

# Social Index

March 31, 2024

## Green Alpha<sup>®</sup>

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### Investment Philosophy

Today's economy derives its most significant growth from innovative, high-performing businesses actively developing and expediting economic productivity gains, and those expanding solutions addressing critical systemic issues such as the climate crisis, resource degradation, inequality, and diseases.

These companies represent the most promising investment opportunities for both safeguarding and increasing our clients' capital.

Green Alpha adheres to a straightforward philosophy: we actively seek out companies pioneering swiftly scalable and rapidly adaptable, economically competitive solutions.



### Why Invest in the Social Index?

- Active research and stock selection; passively managed through an annual rebalance
- Industry-leading rigorous gender and social inclusion criteria applied to the Next Economy™ thesis results in a uniquely powerful portfolio of innovative companies led by diverse, empowered teams
- ~114 global, market-leading companies

**Inception Date:** December 31, 2015

**Vehicle:** Separately Managed Accounts

### Research

We aim to identify companies meeting the following criteria:

- They offer products and/or services that mitigate the risk profile of the global economy by providing solutions to pressing economic and environmental challenges.
- Companies allocating a significant portion of revenue to R&D, CapEx, and possessing more IP than their peers.
- Those led by shareholder-aligned, effective, and diverse executive teams and BODs with a record of increasing revenues and expanding profit margins, which in turn drives earnings growth.
- Companies with prudent capital allocation priorities and strong balance sheets.
- Those with shares trading at attractive valuations relative to proven and anticipated growth prospects.

### Portfolio Construction

Construction of the Social Index is founded on the science that the collective cognitive power, execution skills, and risk management abilities of groups exceeds those of individuals or homogeneous groups. Generally, greater diversity within a group leads to superior long-term outcomes.

Weights are initially determined by market capitalization, then we assign additional weighting to companies where women hold significant decision-making authority, have especially strong representation, and/or those companies with policies that are eminently inclusive of all demographics.

# Largest Positions

How the Social Index portfolio is driving progress toward the Next Economy

## Honest Co. *(Sector: Consumer Staples, Industry: Household Products)*

- The Honest Company offers safe, eco-conscious baby, personal care, and household cleaning products. Their focus is on natural ingredients, transparency, and accessibility for consumers seeking chemical-free options.
- Strong Brand and Mission: Honest Co. has built a solid brand reputation associated with natural products, eco-consciousness, and a commitment to making healthier choices accessible. Their mission resonates with a growing number of consumers, giving them a strong foundation.
- The company's strong 2023 results and significant upward revisions for 2024 forecasts fueled a 200% stock-price surge, which signals market recognition of Honest Co.'s growth potential and improving fundamentals.
- Honest Co. demonstrates a commitment to women in leadership. 37% of executives, including the CEO and Chief Growth Officer, are female. The board of directors is 57% female, further highlighting their support of diversity. The first Afro-Latina CEO of a publicly traded company, Carla Vernón brings a wealth of experience from leading roles at Amazon and General Mills to her position. Her expertise in consumer goods and e-commerce will strengthen the company's position in the clean products market and deliver on its core mission of providing safe and healthy choices for consumers.

## NVIDIA Corporation *(Sector: Technology, Industry: Semiconductors)*

- NVIDIA is at the heart of the AI revolution. Their GPUs (graphics processing units) are the preferred choice for training and running complex AI models. NVIDIA's dominance extends to high-performance computing, making their technology vital for scientific research, simulations, and supercomputing.
- Expanding Market Opportunities: NVIDIA's applications are rapidly expanding beyond its traditional strength in gaming. Their technology is powering breakthroughs in:
  - Data Centers: Driving efficiency and speed for cloud computing
  - Automotive: Enabling self-driving cars and advanced vehicle systems
  - Robotics: Supporting automation and machine intelligence
  - Metaverse: Providing the computing infrastructure for immersive virtual worlds
- Strong Leadership and Culture of Innovation: CEO Jensen Huang is a visionary leader, credited with transforming NVIDIA into a technology powerhouse. The company fosters a strong culture of innovation, continually investing in research and development to stay ahead in a fast-changing technology landscape.
- Fully half of NVIDIA's executive officers and 25% of the board of directors are women, including the Compensation Committee Chair.

