2022 Year-End CIO Letter

Veridien's Climate Action strategy posted positive absolute returns for most of 2022, with December's turbulent markets driving the year's performance into negative territory. However, the strategy again outperformed its global benchmark in 2022, maintaining our annualized double-digit outperformance since inception in April of 2019.

Of note, most of our stocks outperformed significantly during every earnings season and only declined markedly following the latest Fed warning on December 14th. The prospect of climbing interest rates in the US, Europe, and now Japan, with the likelihood of staying high in 2023, finally took a toll on some of our holdings. Still, while having some exposure to growth, our relative value-driven stock selection process provided downside protection for investors throughout the year. We are pleased that the outperformance was achieved in a year when oil and gas, defense and bank stocks drove broader markets higher, and we did not own stocks in any of these sectors. Our portfolio proved to be fairly resilient during turbulent markets across the year as we sought to maintain an adequate balance of technology, industrials and utilities among other sectors.

Looking back at 2022, our mission to invest in companies leveraged to the transition to clean energy and thus benefitting from the secular Decarbonization Megatrend again delivered superior relative performance returns for much of the portfolio, with only a handful of our holdings being impacted by the downdraft negatively impacting many growth-driven providers of climate solutions.

Positive 2022 performance drivers

1. The nuclear energy industry finally received recognition as an essential component for the transition to a carbon-free economy. Our position in one of the largest operators of nuclear plants in the world, as well as engineering, construction, maintenance and mining companies supporting nuclear energy initiatives, were largely additive to our outperformance.

2. Solar energy, including batteries and their associated essential materials, delivered outstanding growth and continuously reported record order books; we owned several manufacturers and miners in the US, Europe and Asia, all of which performed well regardless of their respective macroeconomic environments.

Please see additional information contained in the attached GIPS® Report. Stated performance is based on gross of fees returns. Past performance is not indicative of future results.

3. Insulation, heat pumps and sustainable housing materials showed no signs of declining despite economic predictions to the contrary. Again, this space defied predictions of cyclical downturns and delivered outperformance consistently throughout the year.

4. Sustainable agriculture and forestry were other winning sectors, as our companies offered compelling solutions for improved crop yields, more efficient water usage, bio-pesticides and tree management; this was another space that we believe investors overlooked despite its critically important role in fighting climate change.

2022 performance detractors

1. Tesla: A relatively recent addition to the portfolio, Tesla faced downward pressure on its stock price on the heels of Elon Musk's Twitter acquisition. The perceived funding risk and distraction to management proved to be a major overhang for the stock. At year-end, despite reduced expectations on its China business, Tesla was trading at historically low multiples. In our view, this represents a meaningful opportunity based on our current EPS estimates, which are up meaningfully from 2022, not to mention Tesla's nearly unassailable moat in the EV space.

2. China: The Chinese government's zero COVID policy and occasional anti-Western rhetoric put our three Chinese stocks under pressure for a large portion of the year. While they staged a powerful recovery in Q4, they still posted losses for the year. Since China's re-opening in December, new concerns relative to its ability to withstand potentially large human losses continue to weigh on stocks.

3. Semiconductors: The industry ended December on a sour note, and our few holdings did not escape unscathed despite their superior revenue and margin growth. Just like our housing materials stocks, the market treated them as cyclical instead of secular-driven, only to be reminded about their strong fundamentals during earnings announcements.

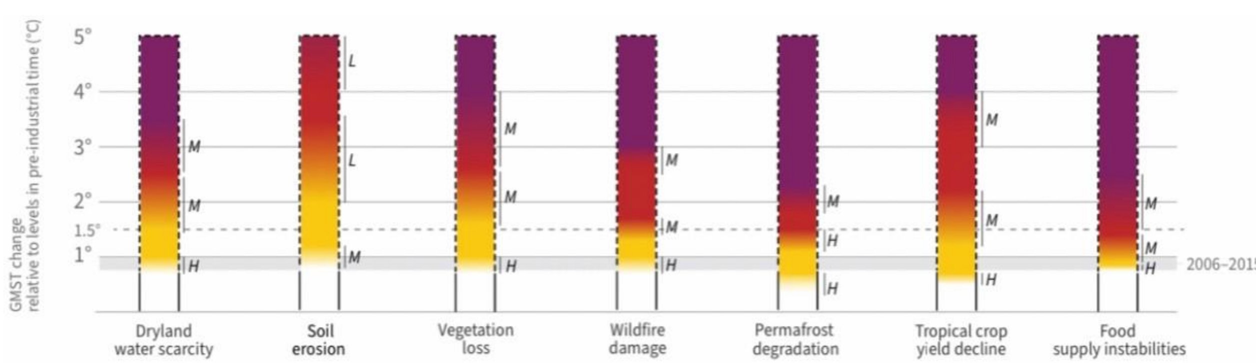
It should be noted that in 2022, just as the case was in prior years, new winners in our portfolio emerged after being ignored by the broader market for many months if not years. While our timing was sometimes early, we take pride in having spotted undervalued companies and seek to hold companies until they have reached our estimated risk-adjusted target price. Our continuous assessment of their business, fundamentals, and exposure to existing/potential new risks, have enabled us to better ascertain their relative value, and hence, their corresponding portfolio weights. We believe this approach is the key to delivering outperformance across nearly all market environments, particularly in years like 2022, which was unarguably a challenging one.

