

# Growth & Income

June 30, 2020



## Green Alpha<sup>®</sup>

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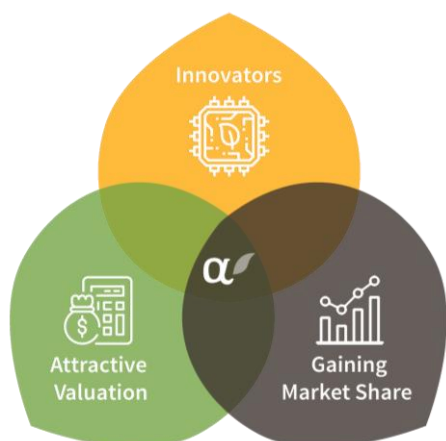
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### Investment Philosophy

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.<sup>™</sup>

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 Growth & Income?

- Active research, stock selection, and portfolio management
- Low volatility portfolio producing above-market income, while seeking long-term capital preservation and growth
- 25-35 global, market-leading companies developing solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** October 8, 2012

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

**Vehicle:** Separately Managed Accounts

### Portfolio Construction

The Growth & Income portfolio is designed to harness the powerful combination of growth and current income within one portfolio. 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

Growth & Income portfolio holdings are then selected for current or potential dividend yield coupled with strong revenue growth, bought at a reasonable price. The strategy typically exhibits lower short-term volatility than other Green Alpha portfolios, and the broad equity markets.

Our Investment Team seeks to de-risk the global economy while reducing our clients’ long term investment risks.

# Growth & Income

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

## Characteristics

- **High Income** – a compelling combination of strong growth and dividend income that is higher than the broad equity market
- **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 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 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	Green Alpha Growth & Income	Benchmark: MSCI ACWI IMI (SPGM)	Green Alpha Next Economy Index	Green Alpha Next Economy Social Index	Green Alpha Next Economy Select	Sierra Club Green Alpha
# of Securities	33	1,364	119	92	49	41
Sales Growth, Trailing 1-Yr	251.28%	10.85%	105.07%	125.06%	474.14%	352.25%
P/E, Current	19.16	18.46	28.00	29.86	20.41	22.89
P/E, 1-Year Forward <sup>†</sup>	17.17	17.92	23.25	25.60	18.76	22.12
Price/Sales	2.26	1.49	1.78	1.17	1.77	1.65
Price/Book	2.52	2.19	3.60	4.46	3.28	3.41
LT Debt/Equity	1.09	0.93	0.80	1.21	0.78	0.75
Current Ratio	2.60	1.84	3.03	3.05	3.54	3.47
Dividend Yield	4.05%	2.90%	2.30%	2.53%	2.82%	2.41%
Market Capitalization, Weighted Avg (US\$B)	\$47.72	\$245.80	\$90.04	\$90.52	\$64.24	\$76.79
Market Capitalization, Median (US\$B)	\$24.97	Not Available	\$8.34	\$12.06	\$15.90	\$7.53
Turnover, Trailing 1-Yr	28%	-	22%	29%	18%	21%
Beta, Trailing 2-Yrs	1.07	1.01	1.05	1.02	1.19	1.13
Active Share	98%	-	94%	93%	97%	96%

<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 Growth & Income portfolio is driving progress toward the Next Economy

## **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 ~4.223 gigawatts of generating capacity globally, 2.4 GW comes from wind farms and the rest from solar power plants
- The takeover offer from Brookfield Renewable Partnership, announced in Q1, creates a broader growth mandate, as well as increased access to capital and liquidity. The combination will be the largest publicly-traded, globally diversified, pure-play renewable energy platform, while maintaining a high dividend payout.

Company Name	Ticker	Weight
Terraform Power	TERP	9.89%
Horizon Technology Finance	HRZN	6.54%
Int'l Business Machines	IBM	5.89%
Qualcomm	QCOM	5.11%
Hannon Armstrong Sustainable	HASI	4.91%
% of Portfolio		32.34%

## **Horizon Technology Finance** (Financials, Specialty Finance)

- Provides structured debt products (i.e. loans) to innovative, mainly pre-IPO, companies. Has invested in more than \$2 billion in venture loans to more than 235 growing businesses in the underserved venture loan space. Their portfolio includes technology, life science, healthcare information and services, and cleantech industries.
- Offers investors opportunity to invest in a venture loan fund (a basket of private, Next Economy™ companies) via a single stock

