EDMOND DE ROTHSCHILD

OUTLOOK & CONVICTIONS

ASSET MANAGEMENT | H1 2023

EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.

SUMMARY

2023 UNDER BETTER AUSPICES

BENJAMIN MELMAN
Global Chief Investment Officer

The negative factors that impacted the markets in 2022 appear to be waning. Of course we will not extrapolate the signs of easing near the end of the year to the very tense geopolitical front. We nevertheless note a more constructive tone between the United States and China at the last G20 summit. Furthermore, the question of the opening of peace talks between Russia and Ukraine is now being spoken about by all parties. For the markets, **the main easing point was US inflation**, with the first signs of a deceleration seen in November, which triggered a sharp rise in equities and bonds.

DISINFLATION LIKE A MAGNET

While we do anticipate a disinflation trend over the next two years, we acknowledge that, for now, there is only temporary disinflation in the United States. The return to normal of production chains and drop in commodity prices (if it is not reversed soon) and freight prices argue for a likely reduction in inflation via goods prices over a few months. Additionally, the ongoing contraction in US housing prices points to a slowdown in rental prices starting in the second half of the year. The labour market, however, remains very tight and wages continue to grow at 5%, which is compatible with overall inflation of around 4%. Moreover, the current disinflation, primarily technical, will inject some purchasing power, which does not favour the scenario of a sharp recession or a marked slowdown in wages. In other words, **disinflation as perceived by the markets will not necessarily follow a straight line**. This is undoubtedly the underlying trend that we believe will give direction to the markets in 2023.

THE RECESSION QUESTION PUSHED BACK TO 2023

While growth fell in 2022 as a result of inflation, it is far from having been stamped out. As a result, the profits of listed companies have been much stronger than expected so far, particularly in Europe, which is remarkable given the environment. **We expect a mild recession in the US and a more significant one in Europe with a contraction in corporate margins**. In other words, we expect profits to decline in 2023.

LIQUIDITY: THE REAL BLACK SPOT

The quantitative tightening policy continues in the United States, amongst other countries and is expected to begin soon in Europe. The impact of these policies on the markets is complex and difficult to understand. **Periods of shrinking liquidity have historically led to significant air pockets in the markets**, the latest example being the crash in the fourth quarter of 2018. We therefore cannot rule out the return of this type of phenomenon without warning.

It should be noted that, in addition to the liquidity linked to the central banks, there is also the question of market liquidity. It is very low. Flows therefore have more impact on market prices than before.

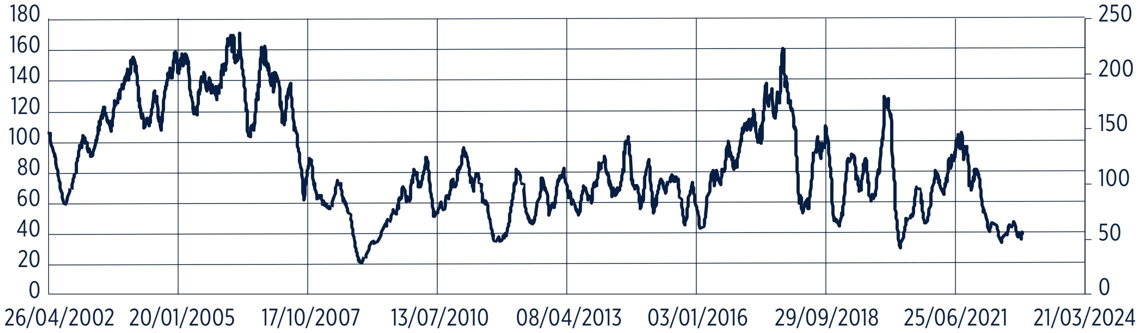
The deterioration in liquidity prompts us to seek protection as soon as its cost decreases, regardless of the overall scenario. Indeed, while the very poor liquidity situations do not necessarily imply a correction, no one can deny that **the context raises the probability of a possible but unpredictable shock.**

