

# Next Economy Social Index

March 31, 2021

## Green Alpha<sup>®</sup>

### Contents

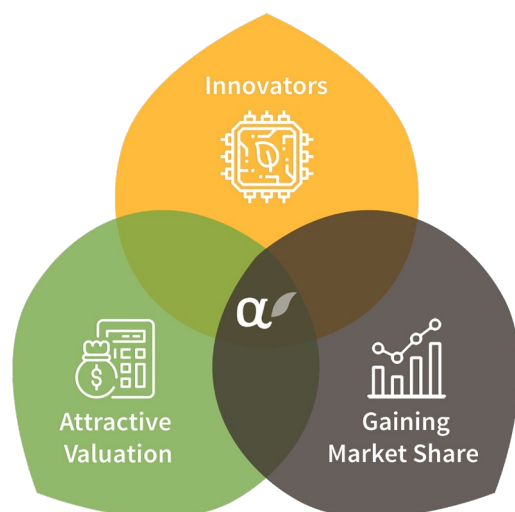
Portfolio Characteristics .....	2
Largest Positions .....	3
Sector, Geographic, and Market Cap Allocations .....	4
Performance and Commentary .....	5
Disclosures .....	6

### 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 Next Economy™ 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 Social Index?

- Active research and stock selection; passively managed through an annual rebalance
- Uniquely rigorous gender and social inclusion criteria to create 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 Equities

**Vehicle:** Separately Managed Accounts

### Portfolio Construction

The Social Index construction is based on the science that the cognitive capacity, 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 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 expected growth, within acceptable levels of risk

We set initial weights by market capitalization, then assign additional weighting to companies where women hold significant decision-making authority, have especially strong leadership representation, and/or implemented policies are eminently inclusive of all demographics.

# 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 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 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	1,613	138	60	35	42
Sales Growth, Trailing 1-Yr	85.95%	16.39%	43.04%	68.34%	49.21%	93.95%
P/E, Current	31.92	23.88	34.62	30.70	25.59	37.88
P/E, 1-Year Forward <sup>†</sup>	23.81	18.08	24.90	23.81	19.92	25.46
Price/Sales	1.67	2.02	3.28	2.58	2.49	2.76
Price/Book	5.21	2.70	4.52	4.21	2.77	5.32
LT Debt/Equity	1.04	0.94	0.85	0.90	1.07	0.77
Current Ratio	2.56	1.90	3.73	3.03	2.20	2.67
Dividend Yield	2.06%	2.22%	1.89%	2.28%	2.98%	1.60%
Market Capitalization, Weighted Avg (US\$B)	\$144.03	\$284.65	\$71.83	\$95.04	\$69.90	\$135.14
Market Capitalization, Median (US\$B)	\$16.63	Not Available	\$12.36	\$11.81	\$31.33	\$18.41
Turnover, Trailing 2-Yr Avg Annual	12%	-	37%	13%	24%	8%
Beta, Trailing 2-Yrs	1.05	1.03	1.07	1.10	1.11	1.20
Active Share	93%	-	94%	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 Social Index is driving progress toward the Next Economy

## Tesla (Sector: Consumer Discretionary)

- A leader in design and manufacture of electric vehicles, software delivery, and energy storage systems for homes, commercial properties, and utility-scale power - all of which are technology and innovation leaders. Tesla leverages world-leading technologies and processes to speed up production and lower costs.
- Tesla's automotive division recently posted record Q1 2021 deliveries, selling slightly more vehicles than the company made. This is indicative of still-growing demand for the cars, as it represents growth over Q4 2020, in the industry's cyclically-low demand quarter of Q1.
- Innovations have given them first-mover advantage in EVs and a tech advantage in battery storage; as evidenced by a recent deal to provide Apple with a large storage facility at one of Apple's solar power plants. Also, collaboration with SpaceX gives unique access to leading science and engineering, such as the Cybertruck exoskeleton.
- A female Board Chair also chairs the Audit & Disclosure Controls Committees alongside a female Independent Director (22% BOD)

## Moderna (Sector: Health Care)

- Discovery-to-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 future growth may be impressive with or without revenue contributions from a COVID-19 vaccine, although the vaccine has accelerated their time-to-profitability.
- Moderna is not just pioneering new medicines, but new *categories* of medicines, potentially transforming medicine overall.
- The exec team consists of 30% women, including Chief Commercial Officer, General Counsel, and Chief HR Officer, and the board of directors is comprised of 38% women, including the Chair of the Audit Committee, and the Product Development Committee.

