

# Next Economy Select

June 30, 2020

## Green Alpha<sup>®</sup>

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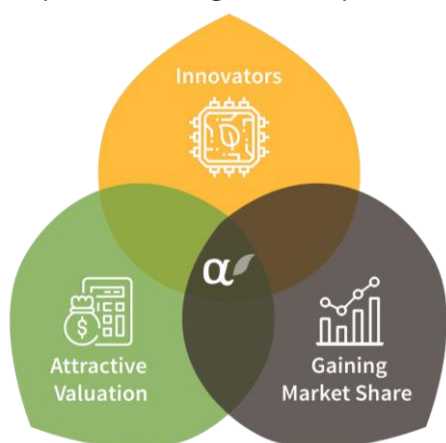
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### Investment Philosophy

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 Next Economy Select?

- Active research, stock selection, and portfolio management
- Low minimum vehicle provides democratized access to institutional-quality investing
- Seeks long-term capital growth to preserve and grow purchasing power
- 45-65 global, market-leading companies developing solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** March 31, 2013

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

**Vehicles:** Mutual Fund,  
Separately Managed Accounts

### Portfolio Construction

The Next Economy Select portfolio is available both in a mutual fund vehicle, and as a separately managed account, to provide democratized, low-minimum account size access to this institutional-quality, innovation-focused portfolio. Because of this, the portfolio’s primary objective is capital appreciation via high-conviction, market-leading Next Economy companies. Since the primary vehicle available within this strategy is a mutual fund, this product follows standard mutual fund industry diversification guidelines, such as: limited position sizes over 5% of the portfolio and no industry concentration in excess of 25%.

We seek investments:

- committing more capital to R&D than their peers
- run by effective, diverse leadership teams and boards of directors with consistent track records increasing revenues and earnings
- trading at compelling valuations for proven and expected growth, within acceptable levels of risk

# Next Economy Select

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

## Characteristics

- **Highest conviction stocks, two investment vehicles** – democratizing access to leading Next Economy companies via a mutual fund and separately managed accounts, to provide clients of all shapes and sizes with institutional-quality options
- **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 Next Economy Select	Benchmark: MSCI ACWI IMI (SPGM)	Green Alpha Next Economy Index	Green Alpha Next Economy Social Index	Green Alpha Growth & Income	Sierra Club Green Alpha
# of Securities	49	1,364	119	92	33	41
Sales Growth, Trailing 1-Yr	474.14%	10.85%	105.07%	125.06%	251.28%	352.25%
P/E, Current	20.41	18.46	28.00	29.86	19.16	22.89
P/E, 1-Year Forward <sup>†</sup>	18.76	17.92	23.25	25.60	17.17	22.12
Price/Sales	1.77	1.49	1.78	1.17	2.26	1.65
Price/Book	3.28	2.19	3.60	4.46	2.52	3.41
LT Debt/Equity	0.78	0.93	0.80	1.21	1.09	0.75
Current Ratio	3.54	1.84	3.03	3.05	2.60	3.47
Dividend Yield	2.82%	2.90%	2.30%	2.53%	4.05%	2.41%
Market Capitalization Weighted Avg (US\$B)	\$64.24	\$245.80	\$90.04	\$90.52	\$47.72	\$76.79
Market Capitalization, Median (US\$B)	\$15.90	Not Available	\$8.34	\$12.06	\$24.97	\$7.53
Turnover, Trailing 1-Yr	18%	-	22%	29%	28%	21%
Beta, Trailing 2-Yrs	1.19	1.01	1.05	1.02	1.07	1.13
Active Share	97%	-	94%	93%	98%	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 Next Economy Select portfolio is driving progress toward the Next Economy

## Vestas Wind Systems (Energy, Renewable Energy)

- 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 Q2 2020, Vestas announced a new record order intake of 5.7 GW in addition to 15% growth in service revenue, despite the ongoing coronavirus pandemic. The orders have pushed delivery dates into 2022, giving stellar transparency into future revenues
- The firm is working toward operating on a carbon-neutral basis, and has set a target for zero-waste turbine production.
- Senior management consists of 29% women, and there are four women (33%) on the Board of Directors

## Moderna (Consumer Non-cyclical, Biotechnology)

- Clinical-stage biotechnology firm focused on using messenger RNA to develop therapies and vaccines
- Moderna's revolutionary science has potential applications for many areas, including: oncology, infectious diseases (including COVID-19), and cardiovascular diseases. Robust pipeline means their future may be impressive COVID-19 notwithstanding
- Strong example of innovation gaining market share in times of crisis
- Senior Management team consists of 25% women, including the critical General Counsel and the Chief Corporate Affairs Officer

