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# Clean Economy strategy

## Year to date in Europe, electric vehicle share within new car sales doubled that in 2019

- Global equity markets continued their strong performance through June
- Strong performance from our 'Smart Energy' and 'Sustainable Transport' themes
- We initiated a position in Enel, a European integrated utility company

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### What's happening?

Global equity markets continued their strong performance through June. Growth has continued to outperform Value during the month, with periods of cyclical outperformance. Investors continue to reward those sectors which appear to benefit from either secular growth or near term opportunities. Businesses with healthy balance sheets continue to outperform the broader market.

Within the Clean Economy universe, Sustainable Transport suffered significant disruption in the auto supply chain as a result of COVID-19. Auto production has now largely normalised in Europe and North America and auto sales data is recovering. Recent data points from Europe point to a material increase in the share of electric vehicles within new car sales, with electric vehicle share year to date currently double that in 2019 in Europe<sup>1</sup>. Whilst we continue to expect significant weakness in broader auto sales throughout 2020 and into 2021, we remain optimistic for the ongoing electrification of the vehicle fleet. This is supported by strong new mass market model launches from the second half of 2020 and the expanded commitment to charging infrastructure investment.

In Smart Energy, we note the ongoing commitment to utility scale renewable developments globally and to the increased focus by corporates on the procurement of green power. The Next Generation EU plan sets out a green EU recovery package which is intended to accelerate the Energy Transition in Europe.

In Responsible Nutrition, food ingredients companies continue to support their customers as they capitalise on the sharp move from food service to food retail, whilst looking forward to serving the continued shift toward a cleaner, more sustainable food supply chain. These businesses have demonstrated resilience thus far and we remain optimistic in their

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<sup>1</sup> Clean Technica – June 2020

outlook. We continue to see opportunities for Responsible Nutrition stocks to support the drive toward food security and safety in China and note with interest the recently announced partnership between Beyond Meat and Alibaba in food retail<sup>2</sup>.

In Recycling and Waste reduction, we are seeing evidence of a recovery in commercial volumes as developed market economies gradually re-open. Hygiene considerations have increased the proportion of single use packaging in many settings. We view the return to single use packaging as an opportunity for those businesses able to create more readily recyclable single use items and to recycle them efficiently. We note an increased emphasis in Europe on the importance of shifting to a circular economy, with single use plastics a particular focus. Progress such as the introduction of a plastic bag tax in Japan from July highlights the increasingly global nature of this attention.

### **Portfolio positioning and performance**

The Clean Economy strategy outperformed the broader equity market (MSCI All Country World) during June, led by a strong performance from Smart Energy and Sustainable Transport.

In 'Smart Energy', Alfen, Ameresco, Schneider Electric, TSMC and ABB all performed well. Alfen is a Dutch company which specialises in smart grid, energy storage systems and EV charging equipment. It is well exposed to the need for investment to strengthen and smarten the grid in support of the Energy Transition. Ameresco is a US clean energy solutions provider, offering energy efficiency infrastructure upgrades and clean generation solutions. It has performed well as a result of resilient earnings and expanding growth opportunities.

Within 'Sustainable Transport', Tesla performed well, due to both strong execution on its expansion plans, and to improved sentiment toward the electric vehicle market. Infineon Technologies also contributed positively to performance during June, partly offset by TE Connectivity which gave back some of its recent gains.

Holdings within 'Responsible Nutrition' and 'Recycling and Waste Reduction', were the weakest during June, as Evoqua Water Technologies, Ecolab and Halma all gave back some of their earlier outperformance.

During May, we initiated a position in Enel, a European integrated utility with a strong position in both renewable energy generation and the grid which is necessary to support the Energy Transition. We increased our exposure to Beyond Meat and Ameresco. We funded these investments by exiting our remaining holding in Fortum.

### **Outlook**

US Green policy under a Trump presidency remains unclear, and the primary focus for the presidential election will be healthcare. However, both the EU and its member states have underlined their commitment to Net Zero 2050 and set the framework for a green recovery in Europe. China has also indicated that EV charging infrastructure and rail will be beneficiaries of stimulus measures. In addition to existing consumer trends and cost effective technologies, this represents accelerated opportunity for the Clean Economy.

It is clear that a healthy balance sheet is now more critical than ever. We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are best placed to weather the current storm and to seize opportunities for growth. The portfolio is therefore well positioned to withstand the ongoing disruption and to emerge with visible growth opportunities. We continue to view market volatility as an opportunity to add to some of those businesses at attractive valuations.

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<sup>2</sup> Source: CNBC – 30/06/2020

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