Blue Chip Investing in the Green Economy

University of Victoria Presentation
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Agenda

• Thematic investing in the Great Energy Transition
• Why ESG integration is not enough
• Current thematic opportunities
• Sectors we’re less excited about
• Game changers – what we still don’t know
Background Beliefs

1. An historic “Great” Energy Transition is underway, creating a tailwind behind environmental sectors and significant new risks for unprepared investors.

2. Environmental sector growth, technologies, and regulatory policies are often misunderstood and, as a result, securities may be mispriced.

3. A global perspective, value strategy and bottom-up process is optimal for this space.
What will it take?

“$2.5 trillion annual investment needed by 2030 to finance a more sustainable future”

Greg Payne at the 2007 Greenchip Launch Event

“$6.9 trillion infrastructure investment needed annually to meet the Paris Agreement goals”

OECD/The World Bank/UN Environment (2018), Financing Climate Futures
Annual investment across low-carbon energy – including supply and efficiency – needs a rapid boost to $2.1 trillion to keep Paris in sight.

Note: Low-carbon energy investment includes energy efficiency, renewable power, renewables for transport and heat, nuclear, battery storage and carbon capture utilisation and storage. SDS = Sustainable Development Scenario.

Source: IEA World Energy Investment 2019
ESG is insufficient to capture climate opportunities and diversify from climate risk

Generally, ESG integration focuses on how companies behave, while environmental sector investing focuses on what companies produce and sell.

ESG strategies have high correlations to benchmarks and are less exposed to environmental drivers.

Source: 2018 Global Sustainable Investment Alliance Review
Four Global ESG Funds vs. MSCI World
By General Industry Classification (September 30, 2019)

1) RBC Vision Global Equity Fund (formerly Jantzi)
2) iShares World ESG Screened UCITS ETF
3) Fidelity Sustainable World ETF
4) Vanguard SRI Global Stock Fund

Source: Morningstar, Corporate websites
Five Environmental Theme Funds vs. MSCI World
By General Industry Classification (September 30, 2019)

Source: Morningstar, Corporate websites
Environmental Theme Sectors
Over 600 companies with a cumulative $6 trillion market cap
Energy transition evident in power production

- Coal and natural gas have been heading in opposite directions
- The percentage of electricity generated by fossil fuels has dropped from 72% to 61%, while renewable generation has increased from 8% to 17%
- The percentage of solar generation has increased a whopping 59X since 2007

Source: NREL, EIA
Renewable Utilities - *clean* outperforms *dirty*

Performance of five of the cleanest power utilities versus five of the dirtiest*

Source: Bloomberg, June 2014 to June 2019. Stock price performance for each grouping of stocks is market cap weighted based on the current market capitalizations. Return excludes dividends.

*EDP, ENEL and Iberdrola are leaders in renewable energy development, both in their home markets (Portugal, Italy, and Spain, respectively) and abroad, with EDP and ENEL operating major renewable portfolios in North America and Latin America, respectively. Nextera is a Florida-based utility that is the largest US developer and operator of renewable energy. In general, while the clean group does still have thermal generation, renewable generation is typically equal or higher than thermal, and thermal is more gas than coal. For the dirty group the opposite is the case.*
Solar is a misunderstood opportunity

1. Growth is underestimated
2. Misunderstood manufacturing consolidation
3. Value opportunities

Source: Mercom, BNEF
Wind may have peaked?

1. Intermittency and operating costs have been underestimated
2. Growth curve has plateaued
3. Cost curve decline has flattened
4. Fewer value opportunities

Source: GMO, Thinking outside the box, April 2019
Energy Efficiency – improving at almost 3% a year

Global final energy use with and without energy efficiency

Efficiency technologies we're excited about:

- Power management electronics
- LED Lighting
- Heat and pressure recapture
- Advanced manufacturing
- Precision agriculture

Source: 2018 EIA, Report on Efficiency
Bloomberg estimates that for every doubling of volume history has shown an 18% decline in cost. Based on this they estimate $94 by 2024 and $62 by 2030.

Source: BNE Finance March 2019, JP Morgan July 2019
Environmental Theme can outperform

Greenchip (Gross) returns vs. MSCI World and Cleantech Indexes

“Anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist.”

Kenneth Boulding, economist

Source: RBC IS, Greenchip, Bloomberg, MSCI
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