

# Sierra Club Green Alpha

September 30, 2019



## Green Alpha®

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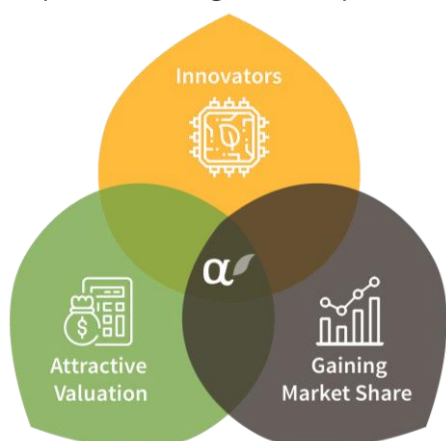
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### Investment Philosophy

We believe companies that create or enable innovative solutions to climate change, resource degradation and scarcity, and widening inequality are the greatest growth drivers of the twenty-first century. The idea is to invest in the best, growing industries that are building an extremely efficient, sustainable economy – that’s what we call the Next Economy.™

Green Alpha’s investment philosophy is straightforward: don’t invest in companies that cause global systemic risks; instead, invest in the most innovative, rapidly evolving solutions.

We believe these companies will gain market share from their legacy economy counterparts – today and into the future. That makes investing in them our best chance at helping clients preserve and grow their purchasing power.



### Why Invest in Sierra Club Green Alpha?

- Active research, stock selection, and portfolio management
- Blend of Green Alpha’s forward-looking Next Economy research processes, and the Sierra Club’s® proprietary social and environmental criteria applied to each company’s operating history
- 30-50 global, market-leading companies developing solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** December 27, 2010

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

**Vehicle:** Separately Managed Accounts

### Portfolio Construction

Green Alpha is proud to be the only financial services firm licensed to utilize the Sierra Club’s rigorous criteria. By applying these criterion to our Next Economy investing philosophy and research, we create what very well may be the most progressive, sustainability-focused portfolio available. We seek investments:

- whose products and/or services lower the economy’s risk profile by creating solutions to our most pressing economic and environmental risks
- committing more capital to R&D, and owning more intellectual property than their peers
- run by effective, diverse leadership teams and boards of directors with consistent track records of increasing revenue, and expanding margins, leading to earnings growth and potential dividend increases
- trading at compelling valuations for proven and expected growth, within acceptable levels of risk

Every portfolio holding is a forward-looking solutions provider contributing to the transition to a sustainable economy, with a Sierra Club-compliant operating history.

# Sierra Club Green Alpha

How the portfolio compares to the MSCI All Country World Investible Market Index (MSCI ACWI IMI) and other Green Alpha portfolios

## Characteristics

- **Sierra Club<sup>®</sup> criteria** – the only portfolio available that utilizes the Sierra Club’s proprietary, rigorous social and environmental screening criteria
- **Fundamentals-driven** – the underlying quality of the companies you invest in and the price you pay for them matter
  - ✓ **High growth** – indicated by Sales Growth, drop in 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 or internal combustion engine manufacturers
- **Diversified** – we look for solutions wherever we can find them – across the globe, companies of all sizes, in every industry
- **Public equities, long-only** – largest asset class, largest opportunity for impact

Characteristics	Sierra Club Green Alpha	Benchmark: MSCI ACWI IMI (SPGM)	Green Alpha Next Economy Index	Green Alpha Next Economy Social Index	Green Alpha Next Economy Select	Green Alpha Growth & Income
# of Securities	42	1,221	115	95	56	31
*Sales Growth, Trailing 1-Yr	14.32%	9.59%	10.43%	12.31%	65.10%	12.98%
**P/E, Current	50.64	27.74	50.67	57.79	41.36	36.71
P/E, 1-Year Forward <sup>†</sup>	20.12	15.42	24.35	27.34	23.12	21.17
Price/Sales	1.64	1.46	1.70	1.84	1.45	2.33
Price/Book	2.60	2.27	2.92	3.47	2.40	2.41
LT Debt/Equity	0.77	0.90	0.74	0.88	0.82	1.17
Current Ratio	2.75	1.66	2.62	2.59	2.86	1.99
Dividend Yield	1.52%	2.57%	1.43%	1.48%	1.67%	4.32%
Market Capitalization Weighted Avg (US\$B)	\$60.01	\$157.37	\$66.68	\$63.16	\$43.95	\$33.08
Turnover, Trailing 1-Yr	5%	-	24%	28%	11%	13%
Beta, Trailing 2-Yrs	0.97	0.98	1.05	1.06	1.04	0.84
Active Share	97.41%	-	94.82%	94.73%	97.91%	98.27%

\*Sales Growth is abnormally higher in the Next Economy Select strategy this quarter due to one holding that experienced abnormally higher sales growth during the period. We expect the growth rate to normalize as revenues increase.

