

# Next Economy Select

Portfolio Review • June 30, 2018

## Green Alpha<sup>®</sup>

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### Why Invest in Next Economy Select?

- Actively managed, long-only equity strategy seeking long-term capital growth
- 45-65 global, market-leading companies driving the transition to the Next Economy™
- Invests in innovative solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** March 31, 2013

**Style:** All-Cap Global Growth Equity

**Available Vehicles:** Mutual Fund,  
Separately Managed Account

### Next Economy Investment Philosophy

Green Alpha's investment philosophy is straight forward: don't invest in companies that cause global systemic risks; instead, invest in the solutions.

We believe companies that create or enable innovative solutions to climate change, resource scarcity and widening inequality are the greatest growth drivers of the twenty-first century. That's the Next Economy.



### Portfolio Construction: Next Economy Select

The Next Economy Select portfolio is designed for investors seeking long-term capital growth. The strategy is available both as a mutual fund and as a managed account to help provide democratized, low-minimum account size access to high quality investing. Because of this, the portfolio's primary objective is capital appreciation via high-conviction, market-leading Next Economy companies, with moderately less volatility than some of our other strategies. Since the primary vehicle available within this strategy is a mutual fund, this product follows standard mutual fund industry diversification guidelines, such as: no position sizes over 5% of the portfolio and no sector concentration in excess of 25%. Under normal market conditions, Next Economy Select is generally composed of at least 80% global equities and at most 20% cash and cash equivalents. Like all Green Alpha portfolios, Next Economy Select is a fossil fuel free, all-cap, cross-sector, global equity strategy.

Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information.

# Portfolio Overview: Next Economy Select

Portfolio characteristics and how they compare to the S&P 500 and other Green Alpha portfolios

## Next Economy Select Characteristics

- **Highest conviction stocks, two investment vehicles** – democratizing access to leading Next Economy companies via a mutual fund and SMAs
- **Fundamentals-driven** – because the quality of the companies you invest in and the price you pay for them matter
  - ✓ **High growth** – indicated by Sales Growth, drop from current P/E to Forward P/E as revenue and earnings grow
  - ✓ **Compelling valuation** – demonstrated by Price/Sales, Price/Book metrics
  - ✓ **Strong balance sheet, solid management execution** – expressed by LT Debt/Equity, Current Ratio
- **Fossil fuel free since inception** – we have never invested in companies that prospect, extract, refine, or transport fossil fuels, nor fossil-fired utilities
- **Diversified** – we look for solutions wherever we can find them – across the globe, in firms of all sizes, and in every industry
- **Public equities, long-only** – largest asset class, largest opportunity for impact

Characteristics	Green Alpha Next Economy Select	Benchmark: S&P 500	Green Alpha Next Economy Index	Green Alpha Next Economy Social Index	Green Alpha Growth & Income	Sierra Club Green Alpha
# of Securities	54	500	94	73	33	38
Sales Growth, TTM	16.56%	11.70%	17.48%	18.34%	9.20%	18.14%
P/E, Current	22.63	35.65	34.06	34.41	32.26	27.38
P/E, 1-Year Forward <sup>†</sup>	16.77	16.21	20.33	20.36	17.98	18.59
Price/Sales	0.90	2.16	1.66	1.67	2.04	1.28
Price/Book	1.74	3.28	2.84	3.16	1.99	2.10
LT Debt/Equity	0.57	0.85	0.54	0.61	1.05	0.55
Current Ratio	2.87	2.01	2.96	2.91	2.75	3.13
Dividend Yield, TTM	2.21%	1.93%	1.61%	1.49%	6.02%	1.84%
Dividend Yield, Current	-	-	-	-	4.88%	-
US Domicile	68.28%	100%	76.77%	82.81%	76.66%	69.62%
Non-US Domicile	27.33%	-	21.23%	14.53%	21.14%	23.51%
Cash	4.39%	-	2.00%	2.66%	2.21%	6.87%
Market Capitalization Weighted Avg (US\$B)	43.11	217.20	65.90	70.14	19.73	59.46
Turnover, TTM	15%	-	18%	37%	34%	18%
Beta, TTM	0.95	1.00	1.04	1.03	0.88	0.95