## Vital Farms *(Sector: Consumer Staples, Industry: Food)*

- Vital Farms is a food company focused on producing pasture-raised eggs, butter, and other dairy products according to ethical farming standards in the United States. Some defining aspects of their business model include:
  - Pasture-Raised Model: Their hens and cows are raised outdoors on small independent farms allow to roam and forage naturally rather than caged or confined methods.

**Vital Farms, Inovio Pharmaceuticals, and Sunrun's Next Economy attributes are described on the following page.**

Company Name	Ticker	Weight
Honest Company	HNST	4.32%
NVIDIA	NVDA	2.55%
Vital Farms	VITL	2.50%
Inovio Pharma.	INO	2.32%
Sunrun	RUN	1.79%
Cloudflare	NET	1.75%
Seagate Technology	STX	1.68%
Steelcase	SCS	1.67%
Beam Therapeutics	BEAM	1.66%
Lam Research Corp	LRCX	1.65%
<b>% of Portfolio</b>		<b>21.89%</b>

# Largest Positions *continued*

## **Vital Farms** *continued*

- Humane Certifications: They follow stringent guidelines on animal welfare, environmental sustainability, and management practices.
- Small Supplier Network: They source ingredients from a network of over 200 small family farms.
- Value-Added Products: Vital Farms uses pasture-raised eggs and cream as key inputs into items like butter, hard-boiled eggs, egg bites and liquid whole eggs to enhance shelf-stable assortment.
- With less than 1% current household penetration in the U.S., there is significant room for expansion. Vital Farms is capitalizing via channel expansion from natural grocers into mass retail banners like Walmart, Publix, and Kroger. Distribution gains should continue fueling revenue growth.
- Vital Farms enjoys strong business fundamentals, including a consistent 27% annual revenue growth rate and a rapidly expanding omnichannel distribution strategy. This strategic growth positions them for significant future expansion.
- The board is 50% female, including chairs of the Audit, Compensation, and Nominating/Corporate Governance Committees. Executive leadership is 38% female and includes the General Counsel and Chief Marketing Officer.

## **Inovio Pharmaceuticals** (Sector: Health Care, Industry: Biotech & Pharma)

- Inovio Pharmaceuticals is a clinical-stage biotechnology company pioneering a revolutionary approach to treating diseases through DNA-based immunotherapy. Their patented technology platform, called DNA Medicines, focuses on harnessing the body's immune system to fight diseases like cancer, HPV-related illnesses, and infectious diseases.
- At the forefront of innovation, Inovio's approach differs from traditional vaccines and therapeutics. Their DNA medicines deliver optimized instructions directly to cells, potentially triggering a robust and targeted immune response.
- Inovio's pipeline includes promising candidates tackling a range of high-need areas. They're developing potential treatments for cancers like cervical dysplasia and glioblastoma, HPV-caused infections, and even infectious diseases like MERS and COVID-19.
- Strategic partnerships and collaborations fuel Inovio's research and development efforts. Collaborations with institutions like the Wistar Institute and backing from organizations like the Bill & Melinda Gates Foundation propel their mission to create groundbreaking therapies.

## **Sunrun** (Sector: Energy, Industry: Renewable Energy)

- Sunrun is the nation's leading residential solar company, providing innovative solar and battery solutions for homeowners. Their pioneering solar as a service model makes clean energy accessible with flexible financing options like leases and PPAs, eliminating high upfront costs.
- The company offers a complete solar experience, handling design, installation, financing, maintenance, and monitoring. This streamlined approach and focus on customer service fuel their market leadership with over 900k customers.
- Sunrun demonstrates strong growth fundamentals, with rapidly expanding customer installations and a robust pipeline of future projects. They continue to expand their reach and impact, partnering with Ford to integrate home solar with the F-150 Lightning and acquiring Vivint Smart Home to strengthen its energy management offerings.
- The company is a strong advocate for solar-friendly policies, playing a pivotal role in shaping the future of renewable energy. They actively champion policies supporting distributed solar and battery storage.
- Sunrun demonstrates a commitment to diversity and inclusion, with impressive female representation on both the executive team (37%) and board of directors (55%).

