Rothschild & Co Asset Management Europe launches a new fund investing in Green Bonds

Rothschild & Co
Asset Management

R-co 4Change Green Bonds

Bonds | Green Bonds | International

Nicolas Racaud
Co-Fund Manager

Emmanuel Petit
Co-Fund Manager
and Head of fixed-income

Investment objective

The fund's objective is to generate performance, net of management fees, superior to that of the Bloomberg Barclays Global Green Bond Index: Corporate, by investing a minimum of 75% in green bonds over the recommended investment period. The fund seeks to finance the energy transition and contribute to the ecological transition.

Characteristics of the C EUR share

ISIN code FR0013513132	**AMF Classification** Bonds and other international debt securities	**Management fees (maximum)** 0,7%
Legal form SICAV	**Reference indicator** Bloomberg Barclays Global Green Bond Index : Corporate (unhedge and calculated in Euro coupons included)	**Entry fee (maximum)** 2%
Inception date 09/07/2020	**Recommended investment horizon** 3 years	**Exit fee (maximum)** None

Transaction fees (On each transaction)				
0.03% on French and foreign bonds	0.30% on French equities	0.40% on foreign equities	EUR 30 per unit for options and futures contracts	EUR 100 per transaction on other derivatives

AUM (fund)
92.3
million euros

AUM (C EUR share class)
21 million euros

75%
minimum of net assets invested in Green Bonds

Main risks[1] :

- Risk of capital loss
- Discretionary Management Risk
- Market risk
- Credit risk
- Interest rate risk
- Currency risk
- Risk of use of derivative instruments

Source: Rothschild & Co Asset Management Europe, 31/07/2020.
(1) For informational purposes only, please refer to the legal documents. The management team is subject to change.
The management team is subject to change. Figures quoted are for the past years or months. Past performance is not a reliable indicator of future performance.
The fund's performance is calculated net of management fees, dividends reinvested. Index returns are calculated net of dividends reinvested.

Nicolas Racaud
Co-Fund Manager

Emmanuel Petit
Co-Fund Manager and Head of fixed-income

In line with the development of its range dedicated to responsible investment, Rothschild & Co Asset Management Europe recently launched a fund specialising in green bonds. Introduction of this new product by Nicolas Racaud and Emmanuel Petit.

What is R-co 4Change Green Bonds ?

R-co 4Change Green Bonds is a bond fund dedicated to financing the economy's transition to a more sustainable model. It invests mainly in debt securities known as "Green Bonds", issued by companies aiming to finance projects involved in the energy transition and mitigating the effects of climate change. R-co 4Change Green Bonds invests in Europe(1) and internationally(2), in all currencies, with at least 75% of green bonds, aiming to deliver on our ambition to contribute to the ecological transition while outperforming its reference index (Bloomberg Barclays Global Green Bond Index: Corporate). The green bonds are selected incompliance with the current market standard as defined by the the"Green Bond Principles", the four core components being the Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting, setby the International Capital Market Association(3) (ICMA). This investment vehicle therefore not only aims to capitalise on our expertise in bond management, but also our competence in responsible investment to deliver an investment solution that conveys meaning, from both a financial and extra-financial point of view.

What are *Green Bonds* ?

A "green bond" is one whereby the proceeds from its issue are dedicated exclusively to financing environmental projects within a reference framework (CBI, ICMA(1), etc.). This financing should enable issuers to change their business model towards greater environmental sustainability and to contribute to the energy and ecological transition. Green bonds can be issued by companies, governments or any other supranational institution. They are still listed financial instruments, the characteristics of which are determined according to their issuer. Their risk-return profile therefore tends to be similar to that of a traditional bond. The fund's objective is to generate performance, net of management fees, superior to that of the Bloomberg Barclays Global Green Bond Index: Corporate, by investing a minimum of 75% in green bonds over the recommended investment period. The fund seeks to finance the energy transition and contribute to the ecological transition.

(1) Climate Bonds Initiative and International Capital Market Association. These are two non-profit organisations of finance professionals who have determined a strict framework to define Green Bonds.

R-co 4Change Green Bonds aims to capitalise on our expertise in bond management, but also our competence in responsible investment...

The management team is subject to change.
(1) The fund may be invested to a maximum of 10% of its assets in securities and bonds issued by non-OECD member states and/or issuers with registered office in a non-OECD country.
(2) The exposure to currency risk is up to 50%.
(3) The International Capital Market Association (ICMA) is a non-profit association of members from all sectors of the debt securities markets, whose committees help clarify and promote its work on regulatory issues and market practices affecting all aspects of the functioning of international markets.

What are the dynamics of the green bond market?

The diversification pocket of the fund provides us with the opportunity to try to overcome the structural biases of the green bond market...

The green bond market is booming and could reach \$ 1 trillion by the end of the year[4]. If we simply take our index as a benchmark, it currently consists of 226 stocks from around 100 issuers. By comparison, it held less than 50 securities in 2015 and barely 100 even last year. Central banks themselves are somewhat connected to this trend. Indeed, by including around 20% of green bonds in its balance sheet, the ECB has contributed to the increased appeal of such issues.