TTM = Trailing Twelve Months

<sup>†</sup> Bloomberg consensus estimates

<sup>††</sup> Bloomberg Investment Classification System

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# Top Ten Positions

And how the top five positions are driving progress toward the Next Economy

## Vestas Wind Systems (Energy, Renewable Energy)

- Global leader in wind energy technology & services, making wind a mainstream energy source.
- Also a global leader in onshore installations & onshore grid-connected installations.
- Strong gender diversity for renewables; two women in Senior Management (22% of the team) & three on the Board of Directors (25%).

## Pattern Energy Group, Inc. (Utilities, Power Generation)

- Portfolio of 20 wind power facilities with a geographical footprint that includes the US, Canada, Chile, Mexico.
- Also includes projects around solar, transmission & storage.
- High quality, investment grade, & long-term power purchase agreements translate to steady revenue stream.
- Above average gender diversity for a utility company, with a woman in Senior Leadership & two on the Board of Directors (29%), including the Chair of the Nominating, Governance & Compensation Committee.

## First Solar, Inc. (Energy, Renewable Energy)

- Has developed, financed, engineered, constructed & currently operates many of the world's largest grid-connected solar PV power plants.
- Business spans utility-scale solar, corporate renewables, community solar, "turnkey" systems for developers, & operations & maintenance services.

Makes unique CdTe technology solar cells, which are inexpensive, more efficient than C-Si panels in hot environments, and also outperform in cloudy and shady conditions. CdTe tech is also exempt from current U.S. tariffs.

## Applied Materials, Inc. (Technology, Semiconductors & Manufacturing Equipment)

- Next Economy applications include manufacturing of semiconductors, displays, solar cells, & many emerging technologies.
- Also offer automation software, thereby improving efficiency in production of these essential technologies.
- Two women (22%) participants on the Board, including Chair of the Corporate Governance & Nominating Committee, & one woman in Senior Management.

## SunRun (Energy, Renewable Energy)

- Designs, develops, installs, sells, owns & maintains residential solar energy systems in the U.S.
- Diversified model and emphasis on partnerships positions the firm to weather political & industry headwinds.
- Strong gender diversity for renewables; women make up 33% of Senior Management (including CEO, Chief Policy Officer, & General Counsel) & 38% of the Board.

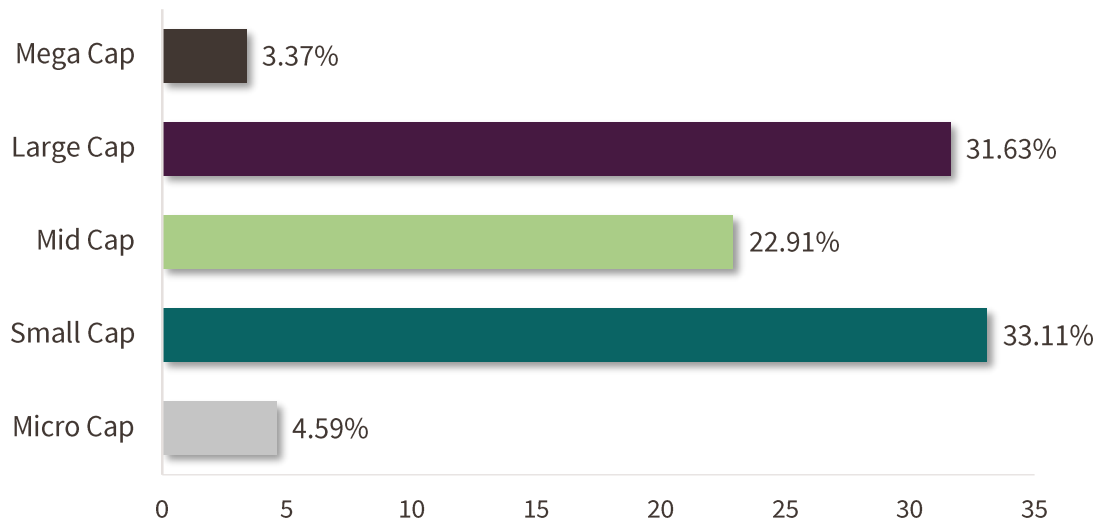
Company Name	Ticker	Weight
Vestas Wind Systems	VWDRY	5.10%
Pattern Energy Group, Inc.	PEGI	4.91%
First Solar, Inc.	FSLR	4.01%
Applied Materials, Inc.	AMAT	3.99%
SunRun, Inc.	RUN	3.98%
Tesla, Inc.	TSLA	3.70%
Alphabet, Inc.	GOOG	3.37%
International Business Machines	IBM	3.17%
Canadian Solar, Inc.	CSIQ	3.14%
Hannon Armstrong Sustainable	HASI	2.73%
<b>% of Portfolio</b>		<b>38.10%</b>

