AS AT 31.08.2024

Market Review

August was a turbulent month for global equity markets. A sharp sell-off earlier in the month saw global indices plummet and volatility rise to levels not seen since the onset of the Covid-19 pandemic. The market downturn was triggered by an unexpected rate hike by the Bank of Japan leading to a major unwinding of the Yen carry trade combined with some weak economic data from the US. Markets subsequently recovered, driven by increased optimism of a first US rate cut in September. To illustrate, the Nasdaq fell close to 8% before rallying 9%, ending the month roughly up 1%. The MSCI ACWI ended up relatively flat for the month at 0.24% (in Euro terms). Globally, defensive stocks outperformed in August, led by healthcare and consumer staples. Growth and Value styles performed equally well.

Fund Performance & Portfolio Activity

Fund Performance

In August, the BNP Paribas Energy Transition fund detracted by -1.13% (Classic, Capitalisation share class, net of fees, NAV-to-NAV with dividends reinvested, in EUR), underperforming its long-term reference benchmark (MSCI ACWI) which returned +0.24%.

Largest contributors

Relative to the long-term reference benchmark (MSCI ACWI), by far our biggest positive contributor to relative performance in August was our holding in Sunnova. The outperformance in August was driven by the increased optimism of first US rate cut in September and the market starting to appreciate the cash generation ability from the company. Sunnova reported a strong Q2 2024 result with cash generation higher than market expectation and the company also increases cash generation targets for FY24, FY25 and FY26. More importantly, the company expects to generate $850m of cash until the end of FY26. Including the $250m cash currently sitting in its balance sheet, this is more than enough to address the maturities due in 2026. We continue to maintain our high conviction in Sunnova and see the upgrade in cash guidance from the company supporting our view that the market underappreciates its ability to generate cash as they benefit from the Investment Tax Credits (ITC) and the bonus credits and has a number of levers to pull to address the 2026 maturities.

SunRun was the second biggest contributor to performance relative to the MSCI ACWI and also contributed positively to performance versus the thematic reference indicator. Similarly to Sunnova, SunRun reported strong Q2 2024 result driven by higher storage attachment and provided 2025 cash generation guidance of $350-$600m higher than expectation.

Fluence Energy was also amongst the largest positive contributors. While Fluence lowered their FY24 guide to the bottom of the range to $2.7-$2.8bn, the company reiterated 2025 guidance and also reported record order intake of $1.3bn, which suggests continued growth momentum in the energy storage market.

Source: BNP Paribas Asset Management as at 31 August 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%

Largest detractors

Relative to both the thematic reference indicator as well as the long-term reference benchmark (MSCI ACWI), the largest detractor was Array Technologies and NEXTracker. The utility scale solar market continues to be affected by project delays due to interconnection/permitting, supply constraint in high voltage equipment, and some disruption in supply of solar panels due to constant changes in trade policies. While both Array and NEXtracker have strike a more cautious tone in project delays, we remain constructive on growth of the utility scale solar market in the medium term given solar and solar & storage make up 60%[1] of interconnection queues in the US. In addition, utility scale solar has the lowest LCOE (levelised cost of electricity) amongst all the renewable technologies and renewable energy is needed to satisfy the load growth we are seeing particularly in the US.

[1] https://emp.lbl.gov/sites/default/files/2024-04/Queued%20Up%202024%20Edition_1.pdf

Given the fund's exclusive focus on environmental solution providers, our structural underweight in certain defensive sectors (such as Health Care and Consumer Staples which outperformed in August) also detracted from performance relative to the long-term reference MSCI ACWI.

Key Portfolio Activity

In August, 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 August, we initiated a new position in an Italian firm, Prysmian. Prysmian is a market leader in high voltage cables, in which, outside of China, is a consolidated industry with high barriers of entry. Demand for high voltage cables remain robust driven by structural trends on electrification and penetration of renewables, while supply is relatively constraint, giving the company the opportunity to increase pricing and margin. With the recent acquisition of Encore Wire, Prysmian has expanded its business in the US which is an attractive growth market.

We did not sell any material positions in the fund during August.

Fund Outlook

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, the first rate cut in the US is now anticipated

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for September, with some thinking 50bps of cuts a possibility, and the US presidential race is looking more competitive with a 53% probability that Harris wins the US election vs. Trump at 48%. Even so, 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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