## **Int'l Business Machines** (Technology, Technology Services)

- Has emerged as a Next Economy innovation powerhouse. The firm's major initiatives to drive present and future revenues include blockchain code and technology, cloud computing, AI and machine learning, and quantum computing.
- Purchase of Red Hat has made IBM a leader in platform as a service, infrastructure as a service, and software as a service
- Top patent holder across many domains; cloud and cognitive software, quantum computing, enabling distributed ledger; pioneering AI; developing security methods atop lattice cryptography; advancing nanotechnology; developing and applying Watson (AI) across industries, including medicine, water, food safety; and the most accurate weather forecasting tech available
- In response to the coronavirus pandemic, IBM has made their AI tools and supercomputing capacity available to COVID-19 researchers, and is providing other key support in many other areas including enabling 3D printing of mask and ventilator parts

## **Qualcomm** (Technology, Semiconductors)

- Global leader in 5G technology, at least a year ahead of the next closest competitor for device-level 5G-enabled tech; major R&D expenditures signal that they likely to remain global leaders
- Global leader in mobile processors, their Snapdragon line is a standard in highest-quality handsets. For example, Qualcomm's new Snapdragon 4100 features dramatic improvements for the next generation of wearable devices
- Innovation and IP ownership powerhouse: Qualcomm employs engineers, scientists, and business strategists who invent tech transforms communications, computing and connectivity
- Qualcomm enables connectivity across applications: auto, health care, IoT, mobile computing, and networking

## **Hannon Armstrong Sustainable Infrastructure** (Financials, Real Estate)

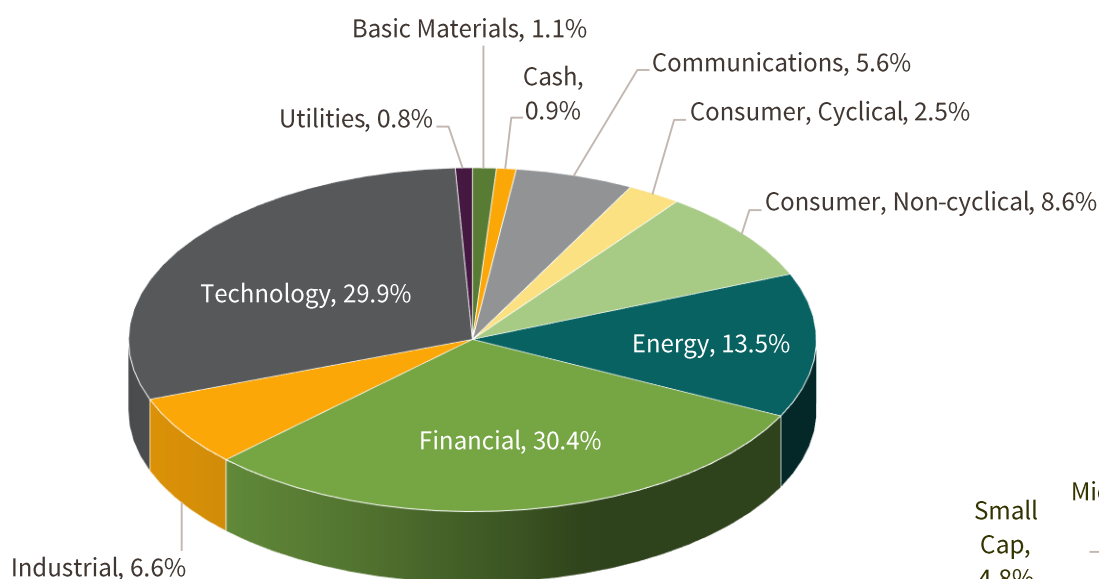
- Functions like a diversified financial/bank funding renewable energy and efficiency projects, with more than \$6 billion in managed assets as of March 31, 2020
- Their 180 investments and loans are generally senior to those of the project sponsor, so are high quality and unlikely to default
- Portfolio spans wind, solar, sustainable infrastructure (water delivery system, storm water remediation, seismic retrofits), and efficiency. Possess aggregate assets in multiple categories, all related to renewable energy and efficiency

