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# Clean Economy strategy

## Ukraine crisis has pushed energy independence into focus as a key strategic priority for Europe

- Equity markets fell sharply during April
- Value to growth rotation has offset the benefit to Smart Energy's fundamental outlook
- Republic Services & Waste Connections benefitted from current inflation environment

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### What's happening?

Global equity markets fell sharply during April as the market continued to adjust to higher interest rate expectations, and fears for a squeezed consumer. Digestion of the implications of both the Ukraine conflict and lockdowns in China for cost inflation and supply chain disruption also weighed on sentiment during the month.

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. Smart Energy businesses are already reporting strengthening demand for energy efficiency solutions, residential and commercial scale renewables and storage projects. Electric vehicles continue to increase their penetration of new car sales as manufacturers prioritise their production under constrained supply chains and consumers switch in response to high fuel prices. This further strengthens the outlook for Smart Energy and Low Carbon Transport solutions.

Protracted lockdowns in China are weighing on areas of production and therefore creating further disruption for global supply chains. At present, China remains committed to a Zero Covid policy despite the economic and human cost. It is presently unclear whether this is sustainable and we are monitoring the situation closely given the implications for verticals including low carbon transport as well as a potential release of some inflationary pressures.

## Portfolio positioning and performance

The strategy underperformed the broader equity market during April, as the rotation from growth to value has more than offset the benefit to Smart Energy's fundamental outlook. In Smart Energy, we saw underperformance from those names which responded best in March as a result of market rotation and despite strengthening fundamentals in many cases. Ameresco was notably weak during the month, erasing some earlier strength.

In Natural Resource Preservation, US recycling names Republic Services and Waste Connections outperformed due in part to the more cyclical nature of their business and in part to the inflation linkage in some of their contracts.

We made no material changes to the portfolio during April.

## 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.

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