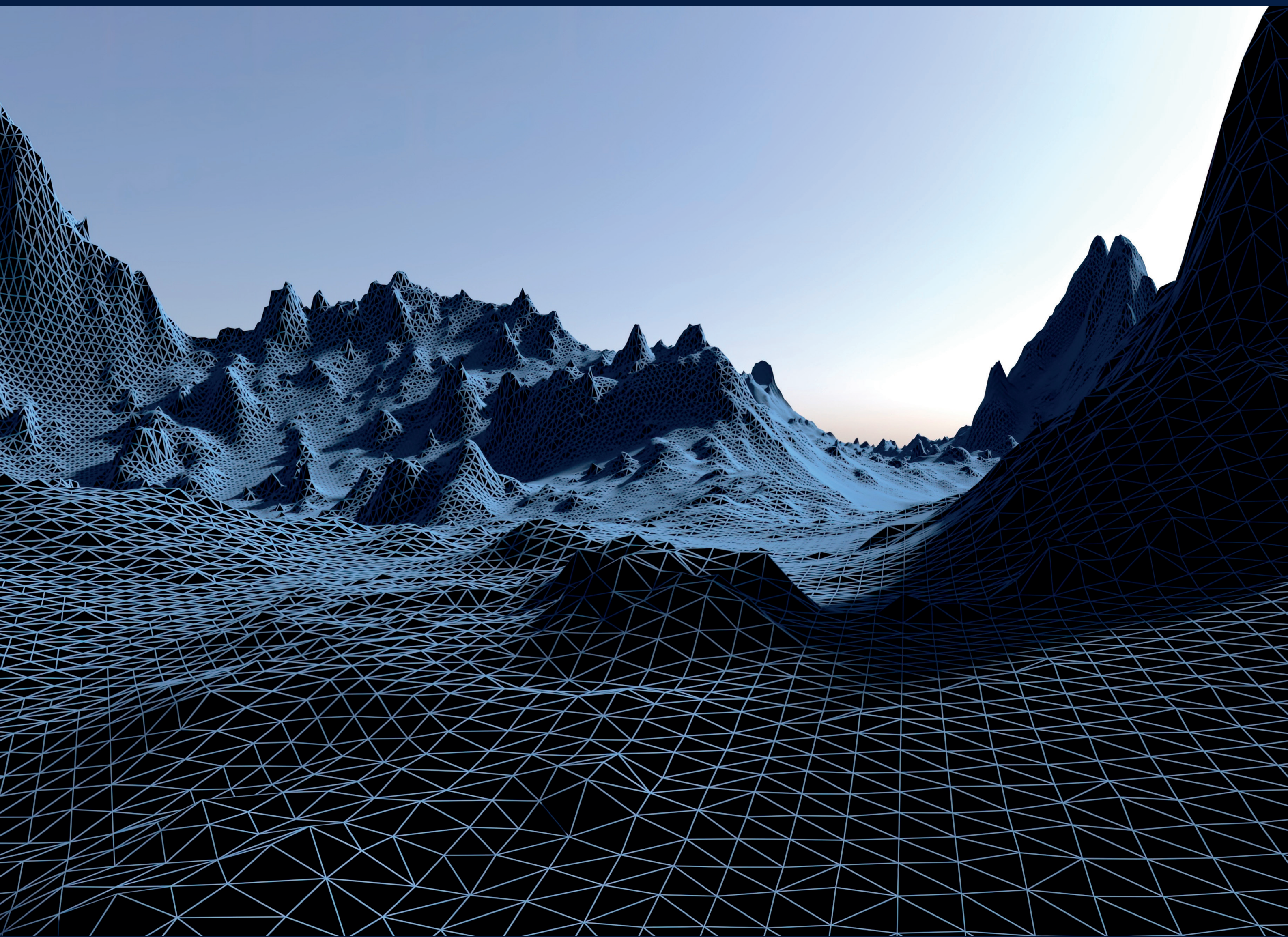
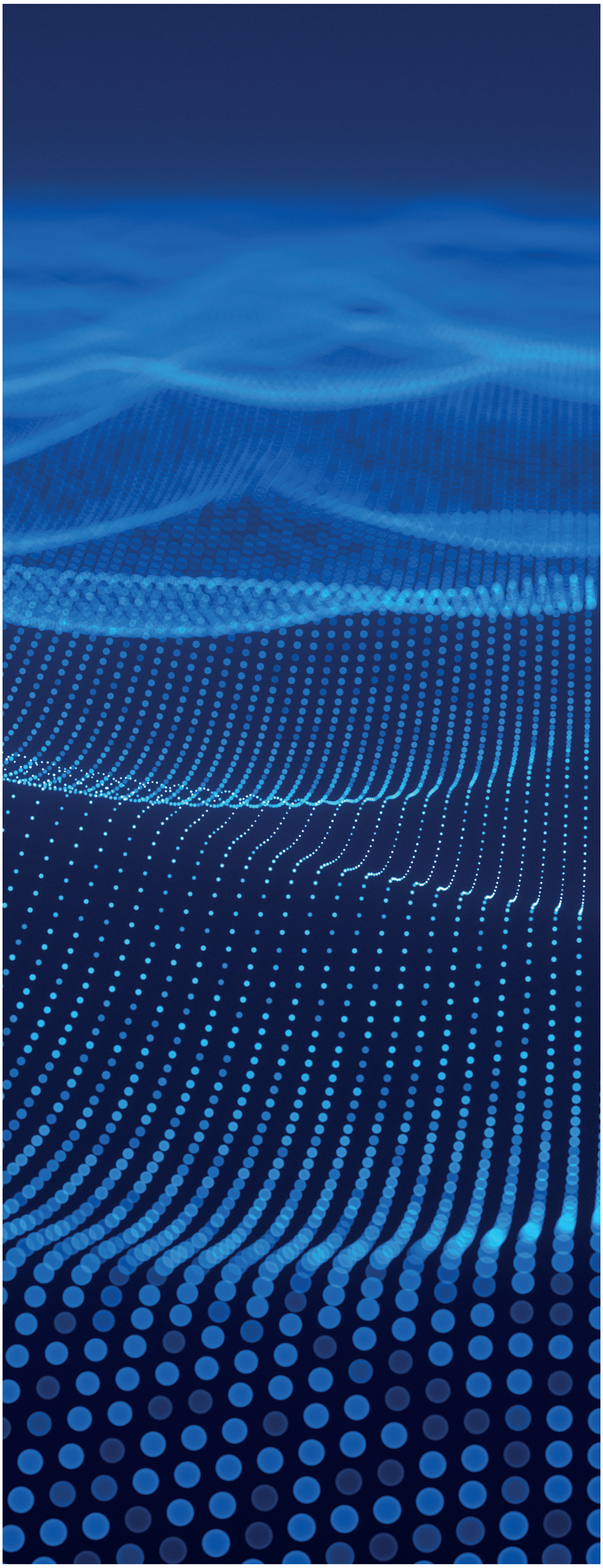
EDMOND DE ROTHSCHILD

