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Clean Economy strategy

The European Union released the ‘Fit for 55’ package in July

- Global Equity markets rose further during July
- ‘Natural Resource Preservation’ theme contributed the most to performance
- We initiated a position in the recently listed Acciona Energias within Smart Energy

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What’s happening?

Global equity markets rose further during July and were characterised by the continued outperformance of growth relative to value which began during the latter part of May.

During July, the European Union (EU) released the ‘Fit for 55’ package which is designed to align EU policy with the EU’s target of achieving a 55% reduction in net emissions by 2030¹. This is a key component of the European Green Deal and means more stringent environmental targets in existing areas of legislation and additional industries including buildings and aviation falling within the scope of policy. The US infrastructure plan, including spending in areas such as grid resilience, carbon capture and electric vehicle charging infrastructure, continues to advance with the support of a group of bipartisan senators. This part of a growing recognition that electricity and water infrastructure requires investment to improve its resiliency, representing an opportunity for many clean technologies.

June electric vehicle sales were released and show rapid growth in all major markets. Within batteries, newer cathode chemistries increased their share of the market; supporting the long-term electric vehicle outlook recently released by BNEF². The progress of innovation in the battery supply chain is supportive of the rising penetration of electric vehicles globally.

Portfolio positioning and performance

The portfolio outperformed the broader equity index (the MSCI ACWI) during July. Three of the four themes contributed positively to the performance with Natural Resource Preservation contributing most.

In ‘Smart Energy’, the energy efficiency specialist, Ameresco outperformed following strong quarterly earnings and highlighted its solid pipeline of new orders. NextEra, a leading US renewables player, outperformed and delivered strong

¹ Source: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541

² BNEF: Bloomberg NEF

quarterly earnings which demonstrated its ability to manage global supply chain issues and continue to deliver new projects.

In 'Low Carbon Transport', TE Connectivity and Albemarle Corporation contributed positively. TE Connectivity was supported by strong quarterly earnings and Albemarle Corporation, a lithium producer, benefitted from continued strengthening demand for lithium used in batteries.

'Agriculture and Food Industry' benefitted from strength in Genus which responded well to a capital markets day which highlighted long term growth opportunities associated with sustainability in food production. Croda International reported strong quarterly earnings demonstrating its pricing power and margin resilience.

'Natural Resource Preservation' benefitted from strength in Danaher and Halma which offer long term growth associated with the efficient use of natural resources including water – and area of increasing regulatory focus.

We initiated a position in the recently listed Corporacion Acciona Energias Renovables in July, a Spanish renewable energy utility companies. The Company owns and develops renewable energy technologies including onshore wind, solar PV, hydraulic, thermal, biomass, and storage assets. Acciona Energias is vertically integrated across the renewable energy value chain and serves customers worldwide.

Outlook

The EU and its member states have underlined their commitment to Net Zero 2050 and set the framework for a green recovery in Europe. China has recently made a commitment to net zero by 2060, a significant move which came sooner than many expected. The US has pledged to half emissions by 2030 on its path to Net Zero 2050. Corporates are also increasingly committed to Net Zero targets and are investing accordingly, seeking clean energy, storage and energy efficiency services. In addition to existing consumer trends and cost-effective technologies, this represents accelerated opportunity for the Clean Economy. We see commitment to innovation underpinned by growing demand visibility and expect this to create new areas of investment potential.

We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are best placed to weather the current storm and to seize opportunities for growth. The portfolio is therefore well positioned to benefit from the secular growth opportunities we see within the Clean Economy.

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