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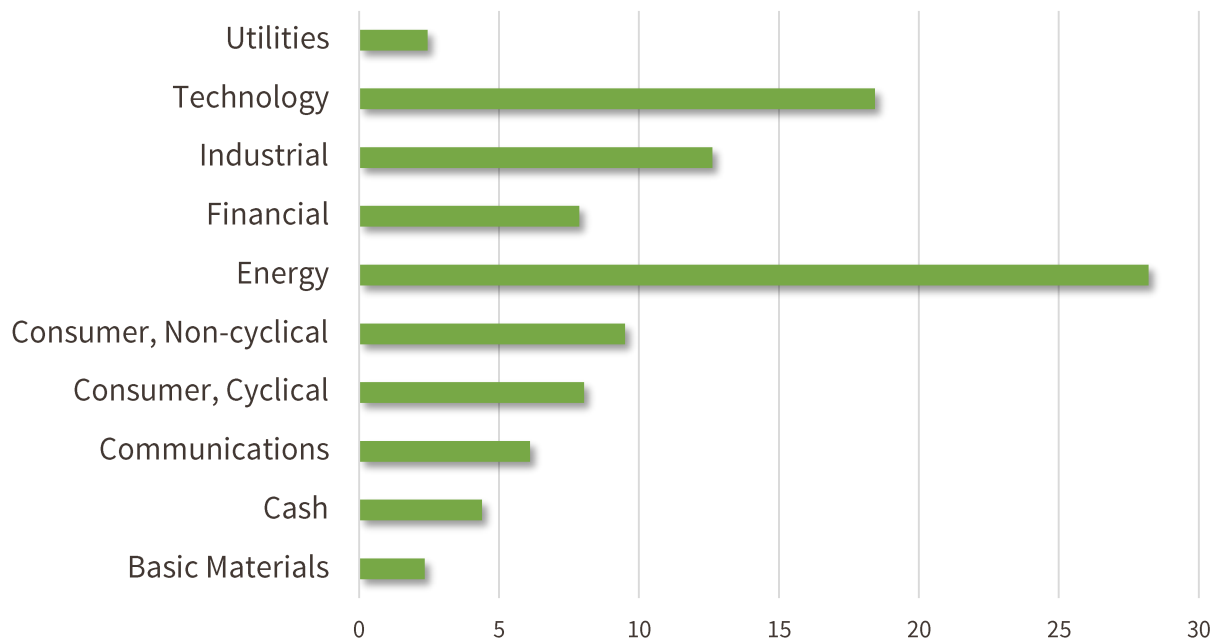
# Allocation by Market Cap & Sector

Our search for Next Economy companies is unconstrained. We seek solutions to systemic risks wherever they exist – across sectors, market caps, and geographies. The following divisions are the result of our Next Economy process, rather than the starting point.

