

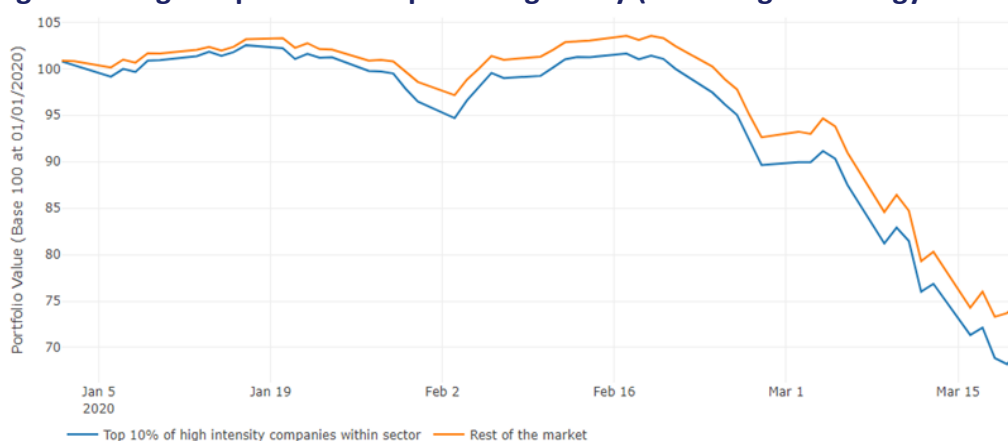
Equity Market: Where do the next opportunities lie?

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The 2019 YE stock market rally came to an abrupt halt only a few weeks into the year of the Rat when enthusiasm about a political and economic normalization was doused by the spread of a new corona virus: Covid-19 halted literally overnight first the Chinese economy and then the rest of the world. As we write, close to 3 billion people¹ are under a stay at home order, over half a million have been officially tested positive² and over 24,000 have died³. No vaccination or effective early stage drug are in sight. The stock market has reacted with the most abrupt selloff ever due to the depth, breadth and magnitude of the health crisis as well as the lack of visibility of its duration. The response of the Central Banks and governments has been as well unprecedented: literally unlimited means are put to work to support every single lever of the economies around the planet. Interest rates levels have been pushed even lower and have hence enhanced the long-term attractiveness of the equity market. Despite the severity of the crisis and the lack of visibility as to its duration, we believe to have identified some sectors which could benefit from the current meltdown and the post Covid-19 world.

The graph below illustrates the relative outperformance of sustainable companies during the downturn:

High-emitting companies underperform globally (excluding the energy sector)



Source: *Inflection Point* by La Française, March 23rd, 2020. The Carbon Factor is defined as Carbon Intensity = Carbon Emissions Scope 1 & 2 in tCO₂e divided by revenues in euros. Within each ICB super-sector we take the top 10% of carbon intensity and compare to the rest of the market. MSCI ACWI excluding oil & gas sector.

While we cannot be sure yet about the long-term performance impact of the crisis, this early finding is encouraging and corroborates our findings that sustainability and climate change consciousness play a significant role in influencing stock valuations.

Nina Lagron, CFA
Head of Large Cap Equities

¹ Source: The New York Times, March 26, 2020. ² Source: Forbes, March 26, 2020. ³ Source: BBC, March 27, 2020

How will the post Covid-19 world look like?

We believe that whilst stay at home orders will be lifted over Spring, social distancing and a very slow economy will continue over a protracted period. Hence the most significant long-lasting effect will be felt in the **technology** sector as digitalization is going to play a major role in the post Covid-19 world. As such, **hyperscalers, data center providers, communication infrastructures, software providers, cybersecurity, digital gaming and other streaming entertainment companies, online education** and the **outdoors to indoors movement players** are the main beneficiaries of the current confinement period.

The current health crisis will have long lasting effects on how work is organized. During the current confinement period, corporates are forced to operate with a close to 100% work-from-home setup. Until recently, in many countries, work from home was still not deployed largely. As the confinement period lasts for longer, **the communication and collaborative software infrastructure** needs to be more comprehensive, and more specific/customized.

We believe that the normalization out of the confinement will be rather slow and gradual and corporates will continue to work for many months offsite. Once this modus operandi has proven to be resilient during the crisis period, corporates might allow workers who have requested to work from home for many years to continue to work off site. **Software companies** that allow collaborative work will therefore see significant growth which should last over the long term. This move to the home office as the new norm will increase the demand for cloud space from which the **hyperscalers** as well as the **data center providers** should benefit. This should also have positive impacts on the **telecommunication industry**, as we will observe a growing need for advanced 5g technologies. **Cybersecurity** will become even more important in this setup as absolutely all exchanges of information are done via online applications.

Bored adults and youth stuck at home are currently discovering streamed games and the switch towards **streaming and mobile gaming** is certainly going to be accelerated and growth should be strong over the medium-term period. Let us not forget that E-sports are an Olympic Sport now.

The **entire entertainment sector's** move to digital apps is being accelerated as well: downloadable books, podcasts, audiobooks and of course movie streaming are seeing significant tailwinds. Our guess is that a significant proportion of new subscriptions to streaming services will not be cancelled after the crisis as convenience and user experience prevails.

The current confinement period allows as well for a formidable real-life laboratory for home schooling across all ages. Until now, online education was rather a tool for university level education. Now it is even deployed for primary schooling. Whilst face to face teaching can never be entirely replaced, more digital applications will be deployed in the future.

