

# DNB Renewable Energy – Monthly report

Fund and market update – March 2023

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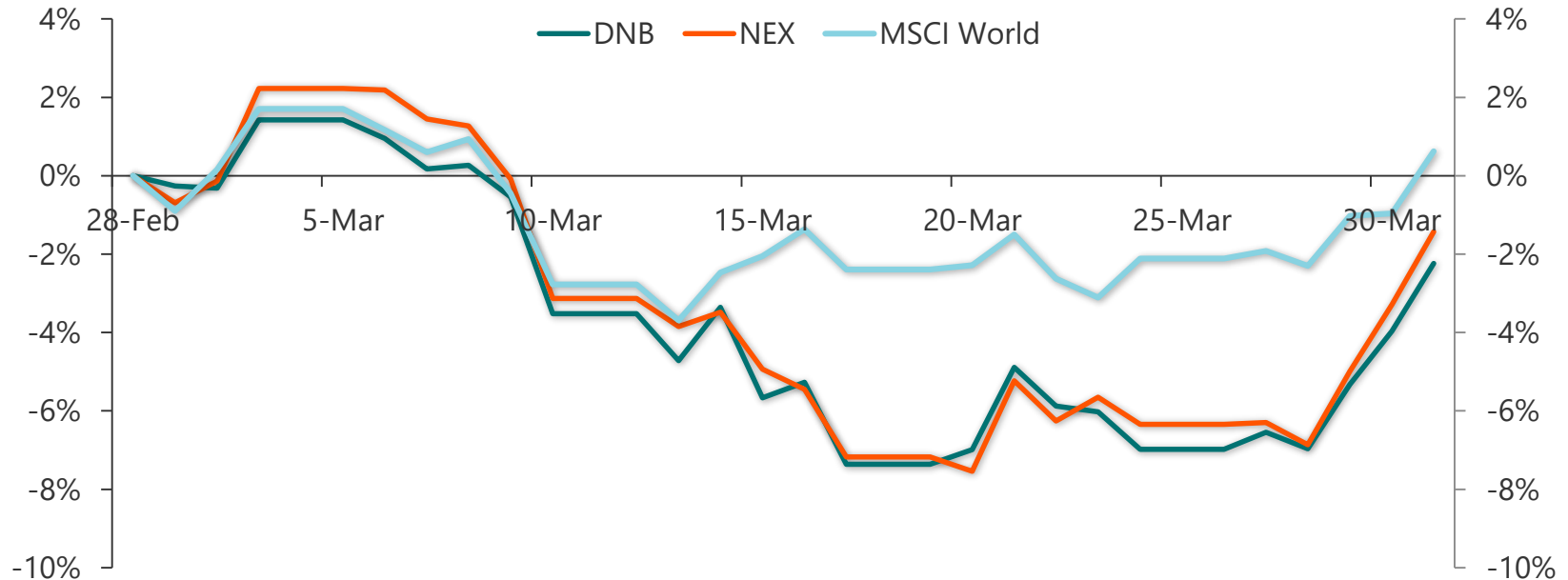
# Managers' reflections:

## Financial instability and high interest rates dominating financial markets

- The fund and the sector underperformed the broader market in March as financial instability and high interest rates dominated financial markets. The top performer was Enel after delivering good full year results. The weakest performer was Sunrun: the collapse of Silicon Valley Bank has driven concern over availability and cost of debt financing. The top buys for the month were Sunrun and Darling Ingredients where we took advantage of weak share prices to significantly increase our bets. We funded these purchases by selling shares in Enel and First Solar, as well as (to a lesser extent) IMCD and Air Liquide – stocks that have outperformed year to date.
- The EU has proposed the EU Green Deal Industrial Plan in response to the US Inflation Reduction Act (IRA) due to worries that the generous tax breaks offered in the US will reduce European competitiveness as a manufacturing hub for clean tech products. Through this, the EU aims to reduce bureaucracy, accelerate the roll out of net-zero projects, and “level the playing field”. The four pillars of this plan include: simplifying regulation, speeding up access to finance, developing skills for green industries and creating a more supportive environment for manufacturing. To address the first pillar, the EU is proposing a Net-Zero Industry Act (focusing on accelerating permitting and defining strategically important net-zero projects), which will be complemented by a Critical Raw Materials Act (focusing on achieving self-sufficiency).
- In March, the IPCC published its summary of five years of reports (Synthesis Report of the Sixth Assessment (AR6)). The main takeaways are that “rapid and deep” emissions reductions are needed in “all sectors” of the economy over the next seven years to limit global warming to 1.5-2C. The report also finds that the “global economic benefit of limiting global warming to 2C exceeds the cost of mitigation in most of the assessed literature”. The next cycle of reporting is not expected until at least 2027, and this reporting therefore provides an important basis for understanding the climate crisis and efforts to mitigate its impacts for the next seven years. This highlights the need to invest in companies providing climate solutions.
- Positive aggregated earnings revisions for the fund in March, while earnings multiples expanded. The fund remains at a premium valuation to the MSCI World, but we also have a stronger growth outlook.

