Flash Carbon Impact

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Carbon Impact Credit: Evidencing Resilience Through Uncertain Times

Introduction

The spread of Covid-19 brought about an unprecedented health crisis which resulted in dramatic economic consequences. Nevertheless, we also observed unexpectedly fast and positive environmental impacts, such as cleaner air and clearer skies thanks to airborne particulate matter levels dropping in big cities. Indeed, during lockdown, coal consumption has dropped significantly as electricity demand fell, we have seen **the largest worldwide decline in coal** consumption since World War II[1]:

2.6 billion
metrics tons of CO_2

-6% expected drop of **global energy demand**
x7 worse than after the 2008 crisis

This drop in electricity demand is certainly temporary, but how has politics taken over?

In this context, government and supranational institutions recognised the necessity to launch stimulus packages intended to support the economy **whilst placing heightened attention to environmental factors.**

Next Generation EU

The Eurogroup agreed in July 2020 to the “Next Generation EU” plan which has a budget of **EUR 750b**n to help member states finance the economic recovery post COVID-19. The member states have decided to divide the plan into EUR 390Bn of non-refundable grants and the rest as loans. It will supplement the Union’s budget for the period 2021-2027, which will bring **the total financial capacity to EUR 1.85tn**. The notion of green and digital transition is central to the plan alongside economic resilience, as **30% of the Next Generation EU must align with green objectives**. Indeed, the Next Generation EU includes a clear

1 Source: International Energy Agency, 2020

necessity to be aligned with the Green Deal (introduced by the EU in December 2019) as climate neutrality is one of the four priorities set by the EU strategic agenda for 2019-2024.

Our Carbon Impact Credit Strategies

At La Française, we are long term believer in integrating environmental factors to our investment strategy and product development. In the current context, we believe that the **positioning of our Carbon Impact Credit Strategies is particularly relevant.**

Low exposure to highly exposed sectors

Our exposure to the sectors most exposed to the COVID crisis **remains very limited**, which has **sheltered the portfolios from credit deterioration** and is consistent with the long term and **resilient profiles** of our strategies:

- No Gaming, Casinos, Restaurants.
- Our Oil & Gas exposure is limited and focused on major integrated players in LF Obligations Carbon Impact, for 1.3%, and on natural gas distribution for LF Carbon Impact 2026, for 0.10%. As the high yield energy sector has been the main driver of corporate defaults this year, this remains a resilient positioning.
- Our airlines exposure is limited to 0.20% exposure to Ryanair 2.875% 2025, in LF Carbon Impact 2026, rated BBB by S&P and issued in September, now yielding 1.33% to maturity. Ryanair has a young fleet and very good efficiency allowing the company to be quite advanced on the energy transition in its sector.

High exposure to sectors benefiting from the EU stimulus packages

A fourth of each of our carbon impact strategies is exposed to sectors which **will directly benefit from the stimulus packages** tied to carbon emissions reduction objectives. These industrial activities are the main sources of GHG emissions:

Indeed, those companies face CAPEX costs to upgrade or renew their current production lines and end-products, but thanks to the packages, namely the Next Generation EU plan in the case of Europe, they will ultimately be able to finance those projects with a cheaper cost of funding (greater access to liquidity and capital markets, to strengthen the balance sheet and limit the risk of credit deterioration and cost of funding increase). We will review some of the current positioning in our strategies that can directly benefit from this.

The electricity generation value chain embeds the raw materials used for the combustion, the electricity production itself, the distribution and transmission of electricity. Here are **examples of actors we are exposed to**[2] and how their propositions are key to the energy transition, therefore directly **benefitting from the current momentum.**

La Française Carbon Impact 2026

0.75% of Enviva Partners 6.5%,15/01/2026 USD

Yield to maturity **5.10%**
Yield to call (15/11/2021) **3.50%**
Rated S&P/Moody's **B+/B1**

Enviva is the world's biggest producer of wood pellets which allow electricity producers to switch from coal to biomass while saving up to 80% of carbon emissions in the process. While not a European player, it will benefit from an order increase from EU clients using biomass.

0.62% of Drax Finco Plc 2.65%, 01/11/2025 EUR

Yield to maturity **1.76%**
Yield to call (01/11/2022) **1.16%**
Rated S&P **BB+**

- UK's 4th largest power generator, almost fully converted to Biomass
- Provides 12% of the UK's total renewable energy and is vertically integrated with an integrated supply of wood pellets
- The value proposition is to provide system support to the UK electricity mix (frequency response, reactive and reserve power)
- In February 2019, the first actor globally to manage to Capture carbon at its biomass plant: 1t of CO_2 captured a day with objective to grow towards 16m a year

La Française Obligations Carbon Impact

1% of Energias de Portugal, including 0.50% through green hybrid

Yield to maturity **1.70%**
Yield to call (20/04/2025) **1.77%**
Rated S&P/Moody's **BB/Ba2**

To fuel their 2030 strategy of reaching 90% of renewables generation, EDP has an interim strategic plan to 22 which dedicates 75% of global CAPEX to renewables (roughly e9bn).

