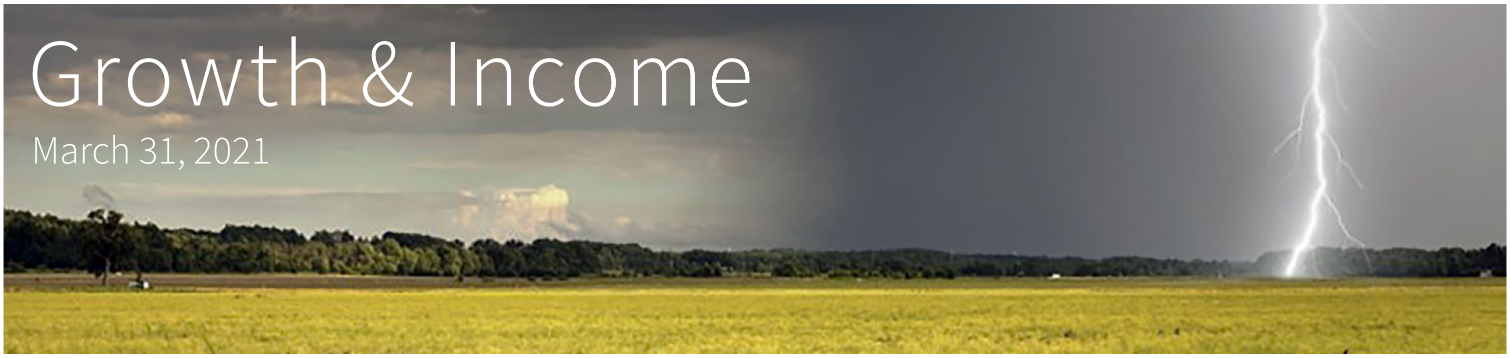
# Growth & Income

March 31, 2021



Green Alpha®

## Contents

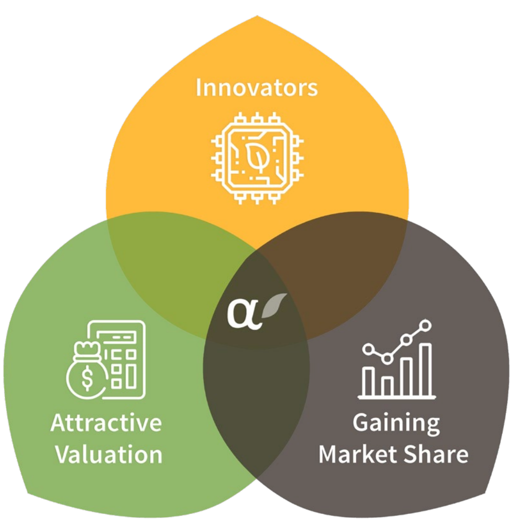


## Investment Philosophy

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 Growth & Income?

- Active research, stock selection, and portfolio mgmt
- Low volatility portfolio producing above-market income, while seeking long-term capital preservation and growth
- 25-35 global, market-leading companies developing solutions to core economic and environmental risks
- Fossil fuel free since inception

**Inception Date:** October 8, 2012

**Style:** All-Cap Global Equities

**Vehicle:** Separately Managed Accounts

## Portfolio Construction

The Growth & Income portfolio is designed to harness the powerful combination of growth and current income within one portfolio. We seek investments in 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

Growth & Income portfolio holdings are then selected for current or potential dividend yield, coupled with strong revenue growth, bought at a reasonable price. The strategy typically exhibits lower short-term volatility than other Green Alpha portfolios and broad equity markets.

Our investments seek to de-risk the global economy, which, in turn, reduces clients' long-term investment risks.

