AS AT 30.04.2024

Market Review

With the US economy still posting solid growth and inflation remaining stubbornly too high, investors are inferring a postponement of the start of monetary easing by the US Federal Reserve (Fed).

The threat of a global recession appears to be waning: The Chinese economy is improving, the eurozone looks like rebounding and geopolitical risks are tentatively ebbing. Core inflation is still expected to slow gradually, allowing central banks in developed economies to adopt a less restrictive monetary policy stance.

In the US, inflation data again marked a turning point for financial markets. Year-on-year headline inflation rose from 3.2% to 3.5%, the highest since September 2023. So-called 'supercore' inflation (core services inflation excluding the cost of shelter) rose by 4.8% year-on-year, its highest in almost a year. Faced with these figures, Fed Chair Jerome Powell acknowledged it could take "more time for Federal Open Market Committee (FOMC) members to be confident that inflation will return to 2%", raising doubts about the Fed's willingness to start cutting rates over the summer. With March job creations higher than expected, the only sign of a rebalancing in a tight labour market was the slowdown in average hourly earnings to its slowest pace since mid-2021.

In the eurozone, Germany's ZEW index returned to its highest level since early 2022 on a more promising global economic outlook (which should support German exports) and expectations of a cut in key European Central Bank (ECB) rates. In April, core eurozone inflation was 2.7% according to the flash estimate, the lowest since early 2022. After remaining at 4.0% for five months, services inflation fell to 3.7%, which indicates faint progress. Futures markets' gauging of a first ECB rate cut in June was close to 90%, with three cuts expected in 2024.

In China, first quarter Gross Domestic Product (GDP) growth exceeded expectations: A quarter-on-quarter increase of 1.6% raise annualised growth from 5.2% in the fourth quarter of 2023 to 5.3%, which should help meet the 5% target in 2024 and has led many observers to revise up the growth forecasts. That said, activity slowed in March – even more so when including the property sector – which may lead the authorities to announce further support measures.

In other emerging markets, the composite Purchasing Managers's Index (PMI) for March was 53.7, its highest since May 2023. The manufacturing sector index rose to its highest since May 2021, at 52. Activity exceeded expectations in the first quarter and growth prospects are steadily improving. While the slowdown in goods inflation continued to bring prices down to normal levels, service prices have accelerated since the beginning of the year.

The first three weeks of April saw global equities decline due to rising geopolitical risks and concerns over the US Federal Reserve's (Fed) policy rate cut scenario. As of 19 April, global equities had returned to their lowest since mid-February, down by 5.1% compared to the end of March. They ended the month down by 3.4% (MSCI

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AC World index in US dollar terms).

Emerging market equities outperformed throughout the month, benefiting from encouraging news from China. Chinese equities gained 6.5% in April (MSCI China index), allowing the MSCI Emerging Markets index in US dollar terms to end slightly up (+0.3%). The MSCI AC Asia ex Japan index rose by 1.1%.

In the eurozone, the EuroSTOXX 50 lost 3.2% and the MSCI EMU index (in euros) lost 2.5% despite improved economic and inflation news, particularly in Germany.

In April, despite the rise in bond yields, the growth and value style both saw similar losses, with a 3.7% decline in the MSCI AC World Growth index and a 3.2% decline in the MSCI AC World Value index.

Fund Performance & Portfolio Activity

Fund Performance

In April, the BNP Paribas Energy Transition fund decreased by -3.66% (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 -2.28%.

Largest contributors

The largest positive contributor to relative performance was security selection within the Automobile Manufacturers and Semiconductors sub-industries.

FIRST SOLAR INC (+5.2%; 42bp): First Solar is the US largest solar module manufacturer that uses thin film PV technology, and a major beneficiary of the US Inflation Reduction Act (IRA) that accelerates clean energy investments and stimulates domestic manufacturing. The stock contributed positively this month due to the anticipation of the AD/CVD filing. On 24 April, a coalition of US solar manufacturers filed a petition with the Department of Commerce seeking imposition of new AD/CVD tariffs on solar PV cells from Cambodia, Malaysia, Thailand, and Vietnam. First Solar will be a major beneficiary if the case gets accepted as it is one of the largest solar module manufacturers in the US.

SIEMENS ENERGY AG (+12.5%; +73bp): Siemens Energy has a unique portfolio of products and services that contributes to energy transition, covering the full energy value chain from gas services, grid transmission, decarbonisation technologies including hydrogen electrolyser, onshore and offshore wind. Positive performance this month due to its closest peer, GE Vernova, has spun off from its parent, General Electric, in April at a higher multiple than Siemens Energy, supporting the re-rating story for Siemens Energy.

