November 2023 | Rothschild & Co Asset Management

# R-co 4Change Net Zero Equity Euro: a transition approach to reach the Net Zero target

**Anthony Bailly**
European Equities
Fund Manager

**Vincent Iméneuraët**
European Equities
Fund Manager

Since being launched in 2019, R-co 4Change Net Zero Equity Euro has managed to combine reduced carbon intensity with healthy financial returns through the transition approach, which is becoming more widespread in the "climate" investment universe. Anthony Bailly and Vincent Iméneuraët tell us more about their investment philosophy and the results they have achieved since the fund's launch.

## What is your strategy based on?

We developed our Net Zero strategy based on an analysis of carbon emissions. We found that, on a worldwide scale, five sectors (chemicals, commodities, utilities, construction and energy) account for 86% of $CO_2$ emissions[1]. When R-co 4Change Net Zero Equity Euro was launched, most existing "climate" funds were based on "low carbon" strategies, in effect excluding these five sectors. We then asked whether we would not have a greater impact by investing in all sectors[2], including the heaviest-emitting ones, but while selecting those companies with the most credible and ambitious decarbonisation trajectories. We believe this approach is the most effective one for setting up a virtuous circle. This is based on our conviction that, within these sectors, when some companies demonstrate that they are able to meet their targeted trajectory, their efforts tends to encourage other companies to replicate their best practices, thus creating a positive snowball effect. Moreover, by focusing on exclusion, most low carbon funds take on a "growth" bias[3]. Meanwhile, valuations of companies in heavily-emitting sectors are being squeezed by uncertainty over their future cashflows[4] arising from transition-related capex[5]. This has raised their risk premiums significantly. Accordingly, taking on exposure to these sectors seems to make sense from both the sustainability and financial points of view.

### Net Zero at a glance

In 2015, COP21 approved the Paris Agreement, whose goal is to cap global warming at less than 2°C by 2100 compared to the pre-industrial level, while pursuing ambitious efforts to cap it at 1.5°C. This ambitious plan includes various provisions, including the "Net Zero" target, which requires a constant reduction in anthropic emissions of greenhouse gases with the goal of approaching a theoretical zero. The first stage consists of capping emissions before reducing them as much as possible until 2050, after which residual emissions would be offset through various mechanisms, either natural or technological.

(1) Sources: Our World in Data (2020), MSCI ESG Research, Rothschild & Co Asset Management 31 December 2021. Scopes 1 & 2 based on the breakdown in greenhouse gas emissions by sector in the MSCI World ACWI index.
(2) Not including regulatory and fundamentals-based exclusions.
(3) Growth investors focus mainly on companies' growth potential, hoping that their revenues and earnings will increase more than the sector or market average.
(4) Cashflow.
(5) Capital expenditure: a company's investment spending capitalised on its balance sheet.

## How do you ensure that companies in your portfolio meet their objectives?

Positioning ourselves like this means that we must actively engage with companies. Doing so is an integral part of our approach and the tasks of our analysts. We must, in particular, be in a position to analyse and examine carbon trajectories, as well as allocated capex. If companies do not make the necessary investments, they have little chance of hitting their targets. Meanwhile, we possess a transition analysis grid to assess the trajectory of each company in the portfolio, based both on our in-house research and the contacts that we maintain with the companies, and on external data providers, including MSCI for portfolio rating, and SBTi and Carbon4 Finance to assess emitters' carbon trajectories. One of our goals is that 90% of the companies in the portfolio be SBTi-approved by 2030, and we accordingly encourage companies to commit if they haven't already done so. We are now at 67%, up from 21% when the fund was launched[6].