## Tesla (Consumer Cyclical, Auto Manufacturers)

- Tesla is a world leader in design and manufacture of electric vehicles under the Tesla Motors brand and stationary battery packs for homes, commercial properties, and utility-scale power via Tesla Energy. Both divisions are gaining market share.
- Tesla's innovations, represented by their impressive patent portfolio and world-leading products, have given the company first-mover advantage in EVs, and a tech advantage in the stationary storage space. Tesla is capitalizing on these leads via continual reinvestment and expanding production capacity; their motto of nonstop innovation seems to be their actual practice as well.
- The Board of Directors includes two women (20%), including the full-time employed Board Chair, Chair of the Disclosure Controls Committee, and Chair of the Audit Committee

## 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. The deal is set to close July 29, 2020.

## Applied Materials (Technology, Semiconductors)

- Global leader in materials engineering – their tech and IP can be found in most integrated circuits and displays. Next Economy™ applications include upstream equipment that enables manufacture of semiconductors, displays, solar cells, and modules
- Provides fundamental building blocks for efficiency-driving tech applications like AI, robotics, automation, solar energy, and IoT. Virtually every IC chip on the planet touches an AMAT device at some point. Also offers automation software, thereby improving production efficiencies, and owns an impressive 12,500+ patents
- The Board of Directors consists of 20% women, including Chairs of the Corporate Governance and Investment Committees

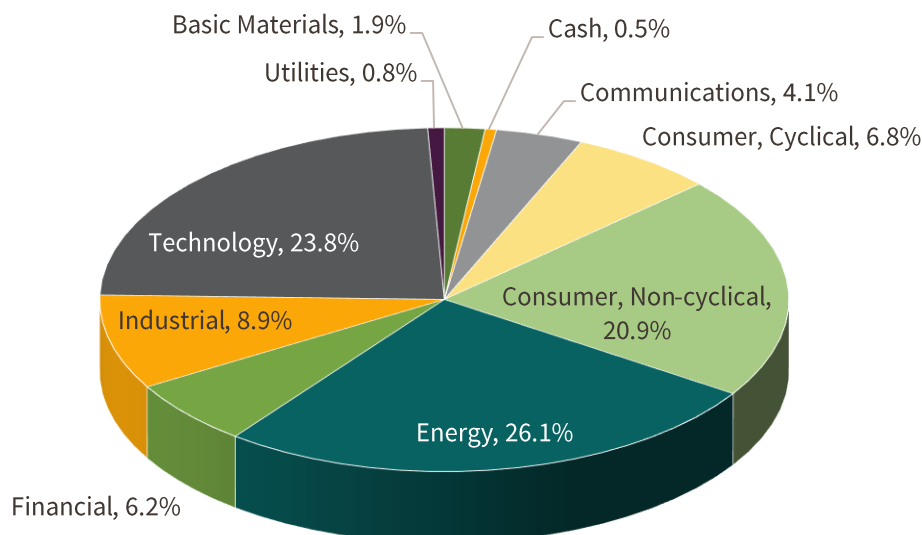
Company Name	Ticker	Weight
Vestas Wind Systems	VWDRY	6.05%
Moderna	MRNA	6.01%
Tesla	TSLA	5.82%
Terraform Power	TERP	5.02%
Applied Materials	AMAT	4.16%
Invitae	NVTA	4.08%
Int'l Business Machines	IBM	3.70%
CRISPR Therapeutics	CRSP	3.33%
First Solar	FSLR	3.31%
Jinkosolar Holding	JKS	3.01%
<b>% of Portfolio</b>		<b>44.49%</b>