CONTEMPORARY AMPEREX TECHNOLOGY CO LTD (+10.4%; +61bp): CATL is a leading global battery manufacturer with industry leading scale and technological development. CATL reported a strong Q1 result that exceed market expectation. Gross margin was strong at 26.4% which shows that the company is able to maintain its pricing power due to its technological advantages and track record despite rising competition.

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CATL also launched its long-range superfast charging LFP battery "Shexing Plus" on 25 April, that is the world's first LFP battery with 100km range and battery system energy density.

TESLA INC (+14.76%; 37bp): Our newly initiated position, Tesla, contributed positively to performance in April. The market was positively surprised by the announcement that Tesla will accelerate the launch of the low cost vehicles to early 2025 (v.s. prior expectation of 2H25). We continue to view Tesla as a leader in the EV space and has a first mover advantage on ADAS/autonomous driving with 300bn miles driven under FSD v12 and significant investment already made in in-house AI training capability.

Largest detractors

SUNNOVA ENERGY INTERNATIONAL INC (-30.4%; -135bp): Sunnova is a leading provider of residential rooftop solar, battery storage and energy solutions in the US, helping customers to finance energy services at home through loans and leases, as well as offering maintenance and service contracts. Despite stock performance has been negatively affected by volatility in treasury yield, Sunnova has delivered strong cash generation in Q1 as they executed on operational efficiency, cost cutting and pricing. Stock was up +25% after they reported earnings.

SHOALS TECHNOLOGIES GROUP LLC (-23.7%; -105bp): Shoals is a market leader in electrical balance of systems (EBOS) for utility-scaled solar projects. Stock performance this month has been affected by volatility in treasury yield that affected the broader clean energy space.

ARRAY TECHNOLOGIES INC (-16.4%; -83bp): Array is the second largest manufacturers of solar trackers for utility scale solar projects. Stock performance this month has been affected by volatility in treasury yield that affected the broader clean energy space.

THYSSENKRUPP NUCERA AG (-15.97%; -66.54bp): Nucera is a leading manufacturer of alkaline electrolysers that are used to produce green hydrogen. Stock prices has been affected by the continued negative sentiment towards the hydrogen theme as there has been a lack of FID for hydrogen projects in recent months due to higher interest rate and companies waiting for policies to be finalised.

Key Portfolio Activity

Over the month, we introduced to our portfolio: Nvidia, E.ON, Taiwan Semiconductor Manufacturing, Tesla and Li Auto.

Our overall stance remains relatively defensive which we believe is prudent given market context, given macro headwinds, interest rate pressures and geopolitical news flow. In line with our strategy over the past few months., we have continued to take opportunities to rotate into companies in more defensive sectors (i.e. utilities) that have attractive risk-reward. Over the month of April, we initiated on E.ON, one of Europe's largest energy distribution network operators with Germany being its biggest market. E.ON is capturing the structural opportunity to accelerate its investments into electricity networks as it is seeing more demand to be connected to the grid from higher renewable penetration and electrification. This will continue to drive the growth in the company's RAB (regulated asset base) and earnings.

In addition, we continued to rotate out of small cap companies, initiating positions in semi-conductors, a

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central component of the clean energy transition for converting, transferring and storing renewable energy with minimal loss of power and reducing energy demand. We also added selected Electric Vehicle names that we believe have a strong market position but have sold off due to concerns in overall weakness in Electric Vehicles (EV) demand and pricing pressures (Tesla, Li Auto). Regionally, we have increased our exposure to Europe, as the market is now pricing in 90% of rate cut in June by the ECB, which has helped buoy European utility names, contributing positively to the portfolio.

Within our exposure to the US, the portfolio continues to face downward pressure from increased yields as the market resets rate cut expectations this year. As part of this shift in portfolio strategy we sold out of AMERESCO INC CLASS A, OTOVO SHS, QUANTUMSCAPE CORP CLASS A, STEM INC, MEYER BURGER TECHNOLOGY AG, as we rotated out of small cap positions and from companies that face increasing competition.