NEITHER PESSIMISM NOR ENTHUSIASM FOR EQUITIES OVERALL

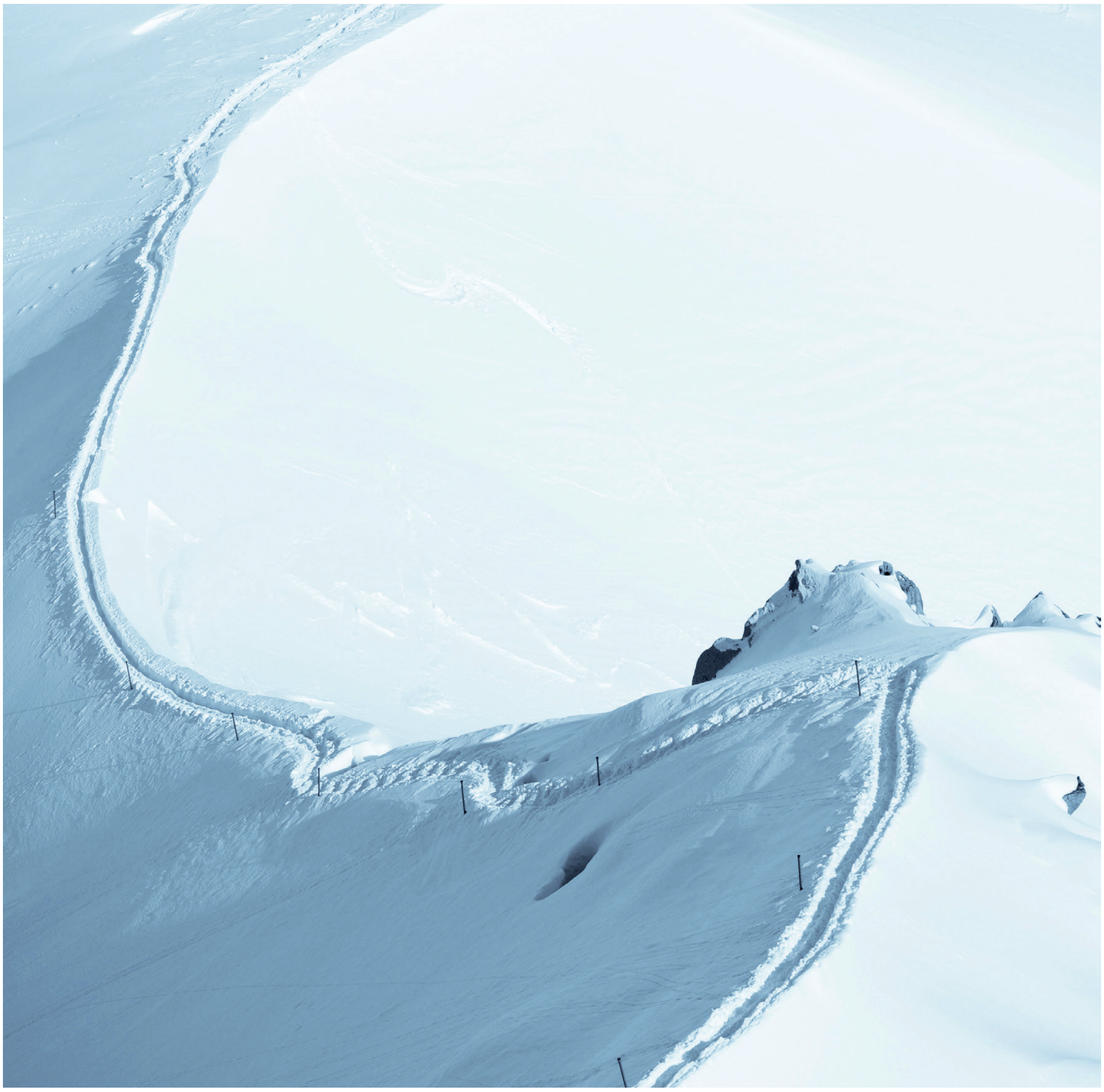
What is the impact for the equity markets? On the one hand, next year's dreaded recession is the biggest fear shared by investors and harbours few surprise effects unlike previous recessions. For the equity markets, **disinflation will support valuation multiples** in the same way as inflation penalised them in 2022. On the other hand, historically we have never seen a recession without a negative impact on the equity markets.