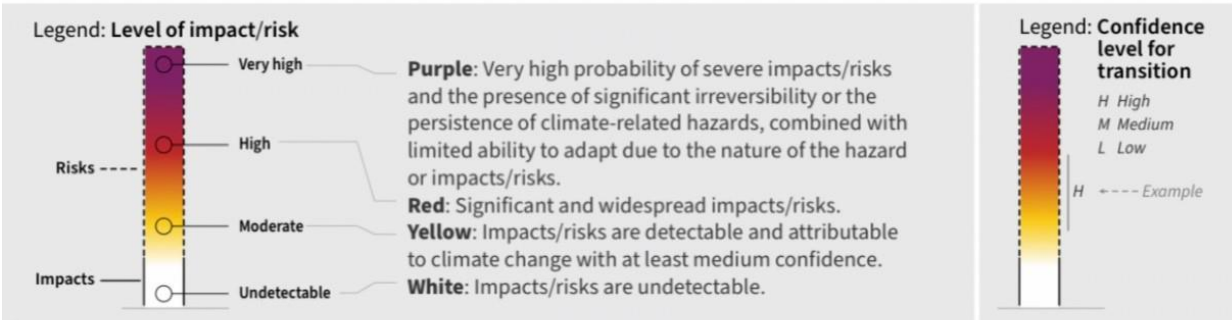
Outlook: Many reasons to expect strong relative performance in 2023

1. Climate change is increasingly recognized as a “megathreat” (to borrow a term forged by Nouriel Roubini). It is the greatest secular trend I have encountered in my 34-year career and gaining more importance every day. The size and scope of the investments required in every aspect of the economy, currently estimated by the IEA at $5 trillion per year through 2030, are the equivalent of another Industrial Revolution.

2. Unlike the Industrial Revolution, however, these investments need to take place not over a century but over the next 5-7 years if catastrophic consequences are to be avoided. The urgency to act is now well-understood, with every report by the United Nations IPCC spelling out the consequences for humans and ecosystems of temperatures rising over 1.5 degrees (see charts below). Elections around the world have also highlighted the importance of addressing climate change for governments to exercise power, as witnessed in Australia, Canada, Germany, France, and Brazil in the last 15 months alone.

UN IPCC Report 2022 – Risks of Increases in Global Mean Surface Temperatures (GMST)





3. The Russia-Ukraine war has exposed the danger of an over-dependence on fossil fuels and has accelerated the adoption of alternative energies. Europe's energy plan and the US Inflation Reduction Act are providing new impetus behind an energy transition that is just getting underway. Similar geopolitical considerations vis-à-vis China are spurring new efforts to on-shore or "friend shore" (Janet Yellen's terminology) mining, refining, processing of materials for the assembly of batteries used in the power and electric transportation industries. The $369 billion IRA bill, effective January 1st followingPresident Biden's use of the Defense Production Act in May 2022 for critical minerals, and the $1 trillion European Green Deal mark only the beginning of aglobal super-cycle of spending for climate – the Megatrend!

Regarding impact, we are pleased to report that 35 of our 48 holdings in aggregate have an estimated 399.7 mmt of CO_2 annual avoided emissions because of their business models and/or technologies. This number will increase as we finalize the avoided emissions analysis with our third-party provider, Urgentum, for the remaining 13 portfolio holdings.

One final thought, after nearly 40 years of declining interest rates and 15 years of massive injections of liquidity by the central banks, 2022 will probably mark a game changer for financial markets. There is finally a price for risk and better discipline in capital allocation. This is bound to favor new leadership in the stock market, away from high-multiple, negative free cash flow business models that are overly reliant on excess market liquidity. We believe the new market leaders will be those companies best positioned to offer clean energy solutions in a world increasingly challenged by resource scarcity. We see continued demand for these solutions from individuals, companies, cities, school campuses, and governmental institutions regardless of their location, political orientation, or position in the economic cycle. We believe our strategy has only started to benefit from this powerful Megatrend. Being able to identify and correctly value its most important players will continue to be a key factor for our continued success.

We would like to thank our investors for trusting us during these historic times. The most exciting developments, and we believe the greatest rewards, are in front of us.

With our very best wishes for a healthy and prosperous 2023,

Ariane Mahler, CIO

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