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# Clean Economy strategy Responsible Nutrition stocks are supporting the drive toward food security and safety

- Global equity markets continued their strong performance through May
- ‘Smart Energy’ was the strongest performing theme
- We selectively top up positions which started to trade at attractive valuations

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## What’s happening?

Global equity markets continued their strong performance through May. Growth has continued to outperform value during the month, with periods of cyclical outperformance. Investors continue to reward those sectors which appear to benefit from either secular growth or near term opportunities. Businesses with healthy balance sheets continue to outperform the broader market.

Within the Clean Economy universe, Sustainable Transport has suffered significant disruption in the auto supply chain as a result of COVID-19. Auto manufacturers have begun to restart production in Europe and North America and car dealerships are gradually opening. Nevertheless, we expect to see significant weakness in broader auto sales throughout 2020 and into 2021 and this will inevitably impact electric vehicle sales. Despite near term weakness, we remain confident in the continued electrification of passenger vehicles driven by the expanding range of models available at increasingly attractive price points and the continued commitment to charging infrastructure investment.

In Smart Energy, we continue to see delays to the installation of residential solar and smart meters, but ongoing commitment to utility scale renewable developments. Early indications of the €750bn<sup>1</sup> Next Generation EU plan are that the EU recovery package will be ‘Green’, and that this may contribute to an accelerated Energy Transition in Europe.

In Responsible Nutrition, food ingredients companies have demonstrated their ability to support their customers’ need to innovate as they have assisted in adapting products from food service to food retail. Ongoing strength in food retail continues to represent an opportunity for this part of the Clean Economy universe. These businesses have demonstrated resilience thus far and we remain optimistic in their outlook. We continue to see opportunities for Responsible Nutrition

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<sup>1</sup> European Commission president Ursula von der Leyen statement – 27/05/2020

stocks to support the drive toward food security and safety in China and note with interest the recently announced partnership between Beyond Meat and KFC / Pizza Hut<sup>2</sup>.

Changes in consumer behaviour driven by the pandemic continue to disrupt parts of the Recycling and Waste reduction universe. The highest quality parts of this sector have responded rapidly, engaging with customers and adjusting their cost bases. We are beginning to see early signs of a recovery in commercial volumes in some sectors, particularly in the US. Hygiene considerations have increased the proportion of single use packaging in many settings. Whilst the drop in overall out of home consumption has more than offset this in the near term, we view the return to single use packaging as an opportunity for those businesses able to create more readily recyclable single use items and to recycle them efficiently.

### **Portfolio positioning and performance**

The Clean Economy strategy outperformed the broader equity market (MSCI All Country World) during April, with a positive contribution to performance from all themes. 'Smart Energy' was the strongest performing theme, with notable contribution from Kingspan Group and Hannon Armstrong.

Kingspan is the global leader in high performance building insulation with clear secular growth drivers, an innovative and cost effective product portfolio, and a strong balance sheet. The stock underperformed in April due to the near term earnings impact of the COVID related slowdown in construction. The stock rebounded during May, recovering much of this underperformance.

Hannon Armstrong invests in renewable energy, energy efficiency and sustainable infrastructure projects in the US. It has continued to outperform during May as the market recognises the resilience of its project pipeline, particularly within utilities and the public sector.

Holdings across the 'Sustainable Transport' theme also performed well, as suppliers to the auto sector continued to recover from March weakness. As a result, TE Connectivity, Infineon Technologies and Aptiv all contributed positively to performance during May.

Notable performers within Responsible Nutrition were Evoqua Water Technologies and Beyond Meat. Evoqua Water Technologies is a US water technology business whose activities have been classified as essential services and are continuing to operate through the lockdown. During May, it reported resilient quarterly earnings and cashflow with a confident tone. Beyond Meat supplies plant based meat alternatives to food service and food retail. The company announced reassuring quarterly earnings during May, highlighting that, whilst the casual dining portion of its customer base has suffered as a result of the lockdown, both quick service restaurants and food retail channels have benefitted from at home eating.

Holdings within Recycling and Waste reduction contributed the least to outperformance for a variety of stock specific reasons. Unilever suffered due to the severe lockdown in India where it has significant exposure as well as concerns over its broader emerging market exposure; pipeline weakness weighed on the performance of China Everbright International; Horiba announced a delay to its quarterly earnings release, citing internal and external COVID-19 related delays to accounting and audit processes.

During May, we increased our exposure to Alfen, a Dutch company specialised in smart grid, energy storage systems and EV charging equipment. We added to existing holdings in Hannon Armstrong, Americold Realty Trust and Beyond Meat. We funded this by exiting the remaining position in Hexcel, Orbia and Heritage Crystal.

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<sup>2</sup> Yum China press release – 01/06/2020

## Outlook

US Green policy under a Trump presidency remains unclear, and the primary focus for the presidential election will be healthcare. However, both the EU and its member states have argued for a green recovery in Europe, with fiscal support considered likely to target the Energy Transition. China has also indicated that EV charging infrastructure and rail will be beneficiaries of stimulus measures. In addition to existing consumer trends and cost effective technologies, this represents accelerated opportunity for the Clean Economy.

It is clear that a healthy balance sheet is now more critical than ever. 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 withstand the ongoing disruption and to emerge with visible growth opportunities. We continue to view market volatility as an opportunity to add to some of those businesses at attractive valuations.

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