

# Next Economy Social Index

September 30, 2020

## Green Alpha<sup>®</sup>

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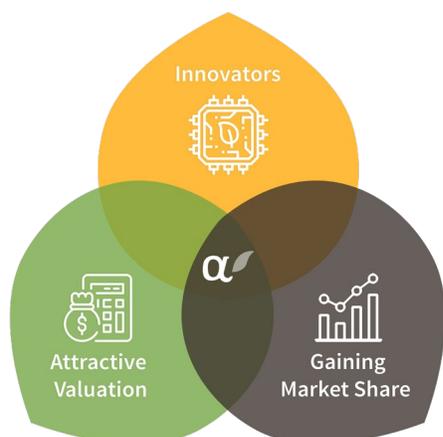
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### Investment Philosophy

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 Social Index?

- Active research and stock selection
- Passively managed through an annual rebalance
- Applies unique gender and social inclusion criteria to create a portfolio with a powerful one-two punch of innovative companies led by diverse, empowered teams
- ~93 global, market-leading companies developing solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** December 31, 2015

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

**Vehicle:** Separately Managed Accounts

### Portfolio Construction

The Social Index construction is based on the science that the cognitive power, execution abilities, and risk management skills of groups exceeds that of individuals, and the more diverse the group the greater potential.

To manage the portfolio, we start by seeking 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

We select weights based on market cap size, then assign additional weighting to companies where women hold positions of significant decision-making authority, have especially strong representation in leadership, and/or corporate policies are eminently inclusive.

# Next Economy Social Index

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

## Characteristics

- **Next Economy innovators, diversity leaders** – harnessing the performance enhancing and risk reducing potential offered by diverse teams, we apply rigorous gender and social inclusion criteria to the Next Economy universe
- **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 Social Index	Benchmark: MSCI ACWI IMI (SPGM)	Green Alpha Next Economy Index	Green Alpha Next Economy Select	Green Alpha Growth & Income	Sierra Club Green Alpha
# of Securities	93	1,521	120	52	35	42
Sales Growth, Trailing 1-Yr	185.65%	7.35%	155.48%	682.84%	455.79%	524.92%
P/E, Current	30.99	21.91	26.36	22.00	20.71	31.67
P/E, 1-Year Forward <sup>†</sup>	27.35	17.89	24.72	21.60	17.21	25.03
Price/Sales	1.36	1.70	2.11	2.39	1.97	2.12
Price/Book	5.08	2.40	4.27	4.86	2.15	4.97
LT Debt/Equity	1.22	0.97	0.84	0.75	0.94	0.71
Current Ratio	3.25	1.97	3.07	3.46	2.48	3.32
Dividend Yield	2.30%	2.63%	2.09%	2.05%	4.06%	1.88%
Market Capitalization Weighted Avg (US\$B)	\$125.35	\$289.73	\$121.83	\$95.16	\$53.39	\$107.03
Market Capitalization, Median (US\$B)	\$12.64	Not Available	\$10.39	\$14.40	\$23.53	\$11.18
Turnover, Trailing 1-Yr	26%	-	20%	19%	50%	18%
Beta, Trailing 2-Yrs	1.08	1.00	1.09	1.22	1.09	1.18
Active Share	92%	-	93%	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 Social Index is driving progress toward the Next Economy

Company Name	Ticker	Weight
Sunrun	RUN	5.76%
Tesla	TSLA	5.25%
Moderna	MRNA	2.96%
Square	SQ	2.90%
Teladoc Health	TDOC	2.61%
NVIDIA	NVDA	2.58%
Invitae	NVTA	2.28%
Apple	AAPL	1.91%
Alibaba Group Holding	BABA	1.83%
Autodesk	ADSK	1.52%
<b>% of Portfolio</b>		<b>29.60%</b>

## 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.

## 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. Collaborations with SpaceX gives them unique access to advanced science and engineering. Their production is highly efficient. They manufacture and sell EVs profitably, and in pandemic-restricted Q1 2020 Tesla reported 20% automotive gross margin, excluding regulatory credits.

## 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.

## Square (Sector: Consumer Non-cyclical)

- In addition to Square's core product allowing small business to accept credit cards, the company is rapidly growing its Cash App product. Cash App began as a competitor to Venmo, allowing users to send money to friends, businesses, etc. seamlessly. Since then, Cash App's additional features have led it to become a primary money management resource for many, including populations underserved by traditional banks. This is more significant than it may seem at first glance: Cash App has added 60 million users in the last seven years, radically eclipsing new account opening at traditional banks.
- They participated in the SBA's Paycheck Protection Program, processing more than \$820 million in forgivable loans in six weeks. Their average loan size was ~\$11,000, again showing that Square is happy to serve those largely ignored by traditional banks.
- The Exec Team includes five women (50%), and three on the Board of Directors, including the Compensation Committee Chair.

