Rothschild & Co
Asset Management

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How our approach to sustainable investment is different

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We have designed our approach to sustainable investment along the lines of our investment management DNA, in which we are determined to place sustainability at the service of financial performance. Our objective is to create value in the medium term while incorporating ESG criteria that allow us to better assess the quality of an asset, its risk profile, and its upside potential.

To cite one example, in addressing environmental thematics, many market participants have focused their approaches and stances exclusively on the least-polluting sectors and companies. They enhance their ESG scores by investing mainly in companies having low or even negative carbon footprints and by focusing on certain sectors in particular. This results in very low-carbon portfolios, which underwent considerable upward repricing in 2020.

At Rothschild & Co Asset Management Europe, we have chosen another way, one that is in line with our conviction that, to reduce CO2 emissions significantly, and to comply with the Paris Agreement[1] and European Union[2] objectives, we cannot simply ignore the heaviest-polluting companies. Some 90% of greenhouse gas emissions come from energy sectors in the broadest sense and from industry. That's why we feel it is essential to include in our funds companies from the raw material, energy, construction, chemicals and utilities sectors that are committed to transforming their business models from top to bottom. We believe that, by engaging with them in a structured manner, shareholders can raise those companies' awareness and get them to adopt investment plans that accelerate and add credibility to their Paris Agreement alignment strategy. The impacts will show up even more through the involvement of these large issuers.

Our approach also seeks to ensure a sustainable transition by taking each ESG pillar into consideration. The social consequences of focusing exclusively on a massive and instantaneous reduction in CO2-intensive investment plans could be dramatic in certain sectors and also harmful to collective well-being. That's why we want to place the notion of a fair transition at the heart of our sustainable investment strategies, and that is why we have joined the Investors for a Just Transition coalition through the Finance for Tomorrow initiative.

To us, issuers' ESG ratings are not an end in themselves. They are merely a starting point for reflection and observation of each issuer's tendencies. Accordingly, the instantaneous rating is not decisive; rather, it is the trajectory that has been initiated that will have a greater impact on our investment decision, as well as on stocks' weighting in our portfolios. We intend to involve all economic actors while avoiding systematic overweighting of the best ones, which have little upside for improvement and in which investment opportunities are relatively limited within a reasonable scope of profitability.

(1) The Paris Agreement sets a goal of keeping global warming under 2°C by 2100 vs. the pre-industrial era.
(2) The European Union has pledged to reduce its greenhouse gas emissions by at least 55% by 2030 vs. their 1990 level.

It is through this approach to sustainability that we are building portfolios that are fundamentally different. This is what allows us to invest in almost all sectors, while most investment managers limit themselves to a scaled-down universe. It also offers the advantage of reducing the structural tracking error vs. the benchmark and to be able to benefit from market thematic rotations.

So far this year, two funds in our "4Change" SRI range, which are a perfect illustration of our approach to sustainable investment, have stood out clearly from their respective competitive universes. The first, R-co Valor 4Change Global Equity, is an international equity funds launched in March 2021; the second, R-co 4Change Net Zero Equity Euro, which invests in European equity markets, was repositioned to an impact strategy on the Net-Zero thematic in October of the same year. Both of these investment solutions are classified SFDR "Article 9". In addition, R-co Valor 4Change Global Equity has been awarded with the French ISR (SRI) and "Towards Sustainability" labels, and R-co 4Change Net Zero Equity Euro, the French ISR label.

Based on the approach developed through these two expertises, we are invested in sectors that are trading at steep discounts on their theoretical value. They are at a risk premium that is higher than the market as a whole or their historical standards. This discount is based mainly on the impression that companies in these sectors will have a hard time operating in a more demanding environmental context.

Backed by a thorough engagement policy aiming to assist companies in shrinking their environmental footprints, we intend to capture the reduction in weighted average cost of capital of some of these companies caused by a reduction in their risk premiums and an improvement in the cost of financing their debt. Meanwhile, our approach forestalls an overdone style bias that could lead to buying stocks that, true, have strong potential growth but whose high valuations could be a handicap in an environment of higher real interest rates.

Hence, at a time when investors are investing massively in sustainable thematics and even more in SFDR Article 9 products, we felt this was a good time for a unique approach that combines styles amidst complex market contexts. Our approach to sustainable investment management stands out in assisting companies in their sustainable transformations while continuing to target financial returns.

R-co Valor 4Change Global Equity

Recommended investment period: 5 years
The risk level of this sub-fund is 6 (volatility between 15% and 25%) and mainly reflects its positioning on the European equity market. The historical data used to calculate this synthetic indicator may not be a reliable indication of the sub-fund's future risk profile. The risk category associated with the sub-fund is not guaranteed and may change over time, either upwards or downwards. The lowest category does not mean that it is risk-free. The sub-fund's capital is not guaranteed. Other important risk factors not adequately taken into Other important risk factors not adequately taken into account by the indicator: liquidity risk, impact of techniques such as derivatives. The occurrence of any of these risks may result in a decrease in the net asset value of the sub-fund. For further information on the information on the risk profile and its main contributors, please refer to the prospectus.

R-co 4Change Net Zero Equity Euro

Recommended investment period: 5 years
The risk level of this sub-fund is 6 (volatility between 15% and 25%) and mainly reflects its positioning on the European equity market. The historical data used to calculate this synthetic indicator may not be a reliable indication of the sub-fund's future risk profile. The risk category associated with the sub-fund is not guaranteed and may change over time, either upwards or downwards. The lowest category does not mean that it is risk-free. The sub-fund's capital is not guaranteed. Other important risk factors not adequately taken into Other important risk factors not adequately taken into account by the indicator: liquidity risk, impact of techniques such as derivatives. The occurrence of any of these risks may result in a decrease in the net asset value of the sub-fund. For further information on the information on the risk profile and its main contributors, please refer to the prospectus.

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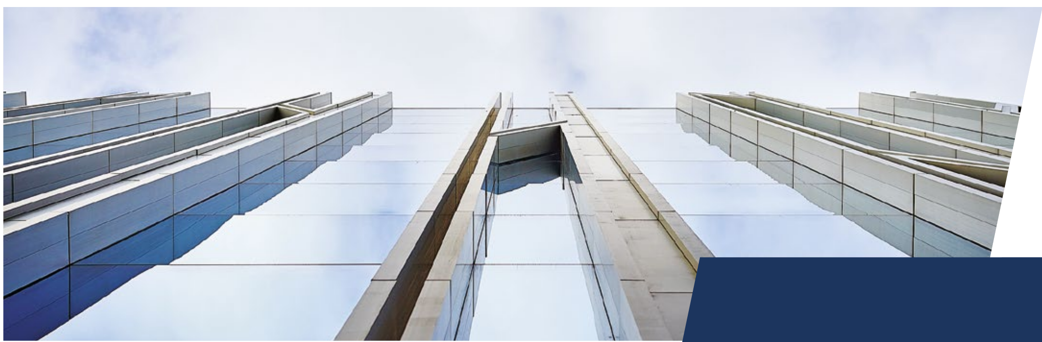

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