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

# Macroeconomic Commentary



The first quarter of 2024 revealed a more-persistent-than-hoped picture of inflation. While showing significant deceleration compared to 2023 peaks, inflation rates remained stubbornly above central bank targets. This defied earlier expectations of a rapid return to price stability, forcing a retrenchment in interest rate expectations. The Federal Reserve, and its global counterparts, signaled that rates will likely stay higher for longer than previously anticipated. Stock markets, with their fixation on immediate, and even incorrect but narrative-promoted results, entered a realm of extreme short-termism. Share prices became increasingly volatile, exhibiting rapid reactions to the smallest shifts in inflation data or monetary policy announcements. The focus on short-term fluctuations often overshadowed longer-term trends during the period; therefore, overlooked potential growth opportunities.

Disruptive sectors like electric vehicles (EVs) and renewable energy faced misleading criticisms in Q1. Despite visible [growth](#) and [advancements](#), narratives emerged suggesting a slowdown in EV demand and the [failure of the renewable energy transition](#). These narratives circulated primarily among market commentators, who focused on short-term share price dips. This underscores a dangerous disconnect between on-the-ground business results and their corresponding stock performance.

## Some Key Observations and Themes from the Quarter

- **Resilient, but Weakening Consumer:** Consumer spending, a prime driver of the economy, showed signs of strain due to high prices and borrowing costs. Yet, household balance sheets remained strong, providing a buffer for consumption.
- **The Labor Market Paradox:** Job reports continued to defy expectations with low unemployment and [robust job growth](#). This, however, increased wages and contributed to the sticky inflation. It raised concerns about a potential wage-price spiral.
- **Geopolitical Volatility:** Renewed geopolitical tensions impacted energy prices and global supply chains, creating further hurdles for policymakers trying to tame inflation.

## EVs and the Green Transition: A Reality Check

The skepticism directed towards EVs and renewable energy in Q1 stems from a misunderstanding of long-term transformational trends. While short-term fluctuations in demand or input costs exist, the broader trajectory remains undeniably clear:

- **EV Adoption is Accelerating:** Sales of EVs continued their upward trend. Major automakers ramped up production to meet demand. Charging infrastructure steadily expanded, further driving adoption. China's leading EV makers are producing [compelling cars at extremely competitive](#) prices relative to internal combustion engine automobiles.
- **Renewable Energy Installations are Soaring:** Deployment of wind and solar grew significantly, driven by falling costs and favorable policy support. Storage technologies continued to improve, addressing intermittent supply concerns.