\*\*P/E, Current is abnormally higher in Green Alpha portfolios this quarter due to one holding, which has a material weighting, that transitioned from negative earnings to slightly positive, skewing the appearance of the overall portfolio statistic.

<sup>†</sup> Bloomberg consensus estimates. Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information

# Largest Positions

How the Sierra Club Green Alpha portfolio is driving progress toward the Next Economy

## Pattern Energy Group (Utilities, Power Generation)

- 31 utility-scale wind power projects in the U.S., Canada, Japan, and Mexico, with ~3.7 gigawatts of generating capacity. Also own solar, transmission, and storage projects with aggressive plans “to double the megawatts we own or manage by the end of 2020”
- High-quality, investment-grade, long-term power purchase agreements (PPAs) translate to steady revenue stream
- Conservative financial management; not dependent on ever-inflating share price or additional capital raises to continue growing or provide a high dividend yield
- Above-average gender diversity for a utility company, with two women in Senior Leadership, and two on the Board of Directors, including the Chair of the Audit Committee

## Solaredge Technologies (Energy, Renewable Energy)

- Makes and distributes advanced solar inverters, smart optimizers and energy monitoring products
- Provides direct exposure to fast-growing solar PV industry without selecting any one panel maker
- Solaredge’s panel optimizers are applicable anywhere solar energy is generated, from residential rooftops to large utility-scale solar farms, as well as enabling integration of battery storage to any system
- Large IP portfolio, created by focus on innovation and R&D

## Terraform Power (Utilities, Power Generation)

- Owner of wind and solar power generation assets that serve utility, commercial, and residential customers
- Expanding global portfolio, with facilities located in the U.S., Canada, the UK, Spain, Portugal, Chile, and Uruguay, with ~3.7 gigawatts of generating capacity
- Brookfield Renewable Partnership’s sponsorship provides backing and credit security needed to continue TerraForm’s expansion of its energy portfolio, while maintaining a high dividend payout

## First Solar (Energy, Renewable Energy)

- Has developed, financed, engineered, constructed, and currently operates many of the world’s largest grid-connected solar PV power plants – also owns a large portion of the IP covering thin-film, CdTe solar
- Business spans utility-scale solar, corporate renewables, community solar, “turnkey” systems for developers, and operations and 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 exempt from current U.S. tariffs
- Newer Series 6 Modules have been so successful, they are now the firm’s primary focus, superseding plant construction and operations

## Vestas Wind Systems (Energy, Renewable Energy)

- Arguably the world’s most advanced wind turbine manufacturer, and the clear leader in both onshore and grid-connected installations. Also a leading turbine service contract provider, a role that provides meaningful higher-margin recurring revenue in addition to manufacturing
- In Q2, Vestas reached over 4.6GW of new turbine orders. On top of the 3GW it won in Q1, Vestas is already ahead of its 2018 total
- Senior Management includes award-winning female CFO; and three women on the Board of Directors

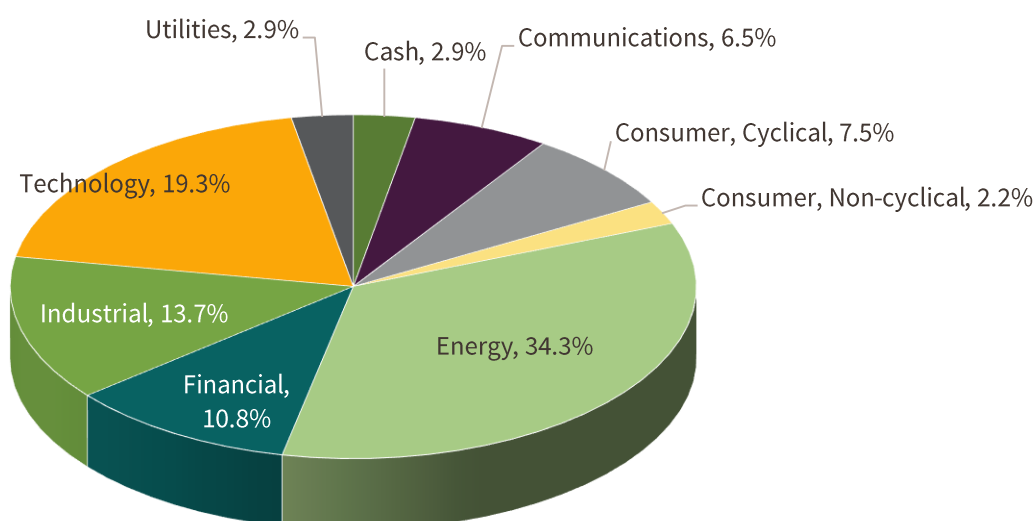
Company Name	Ticker	Weight
Pattern Energy Group	PEGI	4.95%
Solaredge Technologies	SEDG	4.69%
Terraform Power	TERP	4.66%
First Solar	FSLR	4.27%
Vestas Wind Systems	VWDRY	4.14%
% of Portfolio		22.71%

