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# Clean Economy strategy

## Markets began to recognise that achieving energy security will be fostered by a faster energy transition

- We expect to see an easing of permitting and process bottlenecks
- The strategy outperformed the broader equity market during March
- The four themes contributed positively to performance

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### What's happening?

Global equity markets recovered somewhat during the second half of March and ended the month in positive territory.

The situation in Ukraine has pushed Energy Independence into focus as a key strategic priority for Europe. Achieving this goal requires significant investment in the areas of Smart Energy and Low Carbon Transport. New energy infrastructure requires smart grid and greater interconnect capacity between countries, renewable generation capacity, energy efficiency and storage. Transportation systems will move away from fossil fuels towards a combination of solutions including electric vehicles, biofuels and green hydrogen. The technology exists to enable this transition and investment in capacity means scale and cost considerations are less inhibitive than in the past.

We have already seen a strengthening of policy commitment to the Energy Transition from the EU and expect to see an easing of permitting and process bottlenecks which has limited the pace of investment in the transition. We see strong consumer and corporate demand for energy efficiency solutions, residential and commercial scale renewables and storage projects and electric vehicles in response to rising energy costs. This further strengthens the outlook for Smart Energy and Low Carbon Transport solutions.

### Portfolio positioning and performance

The strategy outperformed the broader equity market (MSCI All Country World) during March, as markets began to recognise the extent to which achieving energy security will be underpinned by a more rapid energy transition. In Smart Energy, we saw direct beneficiaries including renewable generators such as NextEra Energy, and smart grid providers such as Schneider Electric performed well. Energy efficiency plays including Ameresco also outperformed, in recognition of the increased drive to cut energy use in response to rising energy prices.

In Agriculture and Food Industry, Deere & Co performed well as demand for its precision agriculture solutions is expected to remain strong for an extended period given the rise in the cost of agricultural products including fertiliser – the

application of which its products can reduce. In Natural Resource Preservation, Darling Ingredients outperformed. Darling Ingredients produces biofuels from inputs such as used cooking oil and is therefore a beneficiary of disruption to conventional oil supply.

Stocks which performed least well during March included the wind turbine equipment producers Vestas Wind Systems and Siemens Gamesa, both of which continue to face near term input cost pressures. Vestas Wind Systems has already indicated a willingness from customers to accept the pass through of cost pressure given the strong demand for new wind equipment. Given the strength of commitment to the Energy Transition, we remain positive in the longer term outlook for the business.

During March, we continued to reduce our exposure to TE Connectivity following a period of strength and in light of opportunities elsewhere in the portfolio.

## Outlook

2022 was already set to be an important year for the Energy Transition in all regions due to 'Fit for 55' regulations within European Climate Law and for progress with the EU Green Taxonomy; China's goal of 2030 peak carbon emissions followed by a goal of net zero by 2060; and a significant step up from corporates across the globe, with notable progress in the US. The current Russia-Ukraine crisis has served to underscore the need for Energy Independence and has therefore strengthened the resolve of both policy makers and those for whom energy security and uptime is critical. Delivering the necessary transition requires considerable investment in Clean Technology solutions, adding to the multi decade growth opportunities already evident for the Clean Economy. This strong and resilient demand for clean technology solutions, now further underpinned by energy security considerations, encourages further innovation underpinned which continues to enhance the investment potential within the clean economy.

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 benefit from the secular growth opportunities we see within the Clean Economy.

**No assurance can be given that the Clean Economy strategy will be successful. Investors can lose some or all of their capital invested. The Clean Economy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and micro capitalisation universe; Investments in specific sectors or asset classes.**

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