

# Next Economy Index

September 30, 2020

## Green Alpha<sup>®</sup>

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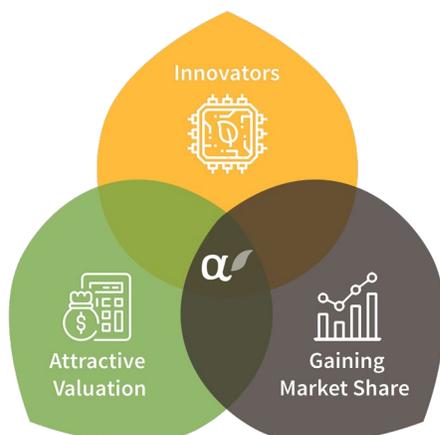
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### Investment Philosophy

We believe companies that create or enable innovative solutions to climate change, resource degradation and scarcity, and worsening inequality are the greatest growth drivers of the twenty-first century. The idea is to invest in the best, growing industries and companies 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, economically competitive solutions.

We expect these companies to 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 the Next Economy Index?

- Active research and stock selection
- Passively managed through an annual rebalance
- Demonstrates the diversity, growth, breadth, and depth of the already-emerging Next Economy
- ~120 global, market-leading companies developing solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** December 30, 2008

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

**Vehicle:** Separately Managed Accounts

### Portfolio Construction

The Next Economy Index utilizes both active stock selection and passive management to reflect and benchmark the Next Economy – the innovation-driven, highly efficient, solutions-oriented sustainable economy that is unfolding. All companies that pass both our top-down and bottom-up research processes with sufficiently high scores are included in the portfolio during the annual rebalancing process. 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

Like all Green Alpha portfolios, Next Economy Index investments seek to de-risk the global economy, thus reducing our clients’ long-term portfolio risks.

# Next Economy Index

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

## Characteristics

- **Largest Next Economy basket** – by definition, the Index is the most diversified Green Alpha portfolio by number of stocks; all stocks that pass Green Alpha's top-down and bottom-up investment processes enter the Index
- **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 Index	Benchmark: MSCI ACWI IMI (SPGM)	Green Alpha Next Economy Social Index	Green Alpha Next Economy Select	Green Alpha Growth & Income	Sierra Club Green Alpha
# of Securities	120	1,521	93	52	35	42
Sales Growth, Trailing 1-Yr	155.48%	7.35%	185.65%	682.84%	455.79%	524.92%
P/E, Current	26.36	21.91	30.99	22.00	20.71	31.67
P/E, 1-Year Forward <sup>†</sup>	24.72	17.89	27.35	21.60	17.21	25.03
Price/Sales	2.11	1.70	1.36	2.39	1.97	2.12
Price/Book	4.27	2.40	5.08	4.86	2.15	4.97
LT Debt/Equity	0.84	0.97	1.22	0.75	0.94	0.71
Current Ratio	3.07	1.97	3.25	3.46	2.48	3.32
Dividend Yield	2.09%	2.63%	2.30%	2.05%	4.06%	1.88%
Market Capitalization Weighted Avg (US\$B)	\$121.83	\$289.73	\$125.35	\$95.16	\$53.39	\$107.03
Market Capitalization, Median (US\$B)	\$10.39	Not Available	\$12.64	\$14.40	\$23.53	\$11.18
Turnover, Trailing 1-Yr	20%	-	26%	19%	50%	18%
Beta, Trailing 2-Yrs	1.09	1.00	1.08	1.22	1.09	1.18
Active Share	93%	-	92%	95%	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 Next Economy Index is driving progress toward the Next Economy

## **Tesla** (Sector: Consumer Cyclical)

- Tesla is a leader in design and manufacture of electric vehicles and stationary battery packs for homes, commercial properties, and utility-scale power. All divisions within the company are technology and innovation-leaders gaining market share.
- Tesla's innovations, represented by an impressive patent portfolio and world-leading products, have given them first-mover advantage in EVs, and a tech advantage in stationary storage. Tesla is capitalizing via continual reinvestment and expanding production capacity; their motto of nonstop innovation seems to be their actual practice.
- Their means of production are very efficient. They manufacture and sell EVs profitably, and in pandemic-restricted Q1 2020 Tesla reported 20% automotive gross margin, excluding regulatory credits.
- Collaborations with SpaceX gives Tesla unique access to advanced science and engineering.

