



Index Highlight: Momentum for Alternative Energy Supersedes Election Results

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Summary

- With 30 constituents, AGIXL includes a wide range of alternative energy companies across several geographies and business lines.
- The recently released World Energy Outlook highlights the long-term growth potential for renewables, with the results of the US election potentially impacting adoption rates in the US.
- As exemplified by AGIXL, an allocation to alternative energy provides leverage to the structural growth in renewables expected to continue in coming years.

An introduction to the Ardour Global Alternative Energy Extra-Liquid Index (AGIXL).

The [Ardour Global Alternative Energy Indexes](#) were the first global alternative energy indexes, providing globally-inclusive, renewable energy exposure. The [Ardour Global Alternative Energy Composite Index](#) (AGICL) is a broader composite of the clean energy sector, while AGIXL narrows the universe to more investable names by including a minimum liquidity requirement for at least 90% of the index by weight. AGIXL constituents are weighted by market capitalization adjusted for free float, providing greater exposure to larger, more established names. The table below highlights AGIXL's top ten constituents as of October 16, which represent 67.5% of the index by weighting. The majority of the index's 30 constituents are US-listed securities, but 31.7% of the index by weighting is allocated to non-US equities, including companies in Denmark, Sweden, and Canada. In addition to providing broad geographic exposure, AGIXL captures a wide range of alternative energy companies. Electric vehicle manufacturers, wind power plant and turbine developers, solar battery storage and microinverter¹ producers, and semiconductor manufacturers are among the sectors represented in the top ten constituents alone.

AGIXL Top 10 Constituents

Name	Ticker	Country	Primary Business Activity	Index Weight
Vestas Wind Systems	VWS	Denmark	Wind Energy	8.80%
Tesla	TSLA	United States	Electric Vehicles	8.77%
Orsted	ORSTED	Denmark	Wind Energy	8.72%
Microchip Technology	MCHP	United States	Semiconductors	8.16%
Eaton Corp	ETN	United States	Power Management	8.02%
SolarEdge Technologies	SEDG	United States	Solar Energy	6.58%
Nio	NIO	United States	Electric Vehicles	6.54%
Enphase Energy	ENPH	United States	Solar Energy	4.85%
Nibe Industrier	NIBEB	Sweden	Electrical Equipment	3.80%
Universal Display Corp	OLED	United States	Semiconductors	3.31%

Source: Bloomberg as of 10/16/2020

Recent developments add to growing momentum for renewables.

With the proliferation of net-zero emissions targets from individual companies and countries, including even [China](#), and a long-term push for sustainability, the momentum behind alternative energy continues to increase. Last week, the [International Energy Agency](#) (IEA) published its [World Energy Outlook 2020](#) report, which shows various scenarios for how the growth of renewable energy may play out over the next decade. Under the Stated Policies Scenario, which reflects current policy intentions and targets, 80% of the growth in global electricity demand over the next decade is satisfied by renewables, primarily solar, which is now more [cost-effective](#) than power generation from coal and natural gas in many countries. Importantly, this scenario represents the IEA's most conservative assumptions for the adoption of renewable energy. For example, meeting the conditions of the Paris Agreement would require an even greater reliance on alternative energy. Under this scenario, annual solar capacity additions for the next decade would need to be four times higher than what was experienced in 2010-2019, and wind additions 2.5 times greater. AGIXL constituents such as [Enphase Energy](#) (ENPH) and [Sunrun](#) (RUN) are well positioned to benefit from the proliferation of solar energy, while wind power names like [Vestas Wind Systems](#) (VWS), AGIXL's largest constituent, could benefit from more demand for wind turbines.

The upcoming US elections could also represent a catalyst for the renewable energy space. Democratic presidential nominee Joe Biden has [laid out](#) a plan for \$1.7 trillion of federal investment in clean energy, which would help the US achieve the goal of net-zero emissions by 2050. Additionally, Biden has proposed greater support for electric vehicles (EVs) by working with state and local governments to enhance charging infrastructure and restoring tax credits for purchasing EVs. These initiatives would benefit manufacturers of EVs, including AGIXL's second-largest constituent, [Tesla](#) (TSLA). While a Biden administration would likely be beneficial for the space, the growth trajectory for clean energy is not fully dependent on federal policy. Several state governments have [renewable portfolio standards](#) or carbon pricing policies that are supportive of alternative energy. Many companies in sectors ranging from technology to utilities have specific targets to reduce their emissions profile or invest in clean energy. In short, the momentum behind clean energy will likely continue regardless of the outcome of the November election.

1// Microinverters sit below the solar panel and help convert power from the panels into a usable form.

Why should investors consider a clean energy allocation?

The growing traction of alternative energy underwritten by climate-focused policy initiatives, the emphasis on sustainability and ESG considerations by companies globally, and improving cost competitiveness represents an opportunity for investors. Since 2018, AGIXL has dramatically outperformed the broader market, with the trend only becoming more pronounced in 2020, as shown below. Strong performance from TSLA, which has gained 425.5% so far this year, has been complemented by solid performance from solar-focused RUN and ENPH, driving a 110.9% year-to-date total return for the index through October 16. In addition to growth potential, alternative energy screens favorably in an investment climate increasingly focused on environmental, social, and governance (ESG) considerations. Positive sentiment, a constructive forward outlook, and the continued preference for growth over value have supported momentum in alternative energy already this year, as evidenced by the strong performance in AGIXL. While the election outcome could further bolster the space, the long-term growth outlook for renewables will be intact regardless of the results in November.

AGIXL Has Significantly Outperformed the S&P 500 Since 2018



Source: Bloomberg as of 10/16/2020

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