## Teladoc Health (Sector: Consumer Non-cyclical)

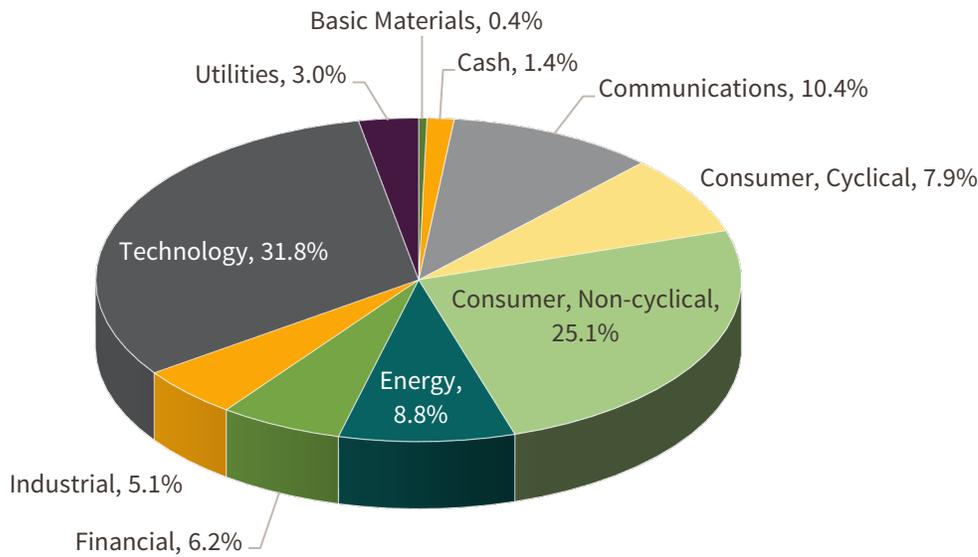
- Teladoc provides remote medical services via voice and interactive video consultations, including diagnoses, treatment recommendations, and prescriptions. It serves patients worldwide, democratizing access to medical care and revolutionizing simple, less expensive access to professional intervention.
- The Telehealth industry is growing rapidly as patents in rural/remote areas, as well as those who may be immobile or quarantined, are able to access quality care.
- In August, Teladoc announced its intention to acquire Livongo, an IoT firm focused on chronic disease management. Adding Livongo's datastream and AI capabilities will give Teladoc even larger competitive advantages.
- Executive management includes four female C-suite Officers (27%), and the Board of Directors includes two women.