## **NVIDIA** (Sector: Technology)

- NVIDIA's GPUs and other processors are dominant in datacenters, ML, and AI. For example, the company recently announced that it is building the UK's most powerful supercomputer, the \$52m "Cambridge-1" that will consist of 80 NVIDIA systems and focus on AI research in health and medical care.
- NVIDIA's proposed acquisition of Arm, for \$40 billion and still pending regulatory approval, could unite two global leaders to create a premier AI hardware provider, widening the IP moat around both companies.
- NVIDIA's acquisition of Mellanox, a provider of advanced networking products, added a critical vertical to their offering.
- The Exec team is highly gender diverse for the tech industry at 40% women, including the CFO and EVP of Operations, and the Board of Directors also includes two women.

## **Moderna** (Sector: Consumer Non-cyclical)

- 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 early-and-advanced stage pipeline means their future growth may be impressive with or without major revenue contributions from a COVID-19 vaccine.
- Both the Exec Team and Board of Directors consist of 25% women, including General Counsel and Chief HR Officers.

## **Sunrun** (Sector: Energy)

- The leading installer of solar and battery storage solutions in the US residential market. With the pending approval of the Vivint Solar merger, they will control ~17% of the U.S. solar installation market - substantially larger than the nearest competitor.
- Recent share price catalysts have included the devastating wildfire season in California, one of Sunrun's largest markets, with homeowners increasingly seeing the importance of making and storing their own electricity, decreasing their reliance on a less reliable grid-and-utility system.
- 40% of Executives are female, including CEO and co-Founder Lynn Jurich and Jeanna Steele, the firm's General Counsel. 57% of the Board of Directors is female, including the Chairs of the Compensation and Nominating /Corporate Governance Committees.

## **Daqo New Energy** (Sector: Energy)

- Chinese maker of high-quality mono- and polysilicon for use in solar photovoltaic panel manufacture.
- The company provides upstream, non-module maker specific exposure to the solar PV industry, and also gives our strategies global exposure as DQ derives 100% of its revenues in China. This is important, as approximately 70% of global solar modules are manufactured in China.
- As demand for solar energy increases, leading upstream suppliers like Daqo will continue to benefit from the growing TAM, and DQ should benefit disproportionately due to their production capacity advantages and reputation for quality product.

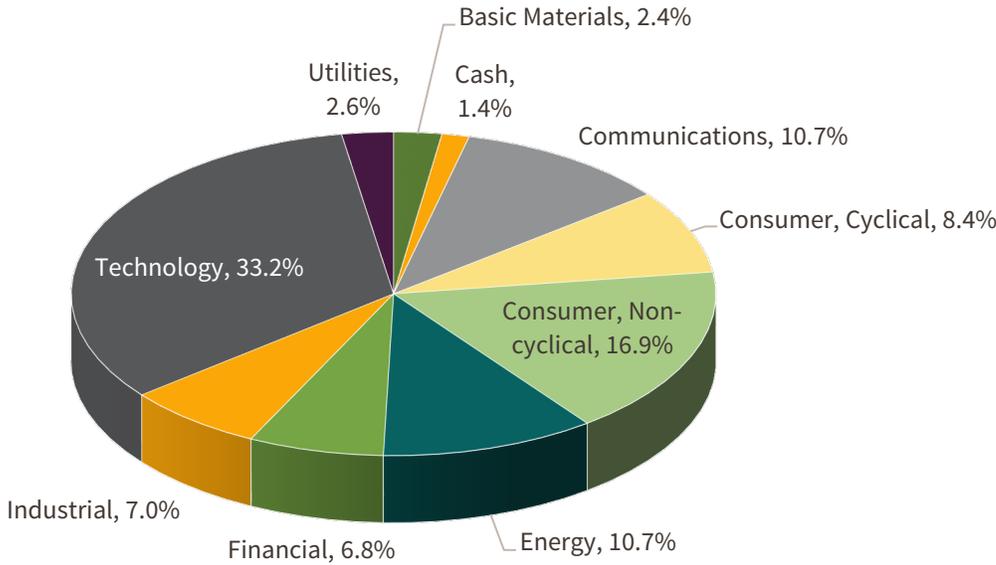
Company Name	Ticker	Weight
Tesla	TSLA	6.21%
NVIDIA	NVDA	2.35%
Moderna	MRNA	2.25%
Sunrun	RUN	2.23%
Daqo New Energy	DQ	2.15%
Alphabet	GOOG	2.13%
Enphase Energy	ENPH	1.79%
Square	SQ	1.65%
Teladoc Health	TDOC	1.59%
SolarEdge Technology	SEDG	1.38%
<b>% of Portfolio</b>		<b>23.73%</b>

