Whitepaper - Nordnet Global Index 125

Name	Nordnet Global Index 125
ISIN	SE: IE000P8IJ918, NO: IE000480NS87, DK: IE000563TYB5, FI: IE000ZGCANK0
Index fund	Yes
Underlying Index	MSCI World ESG Leaders Leveraged 1.25x Select
Index Bloomberg Ticker	MXWOELNU Index
SFDR classification	Article 8 – promotes environmental or social characteristics
Inv.Mgmt. Fee	SE: 0,40%, NO: 0,39% (inc. platform fee), DK: 0,50%, FI: 0,49%
Fund Managers	Nordnet Fonder AB and J.P. Morgan Mansart Limited

Why Invest With a Moderate Level of Leverage?

Investing in a well-diversified global equity fund with 1.25x leverage presents an innovative opportunity to capitalize on global growth potentials while balancing risk. The enhanced returns from leverage mean that for every dollar invested, the fund gets exposure to $1.25 of assets. In a bullish market scenario, this has the potential to amplify gains. If an investor has a positive outlook on worldwide growth, leveraging can magnify the associated benefits.

Moreover, the inherent diversification that a global equity fund provides—spreading investments across various countries and sectors—mitigates the impact of a downturn in any single region or sector. This widespread diversification serves as a cushion, helping offset the heightened volatility that typically comes with leverage.

Another advantage lies in efficient capital allocation. Instead of branching out into complex investing strategies with high costs, using moderate leverage on an already diversified equity portfolio can achieve similar or even better risk-return objectives with a more efficient use of capital.

While the concept of leverage might sound intimidating to some, it's worth noting that a moderate 1.25x leverage does not carry the extreme risks associated with higher leverage levels. It carefully strikes a balance between return potential and associated risk.

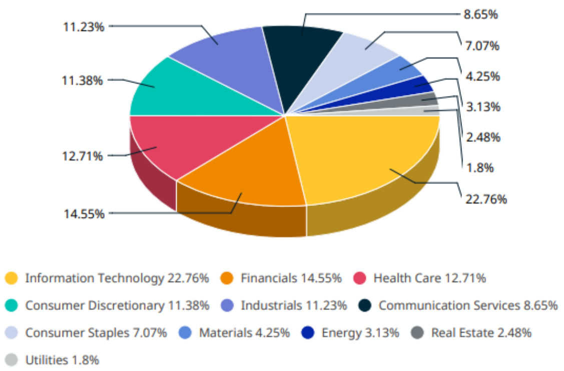
Underlying Index – MSCI World ESG Leaders

The fund tracks a leveraged index mirroring MSCI World ESG Leaders, the same underlying index as Nordnet Global Index

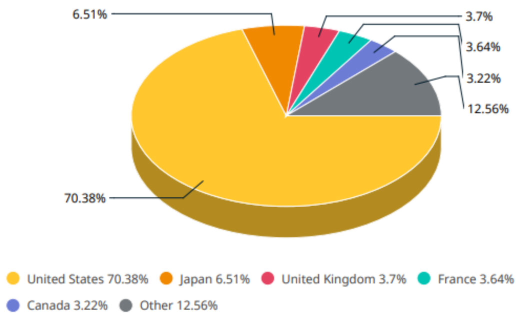
MSCI World ESG Leaders is a variation of one of the worlds most used and recognized index, MSCI World. It is an equity market index representing the performance of large- and mid-cap stocks across 23 developed countries and covers about 85% of the free float-adjusted market capitalization in each included country. Due to it's broad scope and long history (introduced in 1969) it has become the most common benchmark for global equity portfolios. The index does not include emerging markets.

Countries included in the index: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK, and the US.

