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Investing for a  
world of change



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# The role of Global Environment within a global equity allocation

## The fast view

- Efforts to cut carbon emissions are driving vast flows of capital, creating a major structural growth opportunity for select companies.
- The Ninety One Global Environment Strategy invests in leading climate-solutions companies, focusing on three pathways to a low-carbon future: renewable energy, electrification and resource efficiency.
- We believe an investment strategy focused on ‘decarbonisation’ has the potential to generate above-market returns and contribute to positive real-world impact.
- The Global Environment Strategy has little overlap with global equity benchmarks and has historically offered a differentiated return signature. The analysis shared here evidences it can complement a core global equity allocation.

## What do you get the investor who has everything?

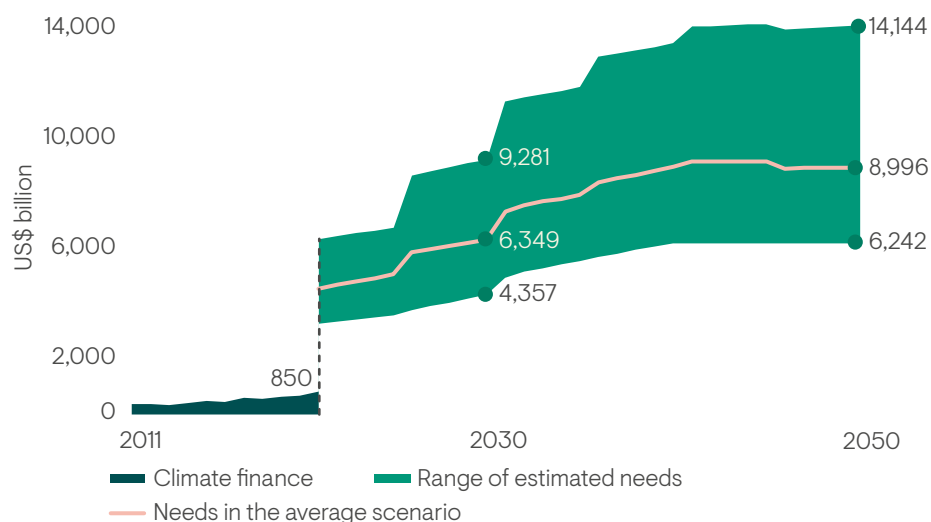
For those with diversified global equity portfolios, it can be tricky to find investment strategies that offer something different in terms of portfolio composition and return profile.

Equity strategies focused on decarbonisation – specifically, on the shares of companies whose products and services are in demand as the world tries to reduce carbon emissions – may be a potential answer. We believe a decarbonisation allocation can complement a core global equity portfolio, bringing diversification benefits and offering the potential for uncorrelated returns.

## The structural growth opportunity of a lifetime

Concern about climate change – the single biggest health threat facing humanity, according to the World Health Organisation<sup>1</sup> – is driving vast flows of capital. To limit temperature rises to the international target of 1.5°C above pre-industrial levels, a significant increase in climate-related finance is needed, as can be seen in Figure 1.

**Figure 1: Current investment levels are not enough to limit global warming to 1.5°C**



Source: [Climate Policy Initiative](#) – Global Landscape of Climate Finance, A decade of data. October 30, 2021.

1. WHO.int, 'Climate Change and health', October 30, 2021.

## The role of Global Environment within a global equity allocation

Regardless of investors' views on climate change, 'decarbonisation' matters because transitioning to a low-carbon economy is driving radical change in the global economy. As the International Energy Agency's (IEA's) 2021 report 'Net Zero by 2050' highlights, achieving carbon neutrality by 2050 requires the following milestones to be achieved by 2030, a mere seven years from now:

- A 4x increase in wind and solar capacity
- An 18x increase in electric vehicle (EV) sales
- A 41x increase in annual EV battery production
- US\$4 trillion of annual investment in the energy sector alone

This is only part of the getting-to-net-zero story, as the IEA's energy-sector focused report accounts for only about two-thirds of global emissions. Reducing the remaining one-third will require radical changes to agriculture, food production, industrial processes, buildings and more. These shifts across sectors are resulting in enormous flows of capital, fuelling innovation and creating a long-lasting tailwind for companies enabling the transition.

Investing in climate solutions offers the potential to align a portfolio with a powerful structural growth trend. We believe that companies whose products and services help the global economy to decarbonise have the potential to grow revenues and profits faster than the market average. We also believe the earnings and growth potential of these companies are often underappreciated by the market.