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

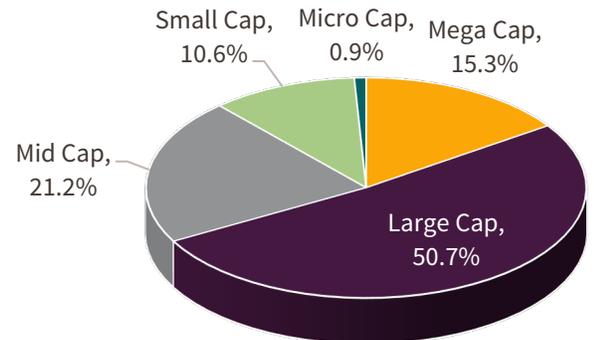
# Portfolio Allocations

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

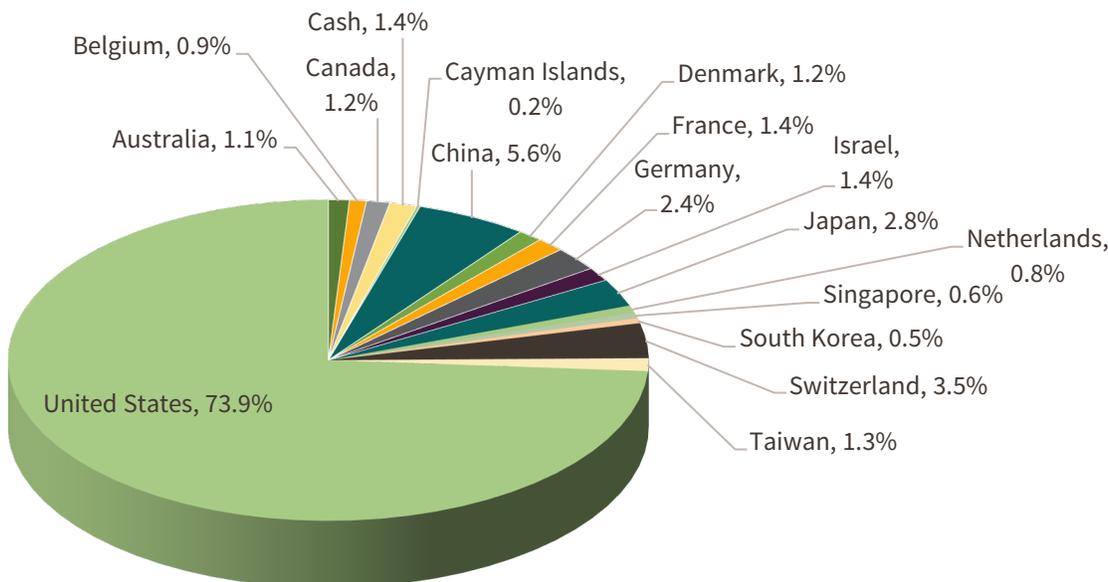
## Economic Sectors ††



## Market Capitalizations

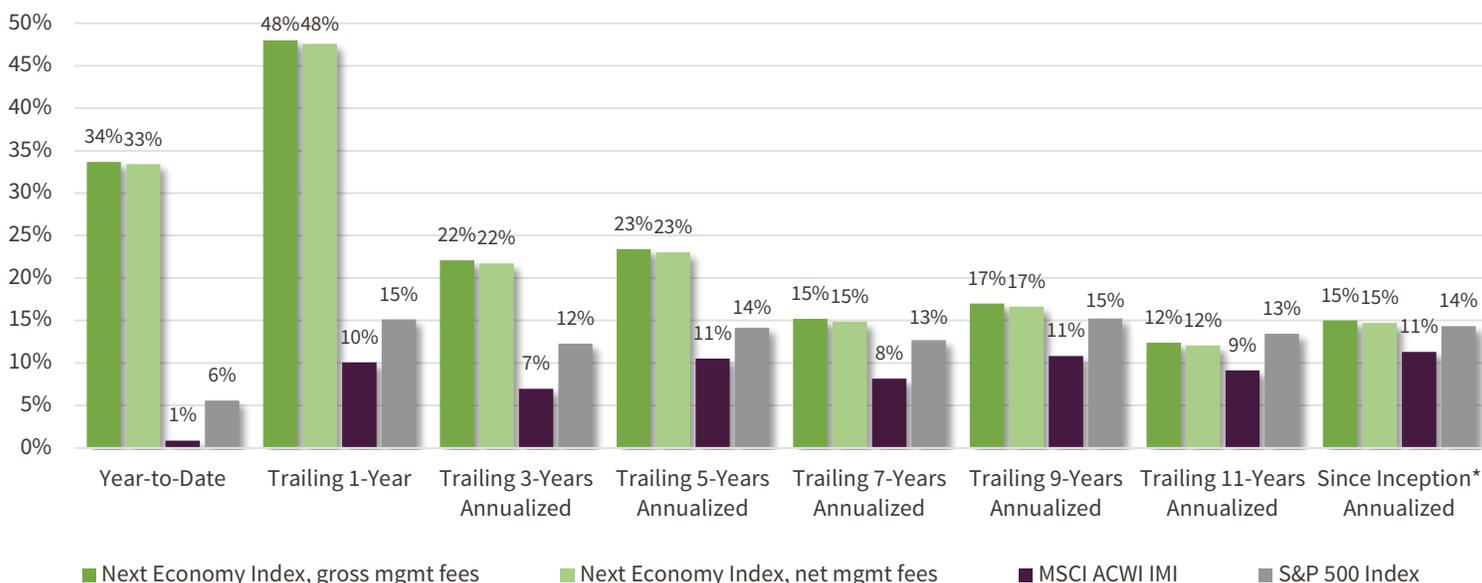


## Companies' Main Headquarters



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

# Performance & Commentary



The pandemic era has revealed many things, not the least of which are the roles of innovation in addressing the largest threats to humanity, the environment, and to the global economy. In response, markets have begun rewarding companies at the intersection of innovation, large-scale problem solving, and economic competitiveness. This has involved a transition to active stock picking and away from indexing, which, in Green Alpha's opinion, is long overdue.

Put another way, if the majority of investment assets does not flow primarily to companies solving the climate crisis and other key systems risks, like health and inequality, we'll be in trouble and investing may seem like the least of our concerns.

**Year-to-date, Green Alpha's Next Economy Index has returned 33.40%, net of management fees, vs its benchmark the MSCI All Country World Investable Market Index (MSCI ACWI IMI) at 0.86%.**

The top two contributing sectors to the portfolio's returns were Consumer Non-cyclical and Technology, contributing 9.07% and 8.93% respectively.

- In the Consumer Non-cyclicals sector, biotechnology stocks led returns, with three developers of genomic therapeutics and vaccines to treat a wide range of health concerns from viruses to cancers contributing the most. The healthcare services industry allocation also grew, as telemedicine and genomic sequencing equipment saw positive returns.
- Within the Technology sector, semiconductors added the most to the portfolio's returns, with designers of advanced ICs for artificial intelligence and machine learning applications contributing the most. Leading foundries and makers of power management chips also added to the sector's performance.

The lowest performing sectors in the portfolio were Industrials and Utilities, contributing -0.86% and 0.34% respectively.

- Within the Industrials sector, losses were mostly from two firms: a world-leading supplier of smart meters for residential and commercial utility customers, and a maker of advanced ceramic components for many Next Economy<sup>™</sup> applications, including renewable energy and electric transportation. In both cases, revenues were affected by supply chain disruptions and slowed buying from some customers amid the ongoing pandemic.
- In Utilities, losses from two water utilities were more than offset by gains in two renewable energy utilities, giving the sector an overall modest contribution to the portfolio.

*\*Portfolio Inception: December 30, 2008. 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 Index performance results reflect actual performance for a representative account, net of actual management fees and transaction costs. Assets managed in the Next Economy Index strategy representative account receive a reduced fee from the standard fee schedule. Next Economy Index 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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- 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 8,766 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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