## What trajectory is your portfolio on?

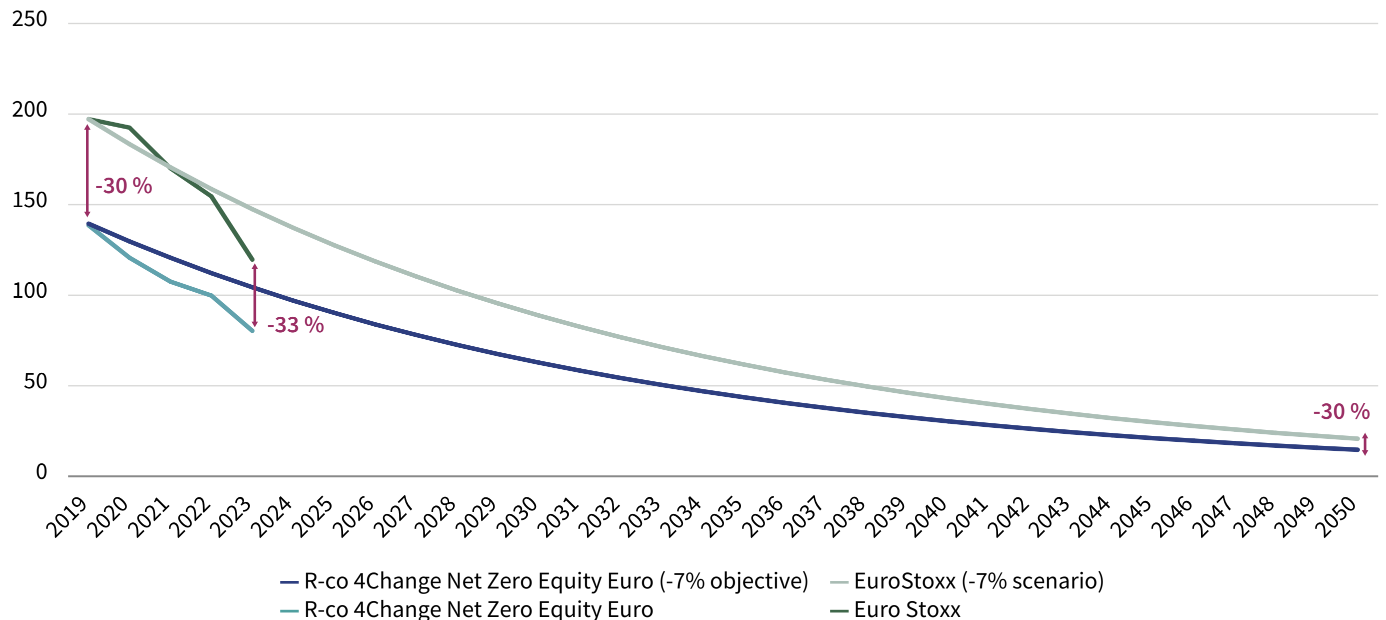
Since fund inception, the portfolio's carbon intensity[7] has fallen by 42%[6]. When the fund was launched, it came to 138 tonnes of $CO_2$ per million euros of revenues, vs. almost 200 for the benchmark. We thus started out with a -30% lead that we are striving to maintain, even though we are "contractually" bound to just a -20% lead. In accordance with Net Zero principles, we have managed to maintain our -7% annual average carbon intensity reduction target, and then some. However, we have gradually increased the weighting of heavily-emitting sectors from 19% upon launch

The **Science Based Target initiative** initiative is a group of scientists who seek to define, promote and validate best practices in carbon emissions reduction and "Net Zero" objectives. SBTi audits include all sources of emissions.

carbone4

**Carbon4 Finance** is a sister company of the Carbone 4 consulting firm founded by Jean-Marc Jancovici and Alain Grandjean. It supplies carbon data that include all emissions scopes while analysing companies' past, present and future climate performances.

## Trajectory of the fund's carbon intensity (Scopes 1 & 2) vs. its benchmark




Restated for the perimeter shift resulting from Linde's exit from the Euro Stoxx index.
Sources: Bloomberg, SBTi, MSCI ESG Research, Rothschild & Co Asset Management; 31/10/2023.