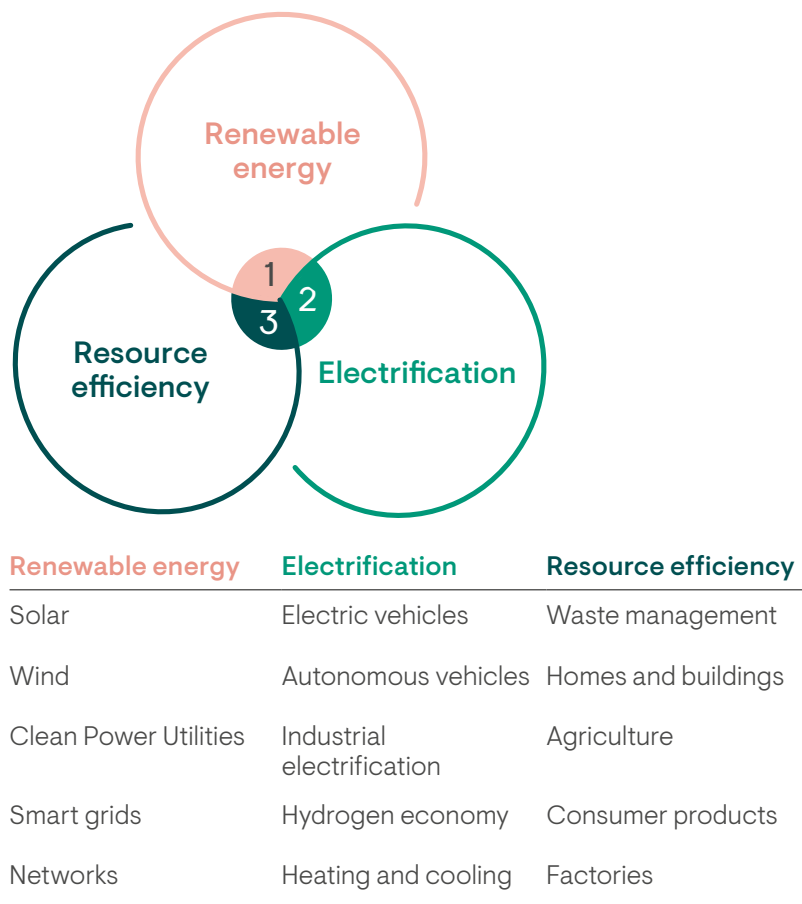
If appropriately executed, an investment strategy based on this opportunity has the potential to generate above-market returns over the long term while contributing to a positive real-world impact. This isn't prioritising impact at the expense of returns; we believe these returns are achievable **because** of the impact climate-solutions companies are making.

## The decarbonisation opportunity is broad

The climate-solutions investment opportunity set extends far beyond the wind and solar farms that often come to mind. It spans companies that are helping to decarbonise the buildings we work in, the homes we live in, the food we eat, the products we consume and the transport we use. The universe encompasses not just the direct beneficiaries of the energy transition, but the entire supply chains around them. It is also global. Emerging markets offer significant potential for investors in decarbonisation. Certain companies in China, as an example, are global leaders in technologies that are crucial to efforts to tackle climate change.

The opportunity set for the Ninety One Global Environment Strategy – a high-conviction global equity portfolio – encompasses three pathways to a low-carbon future, as shown in Figure 2.

**Figure 2: Three pathways to a low-carbon future**



## The role of Global Environment within a global equity allocation

Finally, contrary to a common misconception, decarbonisation isn't a small- and mid-cap opportunity. Although such companies are well represented in the decarbonisation investment universe, we find that the type of companies Global Environment seeks – those with strong growth, persistent profitability and competitive advantages – leads to a large-cap orientation.

Approximately 85% of the portfolio was large cap, defined as having a market capitalisation of >US\$10 billion, at March 31, 2023.

Historically, Global Environment has held between 22 and 27 companies in the portfolio, with the top 10 holdings representing 50-55% of the Strategy/portfolio<sup>2</sup>. The active share relative to the MSCI All CountryWorld Index (ACWI) has been close to or above 99%, indicating significant variation both in terms of the holdings and sizing relative to global equity indices.

The investment approach is intentionally high conviction and highly concentrated, for three main reasons:

- It enables us to focus on the best companies in this space.
- It means that individual company outcomes matter more for both our investment returns and real-world impact.
- It helps us to have more meaningful company engagements.

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2. Since the Global Environment Strategy's inception in September 2018 to end-March 2023.

## The diversifying role Global Environment can play in a portfolio

As noted, there is a significant difference between the positions held in the Ninety One Global Environment Strategy and the MSCI ACWI. As at March 31 2023:

- Two Global Environment holdings were not in the index<sup>3</sup> (we construct a proprietary ‘decarbonisation’ universe for the Strategy which screens for companies with carbon avoided and environmental revenues in the MSCI ACWI and beyond), and only one company was within the index’s 100 largest constituents by weight.
- Global Environment has structural sector biases (i.e., it favours industrials, utilities, materials and ‘green tech’, and does not invest in US mega-cap tech, energy, financials, real estate or healthcare); and country biases (i.e., lower relative exposure to the US and higher relative exposure to China), which accentuates the differences to the MSCI ACWI<sup>4</sup>.

