EDMOND DE ROTHSCHILD

ALIGNING PORTFOLIOS WITH THE PARIS AGREEMENT[1]:

HOW DOES EDMOND DE ROTHSCHILD ASSET MANAGEMENT MAKE THIS HAPPEN?

INTERVIEW

► The fight against climate change has become a global issue so aligning investment strategies with the Paris Agreement is essential.

But what exactly does this mean for portfolio management?

LISA TURK

*Portfolio manager, EdR Fund EM Climate Bonds**

MARC HALPERIN

*Portfolio manager, EdR SICAV Euro Sustainable Equity**

PRIORITIZING BOTH A QUANTITATIVE AND QUALITATIVE APPROACH

For Edmond de Rothschild Asset Management, it means aligning some investment strategies to aim for a below-2°C pathway using an ex-ante approach. This involves going beyond a purely quantitative approach and focusing on qualitative analysis to assess a project's overall potential over the short, medium and long term. The aim is to use in-depth analysis and discussions with a funded company to assess not only expected returns but also the real impact of the project and company on the climate and the environment.

Take, for example, a property company which meets environmental, social and governance criteria (ESG). Its projects align completely with industry standards like LEED and BREEAM on sustainable buildings. However, more in-depth analysis might reveal their damaging effects on the environment. A good example would be building luxury resorts on artificial islands. In this case, simple analysis falls short: we need to delve further to gauge a project's usefulness and measure its real impact on the economy and energy transition.

This paradigm underpins the ESG analytical model developed by Edmond de Rothschild Asset Management, EdR BUILD (Bold, Universal, Impact, Long

*The identity of the managers presented in this document may change during the product's life.

1. https://www.un.org/en/climatechange/paris-agreement

2. LEED (Leadership in Energy and Environmental Design) is a North American standardization system for high environmental quality buildings created by the US Green Building Council in 1998, similar to Haute Qualité Environnementale in France.

3. BREEAM (Building Research Establishment Environmental Assessment Method) is a British environmental certification scheme issued by the BRE (Building Research Establishment).

term, Differentiation), a proprietary assessment model which is regularly reviewed and improved. It helps our Equity team conduct fully independent, in-depth research into extra-financial performance.

Based on the three essential environment, social and governance pillars, EdR BUILD boasts a large spread of exclusive indicators. Today, the model covers almost 350 European companies of all sizes and market cap. Edmond de Rothschild AM also integrates various external sources like Bloomberg for financial data, Reprisk for controversy monitoring, MSCI for ESG ratings outside Europe and Carbone4 Finance for climate statistics.

Note that by using Carbone4's Carbon Impact Analytics, a model which includes corporate greenhouse gas emissions, we can assess risks, seize opportunities to mitigate climate change, initiate a dialogue with companies and adapt a portfolio's investments. It also helps us adjust for sector allocation and add companies making an active contribution to energy transition to portfolios.

READJUSTING ASSET ALLOCATIONS TO ALIGN WITH A TRAJECTORY BELOW 2°C

"*For example, companies like Schneider Electric and Terna, which are committed to energy transition and which contribute directly to the 2°C objective, are obvious holdings in our portfolios. Schneider Electric is a global pioneer in energy efficiency. The company has devised a range of technical solutions to manage temperatures in its datacenters like cooling systems for instrument banks and even entire rooms. Terna is a key electric transport player in Europe and across the world. It plays a major part in optimising energy management and efficiently integrating renewable energy sources in power grids, explains Marc Halperin, who runs EdR SICAV Euro Sustainable Equity. He also points out that "for one euro of energy transported, you need to invest two euros in infrastructure, so companies like Terna are now essential.*"

Edmond de Rothschild AM's investment strategies are also present in the energy sector. We also aim to help companies who are lagging in energy transition align with the below-2°C pathway. "*For example, we assist GTT, which is active in LNG transport and storage, and Neste, which has made massive investments in projects to develop sustainable aviation fuel. Neste is particularly crucial as it is tackling the major challenge of how to decarbonise the aviation sector,*" says March Halperin.