SECTOR WEIGHTS



COUNTRY WEIGHTS



ESG Methodology - Selecting Top Performers

The index tracked by Nordnet Global Index 125, MSCI World ESG Leaders, differs a bit from its parent index MSCI World. It is designed to identify companies with strong environmental, social, and governance (ESG) performance relative to their sector peers. The index is constructed using a systematic methodology, which can be outlined as follows:

Starting Universe: The construction begins with the MSCI World Index as the parent index.

Exclusion of Controversial Activities: Companies involved in certain controversial activities or those violating the UN Global Compact principles (covering areas like human rights, labor, environment, and corruption) are excluded. This can involve companies related to tobacco, controversial weapons, and other specific contentious activities.

Selecting Top Performers: Each company in the MSCI World Index is evaluated based on its ESG profiles using MSCI's ESG Ratings. These ratings measure a company's resilience to long-term, industry material ESG risks. Companies with the highest ESG scores, representing the top 50% within each sector of the parent index, are included in the MSCI World ESG Leaders Index. By doing this sector-wise, the index ensures that it's not overly concentrated in sectors that naturally have higher ESG scores, maintaining sector balance.

Weighting: The selected companies are then weighted based on their free float-adjusted market capitalization. This means larger companies by market value will have a more significant influence on the index's overall performance.

MSCI World ESG Leaders Index aims to represent the performance of companies that excel in ESG practices within their respective sectors, all while reflecting the sectoral balance of the broader MSCI World Index. Historically, the risk and return characteristics of MSCI World and MSCI World ESG leaders have been close to identical.

Funding Cost

Funding cost is the interest rate that the fund pays to borrow money to buy more shares, i.e., to create leverage. The shares are primarily purchased in USD, and therefore the financing cost is based on the American reference rate SOFR (Secured Overnight Financing Rate).

Since the fund has a 125% exposure to the equity index, it needs to borrow 25% to cover the exposure above 100%. This can be illustrated as the fund having a long exposure to MSCI World ESG Leaders of 125% and a short exposure to SOFR of -25%. Thus, the return of the fund depends on both the return of the equity index and the interest rate level of SOFR.

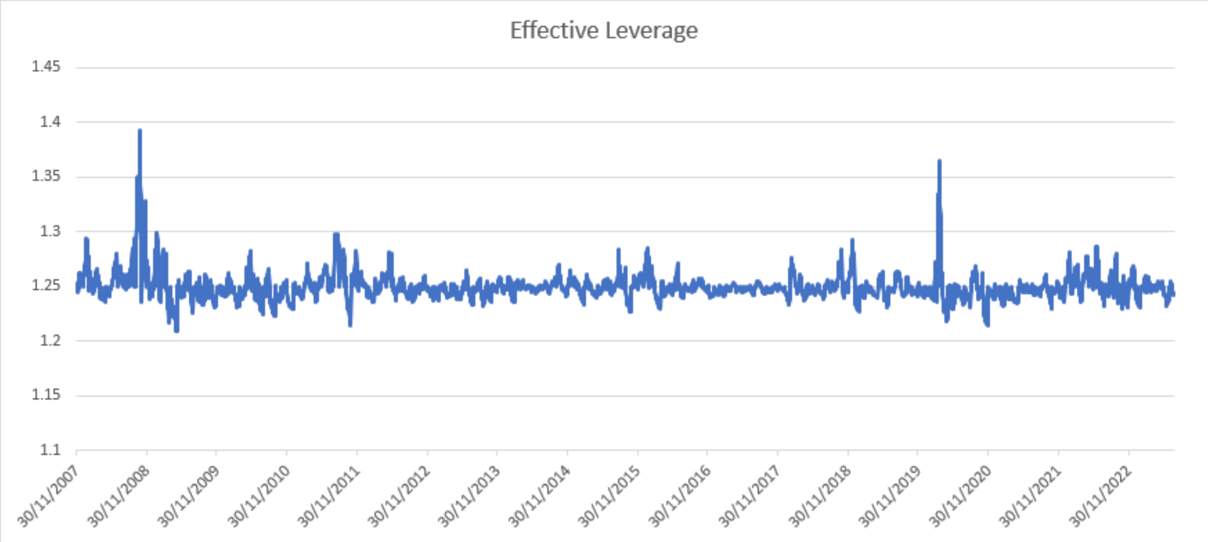
SOFR is the secured overnight interest rate for US dollar-denominated loans and is published by the New York Federal Bank. SOFR is the recommended replacement benchmark rate of the US and UK financial authorities for USD LIBOR. The current SOFR is just above 5% per year meaning that it will have a negative impact on the fund of -1,25% (0,25 * 5%).