The result has historically been a very distinctive return signature that we believe may complement other global equity approaches. Global Environment has typically generated alpha at different times to the most common equity styles – quality, value, growth and momentum – which can help to smooth an overall portfolio’s alpha through time<sup>5</sup>.

Figure 3 (overleaf) plots Global Environment’s monthly returns against the monthly returns of MSCI’s Quality, Value, Growth and Momentum indices since inception in September 2018. The absence of a pattern in the dots indicates Global Environment’s differentiated return profile versus each of the indices. This is reinforced by the low correlations in each instance (whether positive or negative).

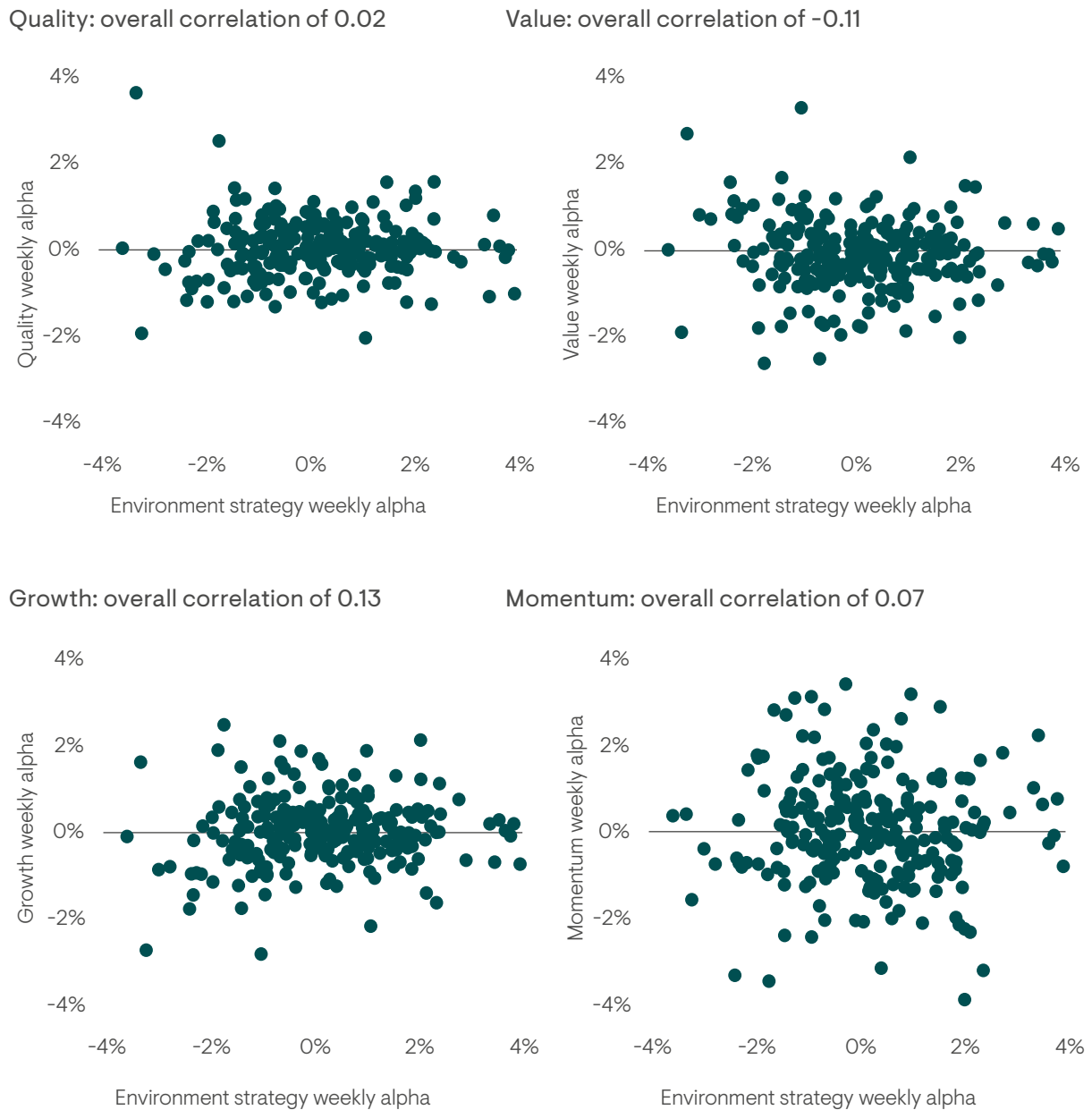
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3. Chinese companies Zhejiang Sanhua Intelligent Controls and Wuxi Lead Intelligent Equipment (Global Environment portfolio holdings as at 31 March 2023) are not constituents in the MSCI All Country World Index.

