



The transition for performance



Anthony Bailly
European Equities Portfolio
Manager



Ludivine de Quincerot
Head of ESG & Financial Analysis
Diversified Allocation Portfolio
Manager

A popular sustainable investment theme, the transition is at the heart of building our sustainable investment strategy, embodied in particular by the R-co 4Change Net Zero Equity Euro fund. Four years after its launch¹, Anthony Bailly and Ludivine de Quincerot draw up a balance sheet and explain how they reconcile sustainable and financial challenges in their management.

How to define your investment strategy?

Ludivine de Quincerot : the transition approach has been at the heart of the fund's strategy since inception. It was a contrarian positioning at its launch in 2019. At that time, when sustainable investment was talked about, the debate looked simple and often amounted to investing in themes such as solutions or renewables that seemed to offer structural growth in view of the necessary investment needs which, therefore, would necessarily be profitable. The financial logic has resumed its rights and the accumulated increases in inflation and interest rates that followed have significantly affected these sectors and led to very disappointing stock market performances. We were not exposed to these players whose valuation levels seemed excessive in view of their fundamentals. The high representation of these stocks within the ESG portfolios was also an additional risk.

Anthony Bailly: the particularity of our approach is that we allow ourselves to invest in all sectors², including the most issuers. Globally, five sectors (chemicals, commodities, utilities, construction, energy) account for 86% of CO2 emissions³. We are convinced that

we will achieve a more significant environmental impact by accompanying them in their transition, rather than by promoting exclusion, when we select players with the most credible and ambitious decarbonation trajectories. The opportunity to invest in all sectors also has the advantage of avoiding style biases and gives us the flexibility to navigate through the economic cycle.

How is the transition theme bringing about?

L.d.Q.: the massive state aid plans on both sides of the Atlantic (IRA in the US and the Eu Green Deal) are accelerating a deeper movement already initiated by large groups and innovative companies through the transformation of their business models. The subsidies granted have particularly benefited certain sectors such as utilities, in particular by accelerating the evolution of the energy mix.

A.B. : Thus, there are different ways to position themselves on the value chain and benefit from these incentives. Several sectors and companies in the portfolio, such as Alstom, are thus expected to benefit, among other things, because the place of rail transport will become increasingly important in the coming years. There are also examples in the energy sector with Vallourec or Technip Energies that will be able to benefit from the transition and subsidies thanks to the carbon capture, sequestration and storage methods developed by the first or the transformation of its production sites for the second. In the Paris Accord alignment scenarios announced by governments, these techniques would represent 15% of CO2 reductions⁴. It is therefore a very strategic issue. Siemens Energy is also benefiting from the development of wind farms and Saint Gobain in the renovation of the housing stock.

A strategy that relies on reference providers

MSCI ESG Research analyzes of more than 8,500 issuers and 680,000 equity and bond instruments as well as 53,000 funds and ETFs. The best and worst players by sector are rated between AAA and CCC.

SBTi, a group of scientific experts whose purpose is to define, promote and validate best practices in reducing carbon emissions and 'Net Zero' objectives with a consideration of scope 3.

Carbon4 Finance to collect companies' carbon data by considering all emission scopes 1, 2 & 3 in past, present and future climate analysis of issuers

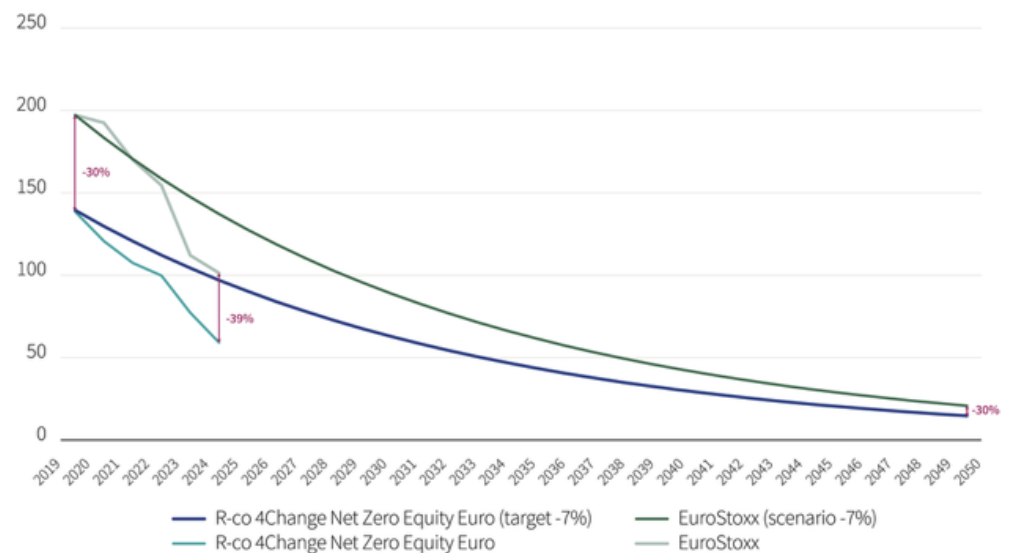
How does R-co 4Change Net Zero Equity Euro fit into this theme?

