August 2022

Investing for a world of change

A game changing response to the challenge of climate change

Deirdre Cooper
Head of Sustainable Equity

Graeme Baker
Portfolio Manager

Despite its title, among the most significant aspects of the passage of the Inflation Reduction Act of 2022 is that it represents an unprecedented commitment to tackling climate change from the world's largest economy.

With provisions for US$369 billion of funding for climate initiatives, it provides four times more money for climate initiatives than former US President Barack Obama's 2009 Recovery Act. As costs have decreased there will be an even bigger multiple in terms of investment impact.

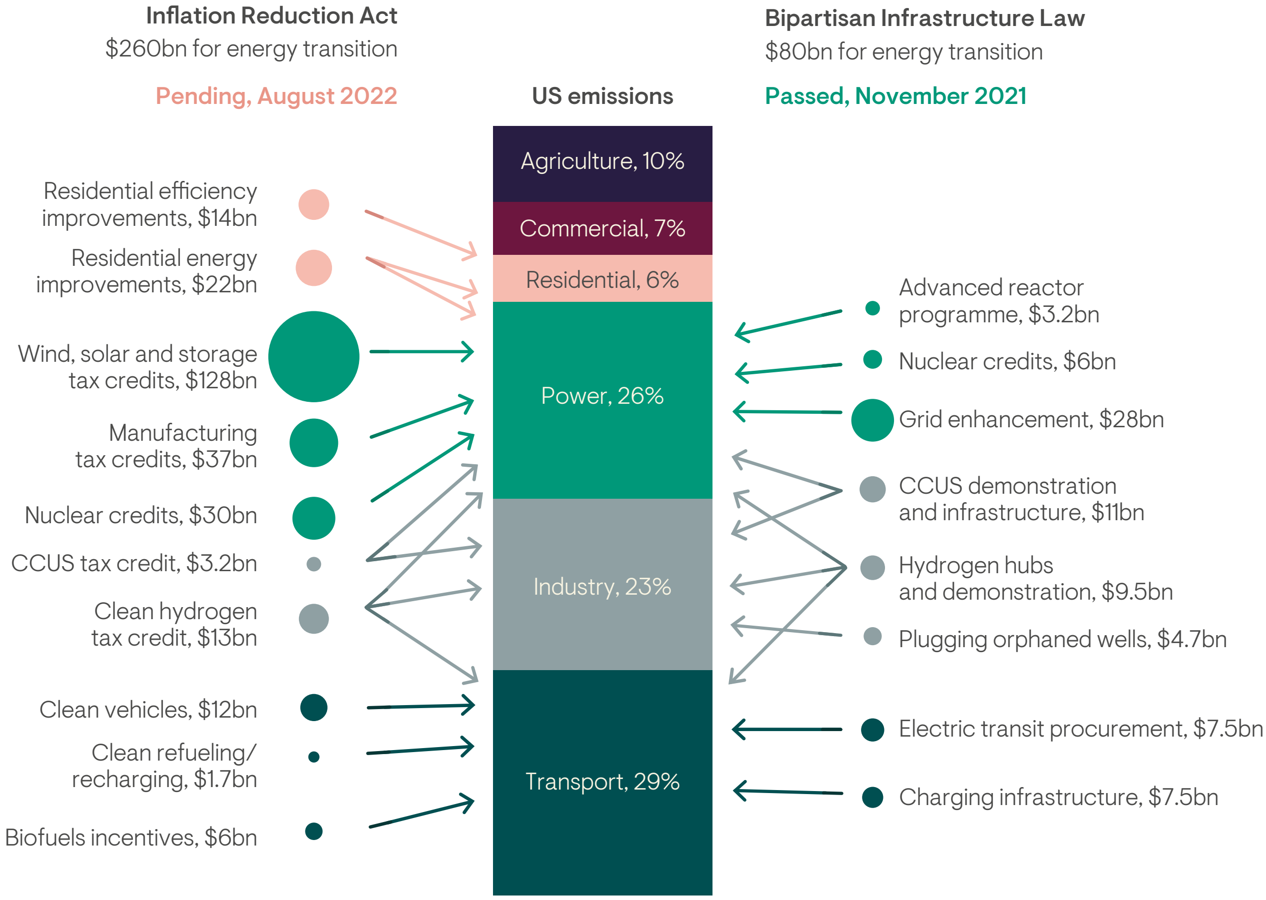
The Inflation Reduction Act includes all the key climate initiatives from the 'Build Back Better' bill that failed to gain passage late last year but contains more offsetting revenue generating mechanisms, measures to support the energy industry, as well as significant support for nuclear power, and a strong focus on domestic production and jobs. It is an inclusive programme for American energy policy and sets the country on track, according to the Senate projections, to reduce emissions by 40% by 2030, while building an energy system that should eventually provide lower cost energy over the long run.