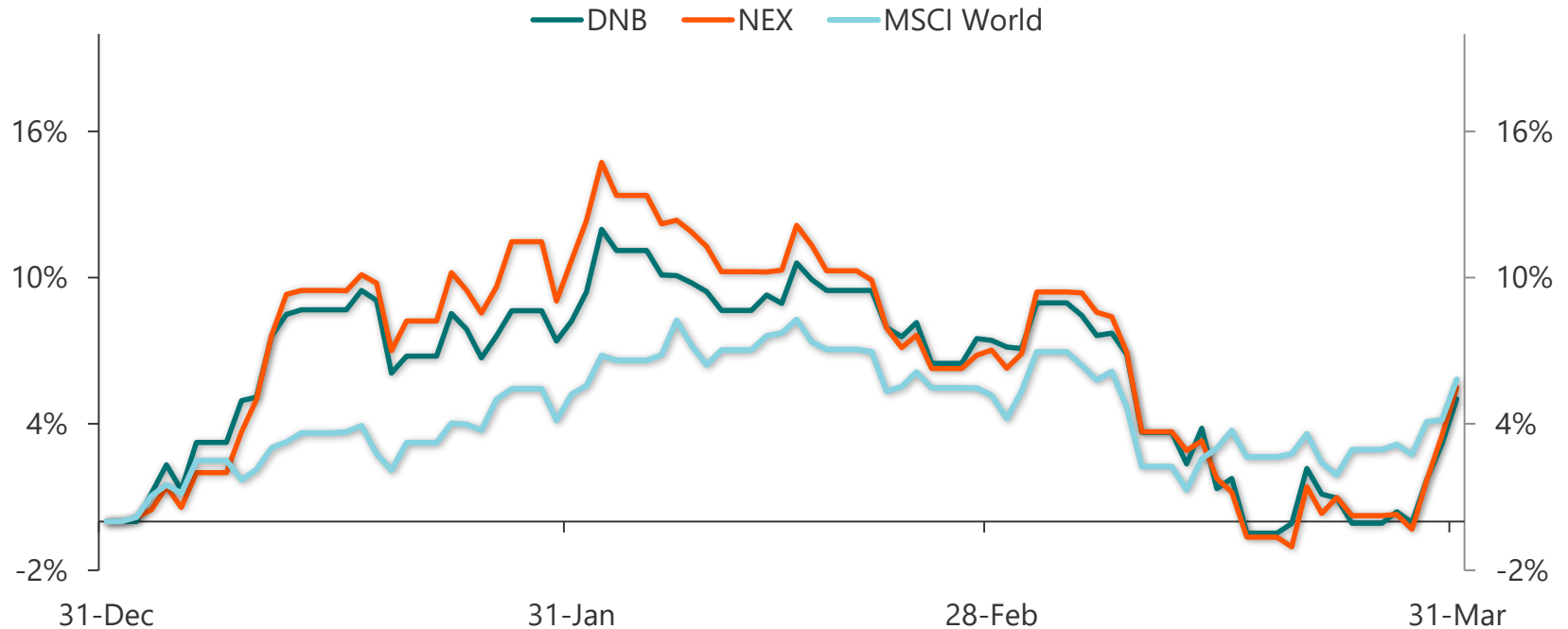
# Absolute performance last month

The fund returned -2.2%, NEX -1.4% and the MSCI World 0.6% last month



# Absolute performance year-to-date

YTD the fund has returned 5.0%, NEX 5.5% and the MSCI World 5.8% year-to-date



# Absolute return last month performance details

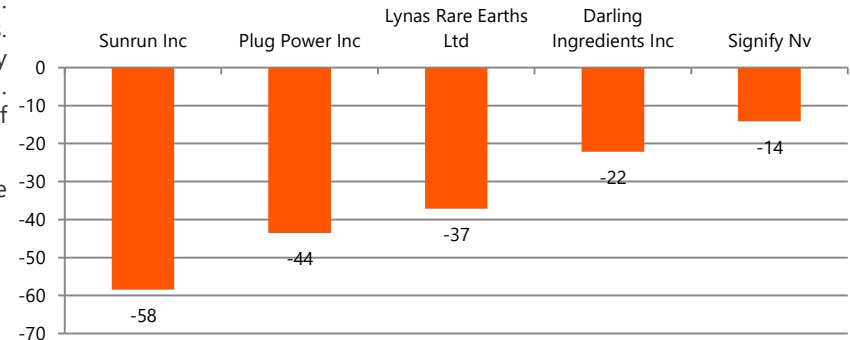
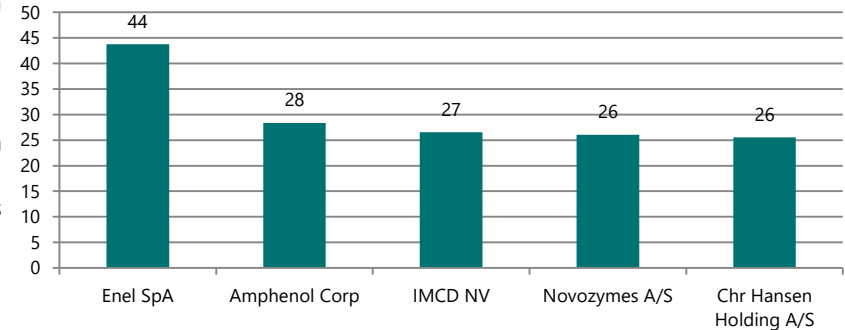
## Monthly contributors

- Enel – Good full year results. Lower European power prices YTD also helpful for supply business and balance sheet. Lower power prices driven by lower power demand from energy-intensive industry in Europe and warm winter weather.
- Amphenol – No news.
- IMCD – No news.
- Novozymes – Defensive characteristics in a risk-off month. Merger with Christian Hansen approved by shareholders of both companies at respective EGMs.
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## Monthly detractors

- Sunrun – Sunrun and the rest of the residential solar sector have been hit by the Silicon Valley bank collapse which has driven a concern over availability and cost of debt funding. The direct impact on the company should be very limited according to our analysis. However, secondary impacts due to widening credits spreads vs lower base rates are a key consideration. The cost of capital has likely increased, but access to capital remains strong. The net impact has been more than reflected in the relative upside to our intrinsic value of the company.
- Plug Power – Q4 revenue missed full year guidance, which was already lowered three times over the past year.
- Lynas Rare Earths – Tesla announcing motor with no rare earth elements.
- Darling Ingredients – Global fats prices have progressively worsened during Q1.
- Signify – No news.

Monthly contributors (basispoints contribution to fund total)



# Relative performance last month















Strong contribution to relative return from Energy Saving and Fuel Cells, while weak contribution from Solar Equipment and Power Generation.

Sub-sector attribution	Fund weight	Index weight	Fund return	Index return	Contribution to relative return
Wind equipment	7.2 %	6.9 %	-3.6 %	3.6 %	<b>-0.5 %</b>
Solar equipment	6.8 %	17.4 %	2.2 %	5.3 %	<b>-0.9 %</b>
Renewable - Other	3.2 %	0.0 %	4.1 %	0.0 %	<b>0.2 %</b>
Biofuels	7.6 %	2.9 %	-4.1 %	-7.7 %	<b>0.0 %</b>
Materials	7.1 %	3.6 %	-8.4 %	-5.3 %	<b>-0.4 %</b>
Energy saving	30.8 %	6.6 %	0.5 %	-2.3 %	<b>0.7 %</b>
Fuel cells	5.3 %	10.1 %	-7.3 %	-10.4 %	<b>0.6 %</b>
Power storage	3.7 %	18.9 %	3.3 %	-1.9 %	<b>0.2 %</b>
Grid	4.0 %	7.6 %	-0.5 %	0.9 %	<b>-0.1 %</b>
Power generation	21.6 %	25.9 %	-5.1 %	-2.5 %	<b>-0.6 %</b>

# Top net buys last month

Company	Comment
Sunrun	Adding in power generation
Darling Ingredients	Adding in biofuels
Hubbell	Adding in grid
Lynas Rare Earths	Adding in materials
Scatec	Adding in power generation

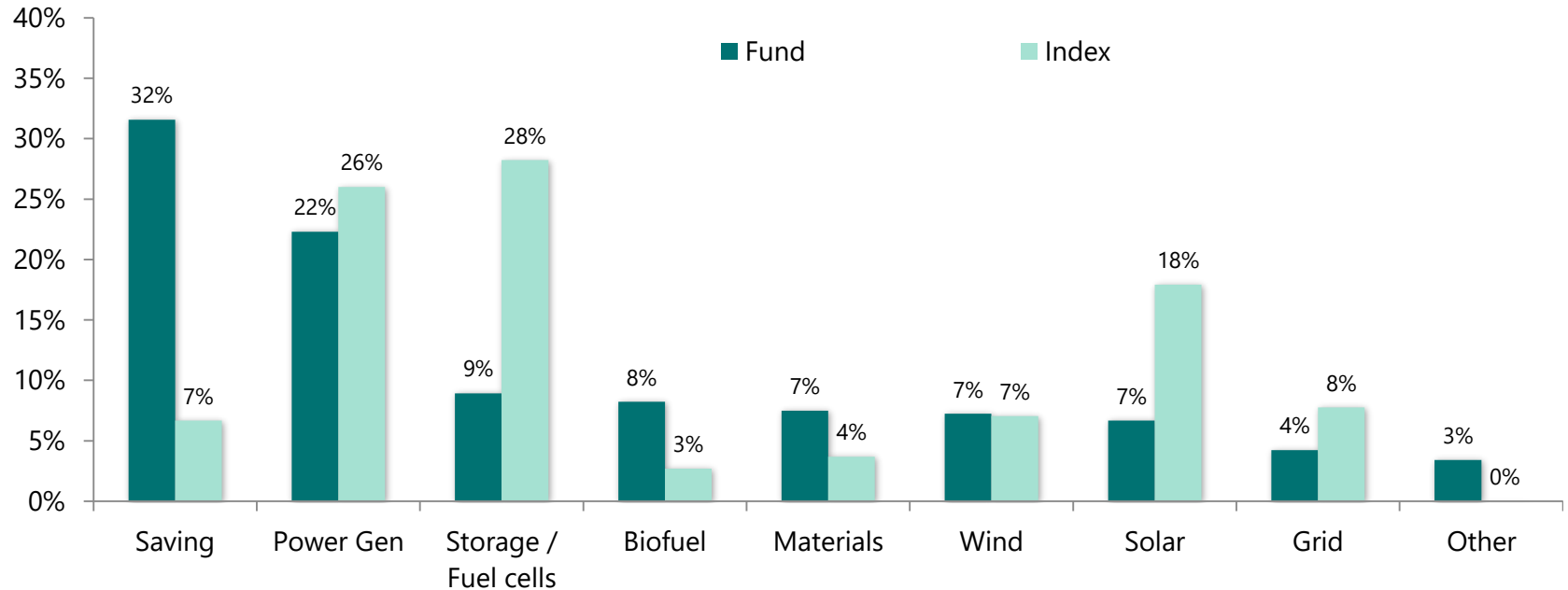
# Top holdings

Stock	Weight	Bet	P/E current	Business	Country
IMCD NV	6.7%	6.7%	23.7	Energy saving	
Vestas Wind Systems A/S	5.7%	4.7%	452.8	Wind turbine producer	
Sunrun Inc	5.3%	4.5%	n.a.	Distributed solar	
Darling Ingredients Inc	4.6%	4.6%	10.5	Biofuels	
Signify Nv	4.4%	3.5%	8.4	Energy saving	
Amphenol Corp	4.2%	4.2%	27.3	Energy saving	
Enel SpA	4.1%	4.1%	9.6	Power generation	
Scatec Asa	3.8%	2.9%	45.2	Solar developer	
Air Liquide Sa	3.4%	3.4%	23.8	Hydrogen	
Orsted A/S	3.2%	2.3%	34.5	Power generation	
Novozymes A/S	3.2%	2.2%	29.0	Biofuels	
Schneider Electric SE	3.1%	3.1%	19.8	Grid/Energy efficiency	
Enphase Energy Inc	2.7%	1.8%	38.4	Solar equipment	
Sika Ag	2.7%	2.7%	31.1	Building materials	
Chr Hansen Holding A/S	2.6%	2.6%	36.6	Sustainable Food	
<b>Median</b>			<b>28.1</b>		



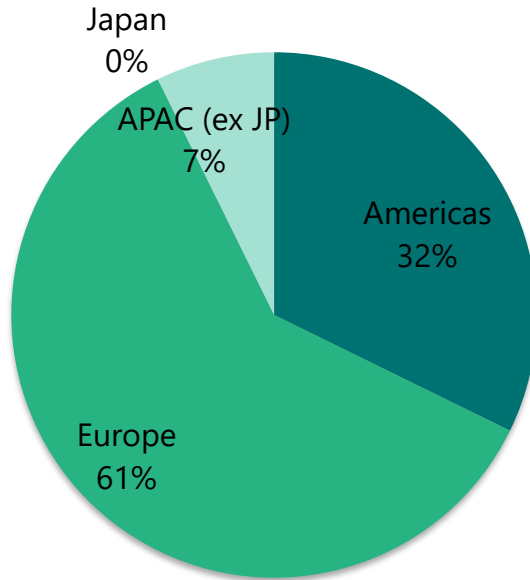
# Sector allocation – Result from bottom-up stock selection

Reduced exposure by 1% each in Storage/Fuel cells and Materials.