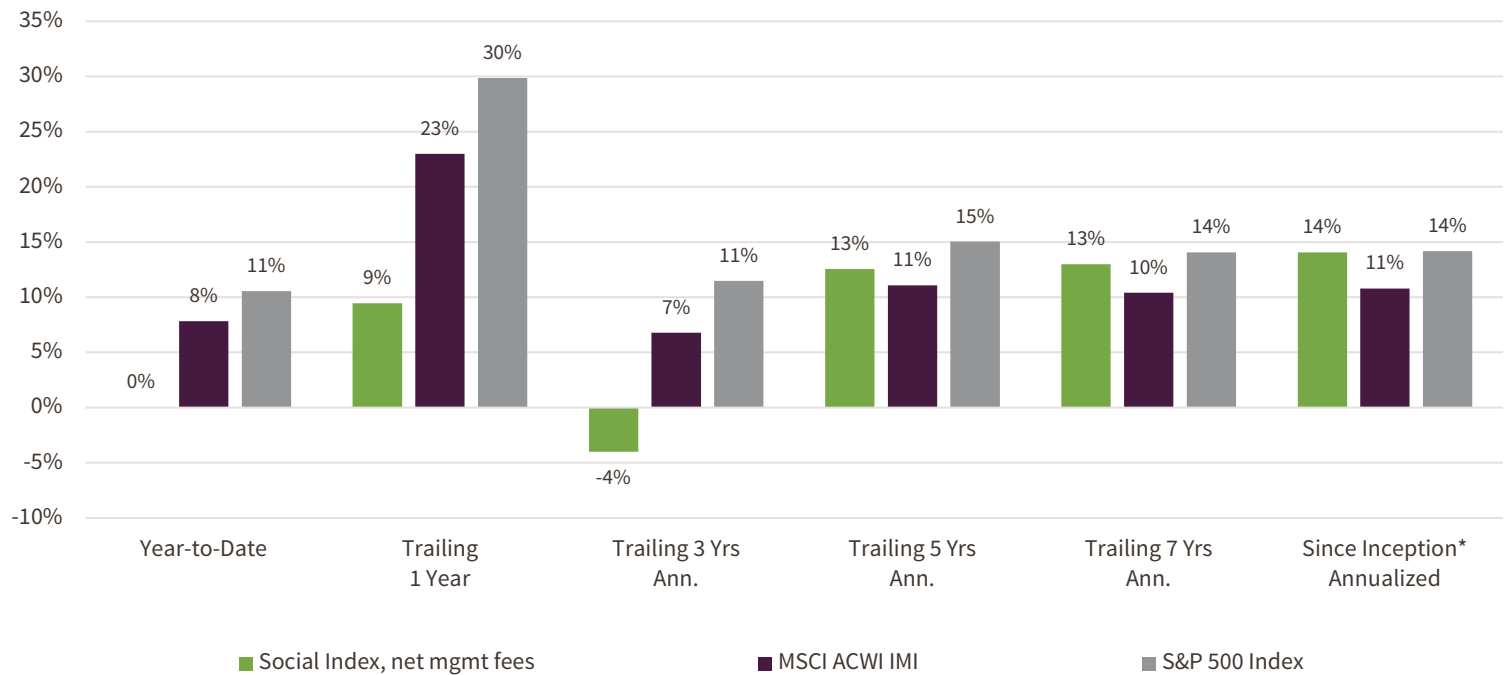
## The Stock Market Disconnect

The negative narratives around promising sectors contrasted starkly with their business fundamentals. Many EV manufacturers reported record production and sales in Q1, with strong growth projections. Renewable energy companies [announced](#) major capacity expansions. This performance was decoupled from stock valuations, suggesting that the market remains fixated on immediate returns, missing the potential of future growth.

## Conclusion

Q1 2024 demonstrated that taming inflation would be a more arduous task than many had hoped. It also highlighted a market environment where short-term noise reigns, threatening to overshadow promising long-term economic shifts. Discerning investors can navigate this landscape by grounding their decisions on verifiable data—as opposed to on narrative—and a recognition of the transformational forces at play in the global economy.

# Portfolio Performance & Commentary



For the first quarter 2024, Green Alpha's Social Index portfolio returned 0.01% net of management fees, versus its benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI), which returned 7.82%.

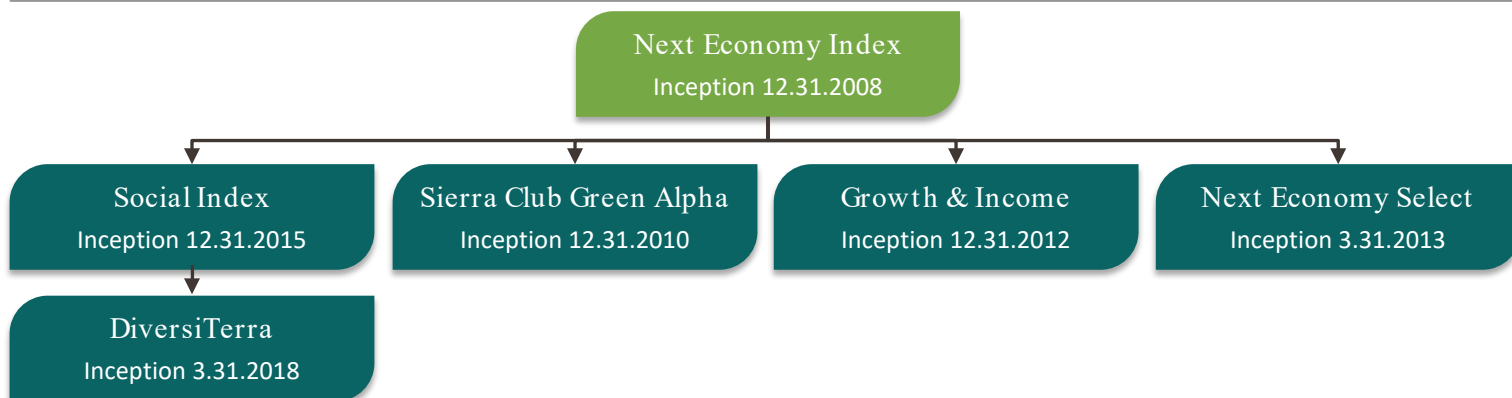
The sectors detracting the most from the strategy's returns were Energy and Industrials.