0.40% of the green hybrid from Tenet 2.995% perp, 01/03/2024

Yield to call (01/03/2024) **1.27%**
Rated S&P/Moody's **BB+/Baa3**

- Investment grade issuer rated A-/A3 and its grid system is on a pathway to full decarbonization
- The Eligible Green projects of this green issuance include directly connecting or expanding existing direct connection of renewable electricity generation, such as wind and solar energy

[2] Source: Bloomberg, data as at 20/11/2020

Within the transportation sector, the theme of **electric automotive vehicles** is one of the most advanced: in Europe for instance, passenger cars and vans are responsible for 12% and 2.5% of total EU emissions. For the last couple of years, we have seen corporates investing massively in hybrid and fully electric technologies. All of this has so far been encouraged by local subsidies but mainly by the threats of upcoming carbon taxes for manufacturers which new passenger cars and vans CO2 related emissions would be above the accepted target level (Regulation (EU) 2019/631). Here are examples of actors positioned[3] on this value chain and illustrations of their transformation.

La Française Carbon Impact 2026

faurecia

0.64% of Faurecia 3.125%, 2026

Yield to maturity **2.40%**
Yield to call (15/06/2022) **1.60%**
Rated S&P/Moody's **BB/Ba2**

- One of the leading auto parts manufacturers
- Its products and technology in lightweight cockpit equipment and its fuel cell technology, enables Auto manufacturers to develop their hybrid and full electric suite of vehicles
- Recently committed to a carbon neutrality strategy validated by the SBTi

QPARK

0.85% of QPARK floating 2026

Yield to maturity **2.75%**
Rated S&P/Moody's **BB-/Ba3**

At the lower end of this value chain as it offers parking services and charging infrastructures for electric vehicles.

La Française Obligations Carbon Impact

1.7% of Volkswagen through different bonds and seniority (senior and hybrids instruments). VW's 3.875% hybrid (call 2027)

Yield to maturity **2.80%**

- Senior bonds still yield at a discount to the overall investment grade market due to the cyclicality of the sector
- U-turn since the dieselgate and is now one of the leaders of the transition to electric vehicles
- 30bn euros investments announced in EVs from 2019 to 2023 alongside its strategy to reach 80 electric vehicles by 2025 (hybrids and fully electric), which would translate into 40% of total sales by 2030

The Covid-19 crisis has reminded us of the necessity to put environmental factors at the heart of our thinking and decision process. Companies that integrate such factors to their operating process tend to show greater resilience throughout economic shocks and therefore may constitute attractive investment opportunities.

[3] Source: Bloomberg, data as at 20/11/2020

La Française Carbon Impact 2026, a sub-fund of the UCITS La Française LUX (The "UCITS") The Fund is managed by La Française Asset Management, part of La Française group of companies. **The objective of La Française Carbon Impact 2026** is to achieve, over the recommended investment period of 7 years from the fund launch date until 31 December 2026, a net return which is greater than the performance of the French government's euro bonds maturing in 2026, by investing in a portfolio of issuers filtered primarily according to ESG criteria and analysed with regard to their compatibility with the energy transition on the basis of a methodology defined by the Management Company. The fund will aim for the weighted average of the portfolio's greenhouse gas emissions per euro invested (scopes 1 and 2) to be at least 50% lower than that of a comparable investment universe, which would be the composite 30% Bloomberg Barclays Global Aggregate Corporate Index 70% ICE BofAML BB-B Global High Yield Index. **Main risks are**: capital risk, discretionary risk, exchange rate risk, derivative risk, interest rate risk, credit risk.

SRRI = 4 – please note that this calculation in 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/

The objective of La Française Obligations Carbon Impact is to outperform, over the recommended investment period of more than three years, its performance indicator net of fees by investing in a portfolio of issuers pre-filtered in accordance with ESG criteria and analysed from the point of view of their compatibility with the energy transition in accordance with a methodology established by the Management Company. The Fund undertakes to have a weighted average of the portfolio's greenhouse gas emissions per euro invested (scopes 1 and 2) at least 50% lower than that of the comparable investment universe represented by the benchmark indicator. **Main risks are:** capital loss, interest rate, credit, contingent convertibles, counterparty, conflict of interest, legal.

SRRI = 3 - please note that this calculation in 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 paying agents:

Italy: BNP PARIBAS Securities Services, Via Ansperto no. 5 20123 Milan, Italy

Spain: Allfunds Bank SA Calle Estafeta 6- Complejo Plaza de la Fuente, Edificio 3, La Moraleja, Spain