(6) Sources: MSCI ESG Research, Rothschild & Co Asset Management, 31/10/2023. Inception date 31/12/2019.
(7) Total annual emissions in year N (Scopes 1 & 2) divided by full-year revenues of year N.

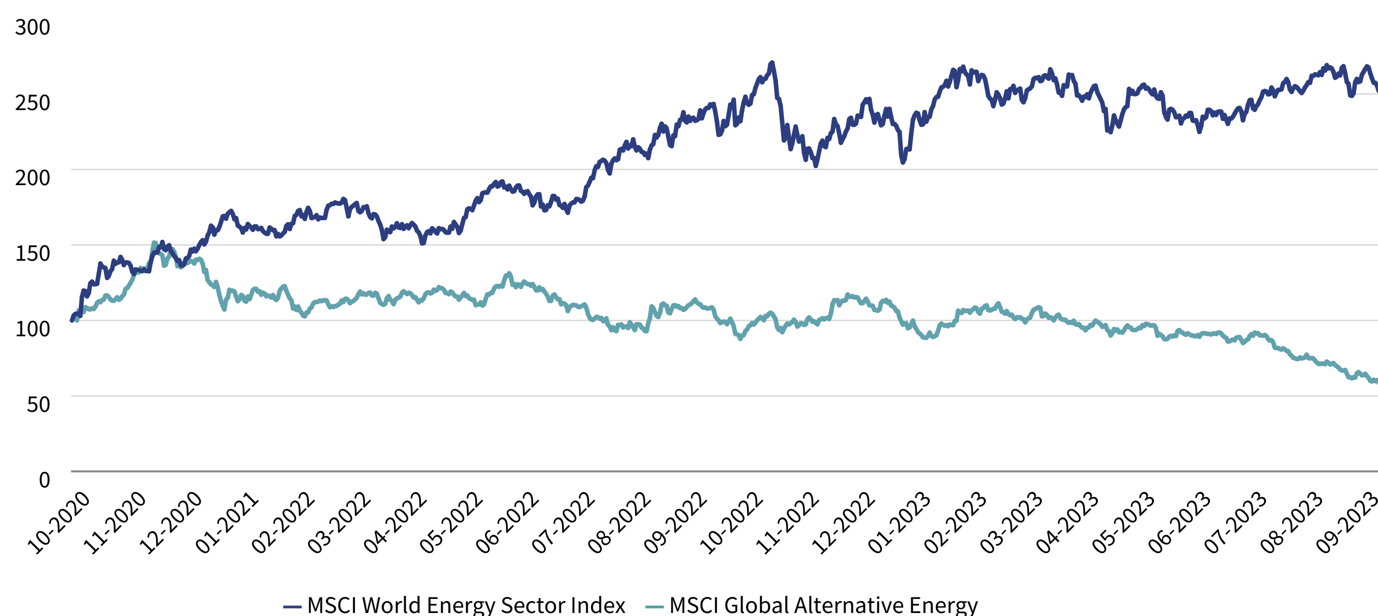
The figures quoted relate to the past months. The information contained in this document does not constitute investment advice, tax advice, a recommendation or investment advice from Rothschild & Co Asset Management.

to 23.2% currently[8]. This shows that selected companies have been able to keep their trajectories in line with our objectives. The utilities sector is a good example of this reduction. Keep in mind that we engage companies only on their Scopes 1 and 2 emissions[9], as it is currently quite a challenge to compile Scope 3 data, which tend to be disclosed only partially or even subject to broad estimates and to overlap between different companies in the same value chain. We nonetheless include them indirectly, via SBTi and Carbon4 Finance, which include them in their analyses.