U.S. M2 MONEY SUPPLY YEAR-OVER-YEAR FROM 2010 TO 2022

LIQUIDITY ON THE S&P 500



Source: Edmond de Rothschild Asset Management (France); Bloomberg. Data as of 02/12/2022.



It is unlikely we would be able to count on the central banks to come to the rescue of the economy or financial markets in 2023, unlike previous recessions. The markets anticipate that the Fed will begin to cut its rates in the second half of the year, which we think is unlikely given the Fed's very strong message on the need to maintain high rates for many months and the level of inflation, which, although slowing, will remain far too high compared to central bank standards. Moreover, **the support of central banks in a recession is very important for investors** as it helps them anticipate the end of the crisis. Given this analysis and the liquidity issue, it is difficult to be particularly optimistic about the equity markets. It is equally difficult to be pessimistic: investors have little exposure to the asset class and are staying cautious, which means that any good news can lead to a sharp rise, especially with market liquidity being so low. Historically, **the best entry points have been at the heart of the recession**. We will probably have to remain patient before increasing exposures.

In a context of stabilisation of US policy and the likely normalisation of Chinese economic policy after a very difficult period that caused growth to plunge, **we believe that emerging equities, after a long period of underperformance, have the greatest potential for a rebound**. US equities, to a lesser extent, should perform well. The underperformance of the growth style, which is highly represented in the S&P 500, a result of the rise in US rates, has less reason to continue given that we are near the end of the US rate hike cycle. European equities, unlike US equities, were able to take advantage of the very sharp increase in interest rates in the United States via the appreciation of the dollar, which boosted the profits of these high export companies. The dollar should stabilise next year with the US key rates. Conversely, European equities should benefit from the gradual normalisation of the Chinese economy that we expect for 2023. They will remain sensitive to the energy crisis and developments in the conflict in Ukraine, on which we will not speculate, but with the intuition that the profile seems more symmetrical than a few weeks ago. **European equities, which retrospectively have held up much better than expected, despite the damage the region suffered in 2022, can once again be a positive surprise**, making the asset class essential in the portfolios. Thus, it is not so much the geographical allocation that we believe will make the difference, or even the style (between growth and value[1]), but the search for profitable companies, that are not too leveraged and have a financial position that allows for acquisitions. The **healthcare** theme should continue to outperform, as the attractively valued sector benefits from structural growth and is not sensitive to the ups and downs of the cycle. The **Big Data** revolution and the continued spread of its use across the various sectors of the economy continue to offer excellent opportunities. Lastly, in a context in which the work relationship is undergoing profound changes, we are convinced that companies will structurally increase their investments in **human capital**.

BONDS RATHER THAN EQUITIES

There are already yields on certain bond markets that are close to or exceed the normative assumption of long-term equity market performance (around 7% per year). The implied volatility of government bonds is historically high, while that of the equity markets is not, as it is understood that we are close to a recession. All of this is **a sign of investors' high distrust of the bond markets**, which is not a surprise after the past year. **This nevertheless represents an opportunity**.

Without a doubt, our confidence in the disinflation trend leads to greater visibility on the potential of the bond market, especially as yields have recovered. In addition to the carry[2], at a multi-year high, the risk of capital loss seems much more limited on intermediate and longer maturities. We take the example of the US bond market, where monetary policy is already in restrictive territory. **If inflation were to rise even further, the markets would anticipate more rate tightening and therefore also greater chances of a recession severe enough to break inflation**. Short-term rates would therefore rise, but less and less as maturities extend to the point that very long-term rates could even fall. Things are much more obvious in the United States than in Europe, which does not yet have a restrictive monetary policy and is also less readable. However, given the impact of the US bond market on the rest of the world, we are tempted to extrapolate this logic.

1. The "value" style consists of investing in discounted securities, while "growth" investors are more interested in revenue and earnings growth.

2. The carry strategy consists of holding securities until maturity in particular with a view to benefiting from the coupons.

