

# Next Economy Index

March 31, 2021

## Green Alpha<sup>®</sup>

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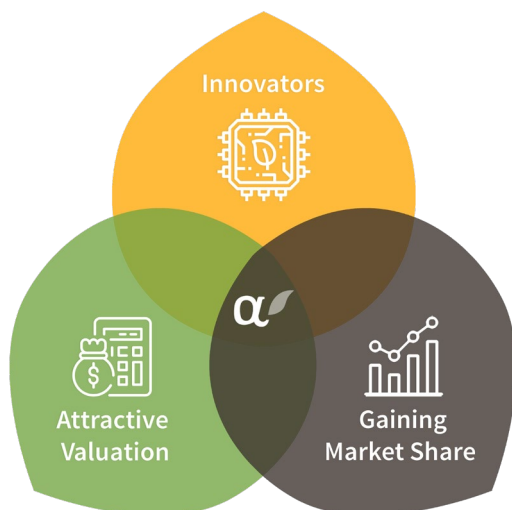
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### Investment Philosophy

We understand that high-functioning, innovative companies creating and accelerating solutions to system-level risks like the climate crisis, resource degradation, worsening inequality, and the human disease burden are the greatest growth drivers of the twenty-first century.

Green Alpha's investment philosophy is straightforward: don't invest in companies that cause global systemic risks; invest in the smartest, most scalable and rapidly evolving, economically-competitive solutions.

We expect such companies to gain market share, which makes investing in them our best chance at preserving and growing our clients' 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 rapidly-developing Next Economy™
- ~138 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 Equities

**Vehicle:** Separately Managed Accounts

### Portfolio Construction

The Next Economy Index utilizes both active stock selection and passive management to reflect 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 proprietary scores are included in the portfolio. We seek companies:

- with products and/or services lowering the global 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 executive teams and boards of directors with consistent track records of increasing revenues and expanding margins, leading to earnings growth and potential dividend increases
- that trade at compelling valuations relative to proven and anticipated 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 companies and the price paid for their shares are key drivers of LT returns
  - ✓ **High growth** – indicated by Sales Growth, and decrease 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 capital stewardship, 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 in fossil-fired utilities or internal combustion engine manufacturers
- **Diversified – we look for solutions wherever we can find them** – across the globe, in companies of all sizes & 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	138	1,613	93	60	35	42
Sales Growth, Trailing 1-Yr	43.04%	16.39%	85.95%	68.34%	49.21%	93.95%
P/E, Current	34.62	23.88	31.92	30.70	25.59	37.88
P/E, 1-Year Forward <sup>†</sup>	24.90	18.08	23.81	23.81	19.92	25.46
Price/Sales	3.28	2.02	1.67	2.58	2.49	2.76
Price/Book	4.52	2.70	5.21	4.21	2.77	5.32
LT Debt/Equity	0.85	0.94	1.04	0.90	1.07	0.77
Current Ratio	3.73	1.90	2.56	3.03	2.20	2.67
Dividend Yield	1.89%	2.22%	2.06%	2.28%	2.98%	1.60%
Market Capitalization, Weighted Avg (US\$B)	\$71.83	\$284.65	\$144.03	\$95.04	\$69.90	\$135.14
Market Capitalization, Median (US\$B)	\$12.36	Not Available	\$16.63	\$11.81	\$31.33	\$18.41
Turnover, Trailing 2-Yr Avg Annual	37%	-	12%	13%	24%	8%
Beta, Trailing 2-Yrs	1.07	1.03	1.05	1.10	1.11	1.20
Active Share	94%	-	93%	96%	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

## ASML Holding NV (Sector: Technology)

- World's leading provider of advanced photolithography systems, which are proprietary platforms of high-tech hardware and advanced software, necessary in the manufacture of advanced integrated circuits.
- Primary supplier of lithography to the world's key chip foundries, including Taiwan Semiconductor and Samsung. ASML's contribution to chipmaking is critical to these foundries, therefore to the global economy
- Advancements in extreme ultraviolet lithography machines have entrenched ASML's market share lead.
- The board of directors is 33% women, including chair of Audit Committee.