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

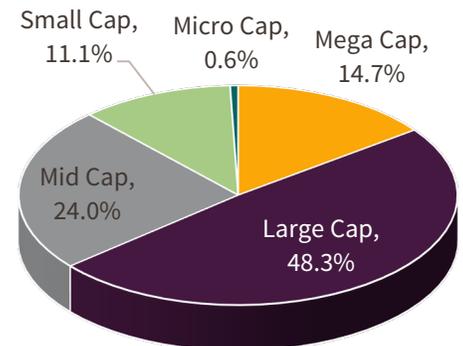
# Portfolio Allocations

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

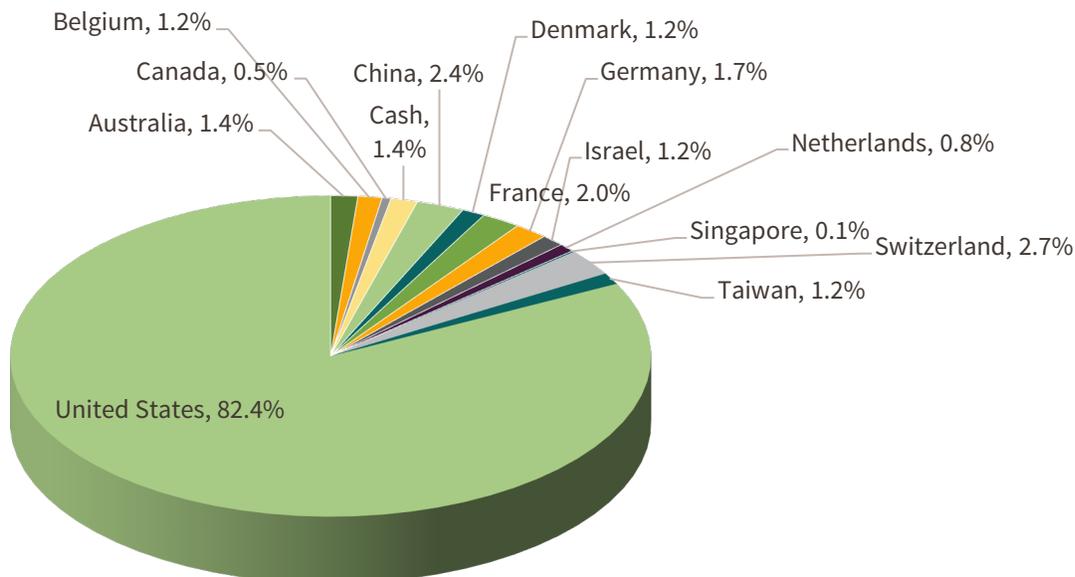
## Economic Sectors ††



## Market Capitalizations

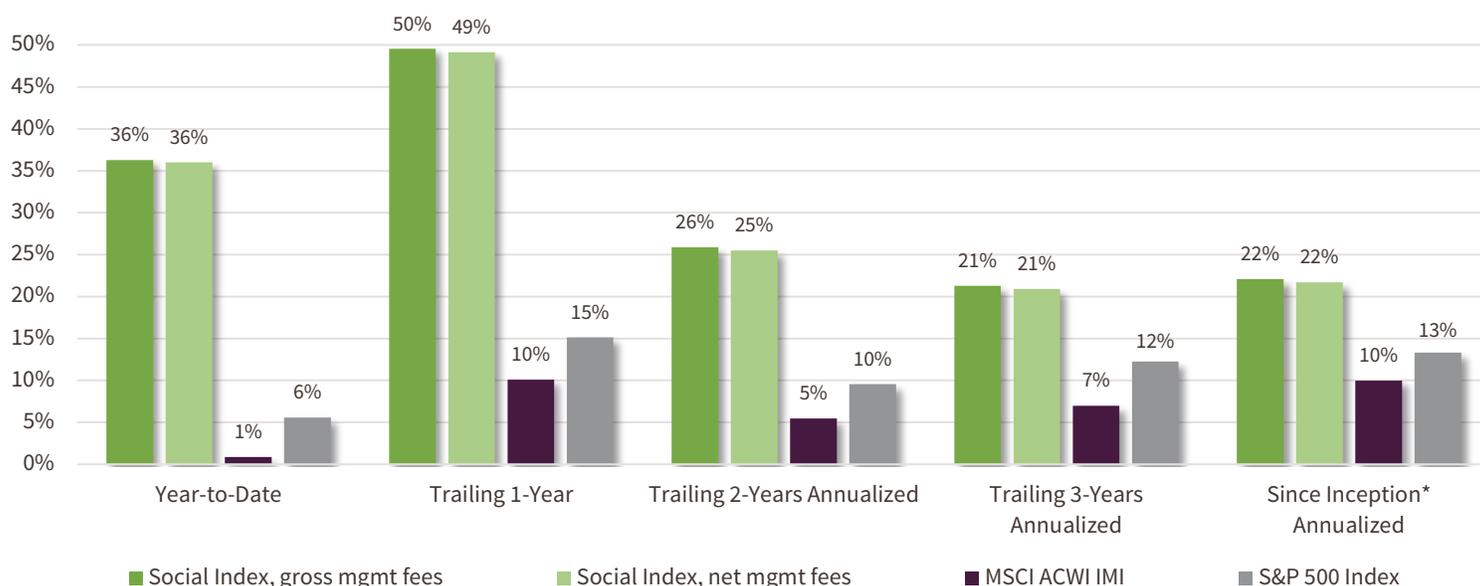


## Companies' Main Headquarters



†† 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 Social Index portfolio has returned 36.00%, 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 14.72% and 9.08% 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 also grew, as telemedicine and genomic sequencing equipment saw positive returns.
- Within the Technology sector, semiconductors added the most, with designers of advanced ICs for artificial intelligence and machine learning applications advancing the most, and makers of software for 3D printing and remote team working platforms also adding to returns.

The lowest performing sectors in the portfolio were Industrials and Basic Materials, contributing -1.24% and -0.09% 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 designer and IP owner of and for efficient, high-performance OLED displays for computers, smartphones and other devices.
- In Basic Materials, all losses were from one firm, a provider of high-quality recycled steel, as plans for infrastructure spending in the U.S. remained stalled at the policymaking level.

*\*Portfolio Inception: December 31, 2015. 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

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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.
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