OUTLOOK & CONVICTIONS

ASSET MANAGEMENT | H2 2023



EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.



SUMMARY

EVERY HALF-YEAR HAS ITS FAIR SHARE OF SURPRISES

BENJAMIN MELMAN
Global Chief Investment Officer

The first half was full of surprises for investors. Equity market returns were much better than expected. Most people expected a recession but it failed to have much impact and the US economy and its financial sector proved particularly resilient to a banking crisis which could have been much more serious.

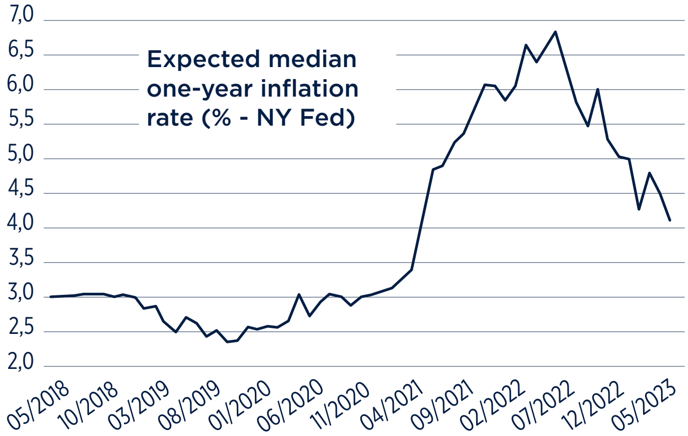
The artificial intelligence theme ballooned exponentially on markets, so much so that gains by the S&P 500 were due to a handful of stocks likely to benefit from this new craze. We were not expecting China's recovery to be strong and it has been chaotic so far. Chinese equities are still very volatile with zero or negative performance trends. On the other hand, the US and Europe have provided confirmation that disinflation has begun - just as we expected - thanks to production chain tensions almost evaporating and steep falls in energy and food prices.

DISINFLATION IS STILL SHAKY BUT GATHERING STRENGTH

We are at a halfway house stage. The trend is fragile as disinflation still relies on traditionally volatile commodity prices but falling inflation expectations among households and companies are providing a firmer footing. That said, we cannot take the trend for granted as long as wage momentum remains strong in today's persistently upbeat economic environment. Against this backdrop, the fact that the Fed and ECB are encouraging investors to expect further rate hikes is striking. Central bank credibility has taken a knock so banks are forced to hammer home policy in an attempt to regain respect. History also teaches us that premature easing during a period of raging disinflation can force central banks to go even further if they then have to tighten.

If Jerome Powell wants to go down in history for the same feats as Paul Volcker, we should bear in mind that Volcker only succeeded in beating inflation after several attempts. To be sure that inflation has really been brought under control, the Fed and the ECB have clearly stated that they first want the labour market to stop overheating. Wage increases of around 4% of 5% as seen in the US and Europe tally with inflation of around 3-4% and not the targeted 2%. The ongoing slowdown in inflation will probably soon weigh on wage increases but not as much as needed.

