Previously Investec Asset Management

Investing in a low-carbon world

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What you should know

- 2019 capped the hottest decade in recorded history. Every decade since the 1960s has been warmer than the previous one.[1]
- Air pollution kills 7 million people annually and costs societies more than US$5 trillion a year.[2]
- The world's 215 biggest companies, representing nearly US$17 trillion in market capitalisation, value the climate risks to their businesses at a collective ~US$1 trillion.[3]

Why decarbonisation matters

- **Decarbonisation** is the process of reducing carbon emissions to avoid the impacts of climate change. Transitioning to a low-carbon future entails an almost total overhaul of the energy system, transport system and many other aspects of the global economy.
- The world needs to spend US$2.4tn every year to 2035[4] to limit temperature rises to 1.5°C.
- Just half a degree above that will significantly worsen the risks of drought, floods, extreme heat and poverty for hundreds of millions of people.

Why decarbonisation is now a mainstream investment priority

Decarbonisation will be **a powerful multi-year growth driver** for select companies, as well as an existential threat for carbon-dependent businesses.

1 **Technological innovation and cost deflation:** New technology means that solar and wind energy are often cheaper than fossil-fuel energy sources. Renewables are forecast to account for more than 100% of net new global energy capacity.

2 **Diverse beneficiaries of decarbonisation:** Companies from multiple sectors are set to benefit from decarbonisation-fuelled growth. They include tech companies that enable transport electrification, providers of energy-efficient building materials, renewable power suppliers...and many others.

3 **Ramp up of electrical vehicle production:** Electric vehicle (EV) production is on the cusp of a step change in 2019-20, as key auto incumbents are moving beyond the internal combustion engine. China produces over 50% of EVs worldwide.

4 **'Beautiful China':** In China's New Policies Scenario, growing energy needs will be met increasingly by renewables, while gas & oil will lose market share. China is playing an increasing important role in driving sustainable decarbonisation.

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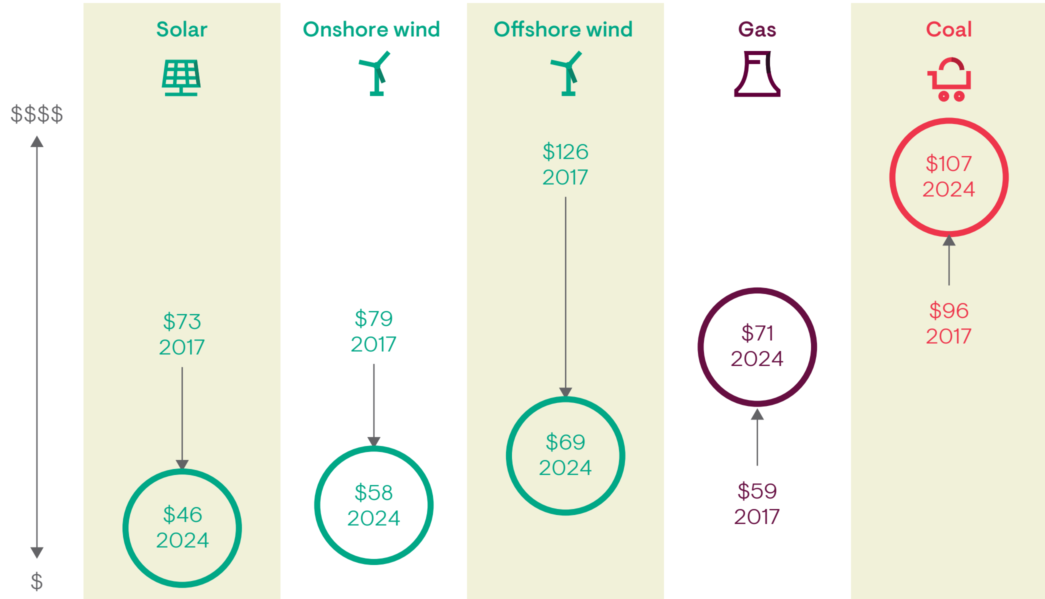
1. Source: Research findings from NASA and the National Oceanic and Atmospheric Administration released in January 2020.
2. Source: United Nations press release, 31 May 2019.
3. Source: CDP report, June 2019.
4. Source: United Nations Intergovernmental Panel on Climate Change.