- **We expect a mild recession in the US and a more significant one in Europe, with a decline in corporate margins**
- **The deterioration in liquidity prompts us to seek protection as soon as its cost decreases**
- **Fixed income markets offer visibility in a context of gradual disinflation**

THE RETURN OF BOND YIELDS

ALAIN KRIEF
Head of Fixed Income

2022 ended with a spectacular increase in interest rates that took place over the year. This resulted in sharply negative performances across all bond classes, risky or not. But here we are now in a completely different environment. Yields on bond assets are positive, and even significantly positive for credit bonds. So what do we do? How should we position ourselves in order to (finally) take advantage of these returns? To answer these questions and many others, we need to review the current environment, how we got here and what the main drivers of each of the bond sub-classes are.

The high inflation, at levels not seen for more than 40 years and which materialised post-pandemic, has led central banks to tighten monetary conditions and implement rapid and sharp rate hikes to curb demand, in order to gradually reduce this inflation that is so damaging to the economy at these levels - at between 6% and 12% for developed countries, while the target is 2%! This also had the effect of increasing volatility, resulting in an economic slowdown and sparking fears of a recession, particularly in the United States and Europe, which therefore drove up credit risk premiums (spreads[1]) as well.

A PURELY TECHNICAL RECESSION

Many scenarios have arisen for the next round of this fight against inflation, and **to provide an outlook for the credit markets, we need to make some assumptions**.

Assumptions of a gradual drop in inflation figures in the United States and Europe, although the nature of this inflation is not identical on both sides of the Atlantic. Second, assumptions of terminal rate levels and timelines to achieve them; and lastly, assumptions of the future recession, its nature, whether systemic or not, its timing and magnitude.

Let us look at one of the central scenarios, for which the starting point is a drop in inflation. Even if gradual, this should slow the rate hikes, even with terminal rates being reached in March 2023, i.e. very quickly and a movement already "priced in" by the markets. The immediate consequences would then be a decrease in volatility and a possible drop in long-term rates. **The recession expected by the markets, caused purposely by the central banks, could be simply technical** and of course not systemic, thanks to the latter's well-orchestrated sequence.

In this context, how are credit markets reacting? From a fundamental point of view, despite the lower volatility, which reduces all credit risk premiums, the recession - even technical - and the level of borrowing rates (risk-free rate + credit risk premium) can only lead to a rise in default rates, particularly for companies with low credit quality; by this we mean B- and CCC ratings. We therefore now need to **focus on credit quality, i.e. investment grade[2] firstly, and high-quality high yield[3]** bonds such as BB ratings.

This non-systemic recession is also likely to lead to significant sectoral disparities. Not all sectors are impacted to the same extent by inflation, and beyond their credit quality, some companies will suffer more than others. We therefore need **to favour the financial sectors (banking and insurance), telecommunications, infrastructure and healthcare**, for example. And be very selective in the real estate and retail sectors (distribution, consumer discretionary). In addition to these two pillars, credit quality and the sector approach, we also need to take into account the technical characteristics of the asset classes to take advantage of high yields.

EMERGING DEBT HAS ALREADY SUFFERED GREATLY

With regard to financials, **there is no doubt regarding the health of banks, especially the national champions**, which makes senior issues attractive. Given that the market has started to "de-price" calls of subordinated issues[4] fearing a deepening of the recession, the yields of 7% and higher of these instruments look even more attractive to us. The same applies to the niche we call "**corporate hybrids**" (non-financial subordinated data). These perpetual subordinated issues, issued mainly by investment grade companies, have also "de-priced" the scheduled calls (i.e. the market no longer considers that the issuer will recall its debt on the next scheduled date), and offer yields of around 7% or more. Most of these companies have much more to lose (in particular their investment grade rating) in not recalling these issues than in postponing maturities.

The **emerging debt** markets suffered greatly from the rise in US rates, but even more so from its secondary effect: the strength of the dollar. With the rate hike cycle coming to an end, the dollar appears to be overvalued, and with a similar approach to emerging companies, credit quality and sector, and adding a good analysis of country risk, **the yields offered look particularly attractive in our view**.

In this context, the **convertible bond market** should not be forgotten. This asset class has now regained its "credit" driver, and with its defensive characteristic compared to the equity market (equity sensitivity of around 40%), the quality-sector approach also applies perfectly. It could post **excellent performances** if the recession is weaker than expected.