## Equity Allocation by Market Cap



## BICS<sup>††</sup> Sector Allocation (% of Portfolio)



<sup>†</sup> Bloomberg consensus estimates

<sup>††</sup> Bloomberg Investment Classification System

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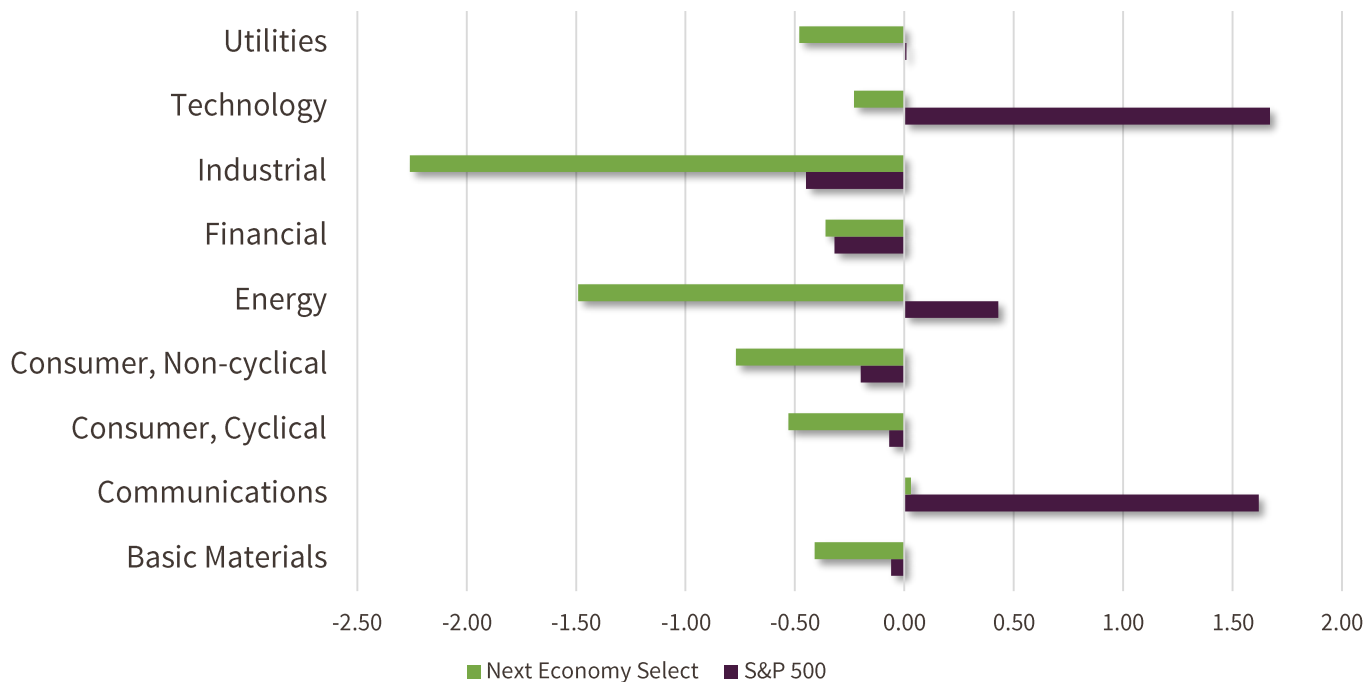
# Performance History & Sector Attribution

For commentary, see pages 7 - 9.

## Performance History



## Year to Date 2018 Sector Attribution by BICS††



† Bloomberg consensus estimates

†† Bloomberg Investment Classification System

All returns presented above that are greater than 1 year in length have been annualized. Performance data represents past performance and does not guarantee future results. Current performance may be lower or higher than the data quoted. Next Economy Select performance results reflect actual performance for a composite, net of actual management fees and transaction costs. Some assets managed to the Next Economy Select strategy in the composite receive a reduced fee from the standard fee schedule. Actual client returns experienced will vary from the composite returns based on a variety of factors, and we encourage you to ask about specific factors. Accounts are included in the composite for all full-month periods under management with Green Alpha Advisors, LLC. Next Economy Select performance results reflect the reinvestment of dividends and interest. Extreme periods of underperformance or outperformance are due to the concentrated nature of the strategy and the impact of specific security selection. Such results may not be repeatable. Please see more important disclosures on the final page of this document.

# Attribution: Top Five Contributors & Detractors

Next Economy innovation doesn't unfold overnight—or even a quarter. Think of this as one way of looking at the previous quarter's performance, not necessarily the long-term picture.