# Growth & Income

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

## Characteristics

- **High Income** – a compelling combination of strong growth and dividend income that is higher than the broad equity market
- **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 Growth & Income | Benchmark: MSCI ACWI IMI (SPGM) | Green Alpha Next Economy Index | Green Alpha Next Economy Social Index | Green Alpha Next Economy Select | Sierra Club Green Alpha |
|---|---|---|---|---|---|---|
| # of Securities | 35 | 1,613 | 138 | 93 | 60 | 42 |
| Sales Growth, Trailing 1-Yr | 49.21% | 16.39% | 43.04% | 85.95% | 68.34% | 93.95% |
| P/E, Current | 25.59 | 23.88 | 34.62 | 31.92 | 30.70 | 37.88 |
| P/E, 1-Year Forward† | 19.92 | 18.08 | 24.90 | 23.81 | 23.81 | 25.46 |
| Price/Sales | 2.49 | 2.02 | 3.28 | 1.67 | 2.58 | 2.76 |
| Price/Book | 2.77 | 2.70 | 4.52 | 5.21 | 4.21 | 5.32 |
| LT Debt/Equity | 1.07 | 0.94 | 0.85 | 1.04 | 0.90 | 0.77 |
| Current Ratio | 2.20 | 1.90 | 3.73 | 2.56 | 3.03 | 2.67 |
| Dividend Yield | 2.98% | 2.22% | 1.89% | 2.06% | 2.28% | 1.60% |
| Market Capitalization, Weighted Avg (US$B) | $69.90 | $284.65 | $71.83 | $144.03 | $95.04 | $135.14 |
| Market Capitalization, Median (US$B) | $31.33 | Not Available | $12.36 | $16.63 | $11.81 | $18.41 |
| Turnover, Trailing 2-Yr Avg Annual | 24% | - | 37% | 12% | 13% | 8% |
| Beta, Trailing 2-Yrs | 1.11 | 1.03 | 1.07 | 1.05 | 1.10 | 1.20 |
| Active Share | 97% | - | 94% | 93% | 96% | 96% |

*† Bloomberg consensus estimates. Please see the final page of this document for important disclosures about portfolio, benchmark and characteristic information*

# Largest Positions

How the Growth & Income portfolio is driving progress toward the Next Economy

| Company Name | Ticker | Weight |
|---|---|---|
| Horizon Tech. Finance | HRZN | 6.23% |
| Vestas Wind Systems | VWDRY | 5.21% |
| Brookfield Renewable | BEPC | 4.97% |
| Hannon Armstrong Sust. Infrastructure | HASI | 4.78% |
| Taiwan Semiconductor | TSM | 4.69% |
| % of Portfolio | | 25.88% |

**Horizon Technology Finance** *(Sector: Financials)*

- Horizon provides structured debt to innovative companies, primarily in life sciences, healthcare information services, and cleantech. Horizon has deployed more than $2 billion in venture loans to more than 250 businesses in the underserved venture loan space. The loan portfolio is conservatively managed with transactions usually well below their maximum of $25 million, terms of 48 months or less backed by security of offering debt on a "first lien or first lien behind a bank revolver" basis. HRZN often reduces risk by partnering w/ institutions like Silicon Valley Bank.
- Horizon offers investors opportunity to invest in a venture loan fund that essentially constitutes a diversified basket of private, Next Economy companies via a single stock. Due to their innovative structure, the company offers an attractive dividend yield.
- For example, one new Q1 loan (made alongside Silicon Valley Bank) was to Canary Medical, which makes smart medical devices that, according to them, "self-reports on function, diagnostic information, patient activity, side effects, and treatment failure."

**Vestas Wind Systems** *(Sector: Energy)*

- Vestas is the world's most advanced wind turbine manufacturer, and the global leader in both onshore and grid-connected installations. Vestas is also a leading turbine service provider, a role that provides meaningful higher-margin recurring revenue.
- In addition to their record turbine order intake in 2020, at greater than 15 GW of capacity booked, in Q1 2021 Vestas booked an additional 1.1 GW in orders. These orders have pushed Vestas' delivery dates well into 2023, giving transparency into revenue growth. Vestas also strengthened its partnership with Mitsubishi Heavy Industries in offshore wind.
- The company is targeting carbon neutral operations by 2030 (without using carbon offset credits!), and zero-waste production by 2040. Vestas stands to continue growing and gaining market share from competitors like makers of coal and natural gas turbines as governments and companies around the world continue to set renewable energy and emissions targets, and as the price of wind energy, already cheaper than coal and in many areas natural gas, continues to decline.
- 22% of Execs are women, including the CFO, CHRO, Sr. Director, and Head of Sustainability; four women (25%) on the board

**Brookfield Renewable** *(Sector: Utilities)*

- Brookfield is one of the world's leading zero-carbon, 100% renewables-based energy utilities. Their acquisition of TerraForm Power, as well as organic growth and other M&A activity, has given it 20 GW of renewable electricity generation capacity globally.
- Financially, Brookfield is very conservatively managed, is continually looking for acquisitions at favorable prices, and has revenues largely backed by long-term power purchase agreements with high-quality clients. Their long-term goal is to provide annualized investment returns of 12%-15%, which includes planned annual dividend increases.
- The exec team includes six women (30%), and the board of directors is 22% women, including chair of the Audit Committee.