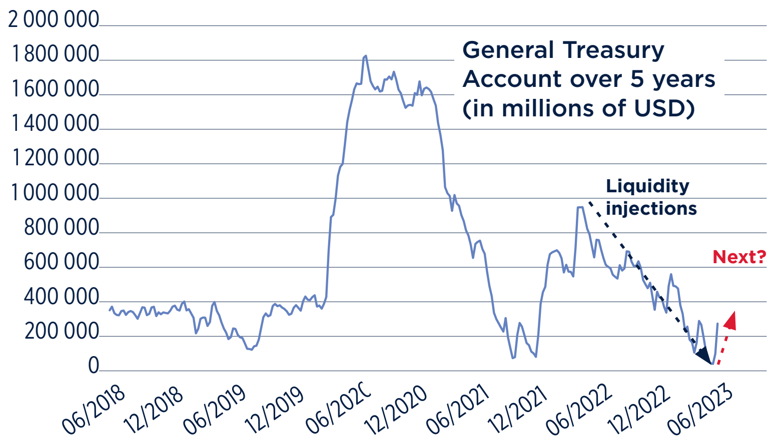
US consumer inflation expectations decline



Source: Edmond de Rothschild Asset Management (France), Bloomberg, 26/06/2023. Past data are not reliable indicator for future data and may vary over time.

We see no indication of a switch to austerity from the lax budgetary stance which has dominated the post Covid/Ukraine war environment; inevitably, this only makes the mission of central banks more complicated. It is, however, interesting to see that *greedflation*[1] has almost disappeared in the US and is slowing in Europe, so the chances of taming inflation have improved.

Liquidity to contract in the United States



Source: Edmond de Rothschild Asset Management (France), Bloomberg, 26/06/2023. Past data are not reliable indicator for future data and may vary over time.

Paradoxically, the US banking crisis actually stimulated liquidity as commercial banks queued up at the Fed's emergency discount windows. But now that the debt ceiling has been raised, the US Treasury will have to replenish its coffers by asking for hundreds of billions of dollars from the Fed. This will act as a drain on commercial bank reserves and could trigger weakness in risk assets.

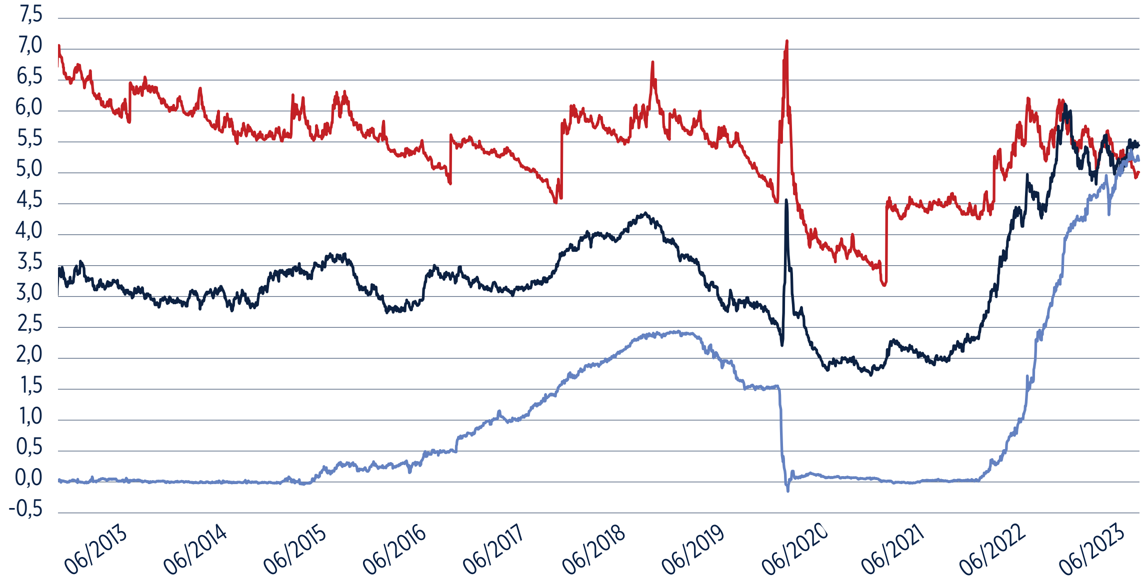
VALUATIONS ARE CURRENTLY AT A CROSSROADS

Take the case of a US investor having to choose from three benchmark asset classes, money market funds, investment grade bonds[2] and the S&P 500. All three were offering the same yield in the middle of June, rather as if risk premiums had taken a back seat. Basically, the case for overweighting equities today -when there is still a risk of recession- has to be based on expectations that a growth shock is on the horizon. We could, for example, see the artificial intelligence revolution as a shock (even if the stocks directly concerned by AI are already very expensive). In this scenario, AI is a force capable of generating huge productivity gains across economic sectors.

Since Robert Solow's famous aphorism, "*You can see the computer age everywhere but in*

the productivity statistics", new technology has generally failed to generate the hoped-for productivity gains. According to economist Robert Gordon, the internet revolution did in fact improve US productivity in the decade between 1995 and 2005 but only for that period. Elsewhere, the absence of any lift to productivity in the other developed

Valuations at a crossroads



S&P 500 Earnings Yield (12M forward) — US Corporates Yield to Worst — US 3M Treasury rates

Source: Edmond de Rothschild Asset Management (France), Bloomberg, 26/06/2023. Past data are not reliable indicator for future data and may vary over time.

countries has been puzzling to say the least.