- Within the Energy sector, underperformance versus the benchmark was the result of the portfolio's exposure to renewable energy—specifically U.S. residential solar installers, PV manufacturing, energy storage, and many balance-of-systems providers such as inverter makers, and cabling and distributed system providers, and wind turbine manufacturing and service. Interestingly, the business results for many renewable energy companies were quite strong in the quarter, revealing a continuing disconnect between markets and reality, which we believe is the result of a prevailing negative news narrative.
- In Industrials, the industrial services and products industry led declines. Of the ten unique positions in the Industrials sector, six were down and four were up, leading the sector to detract overall. Companies detracting the most included a renewable aviation fuels maker (utilizing industrial CO2 as feedstock) and a recycled steel manufacturer. Two leading electric vehicle takeoff and landing (EVTOL) makers were also down in the quarter. These losses were partially offset by strong gains in water infrastructure, lithium recycling, and solar farm sun tracking systems.

The strategy's best performing sectors were Technology and Consumer Staples.

- Technology was the best performing sector. Semiconductors, including the entire value chain, from design to hardware sales, contributed the lion's share of returns. Tech hardware and storage related to the AI server boom also contributed, as did technology services, and financial transaction processes. Software was the sole declining industry within the sector, but even here, it was a mixed bag as security and application software declined, and engineering software was up.
- In Consumer Staples, which was the third largest weighting in the portfolio, gains were led by consumer products and retailers, including natural and organic food and beverage makers, and the retail locations that distribute them. Natural and organic cleaning, personal and baby care products was a top performer.

*\*Portfolio Inception: December 31, 2015. All returns presented above that are greater than 1 year in length have been annualized. Performance data quoted represents 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 additional important disclosures.*



- **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 our Next Economy universe
- **Fundamentals-driven:** the underlying quality of companies and the price paid for their shares are key drivers of LT returns
  - ✓ **High growth:** indicated by Sales Growth, and a decrease from Current P/E to Forward P/E as revenue and earnings grow
  - ✓ **Compelling valuation:** demonstrated by Price/Sales and Price/Book metrics relative to growth expectations
  - ✓ **Strong balance sheet and management execution:** conveyed by capital stewardship, LT Debt/Equity, Current Ratio
- **Diversified** – we seek solutions wherever we can find them: across the globe, in companies of all sizes, and every industry
- **Public equities, long-only:** most investors' largest asset class, so their largest opportunity for impact
- **Fossil fuel free since inception:** we never invest in companies that prospect, extract, refine, or transport fossil fuels, nor in fossil-fired utilities or internal combustion engine manufacturers