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

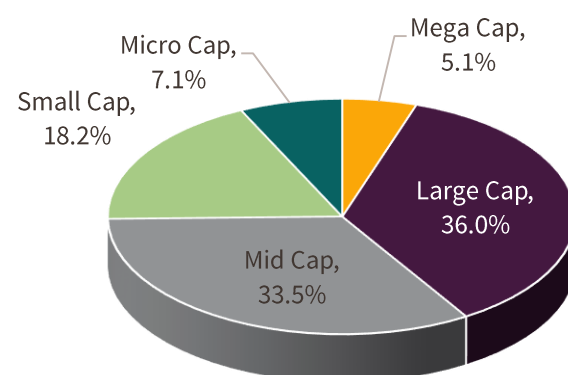
# Portfolio Allocations

Our search for Next Economy companies is unconstrained. For the Sierra Club Green Alpha portfolio, we seek solutions to systemic risks wherever they exist – across sectors, market caps, and geographies.

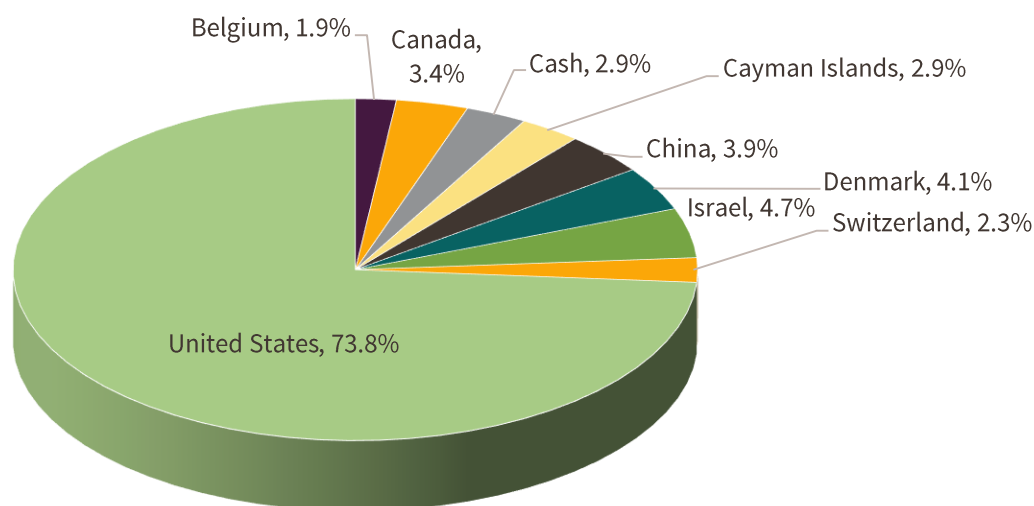
## Economic Sectors<sup>††</sup>



## Market Capitalizations

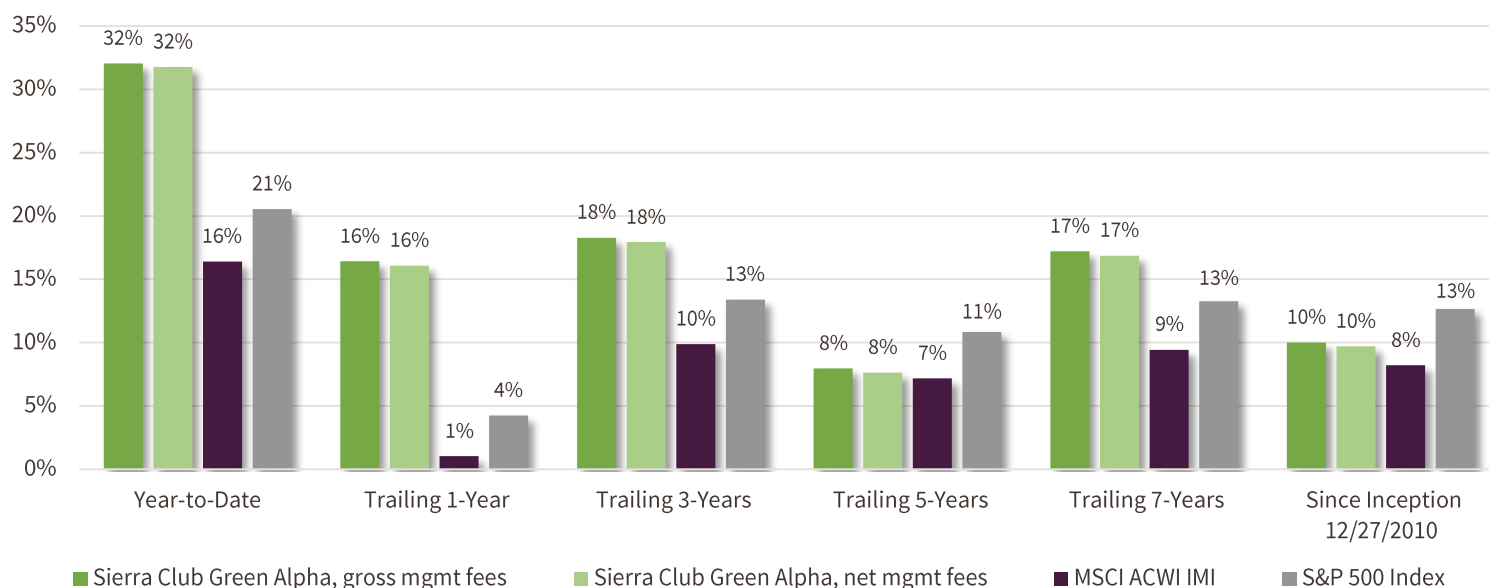


## Companies' Main Headquarters



<sup>††</sup> Bloomberg Industry Classification Standard. Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information.

# Performance & Commentary



Markets experienced a mixed third quarter of 2019. The US-China trade friction seemed to get more complicated, and more signs emerged that global growth is slowing (although not stalling or reversing in Q3); however, central banks remained accommodative, and corporate earnings, while uneven, were often better than markets had previously priced into expectations.

Next Economy™ companies fared well, as many of our holdings, particularly in technology, financials, communications and renewable energies-based utilities, continued their rallies from the first and second quarters of this year. Biotech and pharmaceuticals were generally down for the period, along with consumer stocks. Overall, four of Green Alpha's five portfolio strategies outperformed their benchmarks during the third quarter, adding to their 2019 gains.

For the third quarter of 2019, the Sierra Club Green Alpha portfolio returned 2.94%, net of management fees, compared to the MSCI All Country World Investible Market Index (MSCI ACWI IMI) return of -0.06%.

Performance was driven by gains in the Technology sector, which contributed 1.02% to the portfolio's overall return, led by semiconductor production equipment and some of the world's leading chip manufacturers powering innovations in the Internet of Things (IoT), 5G connectivity, power management, advanced memory, Artificial Intelligence ("AI"), and automation.

The Industrial sector contributed 0.98% to the quarter's portfolio performance, led mainly by sustainable building materials and smart meter manufacturing, with smart electronics tech contributing as well.