A. B. : R-co 4Change Net Zero Equity Euro is an Article 9 SFDR⁵ fund, SRI labelled⁶ and already aligned with the last version of the label. We have defined three impact levers to drive our investments and monitor the achievement of our environmental objectives: The carbon intensity of the portfolio must at all times be 20% lower than that of our benchmark⁷, we must obtain a decrease in the carbon intensity of the portfolio of at least 7% per year on average and, finally, 90% of the portfolio companies must have validated

their alignment trajectory with the Paris Agreement by the SBTi by 2030.

L.d.Q. : four years after the launch of the fund, we can demonstrate that we have gone beyond our commitments: 71% of companies validated by SBTi (vs. 21% in 2019), a carbon intensity that has fallen by more than 7% a year and is now 39% lower than its benchmark⁸. These results have been achieved even though we have increased the cumulative weight of the issuing sectors in the portfolio, which is currently 25% compared to 19% at the launch of the fund⁸. The utilities sector is the main contributor to this decline, with EDP first and foremost rising from over 1,300 tCO₂/€ m in revenue in 2019 to 280⁹ this year. Across the portfolio, absolute issuance has fallen by 30% since inception⁸. In keeping with our philosophy, as the carbon intensity of the portfolio has fallen faster than anticipated, we continue to select new companies within the emitting sectors to support them in their transition.

Carbon intensity (scopes 1 and 2) (tCO₂e / M€ sales)



Source: MSCI ESG Research, Rothschild & Co Asset Management, 30/04/2024.

You mentioned a transition grid, what is it?

L.d.Q. : We have created a transition analysis grid that makes it possible to homogeneously assess the transition dynamics of companies with three objectives. The first is to assess the transition potential, the measures put in place, the credibility of the objectives and their relevance. The second is to establish a constructive dialogue with issuers through in depth qualitative and quantitative analysis. The third aims to meet the requirements of labels, regulations and our clients who ask us for more and more concrete evidence of the state of progress of companies' transition plans. This grid evolves around six pillars and is an analysis and engagement tool that allows to monitor companies' progress over time.

A.B. : Our qualitative and quantitative analyses are updated at least annually, but may also be updated on a timely basis, mainly following an exchange with a company's management. We apply this grid to all companies in the portfolio with particular attention

to the most emitting sectors. A number of industry players are taking advantage of the enthusiasm around the transition to position themselves on this theme. Appreciating this theme is nevertheless particularly demanding. We have been deepening and strengthening our expertise since 2019, in particular through working groups and regulator consultations. Our transition analysis grid is largely in line with the spirit of the work carried out.

The six pillars of our transition grid

- Governance of climate issues and fair transition
- Reporting of emissions on all scopes
- Climate commitments and SBTi validation
- Objective robustness
- Measures and investments
- Results achieved

Is engagement an important dimension in the management of this portfolio?

L.d.Q : We vote on 100% of our equity holdings¹⁰ and we participate in Place initiatives, either coalitions or working groups. Our transition analysis grid is based on the result of this work. Finally, we have a regular and constructive dialogue with the companies we know in depth because of the concentration of our portfolios. In this context, the analysis grid is a tool for exchange and to underpin our engagement with companies. Many of them want to exchange on this subject, understand our assessment and try to improve on the points we have identified

A.B. : Specifically, since 2021 we have met two thirds of the companies in the portfolio and in almost 40% of the cases⁷, the questions we asked were accompanied by a request for action from the company. For example, we have had to exchange with Alstom on the calculation of avoided CO2 emissions (so called 'Scope 4'). We conducted thirteen individual dialogues with society between 2021 and 2023 and we hope to publish these data for fiscal year 2025. Other issues relating to environmental issues were also addressed, in particular the opportunities linked to the development of the hydrogen train (current control levels and future investments, etc.). In another case, Vallourec decided to add two new objectives to those already approved in 2020 by SBTi. We exchanged views on this with the Sustainability Department pending SBTi's decision. Last example regarding Carrefour: Since 2021, we have been talking about the publication after independent audit of its Scope 3 greenhouse gas emissions. This point was finally included on the agenda of the 2023 general meeting of shareholders and was adopted.