## Sunrun (Sector: Energy)

- The leading residential installer of solar PV systems in the U.S - with the acquisition of Vivint Solar, Sunrun now has slightly over 20% of the market - substantially larger than the nearest competitor, and an improvement from ~17.5% during Q4 2020.
- Sunrun is also a leader in providing battery storage solutions to the U.S. residential market, offering the Tesla Powerwall and the LG Chem Brightbox as an add-on to a solar system, or as stand-alone electricity storage.
- Recent share price catalysts include homeowners seeing the importance of making and storing their own electricity, decreasing their reliance on a less reliable utilities and electrical grid, State programs and incentives, and now possibly Federal incentives
- 40% of executives are female, including the CEO and co-Founder, and the firm's General Counsel. 57% of the board of directors is female, including chairs of the Compensation and Nominating, and Corporate Governance Committees.

## Square (Sector: Technology)

- In addition to Square's core product, which enables the smallest businesses to accept credit cards, they are rapidly growing the Cash App, which began as a peer-to-peer platform allowing users to easily send money. Cash App's add'l features have led it to become a primary resource for many, including those underserved by traditional banks. New users to Cash App are radically eclipsing new account openings at traditional banks, and the product represents ~2/3 of Square's revenue.
- Square 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 serves those largely ignored by traditional banks.
- Leadership includes four women (57% of execs), and the board includes three women, including chair of the Comp Comm.

## United Natural Foods (Sector: Consumer Staples)

- Wholesale distributor of natural, organic, and specialty foods. UNFI also features a manufacturing division that produces the company's own branded product lines and is a key component of the transition to regenerative agriculture. As farmers who eschew pesticides and herbicides gain market share from conventional farming, natural resources will have a chance to recover.
- UNFI's executive team is 33.3% women, and the board of directors is 40% women and features the chairs of the Audit, and the Nominating and Governance Committees.

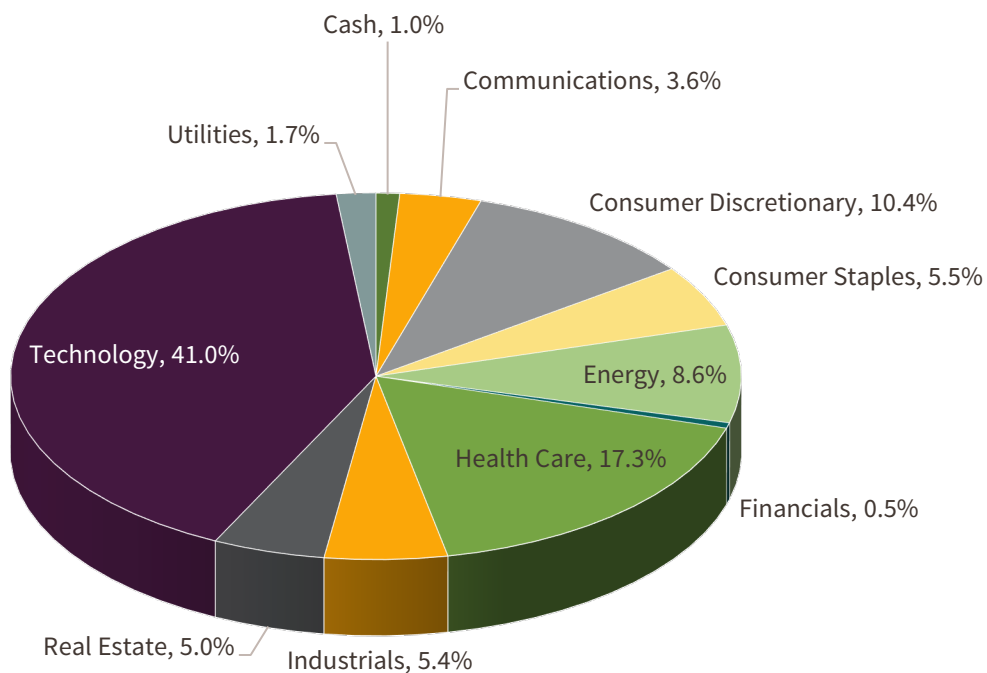
Company Name	Ticker	Weight
Tesla	TSLA	6.39%
Moderna	MRNA	4.28%
Sunrun	RUN	3.54%
Square	SQ	3.17%
United Natural Foods	UNFI	2.35%
Intellia Therapeutics	NTLA	2.27%
NVIDIA	NVDA	2.00%
Teladoc Health	TDOC	1.69%
Apple	AAPL	1.58%
Invitae	NVTA	1.57%
<b>% of Portfolio</b>		<b>28.84%</b>