Online medical consultations will as well not only be more largely accepted but hopefully as well reimbursed.

Last but not least, many consumers are trying to reproduce indoors what they usually love to do outdoors. Typically, within sports this **outdoors to indoors** move via IOT and wearables will create a whole new way of doing sports and communicating about it.

Linking the post Covid-19 world's lifestyle to the climate crisis

According to our analysis, the most significant potential for CO₂e reduction lies in the widespread use of professional teleconferencing tools. Instead of travelling across the world to attend conferences, these will be held online. Not only a game changer in terms of cost, comfort and time efficiency, the impact on the carbon footprint could be massive. Assuming an admittedly ambitious 30% reduction in business travel globally, our analysis shows that about 91 million tons CO₂e could be saved every year.

Looking at a more common use of the home office, our analysis shows that a 15% reduction in daily road traffic only within the Parisian region would lead to a reduction of about 560 kilotons CO₂e annually.

Linking the post Covid-19 world to La Française Lux – Inflection Point Carbon Impact Global

Some of our core holdings, mainly within the technology sector are currently experiencing increased demand (translating into increased electricity needs) which they need to meet without compromising their climate transition goals.

Microsoft is perfectly placed for the digital world after with its large hyperscale cloud offer, it's close to dominant position in the office and home office software market, its online gaming platform and multiple AI applications (in medical consultations for example).

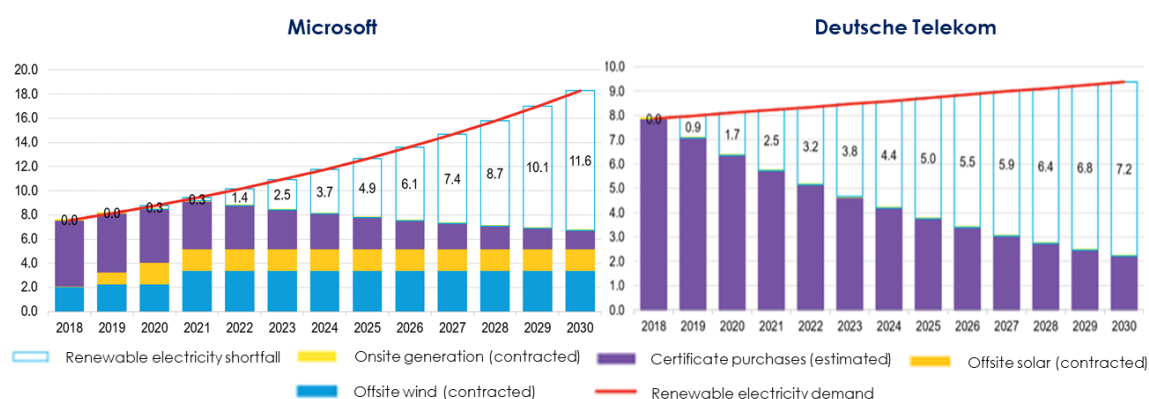
Deutsche Telekom and its US subsidiary **T-Mobile** are bridging the digital divide and are allowing the connections of millions of devices.

Both Microsoft and Deutsche Telekom have approved Science Based Targets (aligned with a 1.5-degree scenario). We expect the increase in electricity consumption to be met with increased renewable electricity generation. Microsoft and Deutsche Telekom rely – to varying degrees – on purchasing Renewable Energy Certificates (RECs) to meet their 100% renewable energy claims. However, use of RECs is expected to be gradually scaled back due to the limited "additionality" they offer in terms of renewable energy generation.

Microsoft is one of the largest corporate offtakes of renewable energy globally. Nonetheless, it still needs to scale-up from existing renewable electricity generation to meet its sector-leading climate ambitions. We expect Microsoft to continue contracting renewable energy at a significant rate to ensure that a shortfall like the one illustrated below does not develop.

Deutsche Telekom has started to develop offsite renewable energy generation through its subsidiary, T-Mobile, but is yet to scale this up across the group.

Projected Energy Consumption vs Renewable Energy (TWh)



Source: BNEF

La Française Lux – Inflection Point Carbon Impact Global

In the current context of generalized uncertainty on the equity markets, the fund displayed relative resilience year to date, thanks **to its high exposure to digitalization** (31% of the fund's allocation as of 26/03/2020), its defensive positioning, and **its non-exposure to the fossil fuel industry**. In terms of style, we favor growth and quality stocks and we have reduced our exposure to value stocks relative to the comparison index, which are more sensitive to the current market volatility.

The management team remains vigilant regarding potential rebounds, deploying the increased level of liquidity within the portfolio into stocks with solid fundamentals and attractive valuations, as well as robust climate change trajectories.

Past performance is not a reliable indicator of future performance.

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SRR1 = 6 – please note that this calculation is based on historical data and may not be a good indication of future risk profiles. **Before any investment, and for further information related to risks, please refer to the prospectus**, available in French and English, on our website: <https://www.la-francaise.com/en-fr/what-we-do/our-products/>

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Address of the local distributors:

Germany: La Française Asset Management GmbH: mainBuilding, Taunusanlage 18
60325 Frankfurt am Main

Luxembourg: La Française Finance Services : 60, Grand Rue L-1660 Luxembourg

Spain: La Française AM Iberia, Spain: Paseo de la Castellana 92, 28006 Madrid

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LA FRANÇAISE
investing together

128, bd Raspail 75006 Paris - France
Tél. +33 (0)1 44 56 10 00
Fax +33 (0)1 44 56 11 00

www.la-francaise.com