Yields on credit markets have returned and are here to stay for some time. 2023 may be the year for bonds. We needed patience and caution, now we need to be invested and selective.

1. Spreads measure the gap between a bond's yield-to-maturity and that of risk-free debt of the same maturity.

2. "Investment grade" bonds are bonds issued by companies for which the default risk varies from very low (almost certain redemption) to moderate. They correspond to a rating of AAA to BBB- (Standard & Poor's scale).

3. High yield bonds are bonds issued by companies that carry a higher default risk than investment grade bonds and offer a higher coupon in exchange.

4. Debt is said to be subordinated when its repayment depends on the initial repayment of the other creditors.

- **Recession - even technical, combined with excessive levels of borrowing rates, will inevitably lead to a rise in default rates...**
- **This is why credit quality, the sector approach and the technical characteristics of the asset classes are the key parameters to take into account**
- **Several bond segments offer real medium-term potential for returns**

WHAT IF THE NEGATIVE SENTIMENT ON EUROPE WAS TOO CONSENSUAL?

CAROLINE GAUTHIER

Co-Head of Equities

The net outflows for more than forty consecutive weeks in Europe, and the resulting historically low allocation in the region, reflect the fear of a catastrophic scenario that has not materialised as yet.

Admittedly, there are many reasons for these fears. Investors have been successively faced with the effects of the war in Ukraine, the energy crisis and the impacts of gas rationing on European industry, its loss of competitiveness with a cost of gas five times higher than in the United States, the closure of China and its impact on the German economy in particular, the political crisis in Italy and the financial fragmentation of the zone, the pressure of inflation and the increase in financing rates on the margins and financial health of companies.

WHAT IS THE MICRO-ECONOMIC REALITY?

In the end, where do we really stand? European companies have held up well, and far from the announced disaster, they are expected to report earnings growth of 18% in 2022 according to the consensus for the Stoxx Europe 600 index (after, we recall, +57% in 2021). **Demand continues to be very strong, allowing the best-positioned companies to flex their pricing power**, generating strong earnings growth, supported by a level of the dollar that is advantageous for high-exporting companies.

For 2023, however, **the recession scenario is becoming increasingly credible, and the purchasing power of the end consumer will certainly be affected**, although some support factors will offset this, such as the fiscal stimulus policies and wage increases. This latter factor will impact margins, which, conversely, will be supported as supply conditions improve. A drop in earnings of around 10% on average is not unthinkable, given that the consensus is currently

expecting flat results. We would thus be far from the earnings decline observed during past recessions (GFC - Global Financial Crisis or Covid). Let us not forget that our European companies have expanded their business well beyond borders (EUROSTOXX companies generate around 50% of their turnover outside Europe) and some would be tempted to confuse nationality and geographical exposure: **if the European economy slows, our European groups will also benefit from the better health of the US economy and possibly the reopening of China**, if it happens.

IS THIS PROBABLE DECLINE IN PROFITS A REASON FOR INVESTORS TO BE DIVERTED FROM EUROPE?

We believe that valuation multiples, impacted by the rise in rates, have already reached very low levels, at around 11x earnings expected for 2023 and **the movement of multiple compression appears to be**

behind us, if indeed the peak of monetary tightening is confirmed in mid-2023.

Our stock-picking management style will lead us to favour growth stories that have suffered significantly from the rise in interest rates and active in segments that are still buoyant, such as energy efficiency. **The approach to favour companies with a high dividend yield and growth paid off in 2022 and will continue to do so next year.**

In a scenario in which a strong recession is ruled out or that anticipates a faster-than-expected exit from the crisis, the spotlight could turn to cyclical companies that have been neglected and are trading at high discounts. In this respect, **small and mid-cap stocks, due to their more cyclical and domestic nature, have hit valuation levels rarely seen**, either in absolute terms or relative to large caps. They could once again attract attention as risk aversion eases.

AN OPPORTUNITY THAT SOME LONG-TERM SHAREHOLDERS WILL NOT HESITATE TO SEIZE...