# Geographic allocation – Result from bottom-up stock selection

No change in geographic mix compared to last month. Positions in 17 countries shows that we are truly global.



## Allocation by country

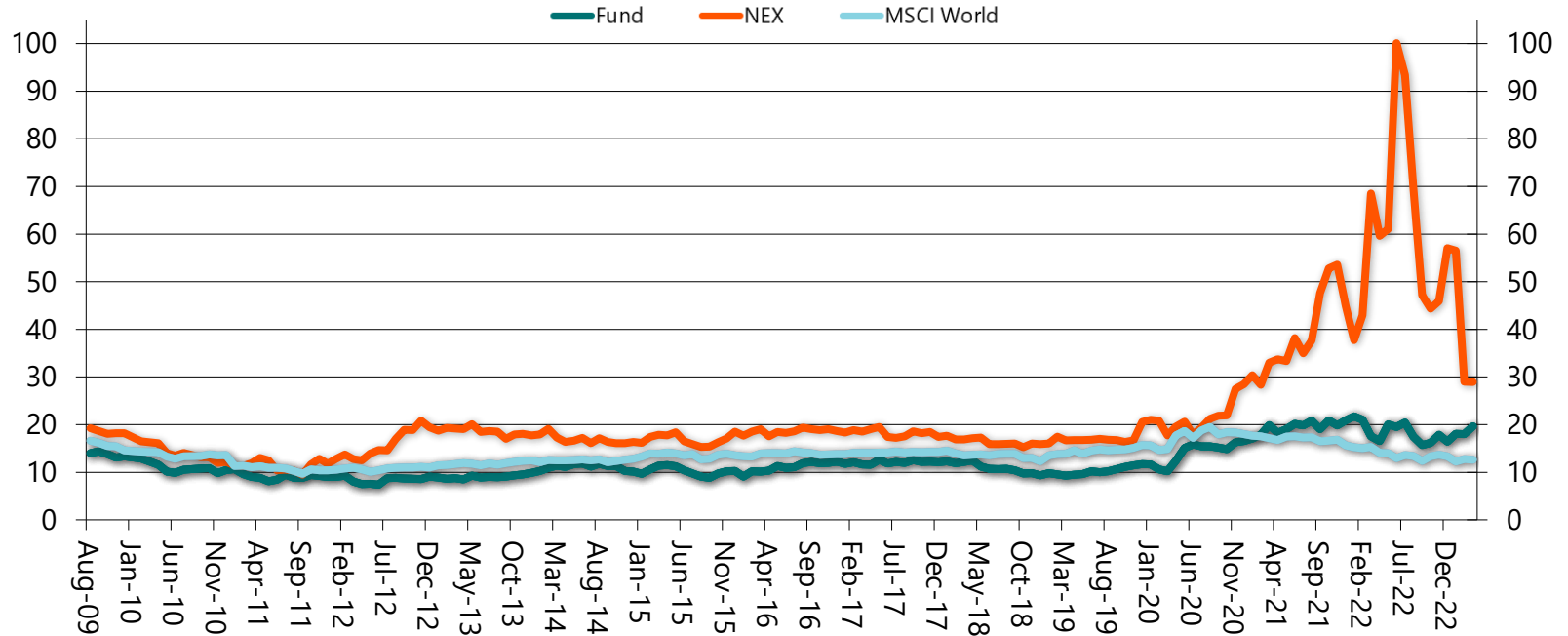
USA	30.3 %
Denmark	15.9 %
Netherlands	13.0 %
France	8.8 %
Norway	6.1 %
China	4.1 %
Italy	4.1 %
Switzerland	2.7 %
Sweden	2.4 %
Finland	2.0 %
Ireland	1.9 %
Austria	1.6 %
Australia	1.6 %
Korea	1.5 %
Canada	1.4 %
United Kingdom	0.7 %
Spain	0.2 %

## Mcap, USDbn/% of fund

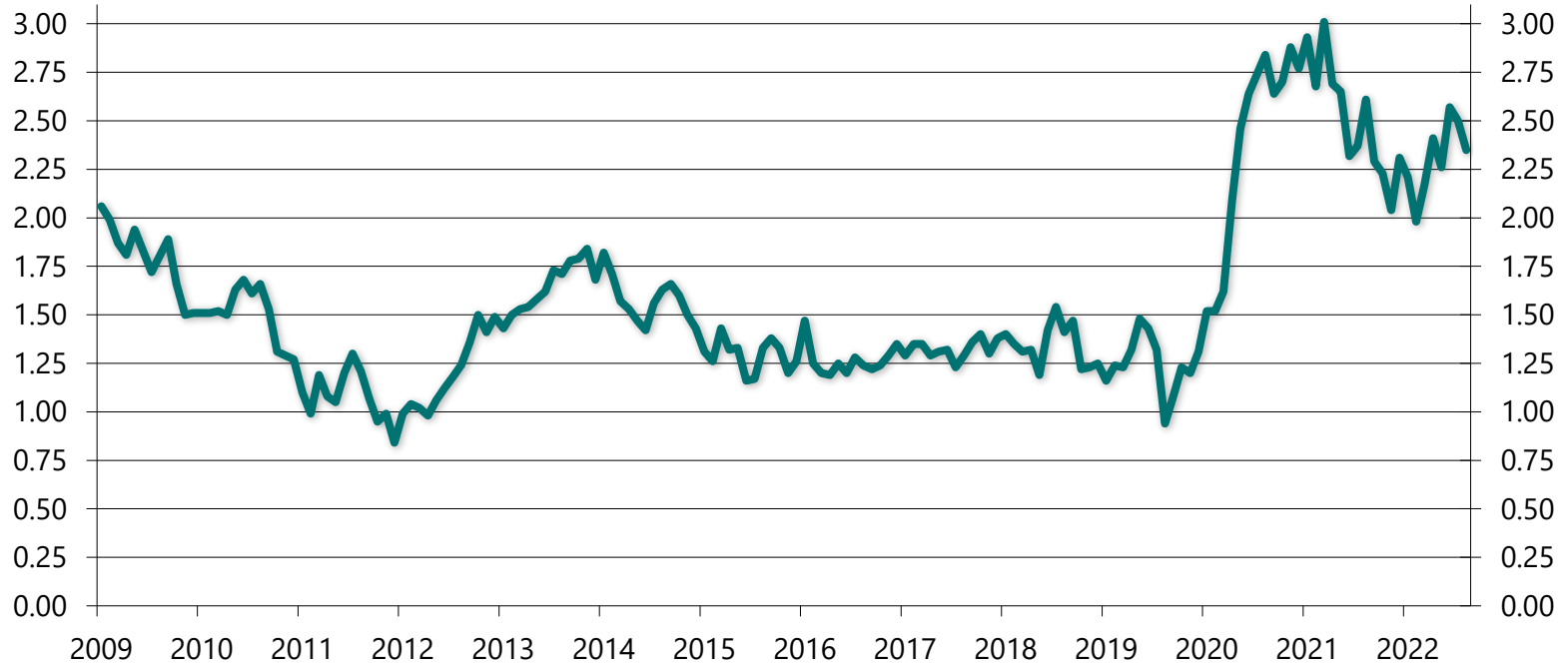
<0.1	0.1-0.5	0.5-1.0	1.0-2.0	2.0-10.0	>10
1 %	2 %	3 %	7 %	35 %	50 %