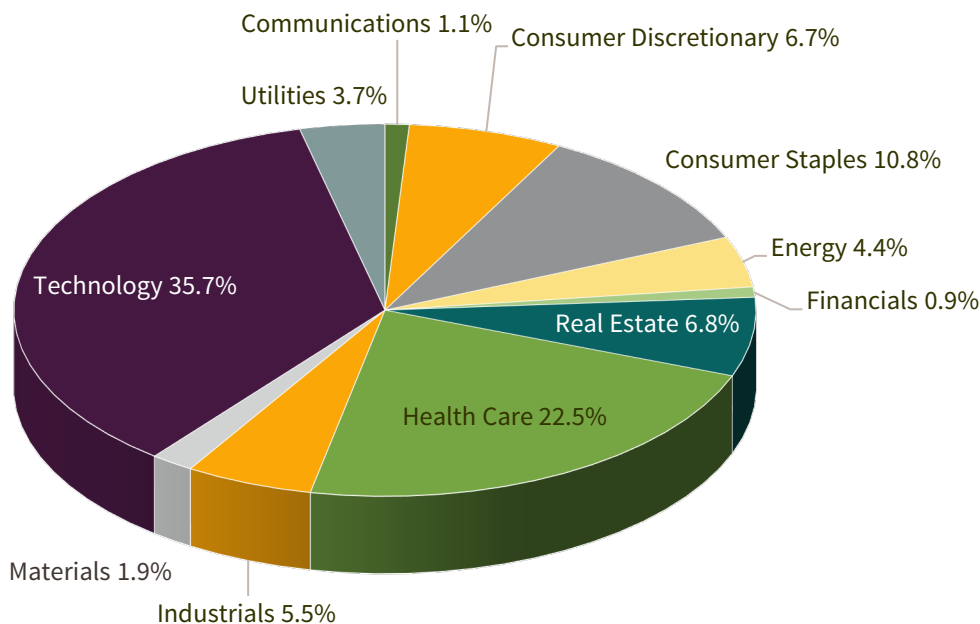
Characteristics	Social Index	Benchmark: MSCI ACWI IMI(SPGM)	Next Economy Index	Next Economy Select	Growth & Income	Sierra Club Green Alpha	DiversiTerra
# of Securities	114	2,644	150	61	36	46	58
Active Share vs MSCI ACWI IMI	93%	-	92%	97%	97%	96%	95%
Active Share vs Next Economy Index	29%	-	-	66%	69%	68%	61%
Sales Growth, Trailing 3-Yr	49%	15%	34%	32%	23%	25%	44%
P/E, Current	30.1	20.2	27.7	23.3	19.8	19.4	29.8
P/E, 1-Year Forward	26.6	17.8	25.1	20.7	16.0	17.7	21.8
Price/Sales	2.3	1.9	2.3	1.7	1.2	0.9	2.1
Price/Book	2.8	2.8	2.9	2.3	1.8	1.9	2.5
LT Debt/Equity	54%	165%	54%	45%	86%	56%	55%
Current Ratio	3.8	2.4	3.7	5.1	3.3	3.7	4.1
Dividend Yield	1.03%	1.95%	1.16%	1.85%	3.90%	2.00%	1.56%
Market Cap, Wtd Avg (\$B)	\$120.81	\$484.77	\$126.15	\$124.18	\$108.03	\$131.65	\$114.34
Market Cap, Median (\$B)	\$9.29	\$2.66	\$7.21	\$5.46	\$28.20	\$8.01	\$5.99
Turnover, Trailing 2-Yr Avg	39%	Not Available	25%	16%	10%	10%	28%
Beta, Trailing 3-Yrs	1.43	1.00	1.35	1.40	1.27	1.36	1.35
U.S.-Domiciled Companies	88%	60%	79%	66%	67%	72%	82%
% Revenue Derived in U.S.	60%	45%	52%	51%	51%	52%	59%

Characteristics are sourced from FactSet, based on a representative account and include cash. Please see additional disclosures on last page.

