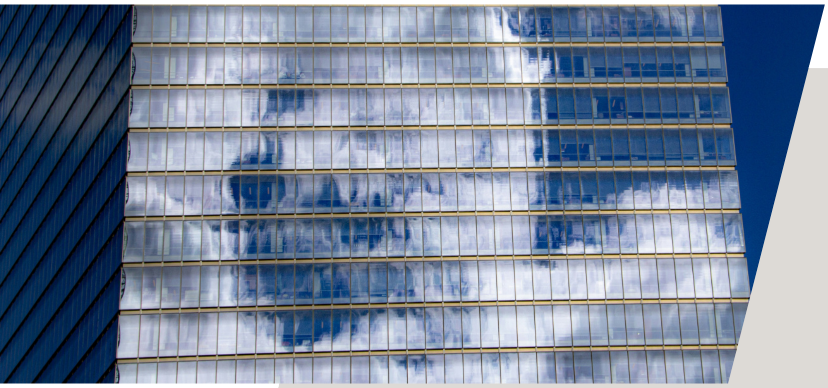
Rothschild & Co
Asset Management



Does the new geopolitical landscape call into question the transition theme?

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Launched five years ago with a focus on the transition theme, R-co 4Change Net Zero Equity Euro has upheld its ESG commitments while delivering a performance that stands out among other 'climate' funds. While its positioning has so far proven successful, should we now fear a slowdown ?

With Trump's return, is the climate transition theme at risk?

Beyond declarations of intent, we will judge by the facts. Donald Trump's return to the White House inevitably raises concerns about US climate policy. Among these, his slogan "drill, baby, drill!" in support of oil and gas producers primarily aims to secure a competitive advantage for the United States through cheap energy. However, the productivity levels of these new drills remain to be seen, as they could lead to a drop in prices in an already well-supplied market. Moreover, we are not convinced that industry players and their investors would welcome a sharp decline in oil prices.

Additionally, during Biden's term, investments supporting the development of renewable energy under the IRA have largely benefited Republican states. These investments are unlikely to be revoked. Only offshore wind energy has suffered a setback with the suspension of new permit issuance. Contrary to common belief, Donald Trump's first term saw a CO_2 emissions record comparable to that of his predecessors, even excluding the pandemic period. Low-carbon technologies are currently among the most dynamic and promising sectors for the coming years. Finally, we find it unlikely that the United States would choose to completely withdraw from a booming sector where China is already the global leader.

What about the rest of the world?

China, precisely, faces an energy independence challenge and is heavily investing in renewable energy to address it. Europe, on the other hand, struggles with energy affordability, as gas prices are four times higher than in the United States. For reasons of sovereignty and competitiveness, it is essential to continue the development of green energy. This is, in fact, one of the few areas where Europe leads the US. Currently, 76% of Europe's electricity production is 'low carbon'[1] compared to 42% in the US[2]. The energy mix has evolved significantly, and this dynamic makes us optimistic, as companies are maintaining this course despite the difficulties in implementing European financing plans.

Furthermore, the prospect of a resolution to the Russia-Ukraine conflict, an ambition repeatedly stated by Donald Trump, would have a significant impact on gas prices. Despite considerable progress, green energy production is still insufficient to meet all industrial and private needs. The 2022 conflict acted as a 'stress test' to prove this. The issue of energy storage also remains unresolved. The Old Continent therefore continues to depend on gas imports.

How have you distinguished yourselves among climate funds?

We have developed our investment strategy around the transition theme. We can invest across all sectors[3], including the most polluting ones, by selecting only the companies with the most ambitious and credible decarbonisation trajectories. This positioning was rather contrarian when the fund was launched in late 2019. At the time, sustainable investment was often limited to favouring low-emission companies in sectors such as technology, consumer goods, solutions, or renewables.
We based our approach on the fact that, globally, five sectors (chemicals, raw materials, utilities, construction, and energy) account for 80% of CO_2 emissions in Scope 1 and 2[4]. We believe our impact will be greater by supporting companies in these sectors through their transition rather than exclusively funding already low-emission players. This approach also enables us to navigate fluctuating environments while meeting our sustainability and performance objectives, thanks to the flexibility of our investing strategy. Indeed, we are not constrained by sectoral rotations. Our approach is tested and stable, yet we remain pragmatic. We do not hesitate to invest in new players and sectors when justified on ESG and financial grounds[5].

