## AS AT 28.06.2024

## Market Review

Global equities continued to trend upward in June, rising by 3.55% compared to the end of May (MSCI AC World index in Euro terms). The enthusiasm towards artificial intelligence as an investment theme continued to support the tech sector in general and, in particular, semiconductors, which again outperformed.

Political uncertainty rose after the Biden-Trump debate and President Macron's unexpected announcement of a snap general election, impacting French and European assets.

The economic environment reassured investors: the assumption that inflation would slow has been backed up by data released in recent weeks, and global growth appears to be stabilising. Against this background, the prospect that monetary easing in most developed economies will continue or start this year (especially in the case of the US) strengthened. The Federal Reserve voted to hold policy rates steady whilst the European Central Bank (ECB) cut rates for the first time in 5 years, and Canada for the first time in 4 years.

## Fund Performance & Portfolio Activity

### Fund Performance

In June, the BNP Paribas Energy Transition fund detracted by -10.35% (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 +3.55%.

### Largest contributors

Relative to both the thematic reference indicator as well as the reference benchmark (MSCI ACWI) our biggest positive contributor to relative performance in June was our holding in Sunnova. We continue to maintain our high conviction in Sunnova as we see the market underappreciating the cash flow generation from the company as the company benefits from the Investment Tax Credits (ITC) and the adders from the Inflation Reduction Act (IRA) and has a number of levers to pull to address the 2026 maturities.

Our exposure to Renew Energy was also amongst our largest positive contributors. The company gave a positive FY24 update during the month with earnings came ahead of expectation and introduced FY25 guidance with 30% earnings before interest, taxes, depreciation, and amortization (EBITDA) growth.

During the month, we continued to see interest in Artificial Intelligence (AI) and data centres broaden out to the clean energy sector as investors look for derivatives to play the theme. Renewable energy is essential to power data centres, particularly as many tech companies have net zero commitment. This benefitted our holdings in both Arm Holdings and Nvidia , both of which we took profit on towards the end of the month. Semiconductors also performed well in June, benefitting our holding in Taiwan Semiconductor Manufacturing Company (TSMC).

Source: BNP Paribas Asset Management as at 28 June 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 reference benchmark (MSCI ACWI) the largest detractors were Fluence Energy, Bloom Energy and Array Technologies. These stocks gave back some gains after strong performance in May and had a sell off after the presidential candidate debate as the market pricing in increasing probability of a Trump presidency and see increasing risk to the Inflation Reduction Act (IRA).

## Key Portfolio Activity

In June we remained invested in our higher conviction solar and storage names that we had increased exposure to in May given more attractive risk/reward. We increased our exposure to Enphase as we believe inventory cycle is turning and also initiated a position in SunRun as we see US residential solar installation has passed its trough with origination increasing on a month-on-month basis according to our channel checks. Both companies will also benefit significant from the domestic content tax credit adders, particularly after the latest staff guidance that was introduced a few weeks ago.

We also introduced a position in Sterling & Wilson to take opportunity of the sell-off in Indian equities. Sterling and Wilson Renewable Energy is one of the largest solar Engineering Procurement & Construction (EPC) and Operations & Management (O&M) solutions provider globally. The company is in a good position to benefit from India's government push to add over 50GW on renewable energy yearly.

We tactically took profits on some of the recently introduced exposure to AI (Nvidia and ARM Holdings) but retain some exposure to the AI themes on a select basis (and only in stocks where there is clear, and sufficiently significant link, with products and linked to energy efficiency). We increased our position in NVent which provides liquid cooling to data centres which is more efficient than traditional air cooling. As cooling accounts for 40% of energy consumption in a data centre and as AI training and inferencing workloads requires more cooling due to their power intensity, increasing efficiency is key to reduce emission.

We divested from Orsted as we see increasing risk to the deployment of offshore wind under a Republican presidency. We also reduced some of our exposure to Albemarle as lithium inventories have started to build up in China leading to pressure to lithium price but continue to remain long term constructive.

## Fund Outlook

The environmental theme continues to be challenged despite record low valuations and catalysts in sight. The macro backdrop continues to be a headwind as interest rates have not come down as quickly as markets had initially hoped. However, we believe that the longer-term 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. We have also seen Mergers & Acquisitions (M&A) pick up in the clean energy space.

We maintain the view that a full repeal of the Inflation Reduction Act (IRA) is highly unlikely. Indeed, we retain strong conviction in energy transition solution names that we believe will have the lowest political risk and likely benefit from bipartisan support, namely:

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Domestic manufacturing: ~80% of domestic manufacturing investments have been awarded to Republican-led districts, driving local job creation and further insulating 45X from repeal risk as political incentives to claw back the funding wane with further deployment.

Nuclear Production Tax Credits (PTC): there is growing bipartisan support for domestic energy supply and manufacturing, and increasing recognition around the value of nuclear power

Solar / wind PTC / ITC (Investment Tax Credits): the solar ITC and wind PTC have been extended in the past even under Republican administrations,

In addition, we believe that the all-time high concentration – and valuation multiples - in global markets from tech and AI will broaden out to areas that (1) stand to benefit from AI, (2) benefit from significant growth in power demand from data centres and general electrification, namely clean energy.

Finally, from a macro perspective, we remain of the conviction that the Fed is getting firmly behind the curve as US economic data continues to worsen and disinflation is very much at work globally. This also means that the 10% probability assigned to a July rate cut likely is too low – in particular if the non-farm payrolls data and Personal Consumption Expenditure (PCE) comes in lighter than expected.

Longer-term, the secular nature of the theme also remains rock-solid in our view with plenty of structural drivers such as population growth and rising incomes, energy and power scarcity from electrification and the Internet of Things (IoT), fossil fuel volatility discouraging use of gas and coal, continued cost deflation increasing adoption and total addressable markets, exponentially growing need for power to feed artificial intelligence and data centre growth and not least, climate change and the urgent need to speed up the energy transition.

As with all investing – including thematic investing – there are always risks. Apart from the broader equity market and associated risks, the risk we see are:

Higher interest rates: Whilst we see this as entirely unlikely, if inflation prints start turning higher and the Fed does not embark on interest cuts or indeed raise interest rates in the US, we believe this would create some pressure to the clean energy theme as we have seen it since 2021. However, with the most recent soft US economic data and a risk of a harder landing than expected, Fed is likely "behind the curve" and more likely to cut more aggressively in our view, than raise rates.

US election risk: This remains a potential headwind but as mentioned above we believe is very unlikely to lead to a full repeal of the Inflation Reduction Act (IRA) and likely to only impact specific areas within the theme.

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