In addition, the Financials sector contributed 0.94% to portfolio performance, mainly from sustainable real estate REITs located in some of America's key innovation hubs, and Next Economy infrastructure REITs, especially datacenter and bandwidth providers.

Negative returns during the quarter were nearly evenly split between the Consumer Non-cyclical and Energy sectors, detracting 0.30% and 0.27% respectively.

Consumer Non-cyclicals, in particular, were damaged by global trade conflicts, as natural and organic food products faced stiff tariffs and counter tariffs. In Energy, similar trade-related headwinds diminished returns for renewable energy equipment makers. Within the Energy sector, some losses were offset by other parts of the renewable energy value chain, such as gains added to the portfolio from wind and solar utilities.

*All returns presented above that are greater than 1 year in length have been annualized. Performance data quoted represent past performance. Past performance does not guarantee future results and current performance may be lower or higher than the data quoted. Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information.*



# Important Disclosures

- Performance quoted throughout this document represent past performance. Past performance does not guarantee future results, and current performance may be lower or higher than the data quoted. Investment returns and principal will fluctuate with market and economic conditions and investors may have a gain or loss when shares are sold.
- Sierra Club Green Alpha strategy performance results reflect actual performance for a representative account, net of actual management fees and transaction costs. Assets managed in the Sierra Club Green Alpha strategy representative account receive a reduced fee from the standard fee schedule. Sierra Club Green Alpha strategy performance results do not 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.
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- MSCI ACWI IMI: The MSCI All Country World Investable Market Index (ACWI IMI) captures large, mid and small cap representation across 23 developed markets and 24 emerging markets countries. With over 8,700 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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