A sharing fund for the scientific expedition Polar POD

R-co 4Change Net Zero Equity Euro is a sharing fund. A partnership has been established with the association Océan Polaire, an association of law 1901 created in 1991 and recognized of general interest, whose purpose is the organization of expeditions and missions of an educational and scientific nature in the polar regions. For all units of the

FCP, 0.15% of the management fees will be returned to the association Océan Polaire in order to contribute to the financing of the Polar POD expedition

What are your investment guidelines for the coming months?

AB : Over the past three years, in very different market configurations, the financial performance of R-co 4Change Net Zero Equity Euro has allowed it to stand out within the climate funds universe, demonstrating its ability not to be captive to sector rotation. Thus, until recently, we have avoided investing in companies specialized in the production of renewable energy for valuation issues. However, we included Siemens Energy, the largest wind turbine producer in Germany, in the portfolio at the beginning of the year and are thinking about other investments in this sector, valuation levels now looking much more attractive.

L.d.Q. : Given the sharp fall in the carbon intensity of the portfolio, we are still looking for players in transition both in high emitting sectors such as utilities or real estate, but also in others such as automotive where scope 3 emissions are very significant and the transformation issues of business models are particularly strategic.

The Net Zero in Brief

In 2015, COP21 ratified the Paris Agreement with the aim of limiting global warming to a level below 2° C by 2100 compared to the pre industrial level, continuing efforts to limit it to 1.5° C. This ambitious plan incorporates various provisions, including the 'Net Zero' objective, which causes the continuous decline in anthropogenic greenhouse gas emissions with the aim of approaching a theoretical zero. The first step is to reach the ceiling on emissions and then reduce them as much as possible until 2050, and then offset residual emissions through various mechanisms, whether natural or technological.

Learn more about the fund(s)

R-co 4Change Net Zero Equity Euro



Check this document on our website



-
- (1) The fund's name and strategy were changed on 11/02/2020 to include sustainable criteria, and the name was changed again on 15/10/2021 to reinforce its sustainable investment strategy. The FCP was converted into a sub-fund of the 'R co2' Sicav on 17/09/2021.
- (2) Excluding regulatory exclusions.
- (3) Sources : Our World in Data (2020), MSCI ESG Research, Rothschild & Co Asset Management 31/12/2021. Scope 1 & 2 by breakdown of greenhouse gas emissions by sectors of the MSCI World ACWI Index.
- (4) Source : United Nation Climate Change, décembre 2015.
- (5) The SFDR regulation defines 3 product categories based on the sustainability objective. Article 9: Products whose objective is sustainable investment. The SRI label is a French label, the aim of which is to give greater visibility to investment funds governed by French law that respect the principles of socially responsible investment.
- (6) The labels only attest to the responsible and sustainable nature of the management and should not be considered as a guarantee of capital security or of the fund's financial performance. The management teams are subject to change.
- (7) Euro Stoxx® NR
- (8) Source : Rothschild & Co Asset Management, 29/04/2024.
- (9) Source : EDP, Rothschild & Co Asset Management, may 2024.
- (10) Source : Rothschild & Co Asset Management, 29/12/2023.

Recommended investment horizon: 5 years**SRI Risk Indicator: 5/7**

The synthetic risk indicator makes it possible to assess the level of risk of this product compared to others. It indicates the likelihood of this product recording losses in case of market movements or an inability on our part to pay you. We have classified this product in risk class 5 out of 7, which is a risk class between medium and high and mainly reflects its positioning in the European equity market. In other words, the potential losses related to the future results of the product are between medium and high and, if the situation deteriorates in the markets, it is likely that our ability to pay will be affected. The risk indicator starts from the assumption that you keep the product for 5 years; if not, the actual risk may be very different, and you could get less in return. Other important factors of risk, not taken into account adequately by the indicator: Liquidity risk, impact of techniques such as derivatives. As this product does not provide protection against market risks or capital guarantee, you may lose some or all of your investment.