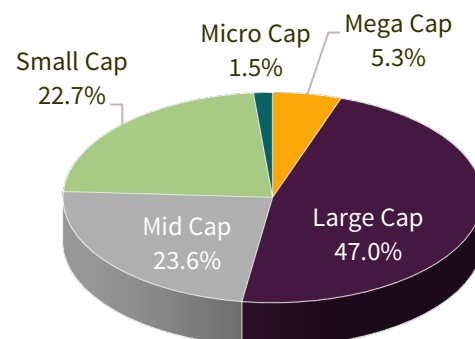
# Portfolio Allocations

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

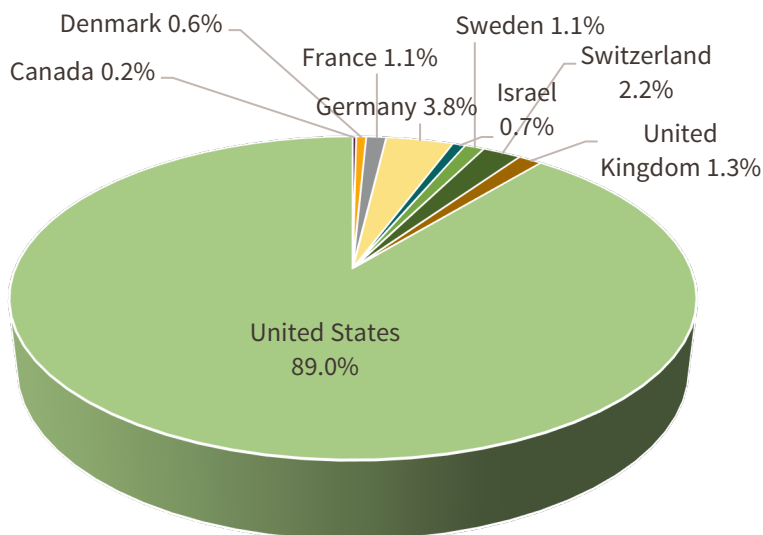
## Sectors



## Market Capitalizations



## Companies' Main Headquarters



Allocation data is sourced from FactSet and is based on a representative account. The exception is the sector chart, which utilizes the Bloomberg Industry Classification Standard from Bloomberg, and is based on a model portfolio. All charts on this page are shown as percent of equity. Please see the final page of this document for additional important disclosures.

# Important Disclosures

- Green Alpha Advisors, LLC is a registered investment advisor. Registration as an investment advisor does not imply any certain level of skill or training.
- Green Alpha Investments is a trade name of Green Alpha Advisors, LLC. Green Alpha is a registered trademark of Green Alpha Advisors, LLC. Green Alpha Advisors also owns the trademarks to “Next Economy,” “Next Economics,” “Next Economy Portfolio Theory,” “Investing in the Next Economy,” and “Investing for the Next Economy.”
- 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.
- Beginning July 31, 2021, the Social Index performance results are a composite of discretionary client accounts invested in the Social Index strategy on specific custodial platforms. Green Alpha’s discretionary client accounts that are not included in the composite are those custodied at Folio Institutional due to operational limitations of Folio’s data feeds to Green Alpha’s portfolio accounting system Advent APX. Beginning May 31, 2023, composite membership also includes a minimum account size of \$50,000. The Social Index composite performance results reflect actual performance for a composite of discretionary client accounts meeting custodian and minimum account size requirements. Net-of-fee returns reflect the deduction of actual management fees and transaction costs. Some assets managed in the Social Index strategy within the composite receive a reduced fee from the standard management fee schedule. Actual client returns experienced will vary from the returns presented based on a variety of factors, and we encourage you to ask about specific factors. Accounts are included in the composite for full-month periods under management with Green Alpha Investments. Social Index composite performance results do not reflect the reinvestment of dividends and interest.
- Prior to July 31, 2021, the Social Index performance results represent a single account managed to the strategy. The performance results shown are not materially higher than if all related accounts were included prior to August 2021. Please contact Green Alpha for information about the representative account selection process.
- Actual advisory fees may vary among clients with the same investment strategy. Green Alpha’s standard fee schedules are available within Form ADV Part 2. For those details and additional legal information, please see information and files here: <http://greenalphaadvisors.com/about-us/legal-disclaimers/>.
- The Social Index strategy contains stocks that are managed with a view towards capital appreciation. 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.
- Green Alpha portfolios may invest in companies with small and medium market capitalizations, which may have more limited product lines, markets, and financial resources than larger companies. In addition, their securities may trade less frequently and in more limited volume than those of larger companies. Small or mid-cap stocks may be more volatile than those of larger companies and, where trading volume is thin, the ability to dispose of such securities may be more limited. Green Alpha portfolios may also invest in foreign domiciled companies. Investing in foreign securities may involve additional risks, including exchange-rate fluctuations, limited liquidity, high levels of volatility, social and political instability, and reduced regulation. Emerging markets are often more volatile than developed markets and investing in emerging markets involves greater risks. International investing may not be suitable for everyone. An investment in Green Alpha portfolios should be considered a long-term investment.
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- The MSCI All Country World Investable Market Index (ACWI IMI) captures large, mid, and small cap representation across 23 developed markets and 27 emerging markets countries. With more than 8,750 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.
- The S&P 500 Index is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation. It is market-value weighted. The S&P 500 Index figures do not reflect any fees, expenses, or taxes. Investors cannot invest directly in this index.
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