In addition, following the COVID-19 crisis, many governments have accompanied their recovery and support plans with measures that favour a greener and more responsible economy. These political discourses reflect an awareness and will to change our societal model. If these statements turn into actions, such momentum should be favourable to further development of the green bond market. We wish to support such efforts by promoting their financing.

How do you apply your expertise to this product?

We believe that the green bond market has now reached a certain maturity, with securities offering varied risk-return profiles enabling us to find the different performance drivers specific to our expertise in fixed-income management.

Although companies in the financial and utility sectors are over-represented, the proliferation of issuers has made it possible to increase the sectoral and geographic diversification of the asset class.

The diversification pocket of the fund, which can represent up to 25% of the portfolio, provides us with the opportunity to try to overcome the structural biases of the green bond market by allowing us to diversify our exposure and finance companies that are just as much committed to the ecological transition. If these issuers are in line with the responsible investment framework that we have defined, we can support them by investing in “traditionnal” bonds that match the overall strategy of the fund, i.e., coming from issuers that do not harm the environment.

In addition, in order to optimise the risk-return profile of the fund, we have the option of integrating bonds of speculative nature, known as high yield bonds[5], up to a maximum of 10% of net assets and the same percentage of unrated securities, as well as also using interest rate and currency derivatives[6]. This diversification must be consistent with the overall strategy of the fund, through the selection of issuers whose activity does not

(4) Sources: BloombergNEF, Bloomberg LP, Climate Bond Initiative, Rothschild & Co Asset Management Europe - 2020
(5) High yield bonds are issued by companies or states with a high credit risk. Their financial rating is below BBB- on the Standard & Poor’s scale.
(6) Financial instrument whose value fluctuates according to the evolution of an underlying asset.

harm the environment. This flexibility provides both a lever of opportunities, allowing to capture returns across credit curves, as well as protecting from credit risk linked to the quality of the issuer, duration(7), liquidity or currency.

Do you have a specific investment process for this fund?

The management process for R-co 4Change Green Bonds is very similar to the one we usually apply for our fixed-income management, thus benefiting from all of Rothschild & Co Asset Management Europe's expertise in this asset class. Security selection is based on in-depth company analysis, integrating financial and extra-financial criteria(8) to identify the most attractive opportunities, while taking into account market(9), credit(10) and liquidity(11) risks specific to each. In addition, the fund complies with our engagement policy which consists of engaging in dialogues with issuers around non-financial themes and issues.

However, given the special nature of green bonds, we have had to adapt our approach to incorporate the framework of constraints that define them. We seek to invest only in green bonds that respect the four principles set by ICMA, and aim to meet the highest market standards thanks to a transparent process based on external and independent tools, associated with the excellence and rigour of our institution. Obviously, we also benefit from synergies with the management teams of our fund range dedicated to climate change.

R-co 4Change Green Bonds addresses a wide range of environmental and sustainable development issues...

Finally, to ensure that the securities selected comply with the green bonds framework, we have deliberately chosen a relevant benchmark and involve our internal control teams for the monitoring aspects.

How does this new fund complement your responsible investment offering?

Our 4Change Climate range is dedicated toto climate change and the reduction of greenhouse gas emissions, while our R-co 4Change Human Value fund focuses mainly on social and societal issues through the selection of companies whose human capital is the main source of added value. Similar to the "climate" range, R-co 4Change Green Bonds also targetsaimed the environment, but with a focus on ecological and energy transition. The traceability of funds raised within the very specific green bonds framework allows to clearly identify and control the allocation of capital. As a result, R-co 4Change Green Bonds ensures by nature great transparency of the projects it finances. ■

(7) Approximate measure of the period after which the yield on a bond is no longer affected by changes in interest rates.
(8) The extra-financial criteria include the analysis of Environmental, Social and Governance (ESG) factors of the companies studied.
(9) Market risk: risk linked to fluctuations in the value of the financial instruments that make up the portfolio.
(10) Credit risk: risk of deterioration in the credit quality or risk of an issuer default that could negatively impact the price of the assets in the portfolio.
(11) Liquidity risk: risk linked to the sensitivity of assets to significant buying or selling movements.

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About Rothschild & Co Asset Management Europe

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 four strong brands: Conviction, Valor, Thematic and 4Change, and leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 10 European countries, we manage more than 21 billion euros and employ nearly 170 people. More information at: www.am.eu.rothschildandco.com

Contacts

France - United Kingdom

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

Germany - Austria

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

Switzerland

Geneva
Equitas SA
Rue de la Corraterie 6
1204 Geneva
+41 22 818 59 00

Belgium - Netherlands - Luxembourg

Brussels
Avenue Louise 166
1050 Bruxelles
+32 2 627 77 30

Italy - Spain

Milan
Via Santa Radegonda 8
Milano 20121
+39 02 7244 31

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