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Ecofin Global Renewables Infrastructure Strategy

2Q 2022 QUARTERLY COMMENTARY

Performance summary

The strategy delivered a negative return of 9.2% in the quarter (net performance), proving to be somewhat defensive in a tough market environment.

The second quarter was marred by a negative macro newsflow about fast-rising inflation, monetary policy movements and interest rate volatility, concerns about recession/stagflation, China COVID restrictions, potential windfall taxes on European energy companies and permitting/supply bottlenecks. Moreover, the U.S. Department of Commerce's investigation into the potential circumvention of duties on Chinese panels (AD/CVD) led to a near total halt of solar development in the U.S. due to uncertainties about import duties. President Biden's intervention late in the quarter alleviated the near-term concerns but a comprehensive renewables policy remains missing.

Despite this tough environment, the companies in the portfolio had a strong start of the year on the back of stronger generation volumes and higher electricity prices, as we had anticipated. This was translated in that 71% of companies in the portfolio saw positive earnings revisions around the first quarter results vs 50% for the MSCI AC World. The impact of higher prices will be felt slowly and cumulatively, as most renewable assets are under long-term price contracts, with modest volumes open to spot market—unlike traditional energy.

The other good news is that renewables developers are seeing buoyant demand and have better pricing power as electricity prices in the most recent contracts more than offset equipment cost inflation.

As of 30 June 2022

(All total returns in USD)	3 months %	6 months %	1 year	3 years % per annum	5 years % per annum	ITD* % per annum
Strategy composite (net)**	-9.2	-8.0	-3.5	15.7	13.6	13.2
S&P Global Infrastructure Index	-7.7	-0.9	4.8	2.7	3.9	6.3

*30 November 2015. **Strategy composite information provided in the disclaimer on final page.
Source: Ecofin Advisors Limited. Total return includes dividends paid, if any, and reinvested.
Past performance is no guarantee of future returns. Returns may increase or decrease due to currency fluctuations.

Attribution

- Stocks
  - Top Contributors: Renova (Japan), Acciona Energias Renovables (Spain), Constellation Energy (U.S.)
  - Top 5 Detractors: Drax (UK), ReNew Energy Global (India), China Longyuan (China), Transalta Renewables (Canada), Sunrun (US)
- Regional contributors to performance
  - Negative contribution from all regions

New Positions/Sales

During the quarter, we started a position in BKW, the Swiss electric utility. BKW has a strong outlook for its electricity generation business thanks to attractive hedges through 2026 as well as growth in renewables capacity.

Impact

The strategy continues to deliver a substantial positive decarbonisation impact. Based on our proprietary carbon emission database and company-by-company assessment, on an annualized basis as of 30 June, the strategy is 69.7% cleaner than the respective grids in which the underlying companies operate. A $1 million investment in the fund implies the avoidance of 483 tonnes of carbon per year, this is equivalent to 439 return flights from New York to Los Angeles in economy class per $1 million investment.

Outlook

We expect a strengthening of fundamentals for the renewable sector and the potential further lifting of U.S. regulatory overhangs would be positive. However, we remain concerned about the macro developments such as inflation, interest rates and a full-blown energy crisis, especially in Europe.

High electricity prices driven by fossil fuel costs are positive for renewables developers and owners as it increases their ability to sign contracts with more attractive terms. As much as the cost of new renewables projects has gone up due to inflation, newbuild renewables costs remain modest compared to electricity generated from gas and coal. From that perspective, we expect demand for renewables to accelerate and returns to be better than previously anticipated.

At the same time, commodity prices such as copper, aluminium and iron ore are rolling over, relieving the pressure on renewables equipment costs and therefore making them even more attractive as gas and coal prices remain elevated.

On the regulatory front, over the past few months, the sector has had to deal with uncertainty over the potential for a 'skinny' climate bill from the Democrats, an adverse draft on California NEM3.0 and AD/CVD. Long-term visibility on these issues, potentially starting over the summer, would provide upside to U.S. renewables.

Interest rates are a headwind for the sector, an exogenous factor we can only partially protect the portfolio against by having more exposure to companies with fixed-rate debt and inflation pass-through.

The European energy market is very fragile due to its dependence on imported gas and currently weak hydro. In that context, it becomes probable that Europe will need to contain energy consumption. Moreover, policy intervention to control power prices is increasingly likely in order to contain the rise in the cost of living. Forced moderation in energy consumption due to the ongoing conflict in Ukraine could set the stage for a recession and a difficult operating environment, even if renewables should fare better given their long-term contracts.