At the same time, bond strategies can also promote attempts to align portfolios with the Paris Agreement. For Lisa Turk who manages EdR Fund EM Climate Bonds, "*the fund focuses on three key energy and ecology transition sectors, namely low carbon transport, energy efficiency and renewable energy. This means investing in electrical networks connecting renewable energy sites, public transport and more efficient industrial production as well as similar initiatives.*

Instruments like green bonds are essential if we are to align as much as possible with the Paris Agreement targets, especially in emerging countries. Green bonds finance concrete projects associated with energy transition and the preservation of natural ecosystems. Unlike traditional bonds, they require detailed reports on the green credentials of projects they fund. Even so, In-depth project analysis, a critical stance and regular discussions with a company are needed to accurately detect bonds which meet the fund's climate targets."

Edmond de Rothschild AM's efforts to align portfolios with the Paris Agreement are not vague promises; on the contrary, they underpin numerous investment decisions within a clearly defined strategy. We have genuine goals for 2050 with concrete actions and results.

EdR Fund EM Climate Bonds is a sub-fund of the Luxembourg SICAV authorised by the CSSF and authorised for marketing in France, Switzerland, Italy, Spain, Germany, Austria and Luxembourg.

EdR SICAV Euro Sustainable Equity is a sub-fund of the French SICAV authorised by the AMF and authorised for marketing in France, Luxembourg, Austria, Germany, Spain, Switzerland, United Kingdom, Portugal and Italy.

The information on companies should not be considered as an opinion of the Edmond de Rothschild Group on the foreseeable development of these securities and, where applicable, on the foreseeable development of the price of the financial instruments they issue. This information does not constitute a recommendation to buy or sell these securities. The composition of the portfolio may change over time.

MAIN POTENTIAL INVESTMENT RISKS

EDR FUND EM CLIMATE BONDS

RISK INDICATOR:

1	2	3	4	5	6	7

The risk indicator rates this fund on a scale of 1 to 7. This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you.

This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund.

The risks described below are not exhaustive.

Risk of capital loss: The UCITS does not guarantee or protect the capital invested; investors may therefore not get back the full amount of their initial capital invested even if they hold their units for the recommended investment period.

Credit risk: The main risk is that of the issuer defaulting on payment, failing to pay the interest and/or repay the capital. Credit risk also relates to the downgrading of an issuer. Investors' attention is drawn to the fact that the Fund's net asset value may drop in the event of a total loss being recorded on an operation following a counterparty default. The presence of corporate bonds in the portfolio – either directly or through UCITS – exposes the Fund to the effects of changes in credit quality.

Risks associated with investing in emerging markets: The portfolio may be exposed to certain securities with a higher degree of risk than that generally associated with investments in the main financial markets, in particular due to local political and/or regulatory factors. The legal framework of certain countries in which the underlying UCITS and investment portfolio may invest may not provide the same protection or information to the investor as is usually provided in the main financial markets. Securities issued in certain so-called emerging markets may be significantly less liquid and more volatile than those issued in more mature markets. In this respect, securities from emerging countries offer less liquidity than those from developed countries; consequently, holding these securities may increase the level of portfolio risk. As a result, the net asset value may fall more sharply and rapidly than in developed countries.

Interest rate risk: By holding debt securities and money market instruments, funds are exposed to changes in interest rates. This risk is defined as a rise on interest rates causes a decline in bonds valuation and therefore a fall in of the fund's NAV.

EDR SICAV EURO SUSTAINABLE EQUITY

RISK INDICATOR:

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Discretionary management risk: The discretionary management style is based on expectations of the performance of different markets (equities, bonds). However, there is a risk that the UCITS may not be invested in the best-performing securities at all times.

Equity risk: The value of a stock may change depending on factors specific to the issuer but also on exogenous, political or economic factors. The UCITS may be exposed to the equity markets either via direct investments in equities and/or via financial contracts and/or UCITS. Fluctuations of the equity markets may lead to substantial variations in the net assets which may have a negative impact on the performance of the UCITS.

Risk related to SRI (Socially Responsible Investment) selection: The selection of SRI securities may cause the UCITS to deviate from the benchmark indicator.

REPRESENTATIVE AND PAYING AGENT IN SWITZERLAND

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