment process and portfolio construction

Investment philosophy: The strategy is steered to capture opportunity of sustainable decarbonization benefiting from the ongoing energy transition, whose revenues generally linked to one (or multiple) of the top-down themes such as renewable energy, electrification or/and resource efficiency. Core to the investment strategy is the search for companies that: 1) benefit from new structural growth themes; 2) have competitive advantages and 3) long-term sustainable returns.

The strategy follows a bespoke bottom-up investment process imprinted with proprietary models designed for the diverse universe of global equity. The approach pronounces strong emphasis on the structural growth, sustainable returns and competitive advantage of the companies, whereby the team strives to build up highest conviction on best ideas in the sector and achieve attractive long-term outcomes.

Investment process: The investment process relies on environmental/carbon screening, fundamental growth, returns-based investment analysis focused on sustainability and bottom up stock selection. Each stage of the process integrates ESG and includes proprietary models, such as environmental/carbon avoided screening and detailed fundamental financial and risk modelling. The fund invests in the global equity universe.

The process includes clear-defined five stages starting with universe screen:

Initial screening process consists of two parts starting with environmental revenues. The framework identifies companies that benefit from the transition to a low carbon economy along the entire supply chain. The companies need to generate 50% (or more) of their revenue in the space of renewable energy, electrification or/and resource efficiency and will be excluded once 5% of their revenues are generated from oil, gas and coal. Those beneficiaries will likely sit within the industrials, utilities, energy, technology, materials, chemicals and automotive sectors, which represent almost 60% of the GICS.

Having identified companies that will enable the process of sustainable decarbonization, the team takes further measures to assess companies' carbon risk and carbon impact. Facilitated by *Urgentem* (a leading provider of carbon data), the team is enabled to obtain a full picture of each company's carbon footprint including both direct (Scope 1 and 2) and indirect (Scope 3) emissions of its supply chain and products. The second part of the screening process is to quantify carbon avoidance by examining whether the company's products or services are better in terms of their carbon footprint than the alternative.

The ultimate universe consists of around 700 companies with a total market cap of US$6.5 trillion, distributed between the US, China and the rest of the world. The universe forms the basis for the second stage of idea generation, whose main source is a screen for companies based on key financial, ESG and competitive advantage metrics. The metrics chosen derives from decades of investment team and firm-wide experience as well as rigorous back-testing and relevant cross-sector analysis on sectors that are believed to share similar characteristics such as rapidly improving technology, continuously falling costs and large capital requirements.

Approximately 100 to 150 potential investment cases are then brought to the third stage of fundamental analysis, where fundamental bottom-up research stage including company meetings and onsite visits are carried out. The team conducts fundamental analysis by constructing detailed models highlighting following key perspectives: 1) competitive advantage, 2) intrinsic value, 3) return profile and growth as well as 4) management, sustainability/ESG and engagement. Thereby around 50 to 70 stocks that meet the fund's requirement for structural growth, sustainable returns and competitive advantage will be further reviewed under the screening process.

The best ideas generated through stage 1 to 3 of the investment process are used to construct a portfolio in line with the risk constraints. Ideas are presented by the responsible analysts in weekly investment meetings and are challenged by the whole investment team. The decision-making process is based on team consensus with the co-portfolio managers having ultimate responsibility for the portfolio composition.

The team meet management and engage with all portfolio companies on a regular basis not only on financial and operational topics but also material sustainability issues, which essentially reflects in the team's annual impact report. The concentrated portfolio generally holds 20 to 40 titles and is constructed bottom-up in a benchmark-agnostic fashion. Positions are weighted according to fund's target prices, strength of competitive advantage and the contribution to the portfolio's risk. Fund turnover is typically rather low given that the team is trying to build up the conviction over time and has a long-term investment horizon from five to ten years.

Unconstraint of company's market size, majority of the portfolio consists of large and mid-caps positioned around 4% on average. Tracking error is kept under 15% (currently 8.9%) over long-term investment horizon of at least 5 years.