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

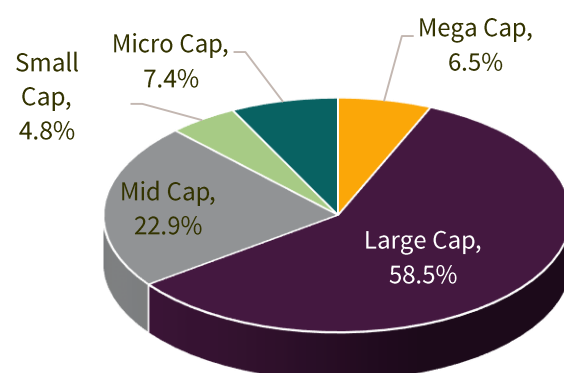
# Portfolio Allocations

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

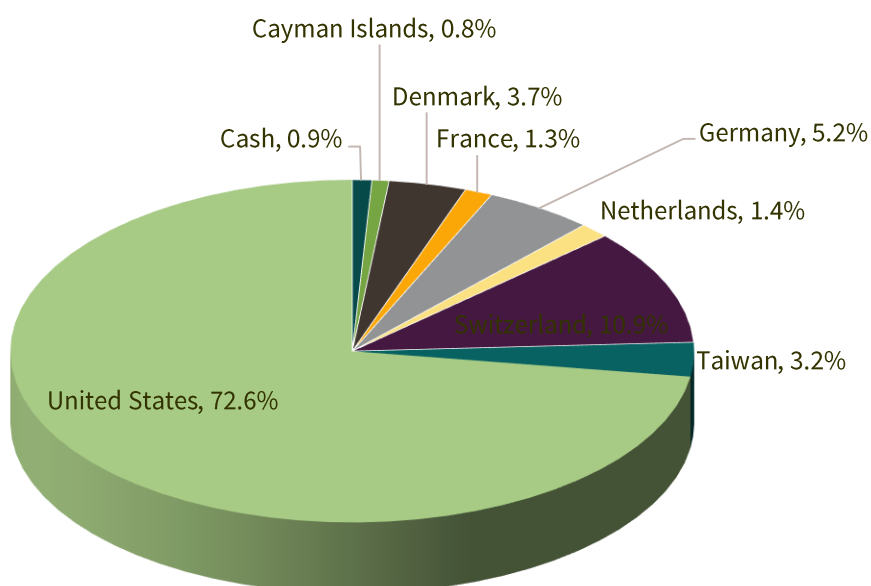
## Economic Sectors<sup>††</sup>



## 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



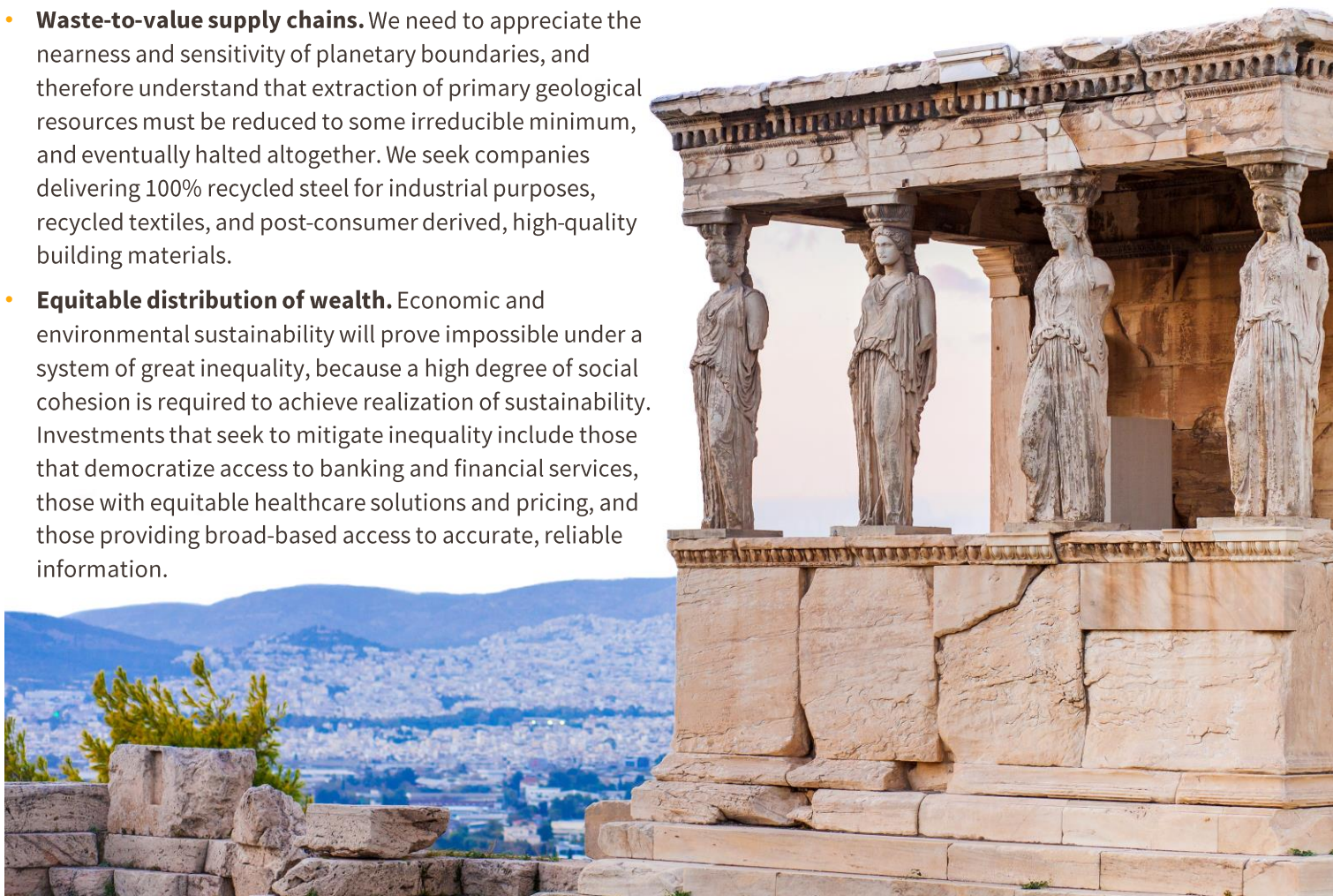
The first half of 2020 was a unique time in the markets and in the global economy. While the economy as a whole is struggling to adapt and transition to new realities, those companies that were already pursuing solutions to systemic risks – including, but not limited to, pandemics – are growing and gaining market share.