# Valuation history 12m forward EV/EBIT

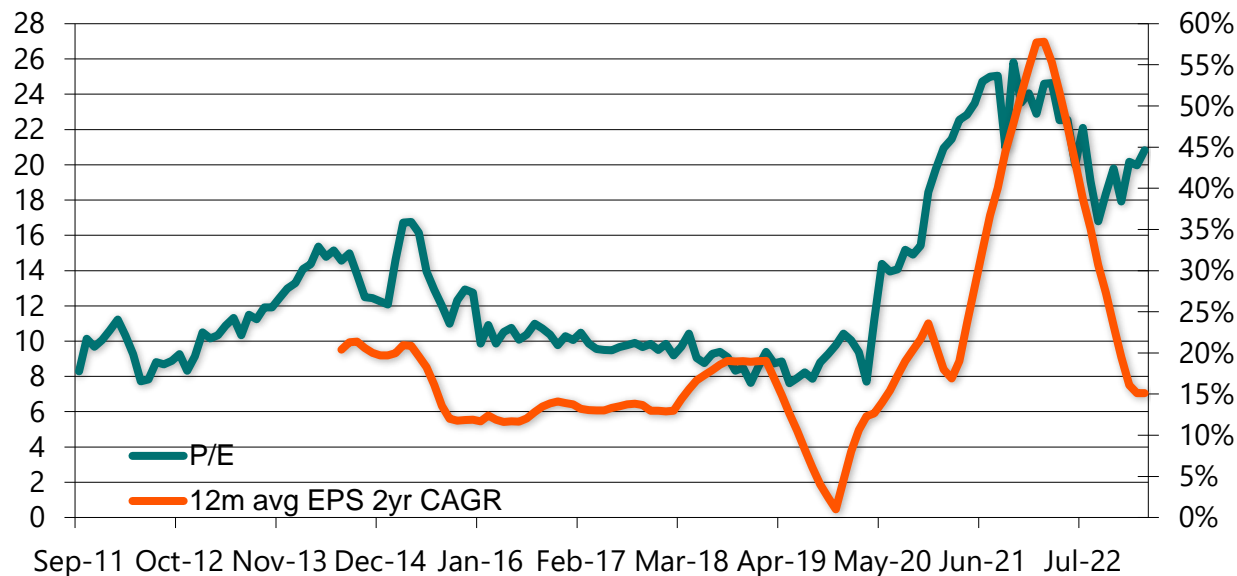
Forward EV/EBIT multiple for the fund expanded 1.6x to 19.6x from February to March. 1.7x was explained by changes in the portfolio mix, while -0.1x was explained by multiple contraction as share prices fell more than estimates.



# Valuation history Price/Book



# Valuation snapshot and historical 12m forward P/E



Valuation (12m forward)	P/E	P/B	EV/Sales	EV/EBIT	12m avg EPS 2yr CAGR
Portfolio	20.8	2.4	2.2	19.6	15 %
NEX	51.4	2.3	1.7	29.0	12%*
MSCI World	16.2	2.8	2.2	12.6	7 %

\*EPS CAGR for NEX Index only reflects index constituents with positive earnings (as index EPS is negative)

# Portfolio Ex Ante Risk

~54% of risk explained by stock specifics showing that we are stock pickers

## Estimated Risk

<b>Estimated TE</b>	<b>9.6 %</b>
Expl by Factors	46.1 %
Expl by Stock Specifics	53.9 %

## Largest Factor Contribution

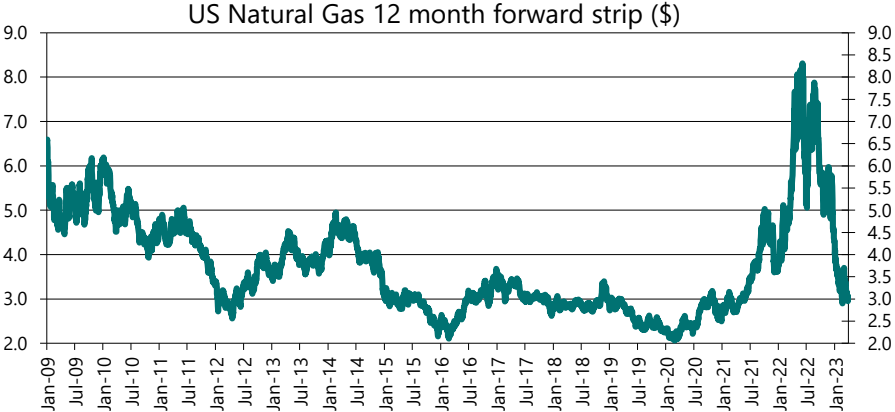
Rising global yield	2.46 %
Higher oil price	0.45 %
Higher commodity prices (ex-oil)	1.99 %
Stronger USD vs EUR	0.00 %
Stronger USD vs JPY	0.07 %
Rising emerging market yield	0.79 %
Global Credit Default Risk	0.96 %
Positive global market shock	1.32 %
Global small caps beat large caps	6.98 %
Global growth beats value	19.16 %

\* Based on GRAM from Citi

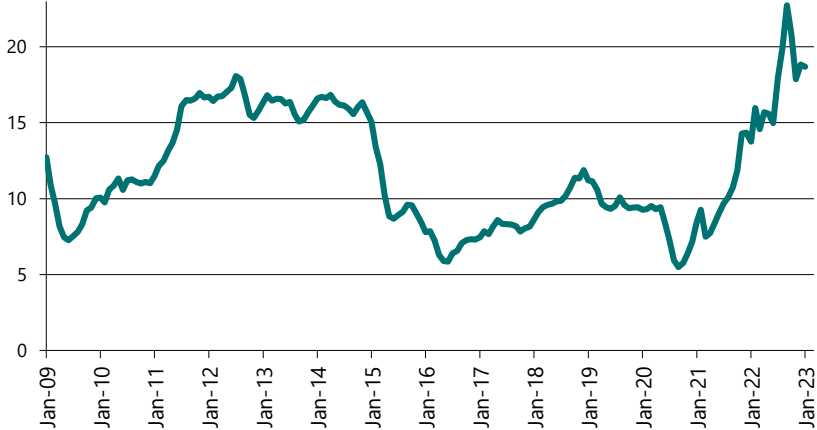
## Exposures to 1 Stdev Factor Event

Rising global yield 26.48%	-1.14%
Higher oil price 57.31%	-1.68%
Higher commodity prices (ex-oil) 15.31%	-2.05%
Stronger USD vs EUR 8.5%	1.29%
Stronger USD vs JPY 8.66%	0.56%
Rising emerging market yield 33.78%	1.7%
Global Credit Default Risk 57.56%	1.92%
Positive global market shock 8.59%	-1.11%
Global small caps beat large caps 6.81%	-2.54%
Global growth beats value 10.5%	-4.21%

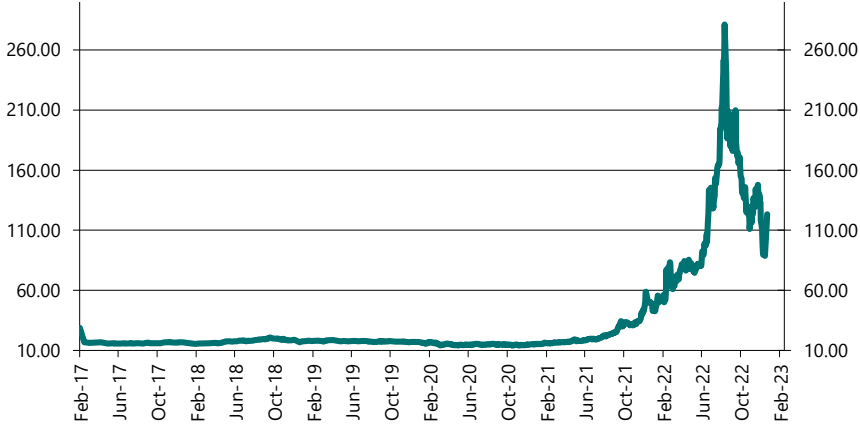
# Natural gas



LNG import price Japan (USD/MMBtu)

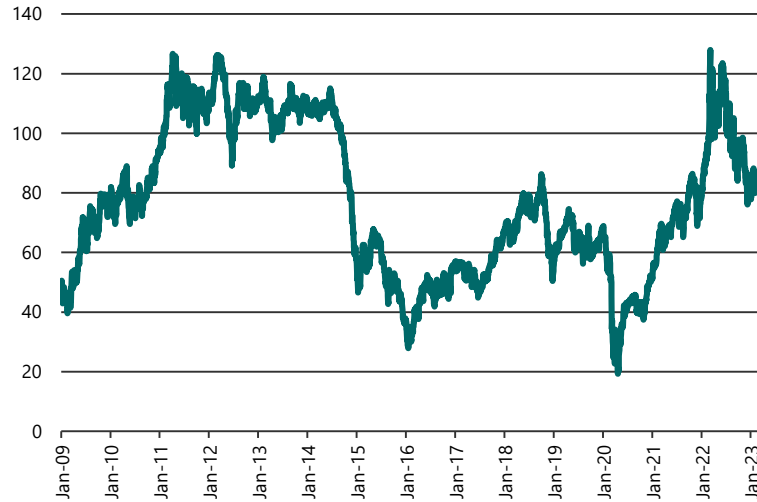


Amsterdam 2022 (€)

