AS AT 31.10.2024

Market Review

Global equities experienced mixed dynamics in October, the MSCI ACWI was up 0.49%. Despite the spike in the US 10-year treasury yield from 3.8% to 4.3% due to the oversupply of treasury bills, the US equity market still showed strong resilience heading into the US election, S&P 500 was down -0.92%. The overall market remains optimistic about stabilization as inflation measures improved alongside the expectation of two more 25bps rate cuts by the US Federal Reserve in 2024. The European Central Bank (ECB) cut another 25 basis points off its key interest rate to 3.25% as disinflation is well on-track. Asian markets were affected by the China's slower economic growth and the market is expecting more policy support and stimulus.

Fund Performance & Portfolio Activity

Fund Performance

In October, the BNP Paribas Energy Transition fund returned +0.35% (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 +0.49%.

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 October was our holding in Arcadium Lithium after the announcement from Rio Tinto to acquire the company at US $5.85 per share[1], at 90% premium compared to undisturbed closing share price. The Rio Tinto CEO mentioned on the subsequent conference call that they are confident in the long term demand cycle for lithium with double digit growth rate until 2040 and expected market deficit emerging from the end of this decade, which provide support for the rest of the lithium space.
ASP Isotopes was the second biggest contributor to performance relative to the MSCI ACWI and contributed positively to performance versus the thematic reference indicator, benefited from the recent announcement that they have entered into term sheets with TerraPower, co-founded by Bill Gates, to construct a High Assay Low-Enriched Uranium (HALEU) facility that is typically required for small modular reactors (SMRs). The facility is waiting on final permits.

Cameco was also amongst the largest positive contributors. The positive performance was driven by the rising global interest in nuclear energy particularly from the tech companies to provide 24/7 carbon free electricity to power their data centres to enable AI development. There was a number of announcements in October between the tech companies and the SMR companies including $500m investment from Amazon in X-Energy with the aim to bring >5GW of SMRs online in the US by 2039, and the agreement between Google and Kairos Power to deploy up to 500MW of SMRs by 2035. The U.S. Department of Energy also announced a number of funding opportunities including up to $900m to support initial deployment of SMRs and awarded contracts to four companies to establish domestic HALEU supply chain.

[1] https://www.riotinto.com/en/news/releases/2024/rio-tinto-to-acquire-arcadium-lithium

Source: BNP Paribas Asset Management as at 31 October 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 Sunnova and First Solar, as the market started to price in potential risks to the solar space into the election with the increasing odds of a Trump win in October.

Key Portfolio Activity

In October, we did a comprehensive review and adjustment of the overall portfolio to reduce the risk exposure to US election. Instead of taking any stance on the election outcome, we look through every single holding of our funds, analyse the potential impact based on different election scenarios and cross checking their sensitivity to different election outcomes based on past debates and correlation with Republican/Democrat baskets. We have reduced our exposures in residential solar names and increase exposures in areas that have bi-partisan support including nuclear energy, grid infrastructure, and names that are exposed to the data centre theme. We re-initiated a position in Nvidia that brings greater energy efficiency to data centres by offloading and accelerating data processing which help enterprises slash server power consumption by up to 30%.

We also initiated a position in Sigma Lithium that is a spodumene lithium producer in Brazil. We believe the company is well positioned as being one of the lowest cost producers in the world and a potential take out candidate with increasing M&A interest in the space.

We took full profit of the positions from Arcadium Lithium that benefited from the recent M&A activities mentioned above and divested from Li Auto to take profit after a decent rally from strong deliveries and Chinese stimulus.

Fund Outlook

The overall theme has been benefited from the recent rally in the nuclear energy theme driven by the rising global interest as it plays an important role to satisfy the growing demand for electricity from data centres. This is evident by a number of announcements from tech companies recently to secure this carbon-free power source including the restart of Three Mile Island plant (835MW) in the US after signing a 20-year power purchase agreement with Microsoft. We continue to see access to power as the main constraint to the growth of data centres and AI applications, and see the build out of renewable energy and grid infrastructure, as well as improving energy efficiency, as crucial to support the growth in data centres/AI.

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 with the interest rate cuts trend 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.

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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 market remains optimistic on the inflation stability alongside the expectation of two more 25bps rate cuts by the US Federal Reserve in the rest of year. Furthermore, we have seen a remarkable softening in Trumps stance to clean energy with likelihood of an Inflation Reduction Act repeal being significantly lower.

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
- 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.

Our view post US election

We remain firmly of the conviction that the Inflation reduction Act will remain in place with certain provisions likely to be taken out, not least the EV tax credit, offshore wind benefits and green hydrogen also look to be challenged – all areas where we have no exposure in the fund.

Meanwhile, and importantly for significant upside risk, we believe that support for solar will remain strong and the market is wrong in its assessment of risk to the solar supply chain for both utility scale and residential solar. In addition, companies exposed and benefitting to power demand, including from data centres, are likely to continue to do well and have bi-partisan support, such as nuclear, grid technology, data cooling, fuel cells – all of which we have exposure to in the fund.

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DISCLAIMER

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