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Ecofin Energy Transition UCITS

Q4 2023 QUARTERLY COMMENTARY

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | AA | AAA

Represents the aggregate rating of EETU's holdings as of 31 December 2023. Certain information ©2023 MSCI ESG Research LLC. Reproduced by permission; no further distribution permitted. See last page of the factsheet for additional information on the rating.

The fund's NAV increased by 0.1% in Q4 while the MSCI ACWI Index increased by 6.4% over the same period. For the full year 2023, the fund's NAV decreased by 6.8% while the MSCI ACWI Index increased by 18.1% over the same period.

As of 31 December 2023

(All total returns in EUR)	3 months %	6 months %	1 year %	3 years %	Since 29.01.2019 %*	Since inception* %
EETU NAV (Class E)	0.1	-10.6	-6.8	-15.2	46.8	31.0
MSCI ACWI	6.4	5.9	18.1	31.0	70.0	62.0

*Until 5 June 2019, the Ecofin Energy Transition UCITS Fund (formerly known as the Tortoise Energy Transition UCITS Fund) (the "Fund"), a sub-fund of the Gateway UCITS Fund PLC, was managed by GCA Investment Management LLC, with Ecofin Advisors Limited providing investment advisory services from 29 January 2019. On 6 June 2019, Ecofin Advisors Limited was formally appointed as the investment manager of the Fund.

At the end of Q4, the fund had 24 positions and by region was invested 37% in North America, 38% in Europe and 25% in Asia. Circa 40% of the position weights had primary exposure to the electrification master theme while 29% were exposed to clean transportation and 29% to Industrial & building efficiency.

While the fund delivered significant underperformance relative to the MSCI ACWI Index, it merits mention that the overall breadth of MSCI ACWI Index performance in 2023 was relatively narrow, and 2023 was a particular challenging year for many of the growth, duration and "borrow to grow" constituents of the energy transition universe – as a benchmark one can observe that the S&P Clean Energy Index was down 23% in 2023 (in EUR terms). The divergence in performance between the MSCI ACWI Index and the S&P Clean Energy Index is notable.

Interest rates were a major factor contributor to overall portfolio and market performance over the quarter. While performance suffered as U.S. 10-year Treasury yields spiked during October, performance recovered during November and December as U.S. 10-year Treasury yields dropped sharply, over 70 basis points (bps) during the quarter, and even more relative to October peaks, with December ending on the lowest yield level since late July 2023. This major reversal along with an increase in Fed rate cut expectations for 2024 resulted in tailwinds to performance in the portfolio during November and December, in particular for the most sensitive "borrow to grow" stocks in the portfolio such as Sunrun. This trend was further supported by spreads compressing significantly alongside the drop in yields. As a result of these moves, we would expect to see elevated new debt issuance activity in Q1'24. In the year ahead, the portfolio will likely continue to demonstrate noticeable performance sensitivity to changes in rates, both positive and negative. We are hopeful this factor becomes more of a tailwind in the year ahead.

Commodity metals pricing remained relatively stable in the quarter which, combined with softening renewable equipment costs (solar falling significantly and wind stable), lower cost of capital and robust power purchase agreement price trends, suggests a constructive backdrop for renewable asset owners and operators to deliver adequate internal rate of returns (IRRs). In certain regions and countries spot power prices have accelerated lower which bears monitoring, especially in Europe as the power market normalises post the energy crisis – Spain being an acute example. On the other hand, residential retail power prices continue to rise in the U.S. and Europe, improving the economics for decentralised and self-generated power such as rooftop solar.

In 2023 global annual renewable capacity additions increased by almost 50% to nearly 510 gigawatts (of which solar was ¾), the fastest growth rate in the past two decades according to the International Energy Agency (IEA). Despite these very robust renewable installation trends, which only fall slightly short on a run-rate basis to meet 2030 renewable installation targets, renewable equipment prices continue to fall, especially for the solar value chain. Over the course of 2023 polysilicon prices fell over 70%, wafer prices fell between 40 to 60% and module prices fell around 50%. The dichotomy between accelerating installations and declines in equipment prices is a result of relentless manufacturing capacity expansions in China along the solar value chain and highlights the investment team's focus on differentiated players in the energy transition landscape. For example, within the solar end-market, the team has focused on ideas with identified idiosyncratic policy catalysts.

WHAT WORKED WELL THIS QUARTER

Sunrun Inc (RUN US), a U.S. rooftop solar leasing and installation business, was the largest contributor. The stock's 52% increase in the quarter was primarily driven by the sharp decline in bond yields from November. The company has a "borrow to grow" business model and also has long duration contracts with customers, and as a result is highly sensitive to rate moves.

Infineon Technologies AG (IFX GY), a Germany power semiconductor business, had a particularly strong performance in November and December. The company provided fiscal year 2024 guidance in mid-November that was better than feared and pointed to a strong recovery in growth and margins in the second half. In the mid/long term the company is well positioned to benefit from higher electric vehicle penetration, while in the short term it needs to transition through a period of inventory digestion by its customers.

EDP (EDP PL), a European utility and renewable energy asset owner and developer, also performed well in the quarter. The company reported very strong Q3 results and raised full year guidance. Additional tailwinds to performance come from high hydro levels which bode well for the regulated business performance in 2024, buyouts of Brazilian minority shareholdings as well as lower interest rates.