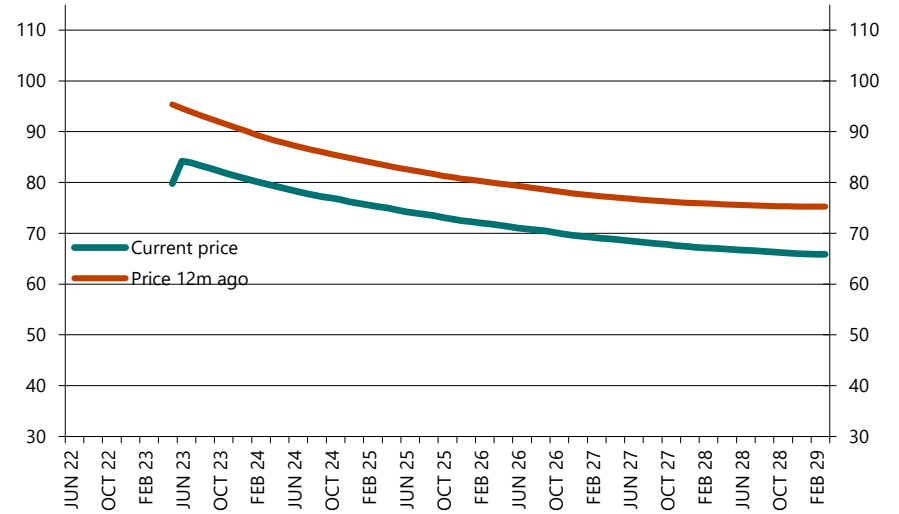


# Oil

### Brent spot (\$/brl)

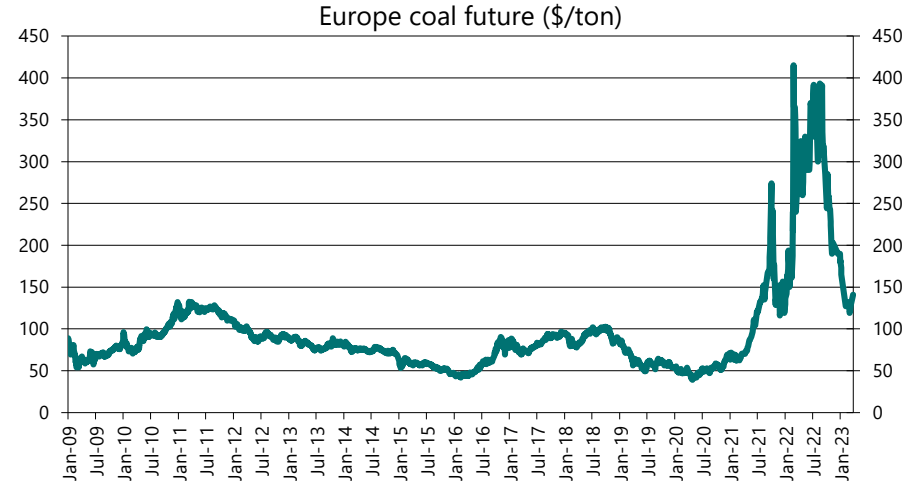
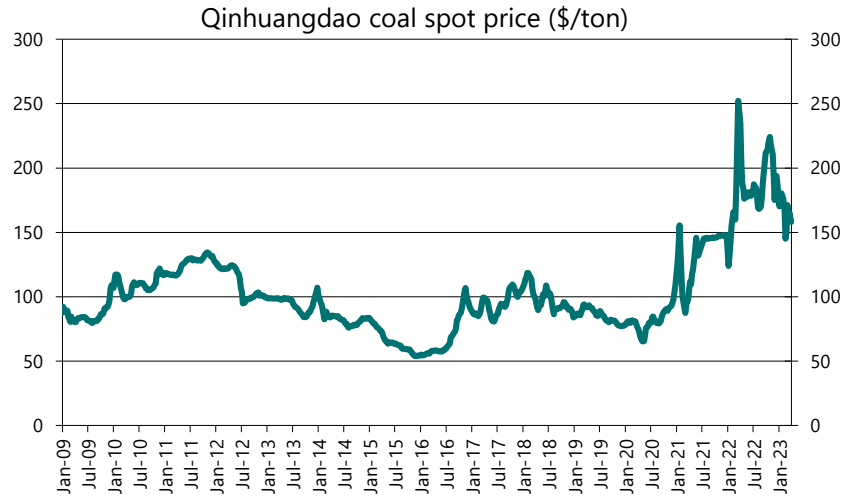


### Brent future curve (\$/brl)



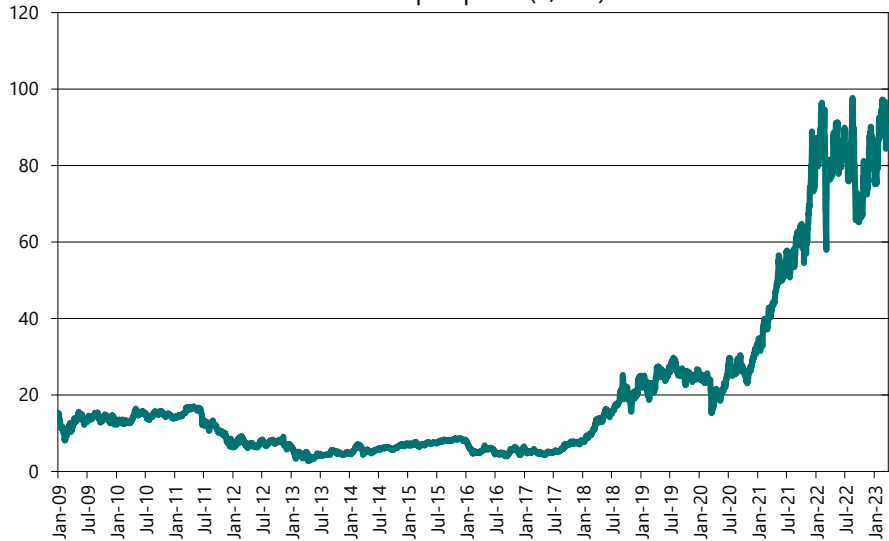


# Coal



# Carbon

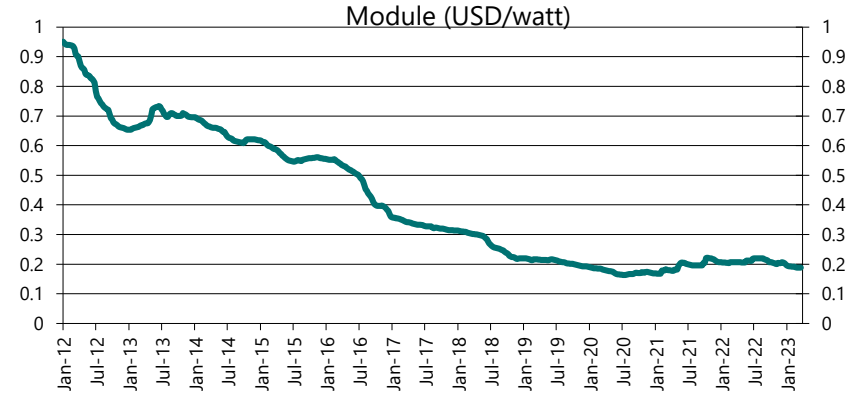
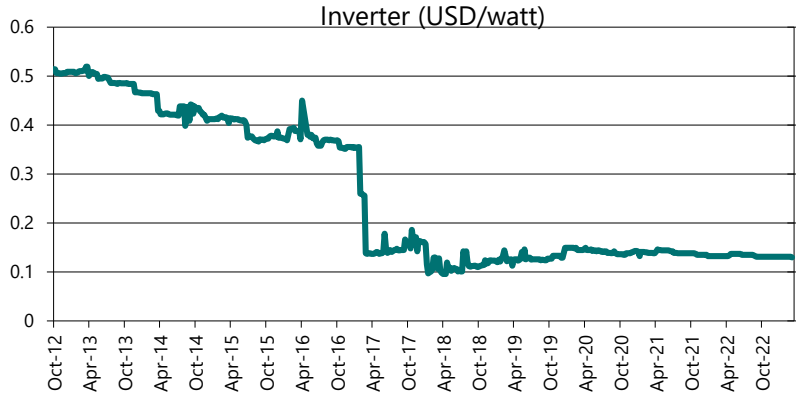
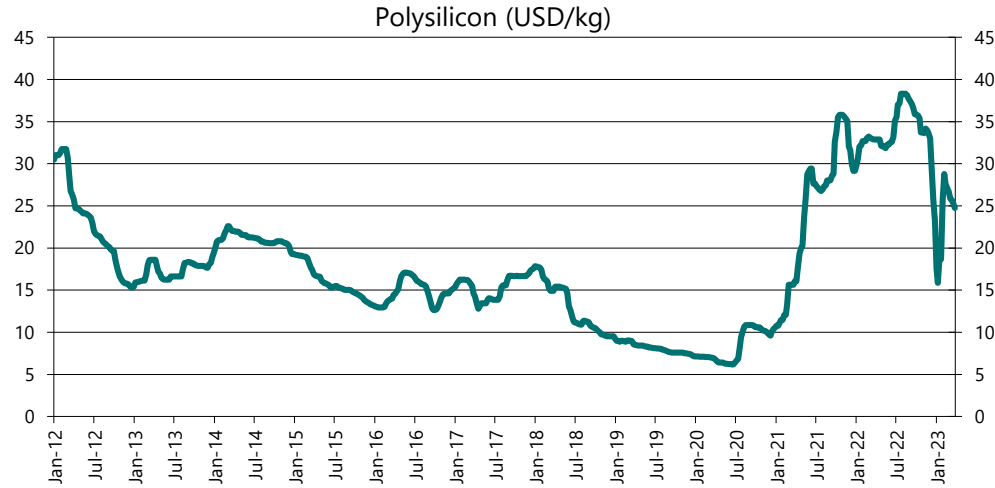
EU Carbon spot price (€/MT)



