



Rothschild & Co launches R-co Valor 4Change Global Equity, a new “Carte Blanche” global equity fund promoting responsible investing



Stemming from two expertise, R-co Valor 4Change Global Equity invests in global equity markets with no geographical, sector or style bias, while integrating a socially responsible investment approach. Yoann Ignatiew and Anthony Bailly introduce this new fund.



Yoann Ignatiew
Co-Fund Manager
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Could you introduce R-co Valor 4Change Global Equity?

This is a global equity fund that combines two of our expertise; Valor for the international equity part, and 4Change for the ESG know-how⁽¹⁾ and its European lens. The portfolio is meant to be aligned with the major European standards in terms of ESG integration, in particular with regard to the stock selection. Through the latter, we aim aims to outperform our benchmark, the MSCI ACWI, on both the financial performance and ESG rating.

What sets it apart from its competitors?

Within the ESG equity fund universe, there is a strong “growth” bias due to the “best in class” approach widely implemented. This approach involves selecting the companies with the best ESG ratings within a sector or industry. It turns out that the vast majority of them are categorised as “growth” stocks⁽²⁾. R-co Valor 4Change Global Equity strives to be free from any style bias and adopt a purely opportunistic approach, so-called “Carte Blanche”, based on our own convictions. This approach allows us to invest in any company regardless of their geography or sector, as long as they are in line with our financial and ESG performance objectives.

Why did you bring together two expertise to create this fund?

Although R-co Valor 4change Global Equity has its own identity, it resides between our Valor and 4Change strategies, influenced by the two portfolio managers and their complementary approaches. The Valor spirit of the fund provides us with a great degree of freedom in our investment decisions and opportunistic approach to international equity markets. It also draws on our 4Change expertise, based on demanding SRI processes and in-depth knowledge of European markets, where these criteria are more robustly integrated by companies. Nevertheless, R-co Valor 4Change Global Equity is unique strategy, as opposed to replica of a pre-existing portfolio to which ESG filters are applied.

How do you integrate ESG analysis into your investment process?

ESG analysis and financial analysis are equally important in our process. We are therefore looking for the most attractive financial performance ESG profile. As such, we neither invest in companies with unacceptable ESG ratings, nor in companies with unattractive financial performance.

(1) Environmental, Social and Governance.

(2) Growth stocks have the potential to generate revenue and earnings growth above their sector or market average. The composition of the fund may deviate from the benchmark allocation.

How is the portfolio's ESG rating calculated?

This rating is a weighted average of the stocks' ratings within the portfolio., for which we rely on MSCI ESG Research's analyses and ratings. The latter carries out a fundamental and quantitative analysis of companies based on public data, annual or exceptional reports (following a controversy or a change in governance, for example), in-depth studies of the governance and risk exposure of companies, but also benchmarks to compare players within their sectors. For each of them, 3 to 8 criteria are identified to calculate a rating in absolute and relative terms.

The final rating is therefore an average of the ratings obtained for each pillar (environment, social, governance), rebalanced according to the sector. It is then converted into a ranking ranging from AAA for the best to CCC for the worst. In addition to these analyses, our teams seek to study elements that are not necessarily taken into account by MSCI, but which are nevertheless communicated by companies and can provide a more in-depth view on their situation and trajectory.

Is a company's potential for improvement more important to you than the rating itself?

We pay particular attention to the trajectory of companies and their commitments to improve their practices at an ESG level. However, we will refrain from investing should an ESG rating be unacceptable. The frequent exchanges we have with companies' management allow us to judge not only the coherence of their short, medium and long-term objectives, but also the motivation they exhibit and the progress they are making in these areas.

Do you exclude any sectors from your investment universe?

We use regulatory exclusions (controversial weapons, international sanctions etc.) as well as exclusions related to our Group policies (fundamental principles and thermal coal). In addition, we exclude the 20% lowest ESG-rated companies, as well as controversial sectors such as tobacco and arms. Nevertheless, ESG is often reduced to its environmental pillar.

We aim to consider certain aspects that are sometimes neglected, in particular the social pillar, despite not necessarily being the most obvious one to follow. In fact, companies do not communicate uniformly on the subject and the latter may be challenging to translate into figures.

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We also believe that it would not be most impactful to exclude certain sectors considered more challenged from the very beginning. Many of them are essential to our economy. For instance, it would be complicated to do without the extraction of a number of raw materials. Systematically excluding these sectors would be to turn a blind eye on the problem. We believe in engagement to accompany the transition process. As a shareholder, we take the opportunity to engage with management teams with the objective to support and encourage companies towards more sustainable business models and practices.

How do you monitor your portfolio's ESG profile?

We conduct detailed and transparent reporting on the ESG profile of our investments. We have defined key ESG performance indicators (KPIs) and aim to outperform at least on two of them against our benchmark. These are carbon intensity, water consumption, information security, the implementation of detailed anti-corruption policies, and whether or not companies are signatories of the UN Global Compact⁽³⁾. They have been determined based on the convictions of the investment team and are linked to some of the major issues our society is facing. While we pay specific attention to these specific issues and commit to communicate on them regularly, they do not in any way overshadow the others.

How is the fund positioned since its launch?

Currently, the fund has an overweight on the financial, industrial and commodity sectors, which are typically underrepresented in ESG funds. Europe is the largest geographic exposure, accounting for just under half of the allocation, which is followed by the United States, China and Canada. This positioning is differentiated from the sector and style biases frequently associated with this type of strategy. ■

(3) The UN Global Compact is a voluntary commitment framework led by the United Nations. Signatories commit to ten fundamental principles relating to Corporate Social Responsibility (CSR) issues. This commitment notably pushes companies to promote and respect human rights, to respect international labour standards, to fight against corruption and to protect the environment.



Recommended investment period: 5 years

The level of risk of the UCITS is 6 (volatility of between 15% and 25%) and primarily reflects a discretionary management policy on equities and fixed income markets. The historical data used to calculate this synthetic indicator may not be a reliable indicator of the UCITS' future risk profile. The risk category associated with the UCITS is not guaranteed and may shift upwards or downwards over time. A rating of 1 does not mean that the

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