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

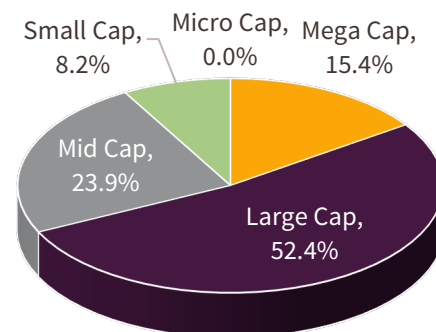
# Portfolio Allocations

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

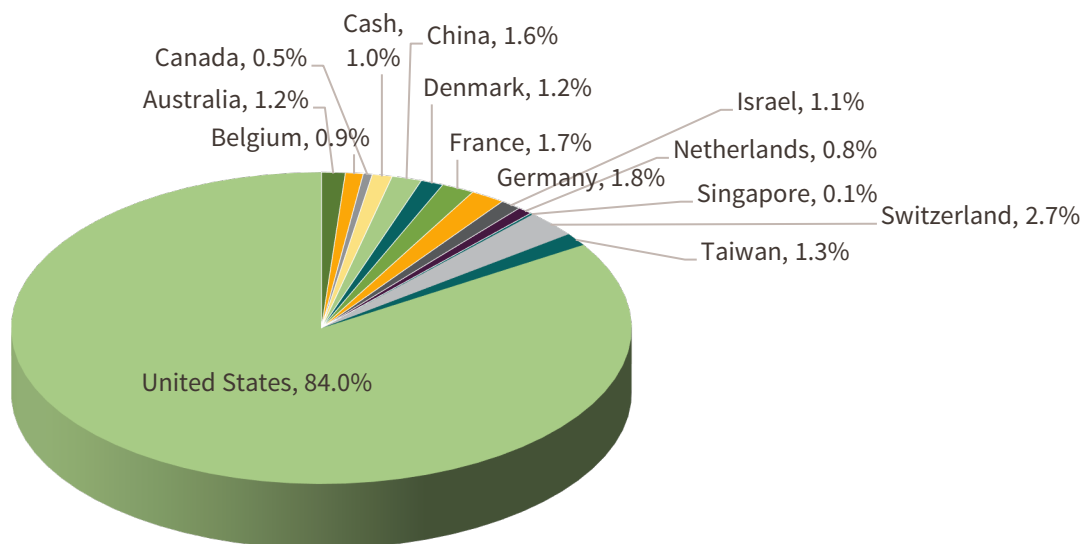
## Economic Sectors ††



## Market Capitalizations

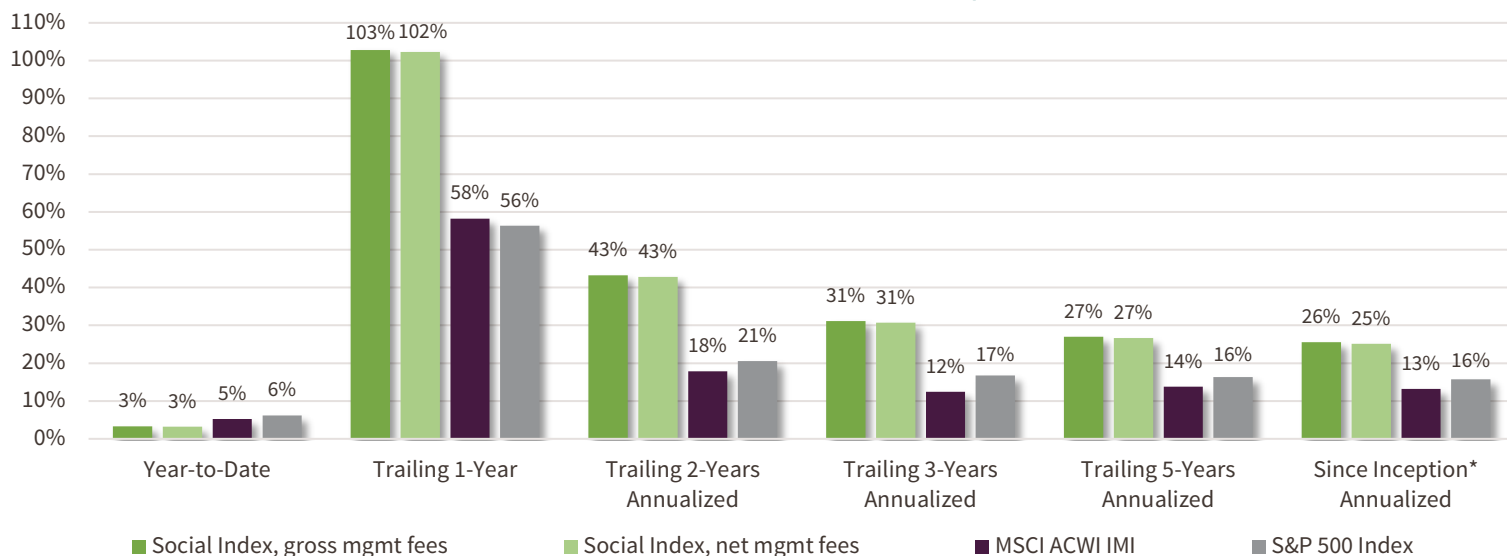


## Companies' Main Headquarters



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

# Performance & Commentary



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 Social Index portfolio returned 3.2% 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 were Consumer Staples and Technology.

- Within Consumer Staples, North America's largest wholesale distributor of natural and organic foods continued its run of strong performance from 2020, while on the retail side, a top regional organic grocery outlet contributed meaningfully.
- In 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 from leading application software providers.

The two largest detracting sectors from the Social Index portfolio's returns were Energy and Utilities.

- The Energy sector detracted the most from returns in Q1, as renewable energy project developers, a wind energy equipment maker, and solar inverter makers led declines. Losses in these shares were partially offset by a leading photovoltaic (PV) panel manufacturer, and the U.S.'s top commercial solar installer increasing in value.
- Utilities modestly detracted from returns as the share price of a renewable utility-scale electric utility declined, although losses were partially offset by gains in water utilities.

*\*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

- 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 Social Index performance results reflect performance of a model portfolio. The model performance does not reflect any transaction costs. The Next Economy Social Index performance results do 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. Model performance has inherent limitations. The returns shown are model results only, and do not represent the results of actual trading of client assets. The model performance shown does not reflect the impact that material economic and market factors had or might have had on decision making if the account held actual client capital. Actual client accounts in this strategy are managed by Green Alpha based on the model portfolio, but the actual composition and performance of these accounts may differ from those of the model portfolio due to differences in the timing and prices of trades, and the identity and weightings of securities holdings.
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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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