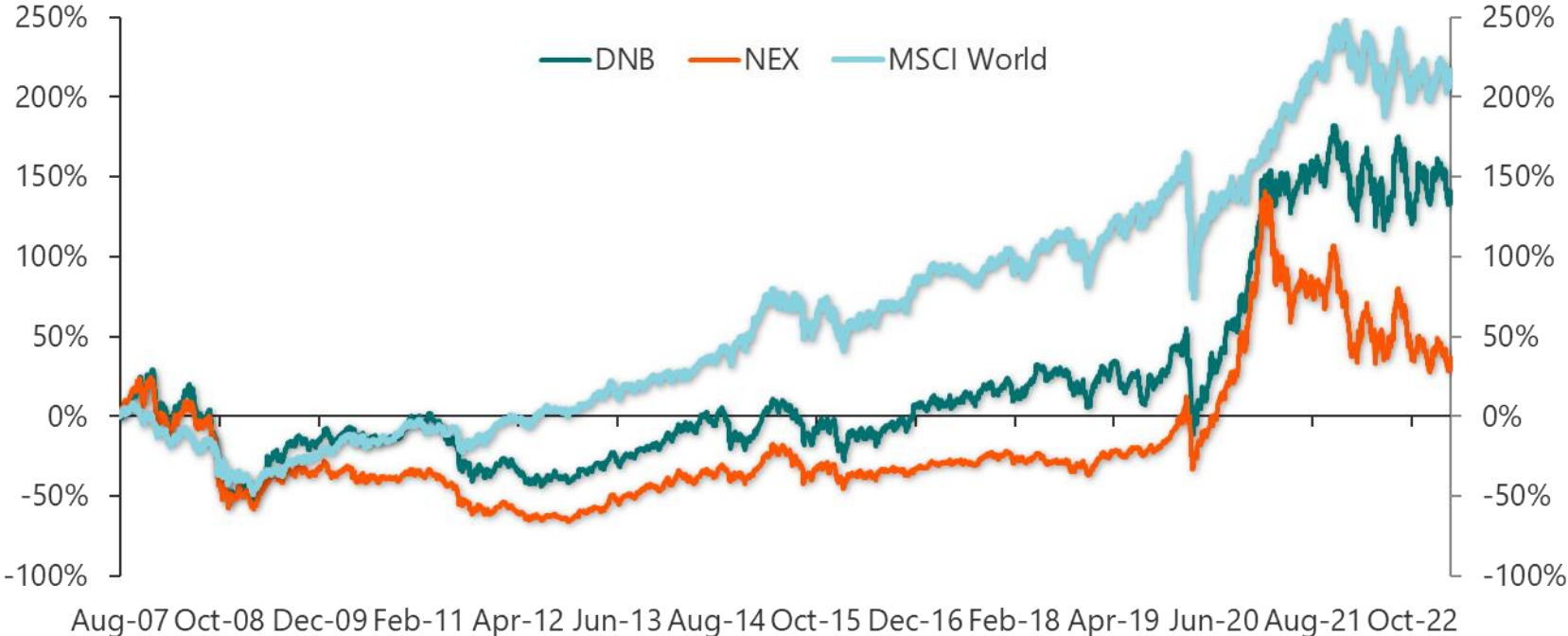
Certified Emission spot price (€/MT)



# Solar



# Performance since 2007



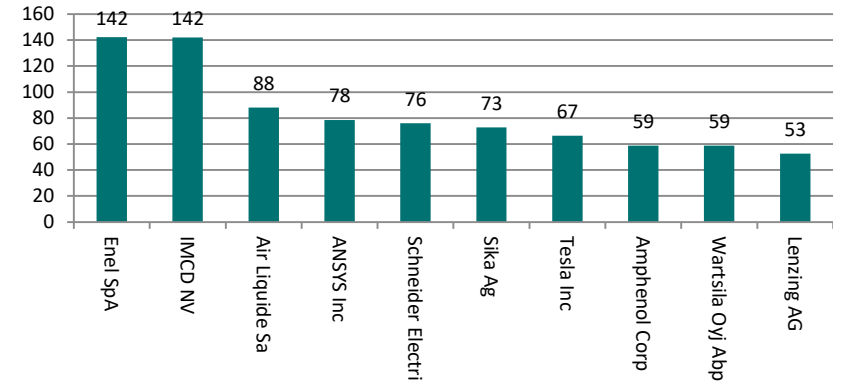
# Performance (10 year)



# Absolute attribution YTD

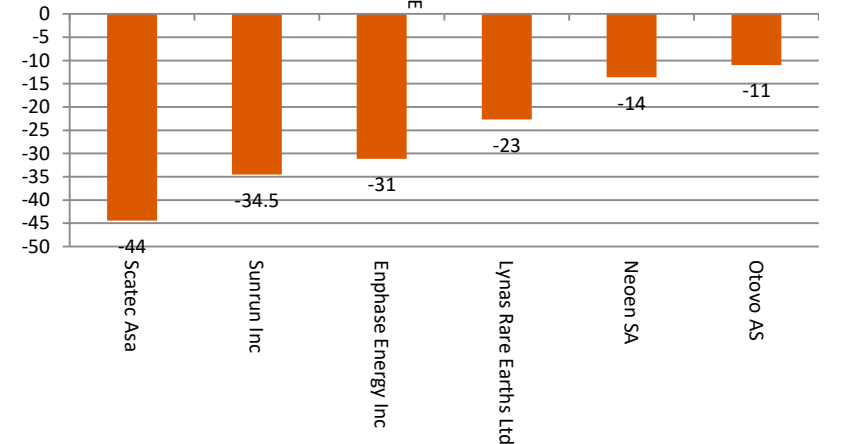
## YTD contributors

- Enel – Good full year results. Lower European power prices YTD also helpful for supply business and balance sheet. Lower power prices driven by lower power demand from energy-intensive industry in Europe and warm winter weather.
- IMCD – Expectations for economic activity revised slightly higher since the beginning of the year.
- Air Liquide – Solid H2 2022 report and increasing earnings estimates for 2023 driven by organic growth and pricing power.