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

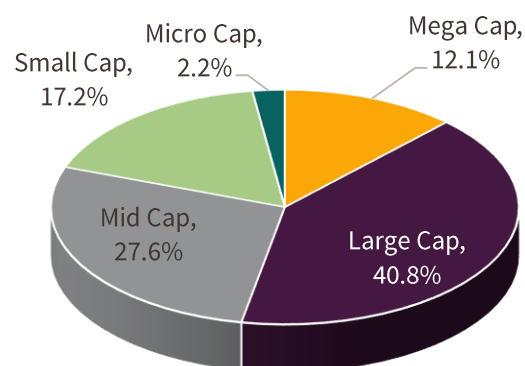
# Portfolio Allocations

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

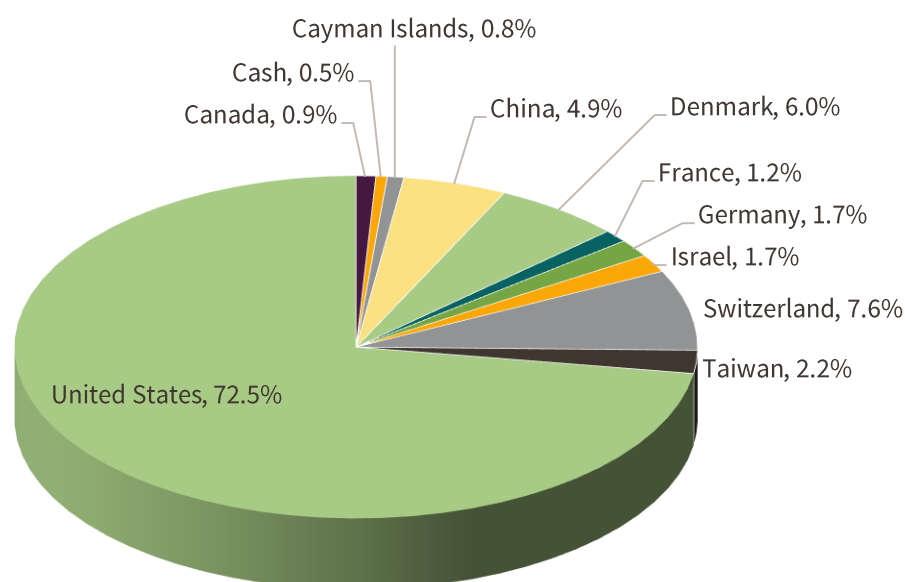
## Economic Sectors<sup>††</sup>



## 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



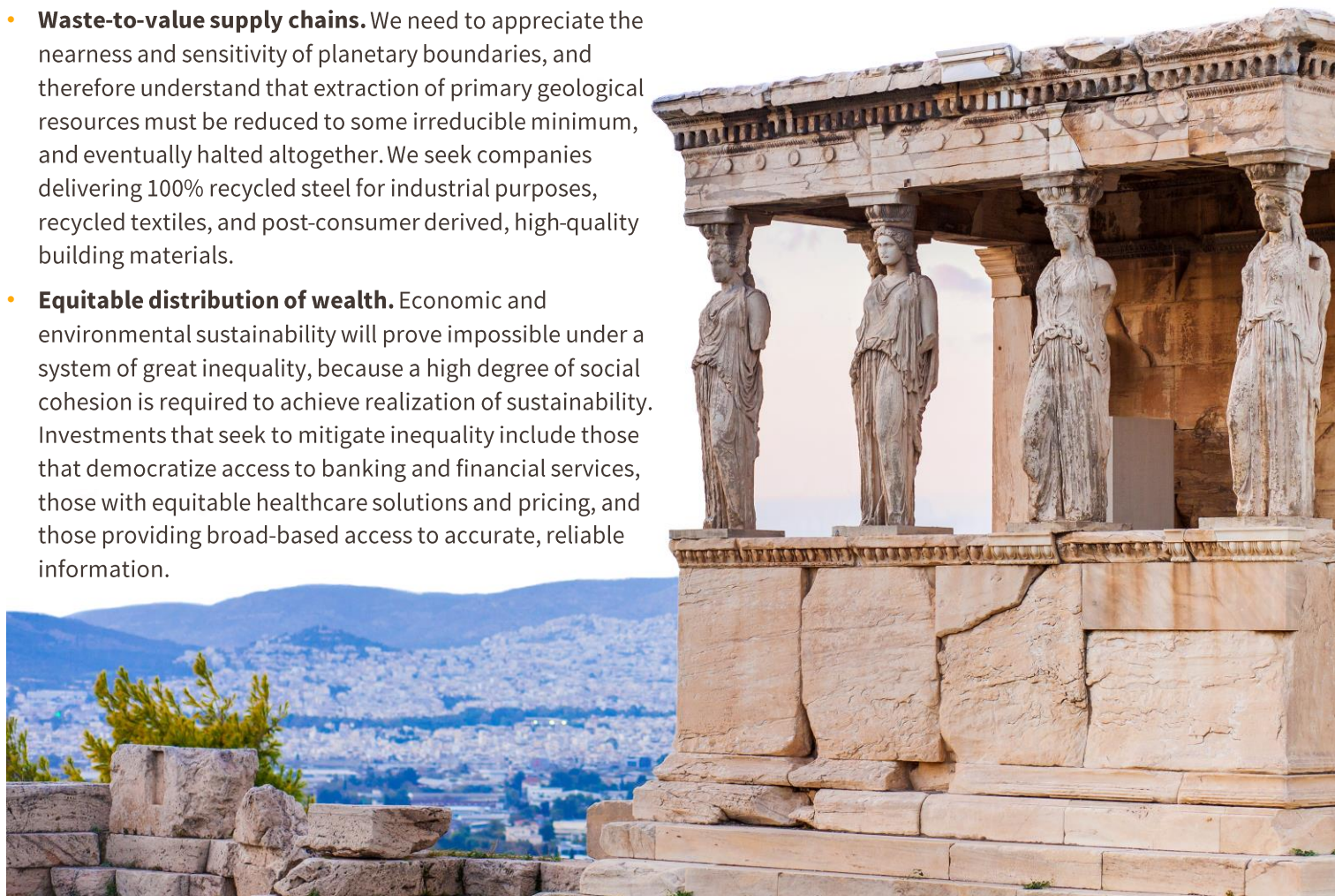
The first half of 2020 was a unique time in the markets and in the global economy. While the economy as a whole is struggling to adapt and transition to new realities, those companies that were already pursuing solutions to systemic risks – including, but not limited to, pandemics – are growing and gaining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

