Clean Economy strategy

The International Energy Agency highlighted the record growth seen in renewables year to date, despite the coronavirus and low oil prices

- Global equity markets rebounded in November
- Performance led by our 'Smart Energy' and 'Low Carbon Transport' themes
- We made small adjustments in the portfolio and trimmed outperforming holdings

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What's happening?

Global equity markets rebounded in November, in response to favourable results from late stage trials of three potential COVID vaccines. The risk of a protracted legal battle over the US election receded during the month, providing further support for equity markets. As the market reflected growing optimism for normalisation, value outperformed growth, closing some of the gap which has widened through the year.

Within Low Carbon Transport, the electrification of vehicle sales continues, led by Europe where policy support remains robust, evidenced by announcement such as the extension of elevated new energy vehicle subsidies beyond 2021 to 2025. We remain optimistic for the ongoing electrification of the vehicle fleet, supported by new model launches from the second half of 2020, policy support and continued innovation in the battery space.

For Smart Energy, we note the resilience of investment in the Energy Transition. During November, the International Energy Agency highlighted the record growth seen in renewables year to date, despite the coronavirus and low oil prices. As innovation continues to lower the cost of adopting clean energy technologies, the transition is becoming more affordable – a fact noted by the UK's Committee on Climate Change as part of their review of the UK's carbon budget. This progress is supportive of growth for the many enabling technologies such as static energy storage and smart grid solutions.

In the Agriculture and Food Industry, quarterly earnings demonstrated the resilience of demand for precision agriculture technology, as customers focus on efficiency gains and yield improvements. The shift towards a more sustainable diet continues, illustrated by a ramp up in targets for emissions and food waste from a number of leading players in the food industry.

In Natural Resource preservation, we note the growing opportunity for businesses which support circularisation as traditional export markets become less willing to accept developed market waste; the value of e-waste continues to rise and policy makers – particularly in Europe – seek to internalise the issue. The annual Global E-waste Expo, held in November, highlighted both the scale of the challenge and the many areas of progress. In the UK, Nestle launched a scheme to recycle coffee pods, H&M reported success with their recently installed 'Looop' machine, which allows consumers to return used clothes for separation and recycling into new yarns on site at their headquarters in Stockholm.

Portfolio positioning and performance

The Clean Tech strategy slightly underperformed the broader equity market (MSCI All Country World) during November. Nevertheless, all four sub-themes produced a positive contribution.

In 'Smart Energy', outperformance was broad based. Holdings in renewables companies Hannon Armstrong, Siemens Gamesa and Schneider have all demonstrated strong execution and backlogs in their respective areas of leadership (niche decarbonisation projects, wind turbine manufacture and energy management).

In 'Low Carbon Transport', Tesla, TE Connectivity and Infineon all outperformed. Tesla benefitted from its inclusion in the S&P500, TE Connectivity and Infineon responded well to increased optimism around the electrification of vehicles, a trend which benefits both companies' earnings.

During November, we made a number of small adjustments to weights in the portfolio, trimming outperforming holdings including Tesla and adding to Vestas Wind Systems, Darling Ingredients and Orsted.

Outlook

The EU and its member states have underlined their commitment to Net Zero 2050 and set the framework for a green recovery in Europe. China has recently made a commitment to net zero by 2060, a significant move which came sooner than many expected. Corporates are also increasingly committed to Net Zero targets and are investing accordingly. In addition to existing consumer trends and cost-effective technologies, this represents accelerated opportunity for 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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