4. NextEra Energy, as at March 31, 2023.

5. Source: Ninety One. Statement based on analysis of correlation between Global Environment weekly returns and MSCI indices for quality, value, growth and momentum, from Global Environment Strategy inception in September 2018 to March 31, 2023. We would be happy to share the analysis on request.

**Figure 3: Global Environment’s monthly returns**



**Figure 4: Global Environment’s track record**

Annualized performance (%) since inception in USD

	Gross	Net	Benchmark*
1 year	0.4	-0.4	-7.4
Since inception	15.2	14.2	6.6

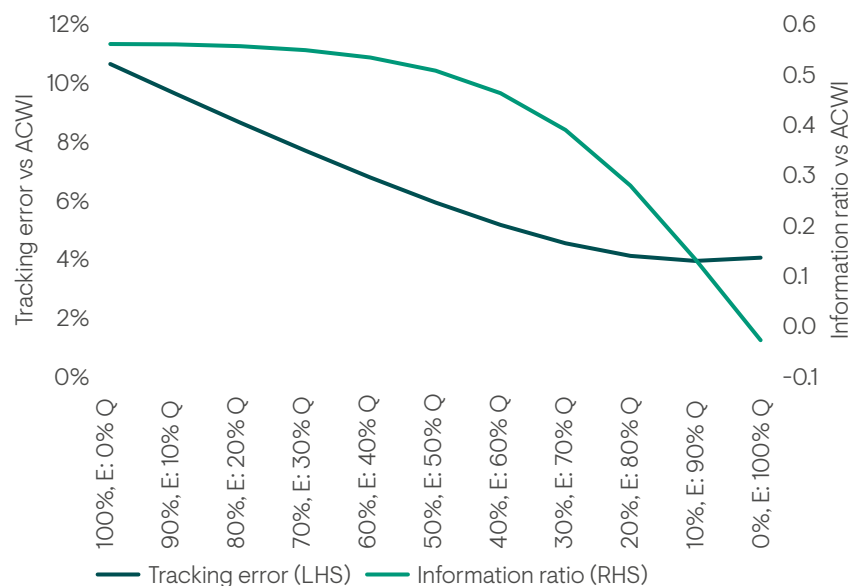
Past performance does not predict future returns, losses may be made.

Figure 3 Source: Ninety One, Bloomberg, March 31 2023. Uses weekly data from September 1, 2018 onwards, MSCI ACWI Quality, MSCI ACWI Value, MSCI ACWI Growth and MSCI ACWI Momentum used for the respective charts. “Alpha” is defined as excess returns relative to MSCI ACWI. Assumes a management fee of 0.85% p.a. Figure 4 source: Ninety One, as at 31 March 23. Gross performance (returns will be reduced by management fees and other expenses incurred). Net performance (net of highest institutional segregated portfolio management fee), income is reinvested in USD. \* Performance comparison index: MSCI AC World (Net Return).

## The role of Global Environment within a global equity allocation

To illustrate how Global Environment may complement a global equity allocation, we modelled the historical effect of incrementally adding an allocation to the Global Environment Strategy to the MSCI ACWI Index (Figure 4). The Global Environment allocation was funded from the Quality component of the MSCI ACWI, as this part of the market is where many investors have focused their recent global equity allocations. Perhaps unexpectedly, given Global Environment’s high tracking error, allocating to the Strategy reduces the overall portfolio’s tracking error for allocations up to about 90%. This is because of the low alpha correlation between Global Environment’s monthly returns and those of the global equity index.

**Figure 5: Impact on tracking error and information ratio relative to MSCI ACWI of adding to Global Environment (funded from MSCI ACWI Quality)**



Target returns are hypothetical returns and do not represent actual performance.  
 For further information on performance targets, please see the Important information section.  
 Source: Ninety One, December 31, 2022.

## Summary

- We believe Global Environment can play a valuable role in a global equity allocation.
- The Strategy invests exclusively in climate-solutions companies, which we expect to benefit from a long-term structural growth tailwind as global efforts to cut emissions continue.
- With a high-conviction, highly concentrated portfolio, Global Environment has little overlap with broad equity benchmarks.
- The Strategy has exhibited a differentiated return profile since inception in September 2018, relative to the common global equity styles.
- Our modelling suggests Global Environment may complement a global equity allocation.

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