Scope rates the investment process as "Good". The investment approach is systematic and disciplined, and according to Scope, implemented in a consistent manner. The strategy leverages relatively strong proprietary in-house research intelligence and profound industry knowledge of investment professionals in order to facilitate an extensive stock coverage. The screening is based on well-defined factors that promotes a consistent application of the investment process and the underlying philosophy by the entire team. It also allows the platform's research capabilities to be focused on fundamental promising companies. Scope rates positively on the involvement of the cross-team collaboration in discussing new investment ideas, which enables critical points of investment cases to be examined thoroughly, while knowledge and insights are exchanged actively.

Performance:

The fund has a convincing track record of 19 months as per 30 September 2020. The performance of the fund at 20.2% over 1 year, 21.3% since inception p.a., which is well above of its peer group.

Table 4: Returns in EUR after cost as per 09/30/2020 – ISIN: LU1939256001

	Return YTD	Return 1 year	Return since inception*
Ninety One GSF Global Environment A Acc EUR	**17.2%**	**20.2%**	**21.3%**
Peergroup Equities Ecology	*8.7%*	*13.3%*	*13.5%*

*19 months

Risk management and cost

Risk management:

According to Scope, the risk management of the Ninety One Global Environment Fund is clearly defined, relatively disciplined and comprehensive.

Managing risks across investment strategies is an integral part of the portfolio management process and consists of both explicit limits as well as additional measures. Portfolio management has access to detailed and regular risk reports that include stress tests, liquidity analyses, and key figures such as Active Share and Tracking Error.

For sustainability funds, Ninety One has a separate sustainable investment advisory committee which is responsible for ensuring that the strategy is meeting its impact and sustainability mandate.

The fund is managed independently of benchmark restrictions, the MSCI All Country World Index (ACWI)* is only used to compare performance.

Scope rates positively on the sell discipline of portfolio management. A position is sold if the investment case cannot be maintained due to change in structural growth, sustainable returns or competitive advantages, assessments of ESG risks or when share price reaches model target price.

Quality and quantity of research capability is monitored under Governance and Oversight structure in place at Ninety One to ensure the research excellence in order to align with in-house quality expectations.

Quantitatively, the fund has not been very convincing on the risk management side. At 20.5% p.a. since inception, the fund's volatility is higher than the peer group's average of 17.9% p.a. over 19 months of investment horizon. At -19.5% p.a., the maximum drawdown of the fund is also below the average of the comparison group of -18.5% p.a. over rolling 6 months period.

Cost: The fund has relatively higher cost ratio than its peer group average with ongoing charges at 1.95% p.a. There is no additional performance fee for investors.

Table 5: Risk indicators since inception in EUR as per 30.09.2020 – LU1939256001

Fonds	Volatility p.a.	Max. Drawdown	Tracking Error
Ninety One GSF Global Environment A Acc EUR	**20.5%**	**-19.5%**	**8.9%**
Equities Ecology	*17.9%*	*-18.5%*	-

Conclusion

The Ninety One GSF Global Environment Fund convinces as an actively managed fund that captures opportunity of sustainable decarbonization benefiting from the ongoing energy transition. The product convinces with the investment team’s high level of experience and expertise as well as its systematic and disciplined investment process. The strong network of cross-team collaboration leveraging in-house research intelligence has enabled the team to capture highest convocation from dedicated spectrum of coverage.

Based on the qualitative assessment discussed above in connection with a quantitative analysis, Scope rates the Ninety One GSF Global Environment Fund as of 30 September 2020 at **rating A ("Very Good")**

The fund rating

Scope's fund rating evaluates the quality of a fund relative to its comparative group. Among other factors, the rating reflects long-term earnings power, the stability of fund performance, and timing and loss risks. The analysis incorporates both quantitative and qualitative criteria. For further detail, refer to the methodology,

Rating agency Scope currently rates over 6,000 investment funds (UCITS) authorised for distribution in Germany. The funds collectively manage over EUR 3.0bn in assets.

Rating scale – investment funds (UCITS)		Score
A	Very good	100 - 78
B	Good	77 - 60
C	Average	59 - 41
D	Below average	40 – 23
E	Poor	22 -1

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Management rating history

This management rating is the first rating of the quality of this asset management company by Scope Analysis.

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