It could of course be different for artificial intelligence but previous episodes warrant a minimum of caution. In addition, over the shorter term we will have to contend with unfavourable factors like central bank efforts to cool down the economy, a looming contraction in liquidity and the decline of *greedflation*. **As a result, our portfolios are only slightly underweight equities.**

As for bonds, the fact that central banks might tighten beyond current market expectation is not yet worrying for duration. The middle and long ends of the yield curve could in fact benefit from central bank determination to defeat inflation as a way of slashing interest rates later on. And hopes can only be raised by continuing disinflation over the coming months. **This is why we are overweight bonds and carry strategies on investment grade and good quality high yield bonds.**

The fact that (i) we have more confidence in disinflation playing out rather than a new era where artificial intelligence drives productivity and (ii) we prefer bonds to equities is simply based on the current environment. There is still a risk of recession and reduced liquidity from central banks overtightening and that could overshadow longer-term prospects based on game-changing developments.

1. Greedflation describes moves to raise prices to boost margins using inflation as an excuse.

2. Investment Grade credit refers to bonds which are almost certain to be redeemed as they are issued by companies with very low to moderate default risk. Corresponds to a rating scale from AAA to BBB- at Standard & Poor's. High yield credit refers to corporate bonds with a higher default risk than investment grade bonds but offering in return a higher yield.

- **Liquidity will start to shrink following the move to raise the US debt ceiling**
- **Hopes will be raised by continuing disinflation over the coming months**
- **We prefer fixed income to equities**

RECESSION, WHAT RECESSION?

ALAIN KRIEF
Head of Fixed Income

As the first half comes to an end, markets are clearly not aligned with a recessionary environment. Equity indices have moved higher, albeit with significant sector disparity, and bond markets have also performed well but again with performance deviation between government and corporate bond markets.

And yet, after two quarters in which GDP contracted, the eurozone is technically in recession. However, a modest 0.2% decline suggests some resilience considering the fact that

- (i) natural gas prices soared by 415% between February and August 2022,
- (ii) inflation jumped 10.6% in October 2022, hitting household purchasing power and consumption,
- (iii) manufacturing PMI in the eurozone fell to 43.4 in June due to global weakness and
- (iv) the ECB adopted a highly restrictive monetary stance.

During the first half of this year, bond markets largely factored in two significant factors which appeared uncertain at the end of 2022: a steep drop in inflation in the coming months and, consequently, the end of the rate tightening cycle in the US and Europe.

Of course, there is still uncertainty concerning geopolitical tensions, resilient economies and especially labour markets, and the timing and extent of any recession.

WE ARE MOVING TOWARDS LOWER INFLATION IN THE EUROZONE

Several key factors suggest inflation is about to fall. First, monetary policy is restrictive. The ECB was late in reacting to higher inflation in 2021 but started to tighten in July 2022. The bank took less than a year to raise its deposit rate from minus 0.5% to 3.5%. The impact on the main economic variables is already visible: M1[1] collapsed, credit demand fell, credit standards tightened and credit flows contracted sharply. All these developments tally with another drop in inflation in the coming months.

Manufacturing sector weakness is also deflationary. It creates idle capacity and weighs significantly on the price of globally traded goods like commodities. As a result, soft PMI data, prices paid or South Korea's export prices clearly point to a drop in the consumer price index (CPI) in the near future.

And falling energy prices have finally started to drag core CPI down. It took 6 months for rising energy prices to feed through to core CPI and another 6 months after CPI Energy peaked for core CPI to start falling. These strong shifts impact both goods and services prices. The gradual fall back in inflation, and core CPI in particular, is a key factor in helping the ECB to bring its rate hike cycle to an end.

Despite the Fed's pause in June, both the Fed and the ECB are still in hawkish mode. The ECB will almost certainly raise rates by another 25bp in July. As long as inflation fails to fall significantly, central banks will be forced to maintain their hawkish stance even if both the Fed and the ECB are still "data dependent". In fact, to ensure that inflation declines over the long term, they are trying to convince markets that they will not cut rates for some time. Markets are struggling to factor this point in totally as restrictive policy results in lower inflation but also causes economies to slow significantly.

HOW WILL CENTRAL BANKS RESPOND TO A SERIOUS RECESSION?

After an expected pause over the summer or in September, central banks will be forced to cut rates -providing the inflation outlook is good- to underpin the economy in 2024 if the slowdown looks like turning into a serious recession.

With the ECB forecasting a mere 1.5% and 1.6% in growth for 2024 and 2025, we believe it clearly makes sense to invest in credit markets, while remaining slightly long duration.

Bond yields in the eurozone are well into positive territory and break down into two parts:

- (i) the risk-free rate which will track the German Bund, 3.1% over 2 years, 2.45% over 5 years and 2.3% over 10 years (as of end June 2023) and
- (ii) so-called spread[2] rates which reflect an issuer's solvency and also a country risk premium for emerging markets.