It is both material and comprehensive. Importantly, it will also allow the US to play a much stronger role at the upcoming COP27 session because the country can no longer be accused of asking others to take action they are not taking themselves.

The Act touches almost every aspect of US emissions (see Figure 1).

As is always the case with policy, the devil is in the detail. In this case the details are well designed and will support decarbonisation for years to come.

Figure 1: Estimated 2022–2031 energy transition spending in inflation Reduction Act Bipartisan Infrastructure Law



Source: EIA, EPA, Joint Committee on Taxation, BloombergNEF. Note, chart only captures tax credits and incentives, not grant programmes or loan. Bn is billion. CCUS is carbon capture, utilisation and storage. Chart has been redrawn by Ninety One.

Some of the most meaningful measures for the companies we invest in include:

For the renewable power sector

A 10-year extension of tax credits for wind and solar, as well as a new 10-year tax credit for standalone energy storage. Solar projects can now access more lucrative production tax credits, and wind projects with batteries can access the storage investment tax credit. Neither were previously possible. The offsetting 15% minimum tax has been designed in a way to allow the sector to continue to use accelerated depreciation. These are all examples of the details working. Renewable energy was already by far the cheapest form of power at current energy prices. That gap has now widened to the extent that we believe every coal fired power plant in the country could be economically replaced with renewable energy, even treating the investment capital as a sunk cost. However, tax credits for nuclear mean that previously uneconomic low-carbon nuclear power plants will stay on the system and will have more predictable infrastructure-like cash flow profiles.

For the electric vehicle sector

There are incentives for EV charging (basically the installation of charging points), an extension of the tax credit for electric car sales and a removal of the volume cap. However, there are significant local content requirements which may make it more difficult to access the full credit. Having said that, visibility on credits will increase the relative economics of EVs, the only question is by how much.

For the hydrogen sector

The US$3 per kg hydrogen tax credit means that green hydrogen made from renewable energy will be more economical than grey hydrogen from natural gas. The size of the credit increases as the carbon footprint of the electricity used to generate the hydrogen decreases, which will be a significant tailwind for investment in renewables as well as hydrogen electrolysers.

For the energy efficient building sector

There are incentives for heat pumps and other energy efficient technologies.

For the waste sector

There is a new tax credit for biogas generation.

Companies we hold in Global Environment that are beneficiaries of this legislation include Nextera Energy, Waste Management, Aptiv, Iberdrola, Trane Technologies, and Vestas, but there is hardly a company whose business is not in some way positively affected. Importantly these are all long term 10-year incentive programmes[1].

This Act isn't a short-term sugar boost for the sector but forms the underpin for a decade of sustainable growth.

—

1. This is not a buy, sell or hold recommendation for any particular security. Individual security performance does not represent the Strategy performance. There is no guarantee that the Strategy is currently investing and/or will invest in the securities in the future. The portfolio may change significantly over a short period of time. For further information on specific portfolio names, please see the Important information section.

Important information

This communication is for institutional investors and financial advisors only.