## How has the fund fared financially?

When R-co 4Change Net Zero Equity Euro was launched, the context was rather favourable to low carbon strategies and their "growth" positioning. But, since then, rising interest rates have completely disrupted the equation. For example, renewable-energy companies, which are a particular target of these strategies, have faced challenges in financing their projects, something that has dragged down their financial performances. This trend is seen in the performance of the MSCI Global Alternative Energy index vs. the energy sector, as represented by the MSCI World Energy Sector index.

### Three-year performance of the energy sector vs. the renewable energy sector




Source: Bloomberg, 31/10/2023.

Over the same period of time, thanks to our transition approach and our portfolio's significant underweighting of growth, we have managed to stand out from "climate" funds, with an annualised return of 12.8%, which has also outperformed even the Euro Stoxx, a broad-based index (+10.4%)[10]. As we naturally pay lots of attention to valuations, we have so far refrained from investing in renewable energy pure players. But we are keeping an open mind and in this new context such companies now look attractive and consistent with the fund's DNA.

(8) Source: Rothschild & Co Asset Management, 31 October 2023.
(9) Scope 1 covers direct carbon emissions from fixed or mobile installations located outside the organisational perimeter. Scope 2 covers indirect carbon emissions from energy consumption. Scope 3 covers indirect carbon emissions from other stages in a product's lifecycle.
(10) Source: Bloomberg, Rothschild & Co Asset Management, 31 October 2023. I EUR units.

The figures quoted relate to the past months. Past performance is not a reliable indicator of future performance, nor is it constant over time. Performance calculated in euros and net of dividends reinvested. The information contained in this document does not constitute investment advice, tax advice, a recommendation or investment advice from Rothschild & Co Asset Management.

## R-co 4Change Net Zero Equity Euro

| Performance | Since the beggining of the year | 2022 | 2021 | 2020 | Since inception[1] | Volatility 1 year |
|---|---|---|---|---|---|---|
| R-co 4Change Net Zero Equity Euro I EUR | 9.8% | -10.8% | 22.6% | -8.6% | 93.7% | 15.1% |
| Euro Stoxx ® DR[2] | 6.3% | -12.3% | 23.4% | -2.0% | 12.8% | 14.9% |

(1) Inception date: 31/12/2019.
(2) Benchmark.
Source: Rothschild & Co Asset Management, 31/10/2023..
The figures quoted relate to past years. Past performance is not a reliable indicator of future performance and is not constant over time.The performance figures take into account all costs charged to the fund but do not take into account costs borne by the investor.

Recommended investment period: 5 years

SRI risk indicator 5/7

The synthetic risk indicator is used to assess the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or if we are unable to pay you. The risk indicator assumes that you hold the product for 5 years. The real risk may be very different if you opt to exit before maturity. exit before maturity, and you may get less in return. We have classified this product in risk class 5 out of 7, which is a medium to high risk class and mainly reflects its positioning in the European equity market. In other words, the potential losses associated with the product's future performance are in the medium to high range and, should the situation deteriorate in the markets, it is possible that the product could be exposed to losses of up to 50%. deteriorate, our ability to pay you is likely to be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment. investment. Other materially relevant risks not taken into account by the indicator: liquidity risk, impact of techniques such as derivatives. For more information on risks, please refer to the fund's prospectus.

Main risks

Capital risk, market risk, extra-financial criteria (ESG) risk, sustainability risk, counterparty risk, risks associated with temporary acquisitions and sales of securities, foreign exchange risk. and foreign exchange risk.

Before any investment, it is essential to carefully read the PRIIPS DIC and the prospectus of the UCI, and more particularly its section on risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com

## Disclaimer

Advertising communication. The information, comments and analyses contained in this document this document are provided for information purposes only and should not be construed as investment, tax investment advice, tax advice, a recommendation or investment advice from Rothschild & Co Asset Management.