Should the economic slowdown not turn into a full-blown recession, we can hope for tighter risk premiums on average, excluding specific cases, but possibly some spread widening or stability. The result would be positive if spreads remained stable (carry effect) or zero or negative if spreads were to widen.

As the risk-free bond curve is inverted (short-dated bonds yielding more than long maturities) investment grade[3] (rated BBB- or above) over 5 years or more does not strike us as attractive since relatively narrow spreads will not offset variations in the risk-free rate. Moreover, any widening would result in meagre or even negative returns. Only 1-2-year maturities look interesting.

On the other hand, wide spreads (more than 200bps) look particularly attractive to us as their significant carry will drive positive returns over the medium term. The associated risk-free rate part provides carry but also protection if the slowdown is stronger than expected (this generally results in wide spreads and a drop in the risk-free rate).

HIGH PREMIUM RISK CATEGORIES INCLUDE

- **High Yield**[4] (BB+ and below). Naturally, we should be selective and invest in the category's highly rated companies and sectors to fully benefit from the investment opportunity. For example, BB ratings offer a spread of around 350bps on average[5]. It is no doubt best to avoid, or be particularly selective, for CCC-rated companies and sectors like property or retail.

- Following the Credit Suisse crisis, **subordinated financial debt** offers spreads close to 800bps despite robust fundamentals[5]. The risk of extension and non-repayment to call looks very small for most major banks and systemic risk is low overall.
- **Corporate hybrids** are subordinated bonds issued by non-financial companies. These deals allow companies to be favourably treated by S&P and help them underpin their investment grade rating. In return, these bonds offer spreads of around 525bps[5]. As with subordinated financial debt, extension and non-repayment risk to call look very low apart from in the property sector.
- **Emerging market sovereign or corporate debt** offer spreads of around 830bps and 540bps, respectively, in the high yield segment[5]. Momentum is, however, different and these bonds generally gain from a weak dollar and commodity market resilience.

2023 got off to a good start for credit markets with returns close to 4% for high risk premium assets[6]. We expect this trend to continue over the second half of 2023. We advise being invested but selective, with a little more duration (risk-free rate sensitivity) for protection against any serious slowdown even if this is not currently expected.

Source: Bloomberg. Data at June 27 2023.

1. M1 is the amount of money in circulation in notes, coin, current accounts, and deposit accounts.

2. The spread represents the gap between a bond's actuarial yield and that of a risk-free bond with the same maturity.

3. Investment grade credit refers to bonds which are almost certain to be redeemed as they are issued by companies with very low to moderate default risk. It corresponds to a rating scale from AAA to BBB- at Standard & Poor's.

4. High yield credit refers to corporate bonds with a higher default risk than investment grade bonds but offering in return a higher yield.

5. Source: Bloomberg. Data at June 27 2023. Past data are not reliable indicator for future data and may vary over time.

6. Source: indices ICE Bank of America. Data at June 27 2023. Past performance and volatility are not indicative of future performance and volatility and are not constant over time and may be independently affected by changes in exchange rates.

- **The gradual fall back in inflation, and core CPI in particular, is a big factor in helping the ECB to bring its rate hike cycle to an end.**
- **Credit markets offer numerous opportunities at a time of soft economic growth in the eurozone and probable stimulus from central banks**
- **We think high risk premium segments like high yield, subordinated financial debt, corporate hybrids and emerging country debt are particularly attractive.**

EUROPEAN EQUITIES: QUALITY STOCKS AT A REASONABLE PRICE

CAROLINE GAUTHIER

Co-Head of Equities

European equities have gained more than 20% since their September 2022 lows[1] and are now on an upward trend that few investors expected and few managed to capitalise on. Over cautious positioning in Europe was down to recession fears. But now that a recession is taking time to appear, investors are wondering what attitude to adopt. The search for opportunities will be crucial in the second half of 2023. We are convinced that strategies should continue to focus on quality stocks. And we expect a rebound from unfairly undervalued small caps as their solid fundamentals become clear.

COMPANIES HAVE SHOWN RESILIENCE IN A NORMALIZATION PERIOD

Gains on European markets since January 1st are unsurprising given strong resilience among listed companies. While some feared a decline of around 10% in earnings per share in 2023, these have been gradually revised upwards in recent months and are now expected to be slightly above the record results of 2022. This upturn has been underpinned by persistently strong demand often driven by mega trends and price rises. Order books are also at record levels as supply chain problems in 2022 stopped companies delivering to customers.

However, behind this headline resilience lurks significant sector disparity. Results in the chemicals and base materials sectors, for example,

are expected to tumble more than 30% while others like hotels/leisure and insurance are seen increasing profits by the same margin. Intra-sector disparity is also strong, depending on a company's ability to maintain prices or its energy hedging approach.

FOCUS ON QUALITY

Europe has also witnessed the artificial intelligence craze but market rises have been more evenly spread than in the US. Only 25%

of S&P 500 stocks have outperformed compared to more than 40% for the Stoxx 600, a token of the European market's depth. Europe's less concentrated performance should be used to identify opportunities

Multiples contracted sharply due to rate rises in 2022 and despite recent strong performance, European markets are still trading on a very reasonable PE of 12.5 times, or less than the historic average of 15 times over 10 years, and a 20% discount to US equities (based on equal sector weightings).