## Five Largest Contributing Stocks – 2<sup>nd</sup> Quarter

Company Name	Ticker	Average Weight	Stock Price Return	Contribution to Portfolio Return
<b>Sunrun, Inc.</b>	RUN	3.17%	47.26%	1.20%
<b>Tesla, Inc.</b>	TSLA	3.19%	28.87%	0.80%
<b>TPI Composites, Inc.</b>	TPIC	1.95%	30.24%	0.54%
<b>Pattern Energy Group, Inc.</b>	PEGI	4.64%	10.91%	0.47%
<b>Trex Company, Inc.</b>	TREX	1.98%	15.09%	0.28%

## Five Largest Detracting Stocks – 2<sup>nd</sup> Quarter

Company Name	Ticker	Average Weight	Stock Price Return	Contribution to Portfolio Return
<b>First Solar, Inc.</b>	FSLR	4.41%	-25.81%	-1.20%
<b>Canadian Solar, Inc.</b>	CSIQ	3.77%	-24.77%	-0.99%
<b>Applied Materials, Inc.</b>	AMAT	4.14%	-16.61%	-0.71%
<b>JinkoSolar</b>	JKS	2.61%	-24.55%	-0.69%
<b>Vestas Wind Systems</b>	VWDRY	5.44%	-12.31%	-0.69%

Past performance is not a guarantee of future results. To obtain information about the calculation methodology used to select the representative account's largest contributors and detractors from performance or to obtain a list showing every holding's contribution to the account's performance during the measurement period, contact us at [info@greenalphaadvisors.com](mailto:info@greenalphaadvisors.com). Given differences in account sizes, custodial fee arrangements and other client-specific factors, not all accounts invested in the Next Economy Select experienced the exact portfolio contributions shown above. The holdings identified throughout this document do not represent all of the securities purchased, sold, held or otherwise recommended for advisory clients. Nothing in this document should be considered recommendation to purchase or sell any particular security.

# Manager Commentary

Q2 2018 in Review



Q2 2018 saw more than the usual amount of market reverberations emerge from macro policy. First and last on that list: tariffs and the fear of full-blown trade wars.

It has been a year since the Trump administration withdrew the United States from the Trans-Pacific Partnership (TPP), a free trade agreement for nations around the ring of fire. This has had its effects on corporate America, such as Harley-Davidson CEO Matt Levatich [said](#) “We were very optimistic about what the TPP would enable for Harley-Davidson. It took seven years for it to come to fruition. We could see the writing [of the US withdrawal] on the wall, and we got busy with Plan B.” Plan B was to build a plant in Thailand and close its plant in Missouri. Markets largely shrugged all that off in 2017, but in Q2 2018, things got a lot worse for global trade, and markets noticed.

In Q2, the administration threatened to impose tariffs on up to \$450 billion of Chinese imports and began imposing some of them, including large tariffs on steel and aluminum that affect America’s closest allies in Europe and Canada.

Of course, these threats and actual trade taxes did not go unanswered. In June, Europe imposed higher taxes on consumer goods made in the U.S., including products from jeans to motorcycles, in response to White House tariffs on European products. Worse yet, the US’s new trade policies seemed to galvanize the world into a stance of unified retaliation. “European and Chinese officials have formed an unlikely team at the World Trade Organization,” is how *Business Insider* [put it](#), and many nations and companies are now suing the U.S. in courts and at the WTO. Reuters [reports](#) that “Trump’s trade policy, labeled ‘medieval’ by former WTO head Pascal Lamy, has inflamed international opinion this year.”

As the Tax Foundation, an independent tax policy nonprofit, recently [wrote](#), “Trade barriers such as tariffs raise prices and reduce available quantities of goods and services for U.S. businesses and consumers, which results in lower income, reduced employment, and lower economic output.” That’s exactly what markets fear.

What have the market effects been so far? Mostly, increased volatility. Days with news of increased trade tensions see markets consolidate; days with more hopeful news, or at least no trade news, have been pretty good.