## YTD detractors

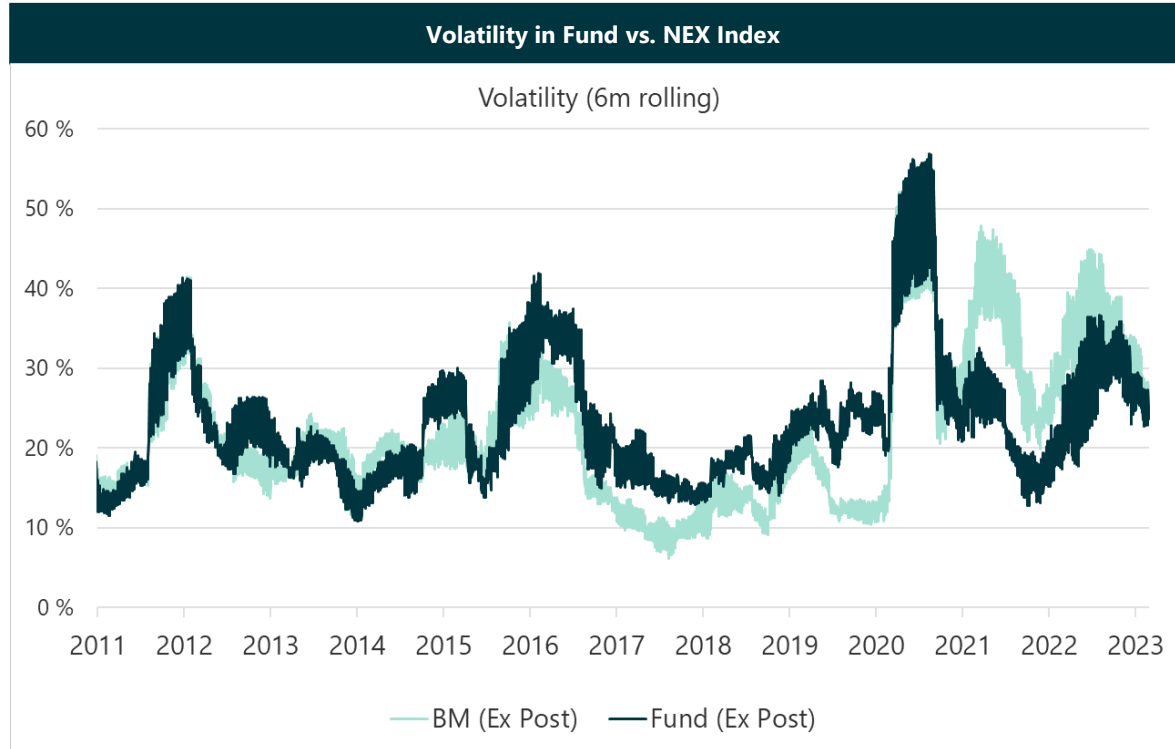
- Scatec – Company delivered good asset rotation projects, but Q4 was underwhelming, and dividend should have been cut more in light of the recent refinancing.
- Sunrun – Sunrun and the rest of the residential solar sector have been hit by the Silicon Valley bank collapse which has driven a concern over availability and cost of debt funding. The direct impact on the company should be very limited according to our analysis. However, secondary impacts due to widening credits spreads vs lower base rates are a key consideration. The cost of capital has likely increased, but access to capital remains strong. The net impact has been more than reflected in the relative upside to our intrinsic value of the company.
- Enphase Energy – Strong Q4 report, but market concerned with growth slow down due to NEM 3.0 and higher interest rates.



# Relative performance year to date

<b>Sub-sector attribution</b>	Fund weight	Index weight	Portfolio return	Benchmark return	Contribution to relative return
Wind equipment	7.3 %	6.9 %	-0.9 %	10.6 %	<b>-0.8 %</b>
Solar equipment	6.6 %	16.0 %	5.3 %	19.0 %	<b>-2.1 %</b>
Renewable - Other	3.2 %	0.0 %	5.2 %	0.0 %	<b>0.0 %</b>
Biofuels	6.8 %	3.2 %	-4.3 %	-16.5 %	<b>0.2 %</b>
Materials	7.4 %	3.2 %	5.9 %	6.7 %	<b>0.1 %</b>
Energy saving	30.9 %	6.6 %	12.2 %	10.2 %	<b>1.7 %</b>
Fuel cells	4.7 %	10.4 %	7.7 %	-1.2 %	<b>0.9 %</b>
Power storage	3.8 %	22.3 %	27.9 %	13.9 %	<b>-1.2 %</b>
Grid	3.5 %	6.4 %	16.7 %	2.6 %	<b>0.5 %</b>
Power generation	21.7 %	25.0 %	-4.4 %	-6.6 %	<b>0.9 %</b>

# Volatility\*

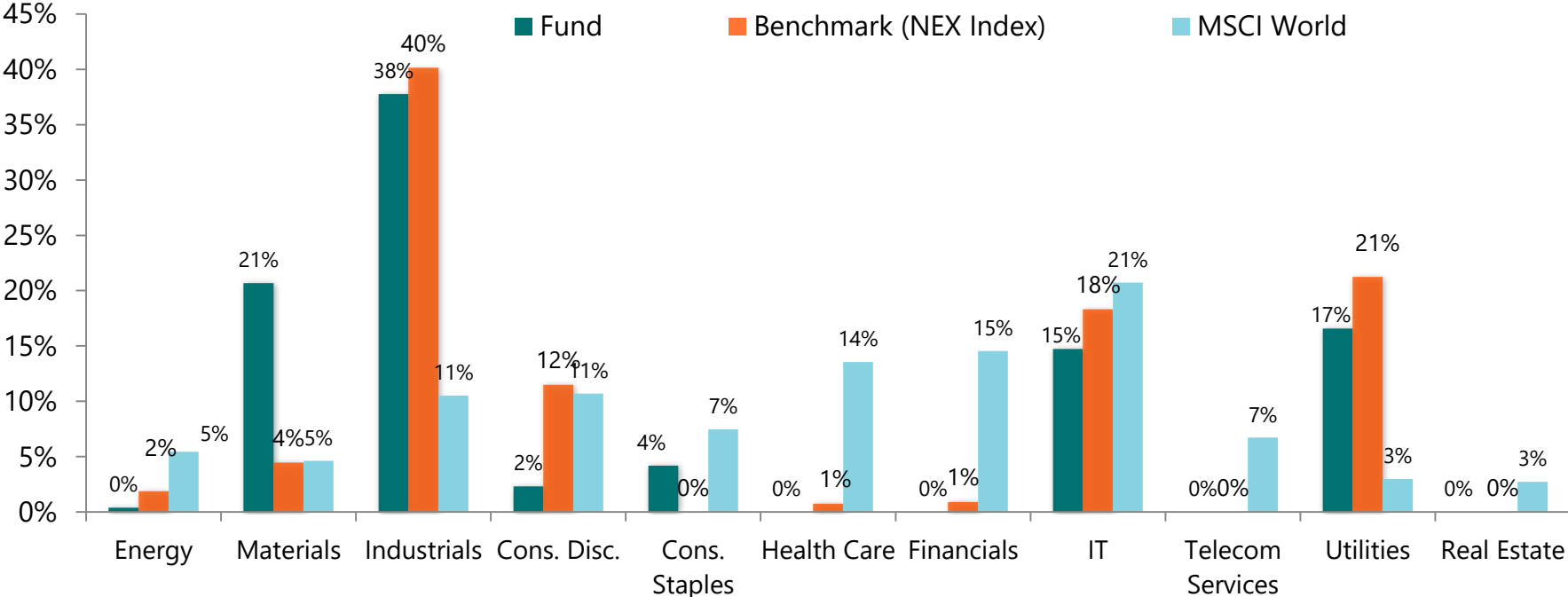


- Volatility based on Ex-Post 6m rolling with daily observations.

Source: DNB Asset Management AS (28 February 2023)