Assuming that most rate hikes are now behind us and that equity valuations are more closely geared to the extent of rate hikes than the terminal rate, we believe there is now little chance of further multiple compression. On the contrary, multiple expansion is a real possibility.

Even after the first-half rebound and despite stubborn macroeconomic uncertainties, European markets seem to be protected by moderate valuations and the fact that investors are generally underweight.

Leaving aside the question of a recession and how serious it might be, it is clear that we are now in a period of economic normalisation with activity slowing. Destocking is not yet over and demand could weaken at some point. That is why it is still essential to be vigilant and invest in companies with robust economic models and sound balance sheets which offer higher visibility.

WE RECOMMEND POSITIONING FOR THE REBOUND OF SMALL CAPS

We believe some segments, like cyclicals or value[2] but also small caps, have already discounted a mild recession so they have limited room to drop further.

Small caps have been snubbed by investors and the sector was particularly badly hit last year, underperforming large caps by an unprecedented margin, and even more so than during the 2008 financial crisis. Driven by risk aversion and a flight to liquidity, this extreme underperformance has led to the biggest valuation anomaly in 20 years.

Over the last 20 years, small caps have traded on average at a 25%[3] premium to large caps but this has been completely wiped out and there is now even a discount. With earnings for 2023 and 2024 expected to come in once again above large caps, simply returning to historic premium levels would mean a 35% rise.

As leverage among small caps is no higher than large caps[4], and for similar volatility over 20 years, small caps represent a very interesting risk/return profile for a medium term investment.

1. Source: STOXX 600. Data at June 27 2023. Past performance and volatility are not indicative of future performance and volatility and are not constant over time and may be independently affected by changes in exchange rates.

2. Value investing consists in picking undervalued stocks, i.e. stocks which are trading below their company's intrinsic value.

3. PE.

4. Source JP Morgan – equal weightings

- **The artificial intelligence craze has also been witnessed on European markets but less concentrated performance should be used to identify opportunities**
- **It is still essential to be vigilant and invest in companies with robust economic models and sound balance sheets, which offer higher visibility**
- **Extreme underperformance by small caps has led to the biggest valuation anomaly in 20 years**

AI: BEWARE OF COMMUNICATION AND VALUATION OVERDRIVE

JACQUES-AURÉLIEN MARCIREAU

Co-Head of Equities

In a world which is saturated with information, where people are just one click away via the internet or social networks, getting their attention is a real achievement. Americans spend an average of 17 hours a day looking at screens[1], so it is hardly surprising that a video game company views Netflix, TikTok and YouTube as direct competition.

Thanks to their data banks and capacity to analyse how we behave, major internet and tech players have always had an advantage when trying to get our attention. But it looks as if a new barrier has just been crossed and now no holds are barred.

THE SPEED GAME

In some ways, the sector has assumed Donald Trump's heritage. In a post-fact world, the simplest way to get people's attention is to use shock tactics. We now frequently see communication campaigns where precise facts are replaced by subservience to fashionable themes. There then follows a sort of speed game as these themes rapidly become redundant.

Take artificial intelligence, for example. Triggering fears that AI would mean the end of humanity managed to shock people and maintain a buzz designed to gain a commercial advantage. Some companies even argued for the sector to be regulated in what was an attempt to form an oligopoly or cartel more quickly by creating barriers to entry. It is regrettable that leading companies should resort to these tactics so we should recognise Google's reasonable approach towards Microsoft/ Open AI or Elon Musk.

AI is not the first sector to see such behaviour. Many companies over-

came their reservations to get cheap publicity by embracing bitcoin, blockchain and the metaverse.

Whatever happened to critical thinking? My point is not to lambast enthusiasm for emerging technologies or concepts but to mourn the end of balanced debates. There is now nothing to be gained from treating a buzz, idea or misleading data to a healthy dose of scepticism; instead doubters can find themselves in trouble[2]. Many people opposed to these trends simply wait quietly for them to die off before a new wave appears.

What is the connection with investing? Donald Trump's penchant for excessive communication has spilled over into new technologies, making life for investors more complicated and exposing many savers to major risks. Those managing assets invested in new technologies have to be even more thorough and they must also be good teachers. Dealing with this phenomenon requires constant vigilance.

DATA ARE STILL THE MAIN CHALLENGE

Communication is not the only challenge facing investors. Artificial intelligence has also created a financial bubble. Never before has new technology spread so fast. Controversies surrounding artificial intelligence are not technical but political as they concern how it is to be used. AI can accelerate medical research or boost fake news. People tend to over-extrapolate when discussing what artificial intelligence is capable of doing but it is not the sort of artificial intelligence that threatens humanity. These unhealthy worries only serve to underpin market euphoria and push up the share prices of companies involved in AI.

We believe markets have already risen too much. Some tech mega caps like Google, Microsoft and Amazon are overheating because of two favourable factors. First, because they are profitable, cash-rich, quasi monopolies and trading volumes are huge, they were seen as safe havens during the banking crisis in March. Second, investors think they are best positioned to gain from artificial intelligence.