Main risks

Capital risk, Market risk, Non-financial criteria (ESG) risk, Sustainability risk, Counterparty risk, Risks associated with temporary purchases and sales of securities, Currency risk. Before any investment, it is imperative to carefully read the PRIIPS CID and prospectus of the UCI, and more particularly its section relating to risks and charges, available on the Rothschild & Co Asset Management website: Am.eu.rothschildandco.com

Disclaimer

Advertising communication. The information, comments and analysis contained in this document are for illustrative purposes only and should not be considered investment advice, tax advice, recommendation or investment advice by Rothschild & Co Asset Management. The information/opinions/data contained herein which are considered legitimate and correct on the date of publication in accordance with the economic and financial environment in place on that date are subject to change at any time. Although this document has been prepared with the utmost care from sources deemed to be reliable by Rothschild & Co Asset Management it provides no guarantee as to the accuracy and completeness of the information and assessment it contains, which are only indicative and are subject to change without notice. Rothschild & Co Asset Management has not independently verified the information contained in this document and therefore will not be responsible for any errors, omissions or interpretations of the information contained in this document. All such data has been prepared on the basis of accounting or market information. Not all accounting data were audited by an auditor. Furthermore, given the subjective nature of some analyses, it should be emphasised that any information, projections, estimates, forecasts, assumptions and/or opinions are not necessarily put into practice by the management teams of Rothschild & Co Asset Management or its affiliates, who act on the basis of their own convictions. Certain forward looking statements are prepared on the basis of certain assumptions, which are likely to differ either partially or in full from reality. Any hypothetical estimate is, by its nature, speculative and it is possible that some, if not all, assumptions relating to these hypothetical illustrations do not materialize or significantly differ from the current determinations. This analysis is not valid unless at the time of drafting this report. R-co 4Change Net Zero Equity Euro is a sub fund of the French Variable Capital Investment Company 'R-co 2', whose registered office is 29, avenue de Messine, -75008 Paris, registered 889,511,747 RCS PARIS. The information does not presume the suitability of the presented UCIs for the profile and experience of each individual investor. Rothschild & Co Asset Management will not be held liable for any decision taken on the basis of the information contained in or inspired by this document. In case of doubt, and before any decision to invest, we recommend that you contact your financial or tax advisor. The Undertaking for Collective Investment (UCI) presented above is organised according to French law and regulated by the French financial markets authority (AMF). Investment in units or shares of any UCI is not risk free. Before any investment, it is imperative to read the DIC and prospectus of the UCI carefully, and more particularly its section relating to risks. Each investor must also ensure the jurisdictions in which the units or shares of the UCI are registered. The PRIIPS DIC/full prospectus is available on our website: www.am.eu.rothschildandco.com. The net asset value (NAV)/net inventory value (NIV) is available on our website. The figures quoted relate to past years. Past performance is not a reliable indicator of future performance and is not constant over time. The value of the investments and the income derived therefrom may vary up or down and is not guaranteed. It is therefore possible that you will not recover the amount originally invested. Variations in exchange rates may increase or decrease the value of the investments and the income derived therefrom, if the reference currency of the UCI is different from the currency of your country of residence. UCIs whose investment policy especially targets specialised markets or sectors (such as emerging markets) are generally more volatile than more general and diversified allocation funds. For a volatile UCI, the fluctuations can be particularly significant, and the value of the investment may therefore drop sharply and significantly. The presented performance figures do not take into account any fees and commissions collected during the subscription and redemption of the units or shares of the UCI concerned. The presented portfolios, products or securities are subject to market fluctuations, and no guarantee can be given as to their future performance. The tax treatment depends on the individual situation of each investor and may be subject to changes. The presented information is not intended to be disseminated and does not in any case constitute an invitation for US persons or their agents. The units or shares of the UCI presented in this document are not and will not be registered in the United States pursuant to the US Securities Act of 1933 as amended ('Securities Act 1933') or admitted under any law of the United States. These shares or units therefore must not be offered or sold in or transferred to the United States (including US territories and possessions) nor directly or indirectly benefit any 'US Person' (as understood under Regulation S of the 1933 Securities Act) or any equivalent person, as defined in the HIRE Act of 18/03/2010 and the Foreign Account Tax Compliance Act (FATCA). Although Rothschild & Co Asset Management information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Rothschild & Co Asset Management Portfolio Management company with share capital of euros 181,818,29, avenue de Messine, -75008 Paris. AMF approval number GP 17000014, RCS Paris 824,540,173. Any partial or total reproduction of this document is prohibited, without the prior authorisation of Rothschild & Co Asset Management under penalty of prosecution.

About the Asset Management's division of Rothschild & Co

As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors.

Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 31 billion euros and employ nearly 160 people.

More information at: www.am.eu.rothschildandco.com

France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgium – Netherlands – Luxembourg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Switzerland

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italy

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Germany - Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spain

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

[Visit our internet site](#)



[Follow us on LinkedIn](#)

