AS AT 30.09.2024

Market Review

After months of moderating inflation and improving economic conditions, the US Federal Reserve cut interest rates for the first time in four years. They announced a cut of 50 basis points, bringing the federal funds rate to between 4.75% and 5%, marking a critical turning point of the end of rate hike cycle. It also brought an end of the yield curve inversion for the first time in over two years. The MSCI ACWI was up +1.48% in September 2024. China also rolled out a significant stimulus package, introducing several monetary easing measures, which hope to address the issue of real estate market and restore confidence towards its 5% Gross Domestic Product (GDP) target for 2024. The CSI 300 and Hang Seng Index rallied by +23.1% and +19.5% respectively in September. The European Central Bank (ECB) also introduced an additional rate cut following the first rate cut in June since 2016.

Fund Performance & Portfolio Activity

Fund Performance

In September, the BNP Paribas Energy Transition fund returned +6.63% (Classic, Capitalisation share class, net of fees, NAV-to-NAV with dividends reinvested, in EUR), outperforming its long-term reference benchmark (MSCI ACWI) which returned +1.48%.

Largest contributors

Relative to the long-term reference benchmark (MSCI ACWI) and our thematic reference indicator, by far our biggest positive contributor to relative performance in September was our holding in Contemporary Amperex Technology LT (CATL), benefited from the broad rebound in Chinese equities after the announcement of several significant stimulus measures.

Fluence Energy was the second biggest contributor to performance relative to the MSCI ACWI and also contributed positively to performance versus the thematic reference indicator, benefited from improved sentiments in clean energy post the presidential debate. The company also started production in its battery module facility in Utah, US, in September, that marks the key step to increase domestically sourced component.

Siemens Energy was also amongst the largest positive contributors. The positive performance was partly due to some positive commentaries from its closest peers, GE Vernova, which mentioned they are expecting better performance in their Power and Electrification division when they reiterated their guidance.

Largest detractors

Relative to both the thematic reference indicator as well as the long-term reference benchmark (MSCI ACWI) the largest detractor was Sunnova and Sunrun, giving back some gains after strong performance since August.

Source: BNP Paribas Asset Management as at 30 September 2024. **Past performance is not indicative of current or future performance.** The above views represent our judgement as at the date of this report and may be subject to change without notice. Any economic and market trends/forecasts are not a guide to future performance of the fund. The funds/securities mentioned above are for illustration only and shall not constitute any investment advice. Calendar year performance: 2023: -25.77%, 2022: -35.22%, 2021: -16.85%, 2020: 188.38%, 2019: 2.55%

Key Portfolio Activity

In September, we slightly increased exposure to our higher conviction solar and storage names ahead of and following the Q2 earnings season that predominantly saw beats across the board.

In September, we initiated two new positions in China, Xinyi Solar and BYD to increase our exposures in China. Xinyi Solar is one of the two top solar glass manufacturers globally. We expect solar glass prices to have reached a bottom and have seen positive signs that industry players have been cutting production in order to reduce inventories. BYD is a leader in electric vehicles in China with a broad product portfolio and differentiated LFP Blade Battery technologies, support by a vertically integrated model within house battery and semiconductor production that helps to mitigate supply chain disruptions and drive production innovation. We expect deliveries to remain strong in Q4 2024 supported by new models launch, trade-in policy and strong peak season demand.

We took some profit of the positions from Siemens Energy and Vertiv due to valuation and reallocate to new positions and some of other high conviction names with better risk reward profile.

Fund Outlook

We added exposure in China in the middle of September as we were getting incrementally more positive on the region after having had very little exposure over the past few years. We took soft indications of continued and consistent monetary and fiscal stimulus early September as indications of President Xi taking the slump in the Chinese economy serious and benefitted from allocations in the region.

The environmental theme continues to be volatile despite record low valuations in clean energy sitting below 1x Price / Sales as opposed to Artificial Intelligence ("AI") at 5x Price / Sales and upcoming interest rate cuts in sight. Clean energy companies are inherently capital intensive – not least at this early stage in the clean energy multi-decade duration theme – and hence interest rates have an outsized importance for the space at this point. Whilst this has been a significant headwind since we soft closed the fund in February 2021 on the back of lofty valuations and a risky macro-economic outlook, this is now turning to become a significant tailwind for companies. Even more so as they have had to rationalise cost structures and gain operational and technical efficiencies to find attractive economics. As a result, clean energy companies in public markets are likely to see much larger operational leverage as interest rates fall.

The macro backdrop has been a significant headwind this year as rates have not yet come down as quickly as markets had initially hoped, alongside political dynamics. However, we see a positive setup emerging with the 50bps cut in September and the US presidential race is looking more competitive with a 55% probability that Harris wins the US election vs. Trump at 48%. Furthermore, we have seen a remarkable softening in Trumps stance to clean energy with likelihood of an Inflation Reduction Act repeal being significantly lower.

Notwithstanding, we believe the longer-term direction remains unchanged given strong demand for renewables driven by rising power demand from broader electrification linked to the AI theme. We see a very favourable setup for the clean energy space through the second half of 2024 and beyond marking a reversal of what has challenged the thematic in the past 3 years, given:

We believe that the longer-term secular thematic and direction remains unchanged with tangible evidence of strong demand for renewable energy capacity across solar, wind, energy storage driven by a significant rise in power demand from broader electrification and data centre build out, linked to the Artificial Intelligence ("AI") theme. This year, we have also seen Mergers & Acquisitions (M&A) pick up in the clean energy space and power prices in the US continues to rise making an even stronger case for cheaper alternatives – having now doubled since 2021.

As mentioned above, on the basis of:

- Valuations at 25-year lows
- Excess demand for clean power evidenced by a doubling of US purchase power agreement
- Data centre demand creating additional upside potential
- Market rotation favouring out-of-favour companies
- Interest rates falling benefitting clean energy economics
- Regulatory support from both US, EU and Asia
- US election upside with Democrats in the lead in polls
- Record low institutional, hedge fund and retail market positioning in clean energy

and our strong alignment with the energy transition solutions theme, we believe the timing and entry-point for long term investors is incredibly attractive for a secular, multi-decade theme like energy transition.

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