The funding costs differ from day to day due to changes in SOFR.

Monthly Leverage Reset and Effective Leverage

Leverage instruments with daily rebalancing of leverage are suitable for those who want to speculate in the market's development in the short term but tend to erode the excess return over time for the long-term saver. This eroding effect is often referred to as "volatility decay" or "beta slippage". To mitigate this effect, Nordnet Global Index 125 resets the leverage once a month instead, which is more suitable for savers with a longer time horizon.

Resetting the leverage once a month means that it might drift during the month. If the market has a negative trend, the leverage tends to increase before resetting, and if the market has a positive trend, the leverage tends to decrease. Below is an illustration on the level of leverage over time. It almost always stays within 120%-130%.



Simulated Performance and Leverage Variations

Below we show variations of MSCI World Net Total Return Index USD assuming fixed leverage ranging from 5% to 50% with increments of 5%. Funding cost equal to US 3 month cash rate is deducted from the simulation. All fixed leverage simulations rebalance on a monthly basis and are Total return in USD.

	1.0x	1.05x	1.10x	1.15x	1.20x	1.25x	1.30x	1.35x	1.40x	1.45x	1.50x
Ann Return	7.7%	7.9%	8.1%	8.3%	8.5%	8.7%	8.9%	9.0%	9.2%	9.3%	9.5%
Vol	16.2%	17.1%	18.0%	18.8%	19.7%	20.6%	21.5%	22.4%	23.3%	24.2%	25.2%
Sharpe Ratio	0.36	0.36	0.35	0.34	0.34	0.33	0.33	0.32	0.32	0.31	0.31
Max Drawdown	-57.8%	-59.9%	-61.8%	-63.7%	-65.5%	-67.3%	-68.9%	-70.5%	-72.0%	-73.5%	-74.9%

Source: J.P. Morgan, Bloomberg. Neither simulated nor actual past performance is a guarantee of future performance. Data is ranging from 5th of November 2003 to 2nd of May 2023.

Will the Fund Always Return 1.25x the Return of the Underlying Index?

No, the leverage is reset once a month, which means it can be both higher and lower than 125% depending on how the market develops during the month. With very few exceptions, the leverage remains between 120% and 130%.

The financing cost and the management fee negatively affect the return, thus leading to a certain difference in return between the index and the fund.