We divested from DARLING INGREDIENTS INC, as we see near term pressure on margins and earnings. We also sold CORPORACION ACCIONA ENERGIAS RENOV on a more challenged power price environment in Spain relative to rest of Europe and finally we sold ENGIE and SCATEC given its sharp run up and re-allocated capital to increase our data centre exposure. Finally, we fully sold out of SUNRUN INC. as we consolidated our position in high conviction SUNNOVA.

Fund Outlook

Despite short term volatility in the energy transition theme, we firmly believe that the year to date (YTD) sell-off is driven by continued shorter-term cyclical headwinds and that secular forces and long-term structural headwinds continue to mount for the theme, underpinned by increasing policy support and breakthrough innovations.

Policy & Innovation

From a policy standpoint, the International Energy Agency (IEA)'s projections published 28 September 2023 see investment in clean energy rising from $1.8 tr in 2023 to over $4 tr per year in the 2030s, where latest developments include Bidens Bipartisan Infrastructure Law and Inflation Reduction Act providing $6bn in funding for projects seeking to decarbonize energy-intensive industries.

With the exponential growth in the adopting of AI and its applications, there has been an increasing focus on how and where the electricity will be coming from to power the data centres. According to IEA, data centres and data transmission networks currently account for 1-1.5% of global electricity use, and this is set to double by 2026. We believe renewable energy will play a significant role to power the incremental power needs for AI to as many data centre owners and operators e.g. Microsoft, Google, Amazon, have net zero targets, and solar & wind have the lowest Levelised cost of electricy (LCOE). Microsoft has signed a framework agreement with Brookfield Asset Management on 1 May 2024 to deliver over 10.5GW of new renewable energy capacity between 2026 and 2030 in the US and Europe.

Macro View

Despite interest rates still close to 20-year highs, we believe the headwinds since 2021 are likely to turn into significant tailwinds for the energy transition theme given its cyclical exposure to growth and interest rates. We are now building conviction that we are close to the bottom of the cycle with numerous catalysts around the horizon.

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From a macro perspective, looser monetary conditions and ultimately, a downtrend in interest rates, should ease pressure on financing energy transition projects and provide meaningful valuation support in the next stage of the market cycle. From a bottom-up standpoint, energy transition companies are trading at a significant discount point in time, both relative to the history of the sector and to the broad equity market.
The downside risks to our outlook are that interest rates may stay higher for longer, keeping pressure on valuations and earnings in the short term and there could be further delays in US Treasury guidance on tax credits related to the Inflation Reduction Act. We will continue to monitor these risks and adapt our exposure to these cyclical risk factors.

US Presidential elections

It is also worth considering the energy transition implications of the 2024 US presidential election. A second Biden term could see additional efforts to ramp up climate action. In contrast, a Republican presidency would likely see some attempted pull-back on climate action, slowing, but not reversing, climate adaptation. Any negative impact on climate policies from a Republican win would likely affect electric vehicles, biofuels and batteries only as climate policies favour Republican states, creates jobs and factories – and votes.

There is no doubt that climate policy is not high on the Trump agenda, however, there are a number of misperceptions about US climate policy, who benefits and what Trump really can do in regard to overturning or changing the Inflation reduction Act (IRA). We believe that the market underappreciates how difficult it is to undo legislation like this. For the Republicans to be able to change or repeal the IRA, they must not only control the White House but also both chambers of Congress. Absent this, it seems unrealistic that much will change from what the IRA look like today. Whilst a Republican president could repeal some Environmental Protection Agency (EPA) regulations targeting vehicle and power plant emissions, there will be no authority to change or repeal existing tax credits. In the case where Republicans do win the White House And both chambers, we expect some legislated changes to the IRA which is very different from a full repeal.

Controversially, we do in fact see some positive outcomes on environmental policy from unified Republican government in accelerating permitting timelines. This would unfortunately bring meaningful benefits to fossil fuels, but equally to clean energy and electric transmission projects.

It is worth noting that, regardless of any secular theme one considers, including AI and Internet, investors have always early on

1) Underestimated the speed and magnitude of adoption of emerging technologies.

2) Been too focused on the short term (on both earnings and macro-economic cyclicality) and not appreciated the long-term secular growth opportunity.

Lastly, from a longer-term perspective, we believe the structural tailwinds underpinning the strategy remain as strong as ever. These include:

- Government commitments and intergovernmental treaties
- Trillion of dollars of funding needed for the energy transition to reach net zero by 2050
- Governments' motivation to develop domestic, nationally secure and inflation-decoupled supply chains
- Continued cost decline in renewable energy technologies making them increasingly competitive with fossil-based solutions.

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