Another effect has been a flight to US small and mid caps on the theory that smaller firms are not as exposed to global trade, and therefore not as vulnerable in a trade war. US small cap indexes have roughly doubled the returns of large caps during the quarter as a result. Green Alpha views this trading thesis as spurious, as markets will quickly realize that small and midcap firms depend on global commerce and global supply chains as much as large and mega cap firms.

Today, the news is full of stories about smaller firms suffering under newly-imposed tariffs, such as [layoffs at a nail-finishing company](#) in Missouri that imports steel from Mexico, but now must pay the 25% tax for their basic material. Harley-Davidson, a solid mid-cap at ~\$7.1 billion, is [moving some production overseas](#) to avoid retaliatory tariffs from the EU, costing American jobs. Smaller firms may in fact be more vulnerable as they have less capacity to weather periods of higher input costs, likely less access to capital, and higher costs of capital to bridge the gap during periods of lower revenues.

As risky as these developments are, they are small blips in the context of Green Alpha’s investment thesis. Our thesis—that innovations driving productivity gains and tackling economic risks are the best sources of wealth generation—is perennial. As [we’ve said before](#), trade sparring may influence which nation takes the lead and benefits most from technological progress, but it will not shift the trajectory of innovation itself. As a result, we hew closely to our thesis under all market conditions. (*continued on page 8*)

Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information.

# Manager Commentary (cont.)

Q2 2018 in Review

Some key developments within the Next Economy:

**Infrastructure inflection point:** Traditional infrastructure—like bridges, roads, water mains, and water treatment—desperately need upgrades. Companies that supply and utilize waste-to-value materials, like recycled steel, are meeting critical infrastructure and sustainability needs. Infrastructure construction saw an uptick in Q2 and is [forecast to be up overall in 2018](#) versus 2017.

In less-traditional infrastructure, Q2 saw the [increasing development of infrastructure as a service \(IaaS\)](#) from major tech firms. Data ownership and management are key to today's global economy. As such, the tech-driven economy also requires infrastructure to support the twenty first century's most precious commodity: data. Global fiber networks, wireless networks (including 5G), cloud services, and satellite communications (including internet) will continue to be key areas to watch.

**Is genomics investment-worthy?** Genomics technology continues to achieve significant medical and scientific breakthroughs. For investors, new opportunities and risks are unfolding in diagnostics, treatment and direct IP resulting from the development of gene-editing techniques. Although potentially transformative for medicine and human as well as biosphere well-being, the industry faces some political headwinds and both questions and backing from sustainable and impact investors. Q2 saw some [major advancements](#) that lead Green Alpha to believe in the long-term ability of a selected basket of related stocks to drive long-term performance with periods of significant volatility along the way.

**U.S. China solar flare-up:** China's recently announced changes to national solar policies have rocked the global PV market. With the resulting oversupply of panels, prices may fall 35% or further—more than nixing the impact of U.S. trade tariffs. Stock prices of panel manufacturers are following suit, offering some fantastic buying opportunities for investors.

Adding to the momentum, the US Internal Revenue Service handed down new [guidance](#) in Q2 allowing solar developers to claim a 30% investment tax credit on any project they begin by the end of 2019 and complete by 2023. Since the US administration's section 201 tariff on panels sunsets in February 2022, this means developers can both enjoy their ITC tax credit and avoid nearly all tariffs on imported panels.

Such positive developments for solar have thus far gone under-appreciated in the markets, making them perfect examples of how [information asymmetry](#) provides juicy opportunities for the vigilant investor. Long-term, solar's prospects shine bright.

**Battery tech fully charged:** With their ability to power electric vehicles and offer dependable electricity storage, batteries are exponentially growing. Storage can provide a critical service during sudden electricity demand peaks and offers stability in the presence of intermittent renewable energy. Due to improvements in technology and increases in scale of battery production at an increasing number of companies around the world, the price of lithium-ion battery storage has fallen from US\$1,000 per kilowatt hour of storage (kWh) in 2010 to US\$209 per kWh in 2017, [according to](#) Bloomberg New Energy Finance. That price is [projected](#) to fall to less than US\$100 per kWh by 2025, making both grid storage and EVs much less expensive, potentially catalyzing explosive demand.