2017 vs. 2024 average cost of electricity production ($ per MWH*)[5]

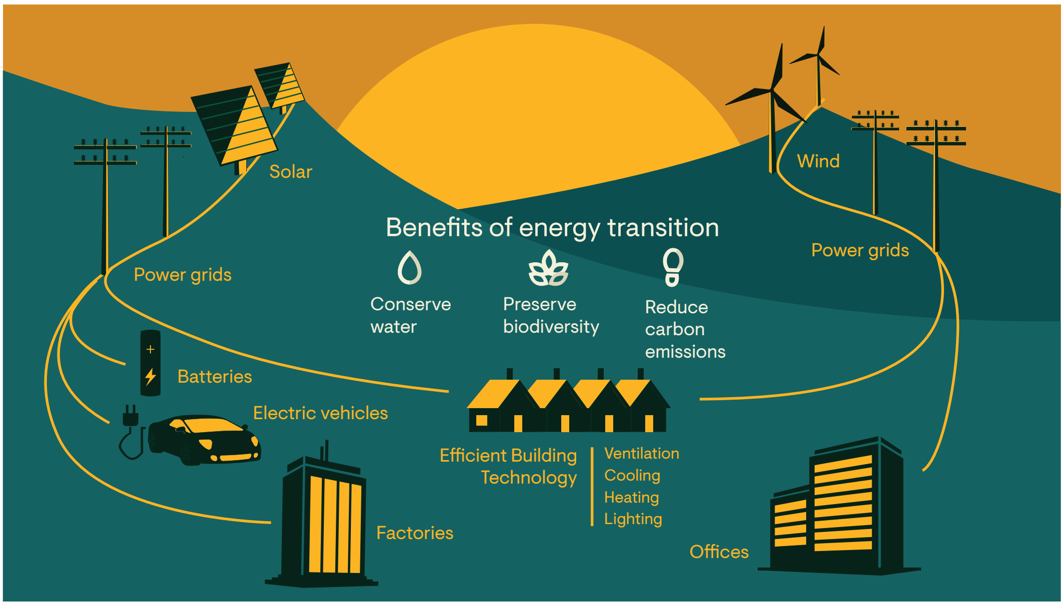


5. Source: BNEF New Energy Outlook, 2018. *Countries shown (China, Germany, India, United States) account for 50% of global electricity demand.

A quick tour of the decarbonisation universe[6]

- Companies benefitting from decarbonisation tend to be in the industrials, utilities, energy, technology, materials, chemicals and automotive sectors (i.e. about 60% of GICS sectors).
- They exist across the value chain, from makers of components, to service providers, to end-product distributors.
- About half the companies have market capitalisations under US$2 billion. Almost one-third of them are in China.

Energy transition in action



6. Source: Ninety One, March 2020.

Key investment examples of decarbonisation

We see investment opportunities across three areas: renewable energy; electrification of transport, heating and industrial processes; and resource efficiency.

Renewable energy	Renewable power capacity is growing in all major economies. By 2050, the amount of solar and wind energy capacity in the US is forecast to be 1,100% and 150% higher, respectively, than it was at the start of 2019.
Electrification	Batteries hold the key to electrification. Companies active in this area include battery makers, battery-component suppliers and battery capital equipment manufacturers. In-depth analysis is vital to understand which links in the supply chain are likely to maintain margins and long-term sustainable returns.
Resource efficiency	Around 30% of greenhouse gas emissions come from buildings, making building efficiency a key area of decarbonisation. Higher building-efficiency standards in various countries are driving demand for insulation and a range of other products.

Key advantages of investing in decarbonisation

We believe there are three compelling reasons to allocate to a portfolio of companies that can enable sustainable decarbonisation and stand to benefit from the energy transition:

- **Gain exposure to an area of structural growth:** Companies enabling decarbonisation should enjoy a multi-year tailwind, which should drive higher revenues and profitability potential.
- **Manage carbon risk:** Investing in decarbonisation may help investors offset the carbon risk in other investments.
- **Make a positive impact:** Investing in decarbonisation empowers businesses that are aiming to solve one of the biggest challenges facing the planet.

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