# Fund vs MSCI World allocation



# Drivers for the environmental sector

All are long term in nature

## Reduce emissions



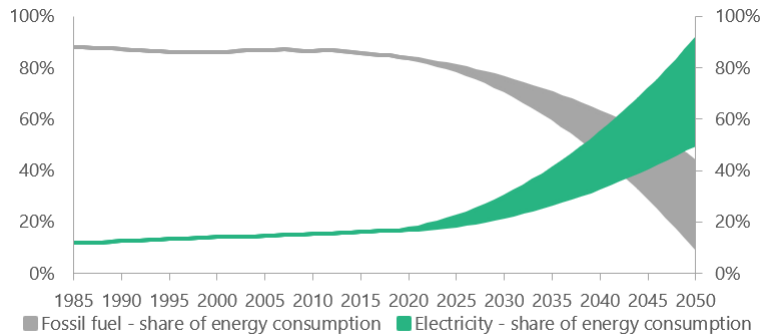
Source: AP

## Sustainable environment = circular economy



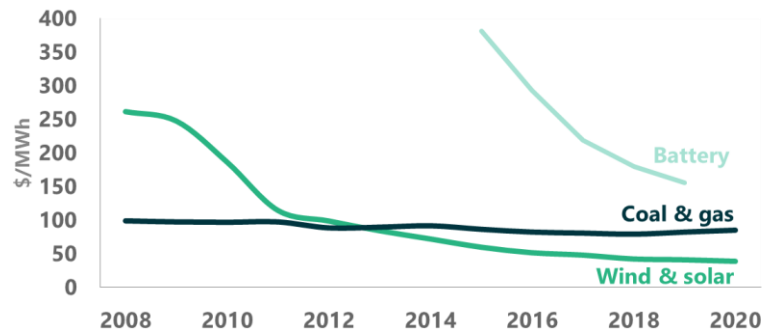
Source: dcae.gov.ie

## Electrification



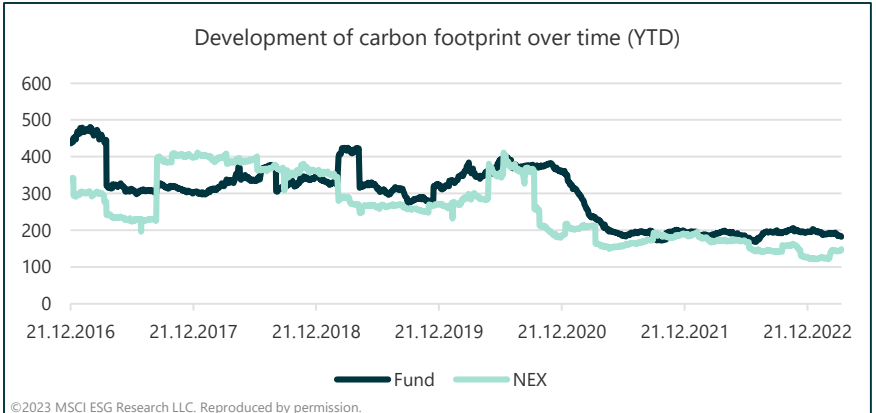
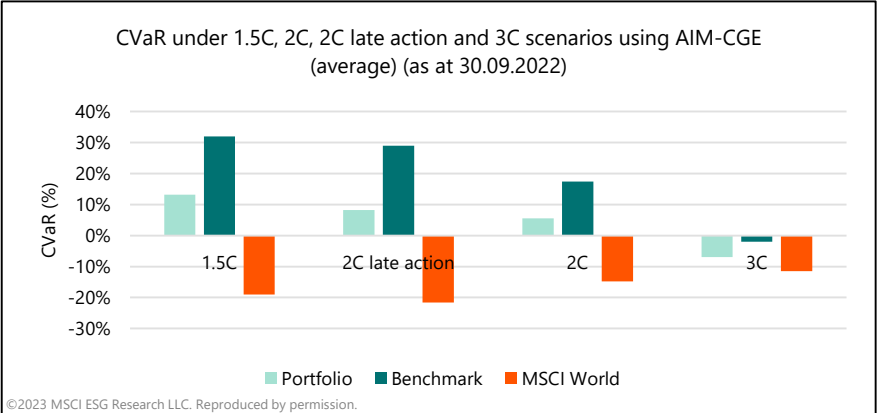
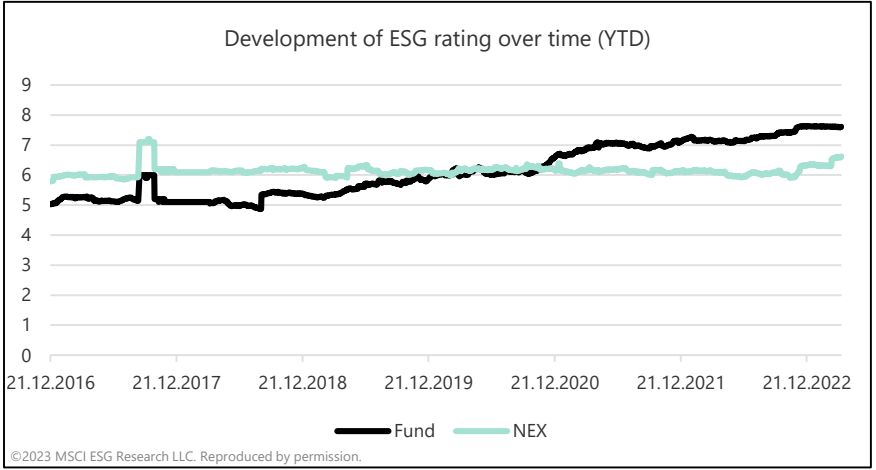
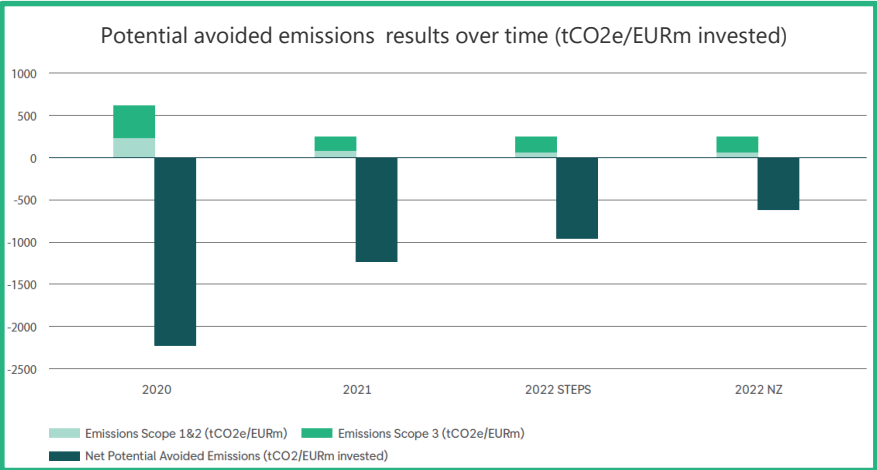
Source: BP, BNEF, Statkraft, ETC, DNB

## Price competitive



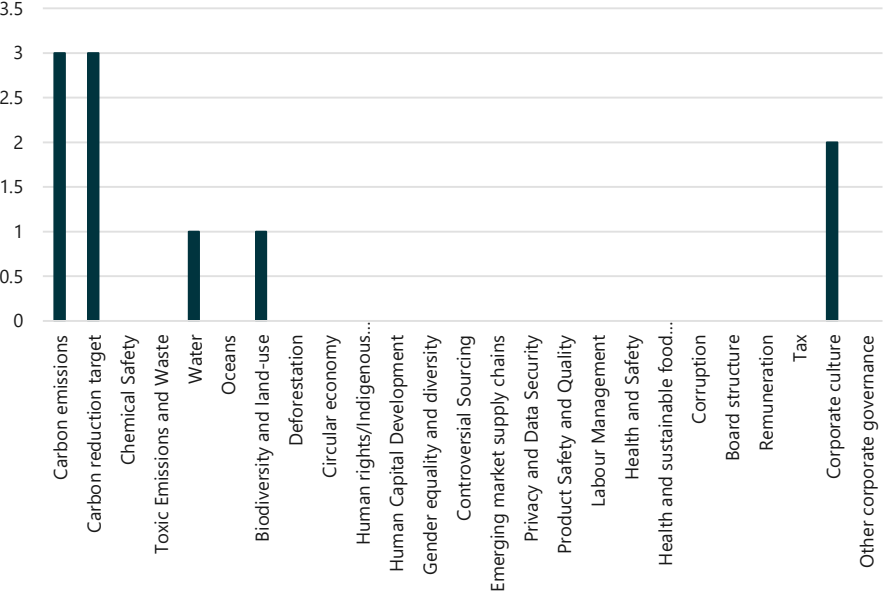
Source: Lazard, BNEF, DNB

# ESG data highlights

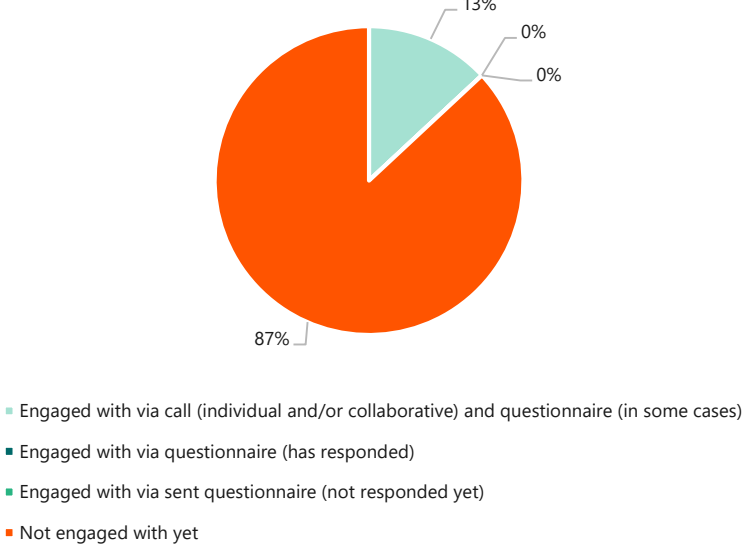


# ESG engagement highlights

Number of dialogues per ESG topic YTD



Status of engagement on net zero science-based target setting YTD



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