A sign of a significant undervaluation of certain securities on the market, family majority shareholders have decided to use the accumulated cash to launch public offers on their own shares with a view to a delisting. In less than a month, the Richard and Despature families (each holding approximately 70% of the capital of their respective companies) announced bids on the remaining capital of Manutan and Somfy, at premiums of 51% and 27%, respectively, to the last quoted price.

With a valuation of 4x EV[1]/EBITDA and less than 9x P/E (Price to Earnings), the Richard family took the opportunity of this market anomaly to delist its group, Manutan, which in 50 years has become the European specialist in the distribution of equipment and accessories for businesses and local authorities.

The same story for Somfy, global leader in the automation of openings and closures in homes and buildings, for which the share price decline of 45% since the start of the year represented an exaggeration in light of the long-term outlook for the development connected homes and the group's insulation and protection products to help reduce the energy bill. With more than €600m in net cash on the balance sheet and an operating margin of 18% expected this year, a multiple of less than 8x EV/EBITDA was hardly appropriate.

Therefore, like these long-term visionary shareholders, is it not time to re-enter our European groups, with their abundance of attractive features and rock-bottom valuations?

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1. Enterprise value.

- **There are many fears, but the catastrophic scenario has not yet materialised**
- **If the European economy slows, our European groups will benefit from the better health of the US economy and possibly the reopening of China**
- **Small- and mid-caps could attract attention again as risk aversion subsides**

THE "FOG OF WAR" IS THICKENING FOR COMPANIES

JACQUES-AURÉLIEN MARCIREAU
Co-Head of Equities

The term "fog of war", taken from the military theorist Carl Von Clausewitz, describes "the uncertainty in situational awareness experienced by participants in military operations". It refers to the uncertainty of the warring parties as to their own capacities, those of the opponents, the position of the armies and their objectives. Today, it applies particularly well to companies, all sectors combined, which are subject to growing uncertainty surrounding the scale of a potential recession, their ability to obtain external financing, or the objectives and attitude that their competitors will adopt in this deteriorated environment.

While there are indeed many uncertainties, we have one conviction: **when this fog subsides, it will reveal a new economic landscape**. The period that is starting will be a Darwinian moment, during which many players will not be able to, or not want to, contend with this deteriorated context and will disappear, or at least change shape, which will mean **a cascade of consolidation and restructuring**.

These transformations are of course an investment opportunity, provided that we invest in the companies that come out of this period stronger.

AN UNUSUAL ECONOMIC FABRIC

The situation is unprecedented. **Never in history has our economic landscape been filled with so many unicorns and zombies at the same time, the legacy of a decade of a near-zero cost of capital**, stimulating as much risk-taking with a view to initiating multiple disruptions, as well as financial structuring pushing financial leverage to

its maximum in mature sectors. Moreover, the Covid episode - due to State support for the economic fabric - paradoxically reduced the number of company failures to historically low levels, helping to maintain business activity that in normal times would have ceased to exist. According to sources, we are talking about more than $4 trillion in unlisted unicorns and about $3 trillion in companies in LBOs[1], although these two figures do not allow us to measure the extent of the phenomenon in its entirety. Note that crypto assets reached $3 trillion at their peak before losing 70% of their value. The global stock market capitalisation is around 100 trillion.

Zombies and unicorns must quickly adapt their strategy to remain viable in order to cope with the new paradigm of a more restrictive interest rate environment and a possible economic slowdown. This will require higher margins, which is far from a given. As a reminder, more than 30% of listed tech unicorns in the United States are not profitable. As for the zombies, their debt will be renewed with an interest burden of a far different scale than the previous years.

Of course, there is a scenario in which the recession does not come knocking on our door and the central banks quickly turn the page on the restrictive monetary policies. However, business managers need to prepare for the worst-case scenario and adjust their strategy now. The major manoeuvres have therefore begun.

RESTRAINT OR COMPETITIVE WAR?

In each sub-sector, there are not just unicorns and zombies, there are also players that have a sustainable and balanced model. They currently have a strategic window: will they launch a commercial offensive against their weakened rivals? Or show restraint?

If the offensive is held back, a price war, with the resulting impact on margins, could thus strike a fatal blow in combination with the other two threats mentioned above, and end up dissuading potential credit providers. In this context, **M&A will be a largely explored way out**.