Green Alpha's investment thesis and portfolio construction processes are based on our model of a global economy that can thrive indefinitely, without succumbing to the various system-level risks confronting the world. So far this year, our unique thesis has resulted in our portfolios – across the board – providing both significant downside protection and upside capture.

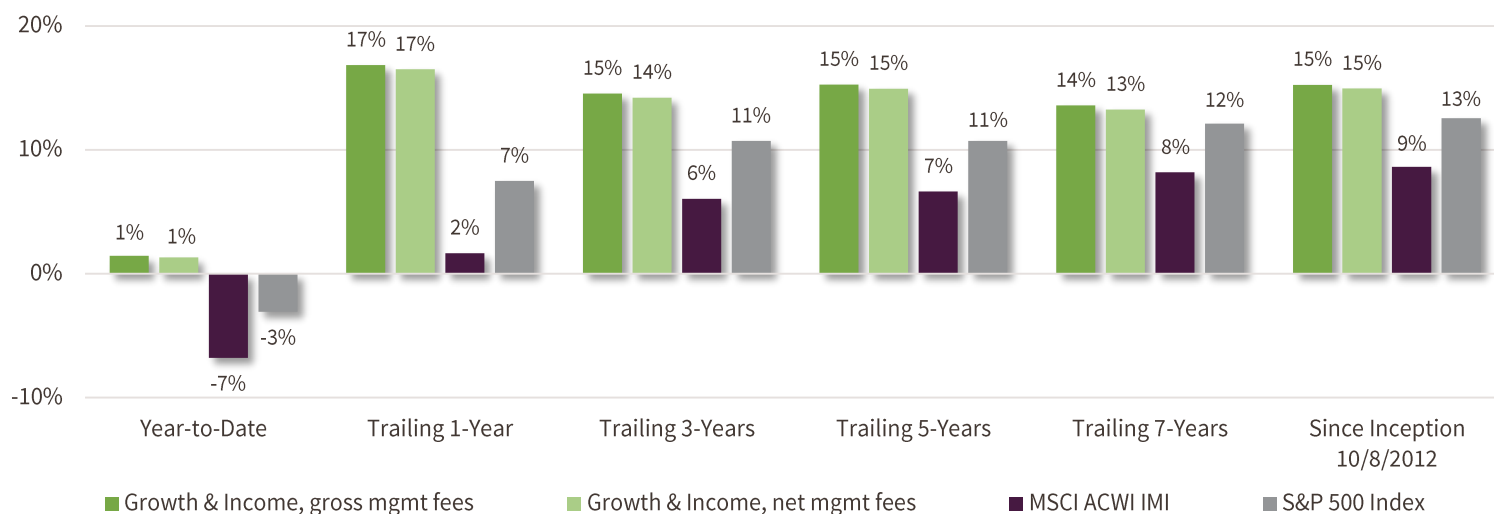
Our thesis predicates that **the Next Economy™ will necessarily rest on four pillars**, and our stock selection approach mandates that every holding is a leader in advancing one or more pillar(s).