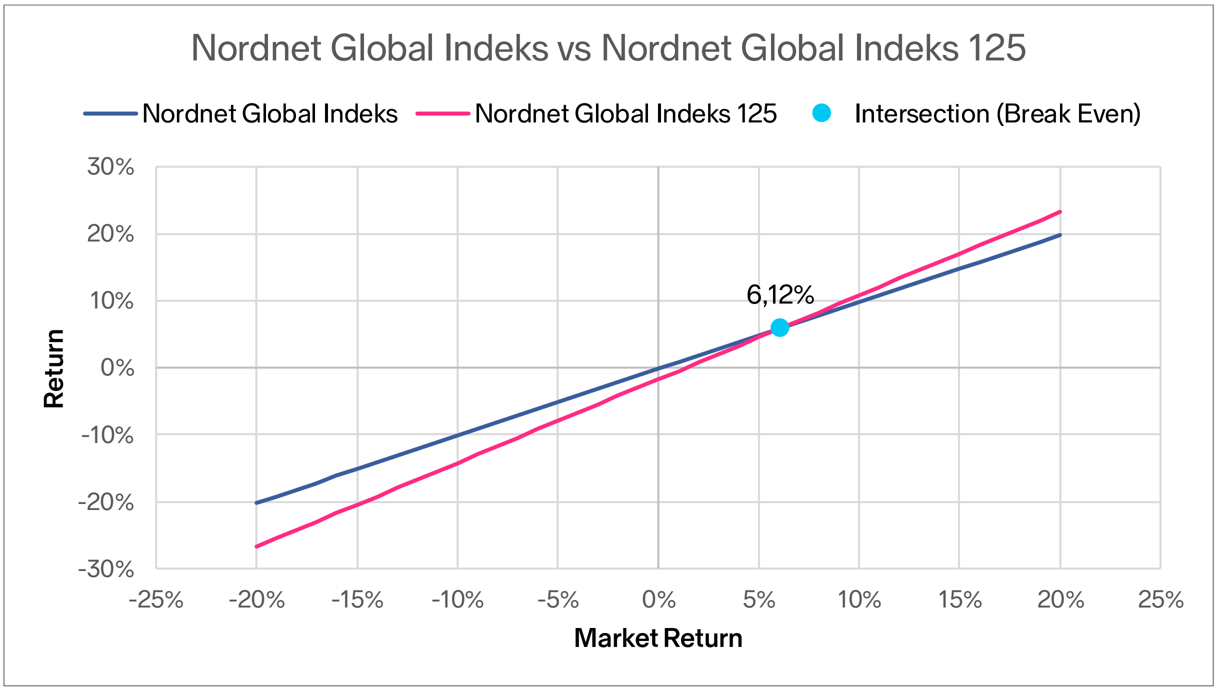
Below is a matrix illustrating different outcomes based on the current interest rate and the realized returns of MSCI World ESG Leaders. As you can see, the return ratio is below 1.25x in a positive market and above 1.25x in a negative market.

Returns MSCI World ESG Leaders

Funding Cost	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
0%	-25,4%	-19,2%	-12,9%	-6,7%	-0,4%	5,9%	12,1%	18,4%	24,6%
1%	-25,7%	-19,4%	-13,2%	-6,9%	-0,7%	5,6%	11,9%	18,1%	24,4%
2%	-25,9%	-19,7%	-13,4%	-7,2%	-0,9%	5,4%	11,6%	17,9%	24,1%
3%	-26,2%	-19,9%	-13,7%	-7,4%	-1,2%	5,1%	11,4%	17,6%	23,9%
4%	-26,4%	-20,2%	-13,9%	-7,7%	-1,4%	4,9%	11,1%	17,4%	23,6%
5%	-26,7%	-20,4%	-14,2%	-7,9%	-1,7%	4,6%	10,9%	17,1%	23,4%
6%	-26,9%	-20,7%	-14,4%	-8,2%	-1,9%	4,4%	10,6%	16,9%	23,1%

Nordnet Global Index vs Nordnet Global Index 125

Another way to illustrate when a leveraged exposure is better than an unleveraged exposure is to compare the returns of Nordnet Global Index 125 with Nordnet Global Index. They both track the same underlying index, MSCI World ESG Leaders, but with different levels of exposure. Based on SOFR funding costs of 5.3%, there is a breakeven at 6,12% return in the underlying index. Above that, the leverage exposure has a higher total return.



Replication Method

The fund uses derivatives to create the exposure, i.e. synthetic replication. This means that the fund owns a portfolio of physical shares in large and liquid companies from the USA, Europe, and the Nordics, and swaps the returns from the portfolio with the returns of the index. The counterparty to the swap is currently J.P. Morgan Securities Plc.

The main reason to use synthetic replication is to track the index as closely as possible by minimizing, among other things, transaction costs.

If the counterparty cannot fulfill its commitments, the fund still owns physical shares equivalent to the entire fund assets, which can be sold off.