THE LONG-TERM CONSEQUENCES

Economic theory is unequivocal with regard to sector consolidation: if the least efficient players disappear, this frees up labour and capital to be deployed elsewhere. However, the risk is a major loss of "economic biodiversity", with its consequences both in terms of innovation and jobs. Indeed, if in any sector you go from six to three competitors, you also have a drop from six to three research and development teams within a given field, which automatically reduces the number of qualified jobs and the possibility of making discoveries/progress. But, **in the wake of Covid and the geopolitical tensions, many governments will come to the rescue of the players they consider to be strategic**, the definition of which has also recently become considerably broader. This trend is now widespread and affects all regions.

INVESTMENT

With the exception of healthcare and some highly regulated sectors, it will be difficult to be completely spared by the storm. Given the magnitude of the uncertainty and the cascades of possible scenarios, building a top-down equity portfolio seems difficult, in our view. **We therefore prefer to build - in line with our DNA as a conviction-driven Group - a concentrated portfolio** of companies with managers and teams that hold a good hand of cards and have our confidence in their ability to make a difference.

The current scenario has fully detached from the value versus growth dialectic, as excesses have accumulated on both sides of the classification spectrum. More than style attributes, it is the teams that will make the difference.

The saying goes that every crisis is an opportunity, we can do no more than repeat it, and this will be our state of mind as we enter 2023.

1. A leveraged buy-out (LBO) is a financial arrangement allowing the acquisition of a company using a high level of debt.

- **Companies that will come out of the crisis stronger represent an investment opportunity**
- **M&A activity is expected to increase**
- **The strategy deployed within a company and the teams will make the difference**

WHAT OUTCOME FOR THE CLIMATE AFTER THE COP 27?

JEAN-PHILIPPE DESMARTIN

Head of Responsible Investment

ONE THING CAN BE SAID – THE COP 27 DID NOT PROVIDE A SOLUTION TO THE CLIMATE EMERGENCY.

The final text of COP 27, unanimously approved by the 196 members of the UN and published on the morning of 20 November 2022, maintained the target to limit global warming to +1.5 °C and calls for a rapid decrease in greenhouse gas emissions (GHG) at a global level. The confirmation of these objectives nevertheless contradicts the lack of collective ambition taken - or not - in Egypt. The EU was quick to publicly express its disappointment in this respect. **Faced with the climate emergency, the governments did not respond collectively with more ambitious commitments**, while a key step forward in 2021 in Glasgow had been the possibility to revise national targets each year, instead of every five years as previously.

In terms of improvements in national commitments, a wait-and-see attitude prevailed. The announcements by the US, Australia, Mexico and Brazil (in particular with regard to reforestation/deforestation) were of course positive signals, but as a whole governments collectively did not rise to the occasion, despite the climate emergency having been a hot topic throughout all of 2022, with the heat domes in Canada in the spring, record heatwaves this summer all across Europe, the devastating floods in Pakistan, etc. 2022 is not yet over, but the experts are anticipating absolute record GHG emissions and fossil energy still making up around 80% of the energy mix. Governments therefore collectively did not set an example to the other key players in the fight against global warming, i.e. with the private sector on the one hand (corporates and investors), and the citizens with their modes of consumption, on the other.

Furthermore, scientists have reminded us that we only have three years left to start to reverse the trend. The 1.5 °C reports of the IEA and IPCC reveal the extent and urgency of the challenge. If the next COPs confirm COP 27, the experts tell us that we could achieve the threshold of 1.5 °C in 2035. We are already at +1.1 °C/ +1.2 °C today, and will be for the next 100 years. The experts' baseline scenario is a range of between +2.6 °C and +2.8 °C. While increasingly planning the adaptation, it is not too late to change, because +1.8 °C or +2.8 °C would not be the same story at all. We should remember that the question is not to save the planet, as it will save itself, but rather, selfishly, to save part of humanity.