## NVIDIA (Sector: Technology)

- NVIDIA's processors are dominant in datacenters, machine learning, and AI. Their processors are used by most of the world's most advanced companies for hundreds of advanced applications.
- NVIDIA's proposed acquisition of Arm could unite two global leaders with different business models to create a premier AI hardware provider, widening the IP moat around both companies.
- The exec team is 40% women, including the CFO and EVP of Operations, and the board of directors includes three women.

## Apple (Sector: Technology)

- Apple is a leading designer of advanced personal tech hardware and software.
- Their commitment to global environmental sustainability is unparalleled among the world's large and mega-cap companies
  - Operations have been carbon neutral for years and they're committed to making products carbon neutral.
  - Already the leader in recycled content among device makers, their longer-term commitment is to source 100% of materials and packaging from recycled and renewable materials, making them the 1st mega-cap committed to full waste-to-value.
  - Apple's operations are powered 100% by renewable energies, many of which are company-owned; by 2030 they plan to have all suppliers and manufacturers 100% powered by renewables.
- Apple's commitment to diversity and inclusion is also exemplary.
  - Lisa Jackson, administrator of the U.S. EPA 2009-2013, is Apple's VP of Environment, Policy and Social Initiatives. Her work includes heading up Apple's Racial Equity and Justice Initiative, which runs programs in education, economic opportunity, criminal justice reform, and product accessibility work. Her initiatives have been funded with \$100 million.

## PayPal Holdings (Sector: Technology)

- In operating multiple global digital payment systems (including Venmo), PayPal disrupted traditional, less efficient payments like checks and Fed wires, and continues to innovate.
- They have several initiatives aimed at reducing economic inequality, including "a \$530 million commitment to support Black and minority-owned businesses and communities in the U.S., especially those hardest hit by the pandemic," and partnerships with CodeHouse, INROADS, and the National Association of Black Accountants. PYPL not only approaches inequality with programs and partnerships, it also gets exposure to traditionally underserved markets, and therefore more opportunities to grow.
- 30% of senior executives are female, including the Chief Business Affairs and Legal Officer, EVP, Global Sales, and Head of IR. Four of 11 board members are women, including the Chair of the Corporate Governance and Nominating Committee.

## American Tower (Sector: Industrials)

- As a provider of key data transmission infrastructure, AMT is benefitting from the secular trends of data growth, rise of the IoT, proliferation of data-intensive personal and commercial devices, 5G rollout, and associated phenomena like autonomous driving
- AMT owns and operates ~181,000 telecommunications real estate sites around the globe and has also embarked on an edge-computing development plan, having now opened six edge data centers.
- Characterized by very stable financials, including visible, dependable revenues from tower and fiber bandwidth rental, making AMT a probable steady, moderate, long-term growth name with strong dividend stability.

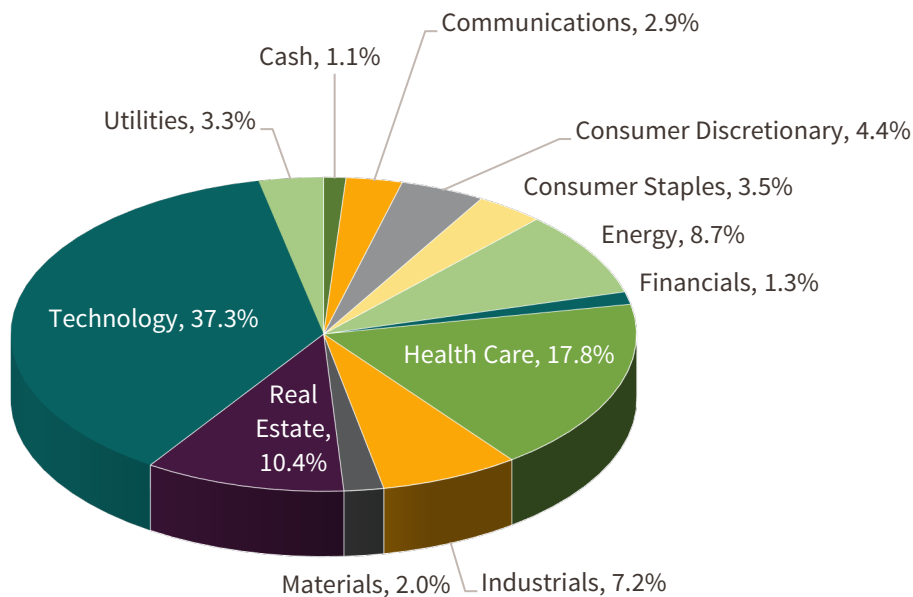
Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information.