In Q2, China made announcements about their [commitment to growth in energy storage](#) technologies, which may overtop the rest of the [world's combined production capacity](#) (this may or may not be possible as plans for large-scale battery production continue to grow worldwide). *(continued on page 9)*

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# Manager Commentary (cont.)

Q2 2018 in Review

**Gender and diversity investing elevated:** Gender and diversity investing is one of the fast-growing categories of sustainable and impact investing, with public equity assets in these strategies [growing](#) from \$100 million in 2014 to more than \$900 million in 2017. Investors have been encouraged by diversity-focused research, which demonstrates that diverse management teams outperform homogeneous groups in material ways, from creative problem solving to executing on short- and long-term goals.

While increases in the percentage of women in top management positions and on corporate boards [has stalled](#), female inclusion and influence continues to materially increase across Green Alpha's Next Economy universe.

While some investment vehicles overtly focus on gender, all portfolio managers should be evaluating the quality of a company's leadership, including their diversity and social inclusion efforts. Just as analyzing a company's material sustainability efforts shouldn't be relegated to a 'niche market,' examining the quality of a company's leadership should be taken seriously. Leadership impacts every company and the likelihood of an investment's success – no matter the sector, market-cap or domicile.

## Next Economy Select - Portfolio Commentary

- Green Alpha Next Economy Select was our performance laggard for Q2, returning -1.93%, the only negative returning portfolio among those we manage. The strategy was led lower by Energy and Technology, with each sector detracting 1.17%
  - In energy, renewable energy OEMs (wind and solar makers) deducted 3.57%. This was the main story in the quarter's performance, as our relatively high weighting on these stocks was damaging in a quarter that was challenging for the industry. Global trade fears and U.S. tariffs on solar panels and modules were the main drivers of the declines, but these events also set the stage for good entry points into these stocks as the long-term macro picture continues to favor growth in renewables.
  - Technology stocks' declines in the portfolio were driven by losses in upstream capital equipment for semiconductor manufacturing. Here again, fears of disruptions in global trade have dimmed expectations for these firms, as they sell to semiconductor fabricators globally, but predominantly in Asia. Semiconductor capital equipment makers' stocks deducted 0.94% from overall portfolio return.
- The leading sector within the portfolio was Consumer Cyclical, which added 0.70% to the portfolio's return.
  - Electric vehicle (EV) manufacturers provided the majority of the returns in Consumer Cyclical, with EVs continuing to gain worldwide market share from conventional, gas-burning cars.
  - Sustainably-produced, higher-end furniture also contributed to sector performance.
- The second bright spot for the portfolio was Consumer Non-cyclical, which contributed 0.48% to the portfolio's return.
  - Biotechs were responsible for most of Consumer Non-cyclical's contribution to the portfolio. Genetics-based diagnostics and therapies to treat cancer and other diseases were particularly strong in the quarter, adding 0.42% to portfolio return.
  - The stocks of natural and organic food related companies provided the remainder of Consumer Non-cyclical's contribution, as quarterly earnings results for the companies demonstrated a continuing trend of gaining market share from more traditional foods.

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- Dividend information for the Growth & Income Portfolio: The dividend yield for the trailing twelve months (TTM) for the Growth & Income Portfolio included a significant one-time special dividend distribution by TerraForm Power, Inc. The TTM dividend yield for the portfolio (6.02%) was materially higher than the current dividend yield (4.88%) as a result of the special dividend. The current dividend yield is shown in addition to the TTM dividend yield as a more appropriate reflection of the portfolio's current dividend yield as of June 30, 2018.
- Composite-level performance data shown on page 3 includes performance data for the mutual fund, which is sourced from Morningstar, Inc., and performance data for separately managed accounts, which is sourced from each client's custodian.
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- The SPDR S&P 500 ETF (SPY) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500 Index. Investors can invest directly in SPY.
- MSCI ACWI IMI: The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across 23 developed markets and 23 emerging markets countries. With over 8,600 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set. Investors cannot invest directly in this index.
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