The information/opinions/data contained in this document are considered legitimate and correct on the date of publication, in accordance with the economic and financial environment in place at that date, may change at any time. Although this document has been prepared with the utmost care from sources deemed reliable by Rothschild & Co Asset Management, it does not guarantee the accuracy or completeness of the information and assessments it contains, which are for guidance only and are subject to change without notice. Rothschild & Co Asset Management has not independently verified the information contained in this document and therefore assumes no responsibility for any errors or omissions, nor for the interpretation of the information contained herein. All data has been prepared on the basis of accounting or market information. Not all accounting data has been audited by an auditor. Furthermore, given the subjective nature of certain analyses, it should be noted that the information, projections, estimates, expectations, assumptions and/or opinions are not necessarily put into practice by the management teams of Rothschild & Co Asset Management or its affiliates, who act according to their own beliefs. Certain forward-looking statements are prepared on the basis of certain assumptions, which may differ either partially or totally from reality. Any hypothetical estimate is, by its nature, speculative and it is possible that some, if not all, of the assumptions relating to these hypothetical illustrations may not materialise or may differ significantly from current determinations. This analysis is valid only at the time of writing.

R-co 4Change Net Zero Equity Euro is a sub-fund of the Société d'Investissement à Capital Variable (open-ended investment company) under French law "R-co 2", whose registered office is at 29, avenue de Messine - 75008 Paris, registered in the Paris Trade and Companies Register under number 889 511 747. The information does not presume the suitability of the funds presented to the profile and experience of each individual investor. Rothschild & Co Asset Management shall not be held liable for any decision taken on the basis of or inspired by the information contained in this document. In case of doubt, we recommend that you contact your financial or tax advisor before making any investment decision. The Undertaking for Collective Investment (UCI) presented above is organised under French law and regulated by the Autorité des marchés financiers (AMF). Investing in units or shares of any UCI is not without risk. Before investing, it is imperative to read carefully the DICI and prospectus of the fund, and more particularly its section on risks. Each investor should also check the jurisdictions in which the units or shares of the UCI are registered. The full PRIIPS DIC/prospectus is available on our website: www.am.eu.rothschildandco.com. The net asset value (NAV) / net asset value (NAV) is available on our website. The figures quoted relate to the past years.

The figures quoted relate to the past years. Past performance is not a reliable indicator of future performance and is not constant over time. The value of investments and the income derived from them can go down as well as up and is not guaranteed. You may not get back the amount originally invested. Changes in exchange rates may increase or decrease the value of investments and the income derived from them when the reference currency of the Fund is different from the currency of your country of residence. Funds with an investment policy that focuses on specialist markets or sectors (such as emerging markets) tend to be more volatile than more generalist and diversified allocation funds. For a volatile fund, fluctuations can be particularly large, and the value of the investment may therefore fall sharply. The performance figures presented do not take into account any fees and commissions charged on the subscription and redemption of units or shares of the fund concerned. The portfolios, products or securities presented are subject to market fluctuations and no guarantee can be given as to their future evolution. The tax treatment depends on the individual situation of each investor and may be subject to change.

The information presented is not intended for distribution and does not constitute an invitation invitation to US persons or their agents. The units or shares of the UCI presented in this document have not been and will not be registered in the United States under the U.S. Securities Act of 1933, as amended ("Securities Act 1933") or admitted to trading under any U.S. law. These units or shares may not be offered, sold or transferred in the United States (including its territories and possessions) nor may they benefit, directly or indirectly, a "U.S. Person" (within the meaning of Regulation S of the Securities Act of 1933) and assimilated persons (as referred to in the U.S. "HIRE" Act of 18/03/2010 and in the FATCA system).

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 redisseminated 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, a portfolio management company with1,818,181.89, 29, avenue de Messine - 75008 Paris. AMF approval no.GP 17000014, RCS Paris 824 540 173.

No part of this document may be reproduced in any form without the prior permission 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 27 billion euros and employ nearly 160 people. More information at: www.am.eu.rothschildandco.com

Join us on **LinkedIn**

For further information
**am.eu.rothschildandco.com**