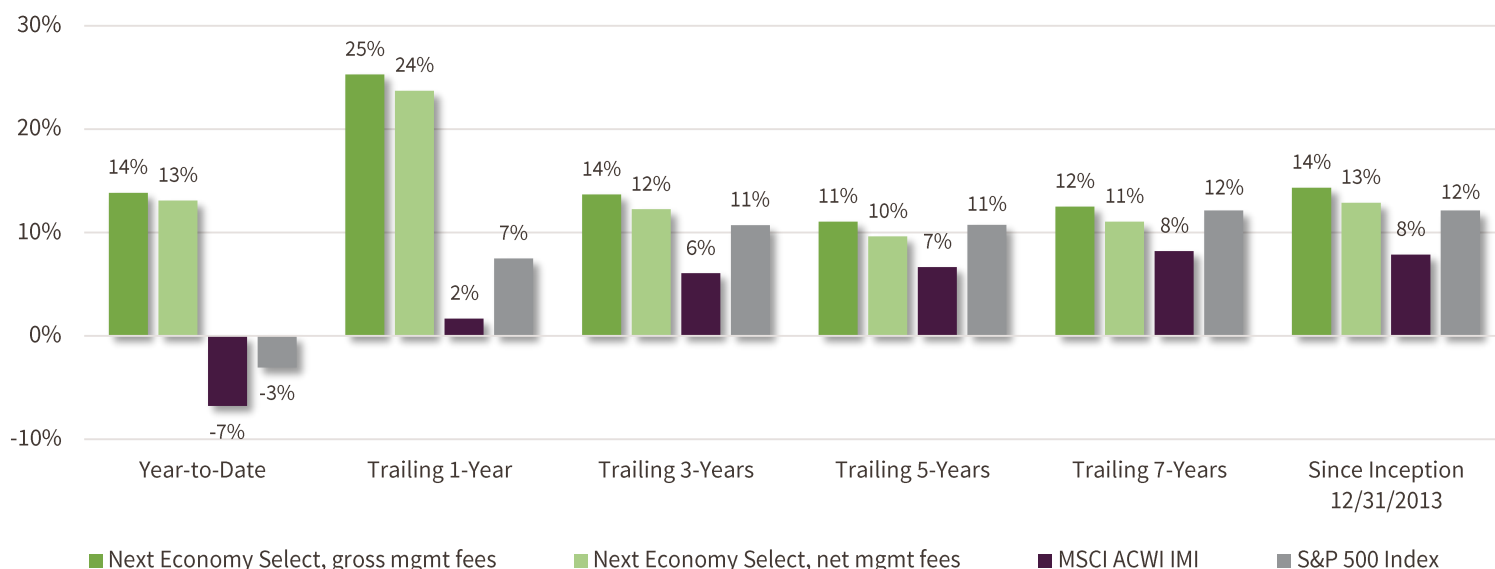
Our thesis predicates that **the Next Economy™ will necessarily rest on four pillars**, and our stock selection approach mandates that every holding is a leader in advancing one or more pillar(s).

## 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 Next Economy Select composite was up 13.11%, 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 top contributing sectors to the Next Economy Select's positive returns were Consumer Non-cyclicals and Consumer Cyclical.

- Within Consumer Non-cyclicals, biotechnology stocks led gains, particularly companies associated with responding to the COVID-19 pandemic. The Healthcare Services industry also supported gains within the sector. A disruptive financial services provider that is helping to enfranchise individuals underserved by traditional banks also contributed significantly. Most, if not all of these businesses, were/are key in responding to the ongoing health crisis.
- In Consumer Cyclical, significant share price gains in the stock of the world's leading EV manufacturer led gains in the sector, more than offsetting losses from a Chinese EV maker and two manufacturers of sustainable office furnishings.

The portfolio's two lagging sectors were Industrials and Financials.

- Losses in Industrials were primarily from an IP owner for advanced display manufacture, as fears that consumer sales of items like televisions and phones would decline amidst an economic slowdown. Electrical and water infrastructure providers also returned negative contributions, although these were partially offset by gains from a manufacturer of sustainable building materials.
- Within the Financials sector, negative contributions were from renewable energy financing, and from a venture debt financing firm supporting smaller innovators around the economy. These losses were partially offset by gains from a leading sustainable data center REIT.

*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.
- 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 for some client accounts in the composite, but not all, as that is dictated by each client. 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 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.
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