WHAT DIDN'T WORK WELL THIS QUARTER

Meyer Burger Technology (MBTN SW), a European solar panel manufacturer, was the biggest detractor in the quarter. The key catalyst for the stock to deliver significant upside is German government policy and awards which provide incentives for locally produced solar components. These policies and incentives are aligned with EU policy on domestic content targets and momentum was growing to implement such policies. While approval was originally expected before year end 2023, the surprise German constitutional court ruling that the German budget was illegal has resulted in delays or potential cancellations to government budget allocations including climate policy incentive decisions. The viability of Meyer Burger's European solar business is highly sensitive to these policy catalysts.

Siemens Energy (ENR GY), a German energy equipment and grid equipment business, was another large detractor. We exited the position in late October. We had entered the stock in June after it had fallen 40% from year-to-date (YTD) highs, following the company's warning about issues with its onshore 5x and 4x wind turbine platforms. We expected that if Siemens Energy could control the cost of its onshore turbine issue remediation and shrink overall exposure to the Wind business, while having no further spread of technical issues to offshore, then it would be free cash flow (FCF) positive again by 2025 (latest) and experience a strong margin recovery lead by its grid and gas & power divisions; it would also avoid an equity raise. At that time, upside of c. 40 to 60% seemed an appropriate risk/reward. The company had an adequate balance sheet for its operating business, however on 26 October it issued a release stating that as a result of strong order demand it was struggling to provide the guarantees required by customers and therefore was evaluating balance sheet options. This development surrounding guarantees had not been raised as a risk by management in our interactions, despite us asking directly about guarantees. Although this management statement about guarantees now appears to be more about the future growth rate, it may have been revealing underlying problems yet to be disclosed; it was in any case a negative surprise and as a result we took the decision to protect against further downside and exit the position.

China Longyuan Power Group (916 HK), a Chinese renewable asset owner and developer, continued its valuation multiple de-rating trajectory. While there have been company and industry specific concerns around market power prices weakening and delays in the plans to swap fossil fuel assets for renewables assets, the stock has fallen significantly more than the magnitude of negative earnings revisions. China has just been through another year of record-breaking renewables installation levels and Chinese interest rates have fallen over the course of the year, a constructive development, in contrast to the U.S. and Europe. The stock valuation on price/earnings and price/book is at decade lows. It is likely that the de-rating of the company's valuation is largely linked to the broader outflows from Chinese equities.

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LOOKING AHEAD

The core energy transition remains on an encouraging trajectory with key investment themes such as electrification experiencing another record year of renewables installations and clean transportation demonstrating c. 31% growth in 2023 of fully electric and plug-in hybrid sales. We expect these trends to remain on track in the medium-term. Renewable electricity remains highly competitive relative to all fossil fuel generation, electric vehicles are becoming increasingly more affordable and many more mass market models are due to come to the market in 2024, demand increases for electric grid strengthening and build-out, electricity continues to gain share of total energy consumption, and energy efficiency, both industrial and residential, continue to experience healthy demand as a result of elevated power prices and regulation.

There are a number of topics that can influence the energy transition strategy over the next year, including:

i) Policy:

   a. 2024 is a major election year globally. The outcome of the U.S. elections in November could bring about changes to the U.S. Inflation Reduction Act (IRA), in particular in a republican sweep scenario. The IRA uncertainty is likely to remain an overhang on stocks that are big beneficiaries of IRA subsidies.

   b. We will also be paying attention to German renewables policy in light of the broader German budget issues.

ii) China geopolitics: Given the U.S. election cycle it's likely the U.S. will remain on its current trajectory of anti-China protectionist policies. This impacts areas of energy transition including solar, electric vehicles, batteries and semiconductors.

iii) Inflation and rates will remain a significant influence on the portfolio this year, albeit the potential for lower rate volatility in 2024 versus 2023 suggests the magnitude of the influence on the portfolio could be lower.

iv) Destocking of inventories is likely to impact the first half of 2024. In part a hangover of double ordering that took place during the period of COVID supply chain disruption, inventory levels are now being rightsized for normalised supply chains. This is likely to result in lumpy quarterly impacts near term in order flow and revenue recognition.

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The MSCI ESG Fund Ratings is designed to assess the resilience of a fund's aggregate holdings to long term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks.

- AAA, AA: Leader- The companies that the fund invests in tend to show strong and/or improving management of financially relevant environmental, social and governance issues. These companies may be more resilient to disruptions arising from ESG events.
- A, BB, BB: Average- The fund invests in companies that tend to show average management of ESG issues, or in a mix of companies with both above-average and below-average ESG risk management.
- B, CCC: Laggard- The fund is exposed to companies that do not demonstrate adequate management of the ESG risks that they face or show worsening management of these issues. These companies may be more vulnerable to disruptions arising from ESG events.

The Fund ESG Rating is calculated as a direct mapping of "Fund ESG Quality Score" to letter rating categories.

- 8.6- 10: AAA
- 7.1- 8.6: AA
- 5.7- 7.1: A
- 4.3- 5.7: BBB
- 2.9- 4.3: BB
- 1.4- 2.9: B
- 0.0- 1.4: CCC

The "Fund ESG Quality Score" assesses the resilience of a fund's aggregate holdings to long term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks, based on a granular breakdown of each issuer's business: its core product or business segments, the locations of its assets or revenues, and other relevant measures such as outsourced production. The "Fund ESG Quality Score" is provided on a 0-10 score, with 0 and 10 being the respective lowest and highest possible fund scores.

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