What results have you achieved in five years?

Over the past five years, we have exceeded most of our environmental objectives. The portfolio's carbon intensity has decreased by over 12% per year and is currently 30% lower than our benchmark index[6]. 72% of portfolio companies have had their targets validated by the SBTi, compared to 21% in 2019, and our taxonomy alignment stands at around 12% in terms of revenue and 19% in terms of capex7. These results have been achieved despite increasing the cumulative weight of high-emission sectors in the portfolio, which is now close to 28%, compared to 19%[7] at the fund's launch. Meanwhile, we have generated a cumulative performance of 38% over five years[8].

True to our philosophy, as the portfolio's carbon intensity has declined faster than anticipated, we continue to select new companies within high-emission sectors to support them in their transition. Each of these sectors is now represented in the portfolio, and we are committed to acting across the entire value chain. Finally, it is important to emphasise that every company selected within the portfolio plays a role in the transition at different levels. We have identified five main themes: highly polluting companies with a credible decarbonisation trajectory, solution providers accelerating the transition, companies contributing to financing, those influencing the energy mix evolution, and, finally, low-emission companies that can still improve.

How do you analyse this dynamic?

Transition is a long-term process that requires milestone assessments to validate the credibility of the trajectory. After these five years, we have exceeded our targets. This outcome demonstrates that we have selected companies capable of achieving, and even surpassing, their own ambitions. Since the fund's launch, very few companies in which we have invested have failed to meet their commitments. However, we are now reaching an inflection point, making it more challenging to maintain the same pace. That is why the quality of our fundamental analyses and the engagement we have with companies are key elements of our investment process.

We have developed a transition framework that allows us to go beyond declarations of intent and granularly review corporate strategies. This framework assesses management commitment, the quality and transparency of reporting, reference to scientific models or adherence to industry initiatives, the granularity of objectives, committed capex, and the track record of recent years.

This analytical work is complemented by significant engagement efforts to support companies, understand their strategies, challenge them, share best practices, and collaborate on setting relevant targets. We also engage at key moments, such as during general meetings. The companies in which we invest operate on a global scale and influence practices across their value chains. We are also convinced that they contribute to triggering a virtuous cycle. When one player demonstrates its ability to stay the course it has set, it tends to inspire its peers, creating a positive 'snowball effect.'

Learn more about the fund(s)

R-co 4Change Net Zero Equity Euro

Check this document on our website

[1] Eurostat, June 2024.
[2] IEA, 2024.
[3] Excluding regulatory and fundamental exclusions.
[4] Sources: MSCI, Refinitiv, BNPP Exane calculations, Rothschild & Co Asset Management - 11/2023
[5] Geographic and sector allocations and breakdowns are not fixed and may change over time, within the limits of the sub-fund's prospectus. The above information does not constitute investment advice or a recommendation.
[6] Euro Stoxx ® NR
[7] Source: Rothschild & Co Asset Management, 31/01/2025.
[8] Source: Rothschild & Co Asset Management, 31/01/2025. C EUR share. Performance of the benchmark index (Euro Stoxx ® NR) over the same period 49.1%.

SRI risk indicator : 5/7
The synthetic risk indicator helps assess the risk level of this product compared to others. It indicates the probability that this product will incur losses due to market fluctuations or our inability to make payments. The risk indicator assumes that you hold the product for five years. The actual risk may be very different if you opt for an early exit, and you could receive less in return. We have classified this product as risk level 5 out of 7, which is a medium-to-high risk level and primarily reflects its positioning in the Eurozone equity market. In other words, potential losses related to the product's future performance are at a medium-to-high level, and if market conditions deteriorate, our ability to make payments could be affected. This product does not provide protection against market fluctuations or a capital guarantee, meaning you could lose some or all of your investment. 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.

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 38billion euros and employ nearly 170 people.

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

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