**Hannon Armstrong Sustainable Infrastructure** *(Sector: Real Estate)*

- A financial firm uniquely dedicated to investing in solutions to the climate crisis. The firm's portfolio spans wind, solar, sustainable infrastructure (water delivery systems, storm water remediation, seismic retrofits), and efficiency projects. HASI functions like a diversified bank, with more than $7B in managed assets (2/28/21). Their 230 project investments and loans, across 10 asset classes, are typically senior to the project sponsor so are unlikely to default. The average investment size is $10M
- The company operates in a fast-growing market and has a deal pipeline valued at more than $3B as of February 2021. HASI's stable and predictable revenue stream makes it fundamentally sound and allows it to provide a growing dividend.
- The executive team includes female Chief Client and Chief HR Officers; the board is 33% women, including the Lead Director.

**Taiwan Semiconductor** *(Sector: Technology)*

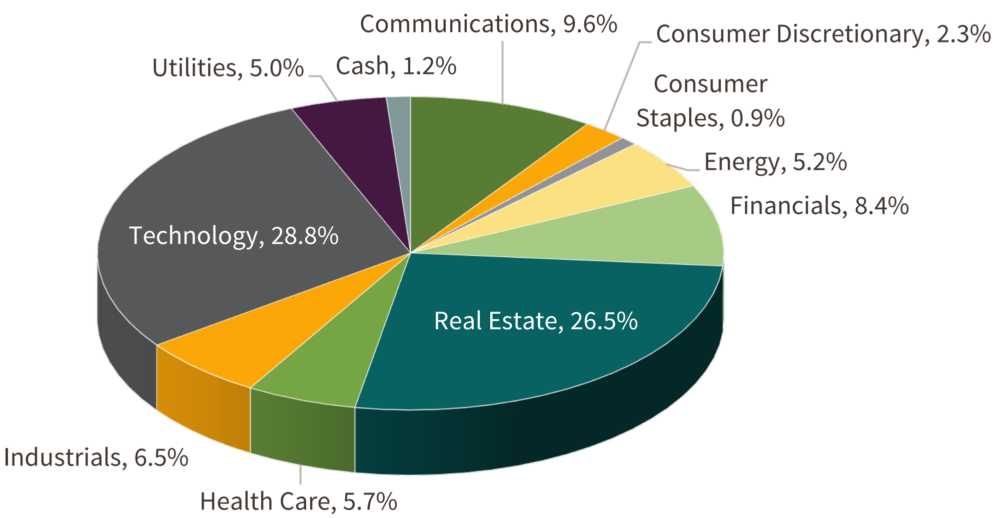
- TSM owns and operates the world's largest, most technologically advanced, and most strategically and economically important computer chip manufacturing facilities.
- TSM has enabled much of the recent innovation in semiconductors. According to the company, it has "collaborated with its customers/partners to form the most powerful force of semiconductor innovations – about 85% of worldwide semiconductor start-up product prototypes were enabled by TSM." Customers include advanced tech firms like Apple and Qualcomm.