But what would happen if the artificial intelligence rollout was not as fast as expected? Or if its use was limited or demand for the graphics processor technology used in language models took time to materialise and created an inventory glut? Would today's craze collapse overnight or gradually fade? Algorithms are the current sensation but we believe value creation is to be found in the data needed to run these models.

Data users, i.e. non-tech players like banks, insurance groups, healthcare providers and logistics companies which own a mass of data in a specific area, will be big winners in the AI revolution. A number of suppliers of specialist software with access to customer data will also win out. We think the coming years will show that these companies are the best positioned to reap the competitive edge rewards from using big data. The company which controls data is still the most powerful player in the AI value chain, especially with the emergence of more and more rival algorithms.

1. A 2020 survey by the UK's Vision Direct covering 2,000 people in the US found that an adult American spends on average 5 hours a day on a computer, 4 hours 33 minutes on the phone, 4 and a half hours in front of the television and 3 hours 12 minutes playing video games.

2. So all praise to AI research specialist Yann Le Cun for showing courage.

- **Donald Trump's penchant for excessive communication has spilled over into new technologies, making life for investors more complicated and exposing many savers to major risks**
- **Value creation is to be found not so much in algorithms but in the data which are needed to run these models**
- **Non-tech companies which own significant quantities of data will emerge as winners**

SHOULD EMERGING MARKETS AND CLIMATE FINANCE GO TOGETHER?

LISA TURK
Fund Manager Emerging Corporate Debt

DANIELA SAVOIA
Fund Manager Emerging Corporate Debt

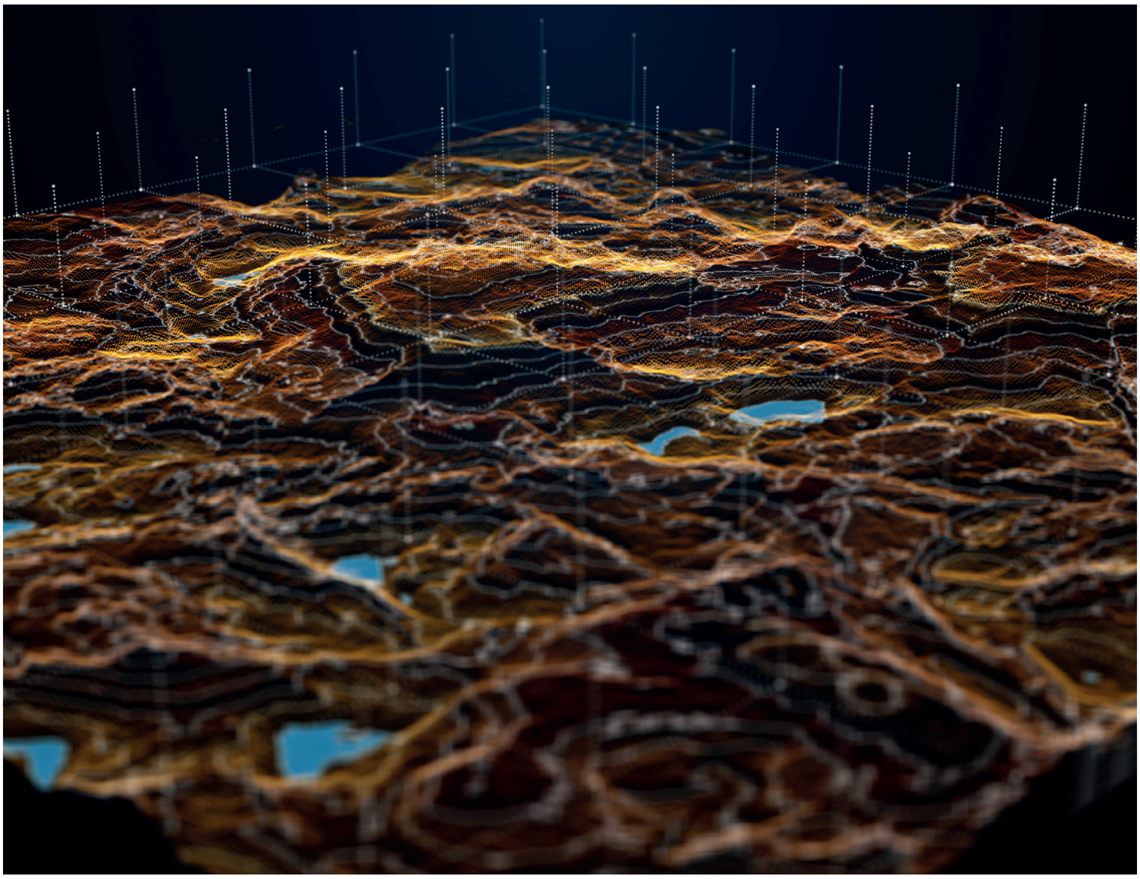
With the recent developments in the EU Taxonomy, a lot of discussion and attention regarding climate is centred around the European Union, but in order to meet Paris Agreement objectives, we must have a global view. In reality, Emerging Markets is the fastest growing region in terms of energy consumption, which means that the temperature alignment targets set by the Paris Agreement cannot be met if EM stays on the current CO_2 path.