## Next Economics™ Pillars of Sustainability

- **Massive economic productivity gains.** We recognize that to provide the global population with a good standard of living, without crossing planetary boundaries, or overtopping Earth's carrying capacity, it is necessary for productive capacity to be far greater than it is today. In economic terms, that means the economy must generate more outputs per unit of input, be those inputs primary geological resources, money, or person hours. Increasing productivity gains can be found in areas such as: digitalization, automation, and communications networks.
- **Renewable energies.** The means of productivity gains cited in the first pillar must be entirely powered by true renewable energies. To achieve sustainability, it is necessary that these energies operate with low-to-zero input requirements. This means energies like wind and solar qualify, but biomass, biofuels, and natural gas do not. Green Alpha seeks investments like wind and solar-based utilities, and advanced wind turbine manufacturing.
- **Waste-to-value supply chains.** We need to appreciate the nearness and sensitivity of planetary boundaries, and therefore understand that extraction of primary geological resources must be reduced to some irreducible minimum, and eventually halted altogether. We seek companies delivering 100% recycled steel for industrial purposes, recycled textiles, and post-consumer derived, high-quality building materials.
- **Equitable distribution of wealth.** Economic and environmental sustainability will prove impossible under a system of great inequality, because a high degree of social cohesion is required to achieve realization of sustainability. Investments that seek to mitigate inequality include those that democratize access to banking and financial services, those with equitable healthcare solutions and pricing, and those providing broad-based access to accurate, reliable information.



# Performance & Commentary *(continued)*



As far as we can observe, employing this Next Economy™ framework makes us nearly unique among public equity managers, including impact-oriented managers and ESG practitioners. We hope this will change, and more managers will devise and implement similar methodologies, because where investment flows is where the economy happens; therefore where change happens. As long as investment managers prioritize things like index correlation above the necessary endgame of an indefinitely sustainable global economy, we will all continue, to some degree, to live in the business-as-usual economy, with all the destructiveness that entails. It is better, by far, to grow client assets via investing in our most innovative ways out of the climate crisis as they gain market share.

**For the first half of 2020, the Growth & Income portfolio was up 1.31%, net of management fees, while its benchmark, the MSCI All Country World Investible Market Index (MSCI ACWI IMI), returned -6.80% for the period.**

The Growth & Income portfolio's construction methodology is primarily designed to generate high levels of dividend income, and secondarily to provide exposure to growth. As a result, many Next Economy™ companies that do not pay a dividend – which were some of our fastest growing stocks in the first half of this year – are not represented in the strategy. However, the combination of an above-market, quarter-end dividend yield of 4.05%, and the fact that the portfolio is populated with companies with strong balance sheets and secure cash positions, means that it is well positioned to resume growth.

The top two contributing sectors to the Growth & Income portfolio's positive year-to-date returns were Energy and Consumer Non-cyclicals.

- Within the Energy sector, two solar and wind-based providers of electricity to utilities and corporate and municipal customers, as well as the world's leading provider of onshore wind turbines, led gains in the portfolio.
- Within Consumer Non-cyclicals, biotechnology stocks led gains, particularly the companies associated with responding to the COVID-19 pandemic. Selections within the Healthcare Services industry also supported gains in the sector. Most, if not all of these businesses, were/are key in responding to the ongoing health crisis.

The two sectors detracting the most from portfolio returns were Consumer Cyclical and Financials.

- The strategy's worst performing sector was Consumer Cyclical, as a sustainable office furnishings maker saw declines in orders as a result of the pandemic, and one of the world's leading providers of outdoor recreation pulled back as early-season closures were ordered.
- Within the Financials sector, losses were led by a large reinsurance company and a renewable energy project financing firm. These losses were partially offset by gains in sustainably-run data centers.

*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.*



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- The S&P 500 Index is an unmanaged index of 500 common stocks chosen for market size, liquidity and industry group representation. It is a market-value weighted index. The S&P 500 Index figures do not reflect any fees expenses or taxes. Investors cannot invest directly in this index.
- 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 26 emerging markets countries. With over 8,786 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set. Investors cannot invest directly in this index.
- The SPDR MSCI Global Stock Market ETF (ticker: SPGM) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the MSCI ACWI IMI. Investors can invest directly in SPGM.
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