Company Name	Ticker	Weight
ASML Holding NV	ASML	1.33%
NVIDIA	NVDA	1.15%
Apple	AAPL	1.05%
PayPal Holdings	PYPL	1.05%
American Tower	AMT	1.03%
Taiwan Semiconductor	TSM	1.02%
Applied Materials	AMAT	1.01%
IBM	IBM	1.00%
Qualcomm	QCOM	1.00%
Ping An Insurance	PNGAY	0.98%
<b>% of Portfolio</b>		<b>10.62%</b>

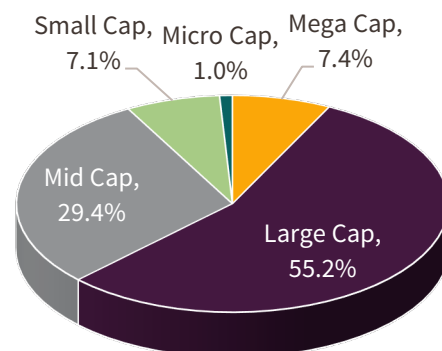
# Portfolio Allocations

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.

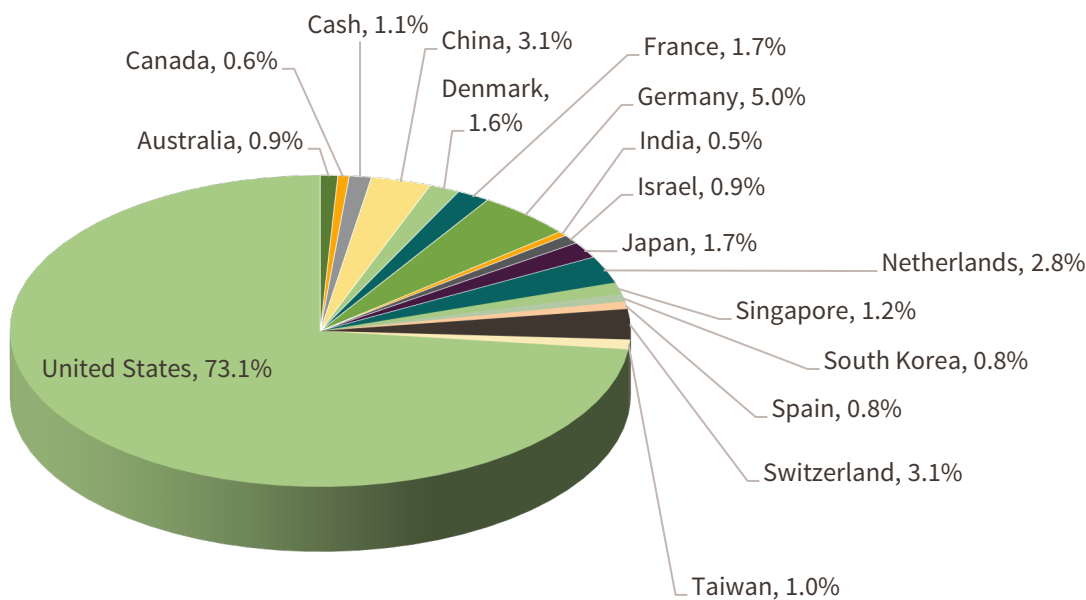
## Economic Sectors ††



## Market Capitalizations

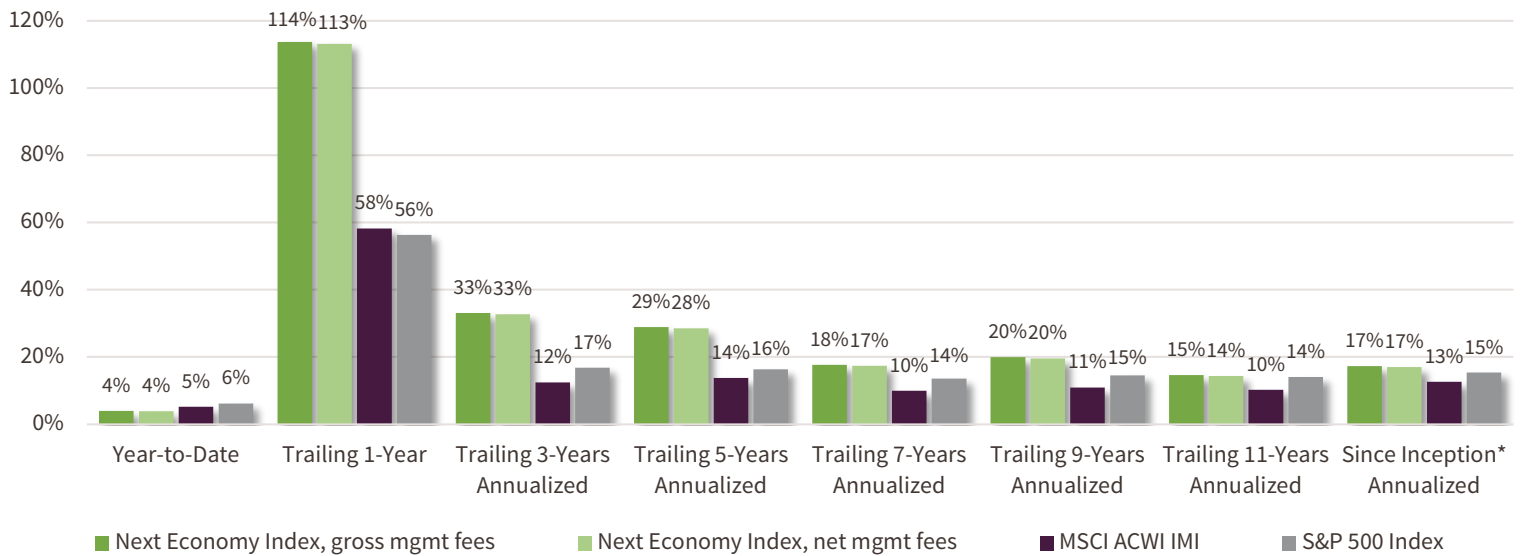


## Companies' Main Headquarters



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

# Performance & Commentary



In Green Alpha's investment strategies, and in markets overall, the first quarter of 2021 was characterized by increased volatility, particularly with respect to downward pressure on some stocks considered by markets to be in an aggressive growth category. Specifically, increases in the 10-year U.S. Treasury yield triggered programmatic selling across many growth companies, particularly those that had appreciated significantly in 2020.

While we agree that some depressed stocks, and even industries, became oversold during the pandemic, particularly high-quality, sustainability-focused office REITs and furnishings suppliers, we believe that the interest rate on the 10-year note has little to do with the overall trajectory of the global economy. Companies providing superior products, services, and value, often at lower relative costs, will continue to gain market share in their respective markets, many of which are themselves rapidly growing. We believe that Q1 2021, while overall providing positive returns, represented a good entry point to invest in stocks with better-than-average chances of earning significant growth into the next 5-to-10-year timeframe, as the rotation away from the causes of our primary risks toward the solutions to those risks continues to gain momentum, dwarfing near-term cyclical rotations into or out of short-term oriented notions of growth and value.

For the first quarter of 2021, Green Alpha's Next Economy Index strategy returned 3.9% net of management fees vs. its benchmark, the MSCI All Country World Investible Market Index (MSCI ACWI IMI), at 5.2%. The portfolio's top-contributing sectors for the quarter were Technology and Industrials.

- Within the Technology sector, gains were led by front-end capital equipment for semiconductor manufacturing, as a global chip shortage spurred capital expenditures on foundry equipment. Gains from fabrication facilities, chipmakers, and foundries in general helped offset modest declines in the sector from leading application software providers.
- In Industrials, returns from high-efficiency commercial light fixture manufacturing and industrial power and infrastructure components, along with factory automation equipment for semiconductor manufacture, also contributed.

The two detracting sectors from the Next Economy Index's returns were Consumer Discretionary and Utilities.

- The Consumer Discretionary sector detracted modestly from returns as electric vehicle (EV) makers took a breather after large share price increases in 2020. This mild loss from EVs was partially offset by a recovery in the sustainable office furnishings market, and the resulting share price appreciation.
- The Utilities sector modestly detracted from returns as renewable utility-scale electric utilities declined, although these losses were partially offset by gains in water utilities.

*\*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

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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 27 emerging markets countries. With over 8,930 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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