EM ENERGY CONSUMPTION: TOO BIG TO IGNORE

While, current carbon emissions per capita are quite low in the majority of emerging countries, especially in comparison to the majority of the developed markets; their economic and demographic outlooks will lead to a sharp increase in energy consumption. Additionally, CO_2 knows no borders so climatic consequences will affect all of us.

In fact, by 2030, India is set to overtake the European Union as the world's third largest energy consumer. By 2040, India is expected to have increased its primary energy consumption by 70%.[1] This is just one example, but it clearly illustrates the size of the challenge that Emerging Markets, and consequently the world, are going to be facing in the upcoming decades.

Ultimately, this challenge provides a unique opportunity for emerging countries to skip certain carbon intensive technologies and focus on cleaner and more efficient technologies. For instance, a country like Nicaragua, which currently has very limited electricity infrastruc-



ture, can bypass coal in favour of renewable sources like solar and wind.

EM GREEN INVESTMENT LANDSCAPE: IMPACT WITH SCALE

Green development worldwide will require an unprecedented amount of investment, especially in high impact and scalable projects. Emerging Markets specifically, excluding China, require about US$1 trillion in climate finance per year, but data shows that the region is receiving less than a third of the necessary capital flows.[2] It is therefore urgent to tackle and narrow this massive financing gap, while at the same time setting up promising opportunities for all stakeholders.

Importantly, several Emerging Market countries are ready to receive such capital flows. There are projects in the region that have the potential for both scale and impact. This is especially true as the impact of climate change is already witnessed in many EM countries; as the consequences are direr for them, the governments are more incentivized to develop and implement projects to reduce carbon emissions. For such countries, it's not a matter of just doing the right thing, but also a matter of existence. Therefore, the key missing piece is capital.

Chile, for example, is positioning itself at the forefront of renewable energy. The country has committed to converting over 80% of its total power generation to renewables by 2030, which isn't an easy accomplishment, especially as coal has been an important part of the grid.[3] However, since 2022, renewables account for over 50% of power generation, a vast improvement from previous years, making their target credible. The wide approval of the population and support across party lines provide the perfect stable backdrop for the private sector to develop projects in renewable energy. Private companies have been crucial in Chile's energy transition with projects ranging from storage, transmission and generation. With additional investment, the potential is enormous.

GREEN BONDS: AN EFFECTIVE TOOL TO TACKLE CLIMATE CHANGE

Investors can be part of the solution, especially through labelled products like green bonds on the liquid side. The use-of-proceeds approach used in green bonds are widely recognized by global intelligence (UN, G20, OECD, IMF, EU) as a key tool for ultimately "improving efficiency in sustainable finance and mobilizing more private investments."[4] As a reference, green bonds are used by companies to finance green eligible projects, which can include energy efficiency, clean transportation, insulation and waste management, for example. These instruments are well regulated and follow strict guidelines, which allow investors to follow the loans all the way to the project level and hence measure their impact.

The labelled bond market[5] is an extremely fast growing segment, while being already at a very decent size. The market as a whole stands at about US$4.0 trillion, of which around 25% is Emerging Markets. Since 2017, the EM Labelled issuance has multiplied by more than 8x and is expected to keep growing at a fast pace. On the demand side, there has been more and more interest in the space, especially given the backdrop of over $10 trillion of institutional AuM being committed to transitioning to net zero.[6] Flows support this claim with EM ESG funds reporting inflows last year while non-ESG EM funds' outflows were at levels not seen in over a decade. This provides an interesting dynamic for investors as the depth of the market together with the technical dynamics make the segment attractive from a financial perspective, in addition to an impact one. Importantly, there is currently no additional cost (i.e. no greenium) to investors for investing in EM labelled bonds versus non-labelled bonds, with both asset classes offering a similar risk-adjusted yield.

Active investing is essential in this space as not all green bonds are equal. Given the transparency of the green bonds, portfolio managers have the tools to evaluate and analyze their true impact. A real estate company issuing a green bond to build a new massive eco certified hotel on the beach might have the same label as a renewable energy company issuing a green bond to fund a new wind project. Therefore, having a critical and active approach is necessary in this space.

Ultimately, there isn't one magic bullet to tackle climate change, but a combination of available tools can go a long way, including public and private initiatives as well as illiquid and liquid investments. In our view, green bonds are among the most effective tools on the liquid space.

1. Compared to 2019. Source: International Energy Agency (IEA).
2. Source: Rockefeller foundation.
3. Source: Chile's National Energy Policy 2022.
4. European Investment Bank.
5. The Labelled bond market is composed of green, social, sustainability and sustainability linked bonds. Source: Bloomberg BNEF (January 2023).
6. UN Net Zero Asset Owners' Alliance.

- **Emerging markets' energy consumption is growing at an accelerated pace, making the region essential in the fight against climate change**
- **Low-carbon projects in the region have the potential to be impactful on a large scale, but additional financial flows are still needed**
- **Green bonds are among the most efficient tools to address this challenge, while providing an interesting dynamic for investors**

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