THE FEAR OF STEPPING BACKWARDS TO FOSSIL ENERGY USE HAS BEEN CONFIRMED

A concern before COP 27 was confirmed by real events. Current geopolitics - the war in Ukraine, the confrontation between China and the United States, access to fossil energies - has undermined the progress made by the previous COP in Glasgow. In 2022 we have seen a major return to government subsidies of fossil fuels. **The reference to coal persists, but the "elephant in the room", i.e. the reduction in the use of all fossil fuels (including oil and gas), no longer appears to be on the agenda.**

The war in Ukraine has (temporarily?) weakened Europe's position in fossil fuels, a topic that had been subject to much arbitration in Glasgow. The main fossil energy-exporting countries such as Saudi Arabia, Iran and Russia, rushed through this window to protect their interests, thus becoming clandestine passenger States of the Paris Agreement. Ties are nevertheless maintained, so that the "low profile" on oil and gas does not undermine the Paris Agreement like we saw under Trump. **With the next COP 28 taking place at end-2023 in Dubai in the United Arab Emirates, we will probably have to wait until end-2024 to hope for a change regarding fossil fuels**, which make up 80% of the climate challenge.

THE HOPE OF RENEWED CONFIDENCE BETWEEN NORTH AND SOUTH MATERIALISED

Held in Egypt, the main hope of the COP 27, beyond the one-off sector or other initiatives, lay in the progress directed at emerging countries. The good news is that this was achieved, and this is key for the confidence between the North and the South.

We were expecting to see a resolution of the question of the commitments taken in Paris at the end of 2015 to a yearly 100 billion dollar fund set up by the rich countries to go to the less advanced countries to help them to finance their energy and environmental transitions. In reality an even thornier subject was addressed. Requested by the poorer countries for 30 years, **all governments accepted the principle of the creation of a "loss & damages" fund that would compensate for the damage already caused by climate change in the most vulnerable countries**, starting with some island States. The characteristics of this fund are still vague, while the devil is in the details. French president Emmanuel Macron rapidly called for a conference in 2023 to clarify the details of this fund, which at the moment is an empty shell. A simple example of the numerous debates to come: should China, the world's No. 2 economic power and responsible for 25% of GHG missions, contribute to it? The answer right now is no.

Beyond this global framework, we also hail the announcement at COP 27 of more than 20 billion dollars in financing by the richer areas (Japan, the US, Europe) for the just transition of Indonesia to significantly reduce coal in its energy mix. This announcement echoes the just transition plan targeting South Africa already announced in 2021 and could lead to other initiatives (in favour of Senegal, Vietnam, etc.).

A PROPOSAL: FEWER PARTICIPANTS AND A CONCRETE LINK BETWEEN THE COP CLIMATE AND BIODIVERSITY FROM THE END OF 2024

The COPs are crucial. Without the COP and the Paris Agreement of COP 21, the expected global warming for 2100 would exceed +3 °C by far. The outcomes of COP 27 nevertheless lead us to think that we have certainly reached the maximum number of participants (45,000 participants of which more than 1,000 for Dubai). It might be time to limit the participants to government representatives only, to go back to the roots of the COP, and have no more than 10,000 participants. Even if the causes of the other stakeholders would have less representation at the COPs, **the question of the value of the physical presence of corporates, investors, lobbyists, NGOs, etc. merits asking**.

Still with a focus on efficiency, the announcement of a plan from end-2024 to combine the Climate COP (COP 27 in November of this year in Sharm El Sheikh) and the Biodiversity COP (COP 15 in December this year in Montreal) could be redeeming. Everyone agrees that these two environmental AND social challenges are closely linked in terms of the problems and the solutions. **Better coordination would give both a strong launch to the Biodiversity COP and contribute to boosting the Climate COP.** This could be a positive surprise announcement at the next COP.

For investors, this would mean drawing up a combined climate and biodiversity roadmap already based on the TCFD[1] published in 2017 and on the future TNFD[2] announced for the end of 2023/beginning 2024. To quote the French philosopher Henri Bergson: "The future is not what will happen to us, but what we will do with it".

1. Task Force on Climate-related Financial Disclosures.
2. Taskforce on Nature-related Financial Disclosures.

- **The COP 27 did not offer a solution either to the climate emergency or the core challenge of addressing fossil energy**
- **It nevertheless contributed to strengthening confidence between the North and the South**
- **In the future, in order to be more efficient, the COP meetings must welcome fewer participants and address both the climate and biodiversity**

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