The information may discuss general market activity or industry trends and is not intended to be relied upon as a forecast, research or investment advice. The economic and market views presented herein reflect Ninety One's judgment as at the date shown and are subject to change without notice. There is no guarantee that views and opinions expressed will be correct and may not reflect those of Ninety One as a whole, different views may be expressed based on different investment objectives. Although we believe any information obtained from external sources to be reliable, we have not independently verified it, and we cannot guarantee its accuracy or completeness (ESG-related data is still at an early stage with considerable variation in estimates and disclosure across companies. Double counting is inherent in all aggregate carbon data). Ninety One's internal data may not be audited. Ninety One does not provide legal or tax advice. Prospective investors should consult their tax advisors before making tax-related investment decisions.

This material is being sent to you in your capacity as professional investors, institutional investors, other qualified investors as defined by relevant local laws and regulations and strictly for your internal use only; and should not be reproduced or distributed to any other persons without prior written consent from Ninety One. If you are not an intended recipient you must ignore this material and take no action based on the information in it. In Hong Kong, it is for professional investors only, issued by Ninety One Hong Kong Limited and has not been reviewed by the Securities and Futures Commission (SFC). In Singapore, it is for institutional investors only, issued by Ninety One Singapore Pte Limited (company registration number: 201220398M) and has not been reviewed by the Monetary Authority of Singapore. In the People's Republic of China (the "PRC"), it can be directed only at certain eligible PRC investors as prescribed by applicable PRC laws. In Taiwan, it is for professional institutional investors only. In Indonesia, Thailand, the Philippines and Brunei, it is for institutional investors and other qualified investors only. This material has been issued to you upon your request, without any marketing or solicitation activities conducted by Ninety One. All information contained in this material is factual information and does not reflect any opinion or judgment of Ninety One. The information contained in this material should not be construed as an offer, marketing, solicitation or investment advice with respect to any investment products or services. The website mentioned in this communication has not been reviewed or approved by any regulatory authority in any Asia jurisdictions, and may contain information with respect to investments products that may not be registered in some jurisdictions.

Specific Portfolio Names

References to particular investments or strategies are for illustrative purposes only and should not be seen as a buy, sell or hold recommendation. Unless stated otherwise, the specific securities listed or discussed are included as representative of the Fund. Such references are not a complete list and other positions, strategies, or vehicles may experience results which differ, perhaps materially, from those presented herein due to different investment objectives, guidelines or market conditions. The securities or investment products mentioned in this document may not have been registered in any jurisdiction. More information is available upon request.

Australia
Level 28 Suite 3, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Botswana
Plot 64511, Unit 5
Fairgrounds, Gaborone
Telephone: +267 318 0112
botswanaclientservice@ninetyone.com

Channel Islands
PO Box 250, St Peter Port
Guernsey, GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Germany
Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
deutschland@ninetyone.com

Hong Kong
Suites 1201-1206, 12/F
One Pacific Place
88 Queensway, Admiralty
Telephone: +852 2861 6888
hongkong@ninetyone.com

Italy
Via Dante 7
20123 Milano
enquiries@ninetyone.com

Luxembourg
2-4, Avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Namibia
Am Weinberg Estate
Winterhoek Building
1st Floor, West Office
13 Jan Jonker Avenue
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Singapore
138 Market Street
CapitaGreen #27-02
Singapore 048946
Telephone: +65 6653 5550
singapore@ninetyone.com

South Africa
36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 901 1000
enquiries@ninetyone.com

Sweden
Västra Trädgårdsgatan 15, 111 53
Stockholm
Telephone: +46 8 502 438 20
enquiries@ninetyone.com

Switzerland
Dufourstrasse 49
8008 Zurich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

United Kingdom
55 Gresham Street
London, EC2V 7EL
Telephone: +44 (0)20 3938 1900
enquiries@ninetyone.com

United States
Park Avenue Tower, 65 East 55th Street
New York, 10022
US Toll Free: +1 800 434 5623
usa@ninetyone.com

—
www.ninetyone.com
Telephone calls may be recorded for training, monitoring and regulatory purposes and to confirm investors' instructions. For more details please visit www.ninetyone.com/contactus

CS_408 08/2022