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

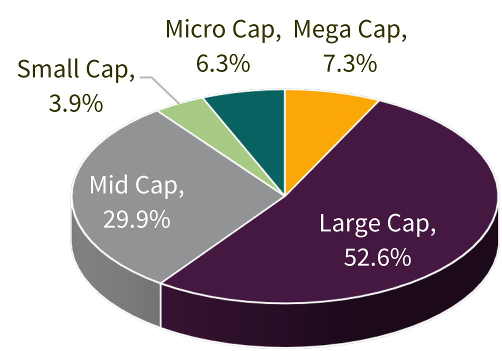
# Portfolio Allocations

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

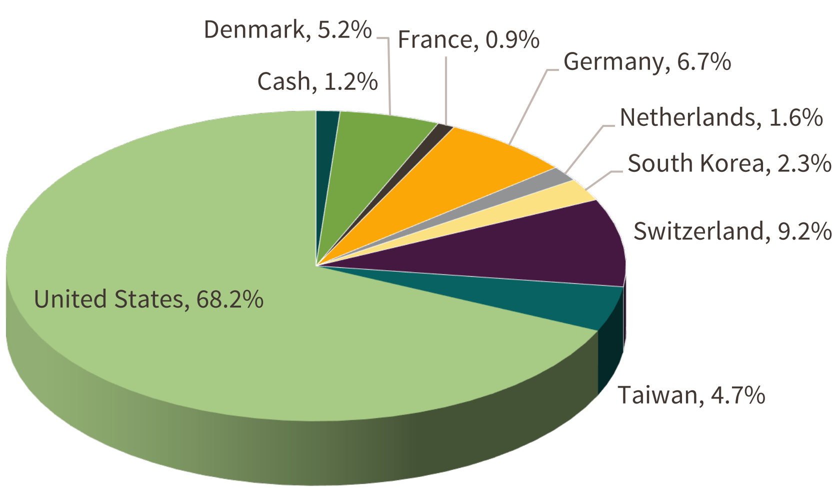
## Economic Sectors ††




## Market Capitalizations

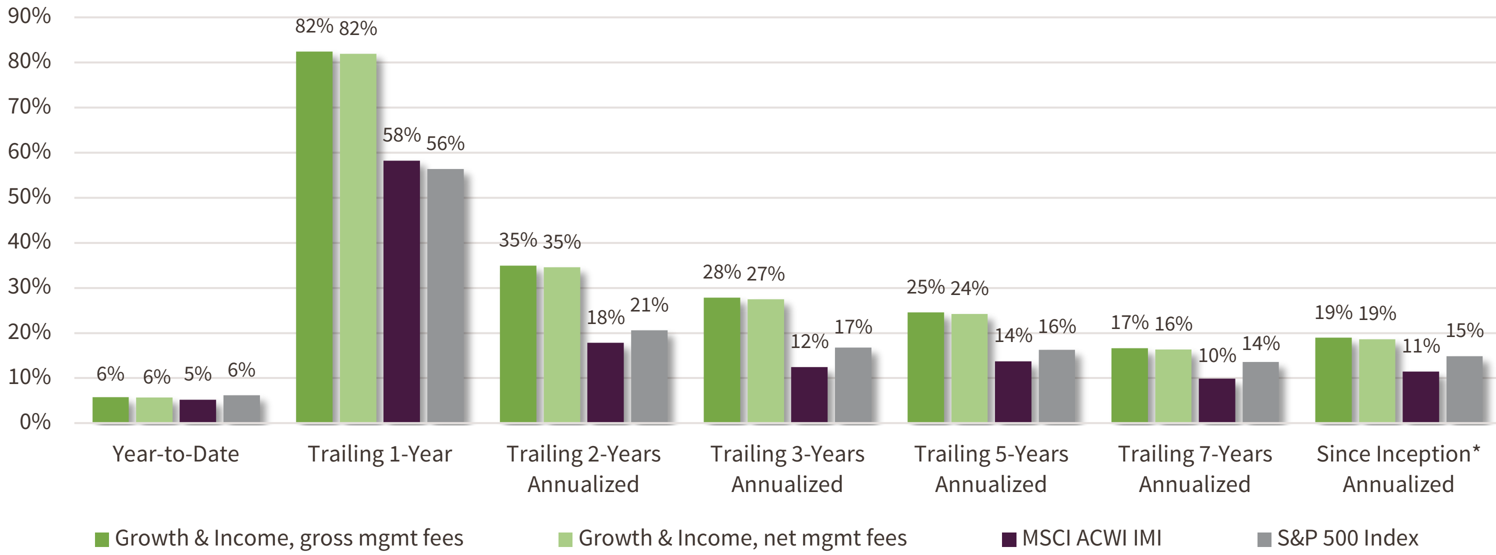



## Companies' Main Headquarters




†† *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. Treasure 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 Growth & Income portfolio returned 5.7% net of management fees vs. its benchmark, the MSCI All Country World Investible Market Index (MSCI ACWI IMI), at 5.2%. The portfolio's modest outperformance was largely from the Technology and Real Estate sectors.

- 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. Additional gains in technology came from a leading IT services provider and patent leader in multiple Next Economy™ areas. Gains from chipmakers, designers, and system-on-chip providers added to gains from infrastructure software.
- In Real Estate, gains were led by the recovery in the most sustainable and well-run office REITs, as pandemic fears began to subside. Also, gains in communications infrastructure, data center, and logistics REITs contributed to returns.

The Growth & Income portfolio's sole detracting sectors year-to-date were Utilities and Energy.

- Utilities modestly detracted from returns as a renewable, utility-scale electric utility led declines.
- In Energy, the world's leading wind turbine manufacturer led declines as its shares took a breather after significant gains in 2020. In Green Alpha's opinion, the intrinsic value of these firms increased during Q1, as orders and backlogs continued to increase. Combined with share price declines, this means their valuations improved during the quarter.

**Portfolio Inception: October 8, 2012. 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.*

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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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