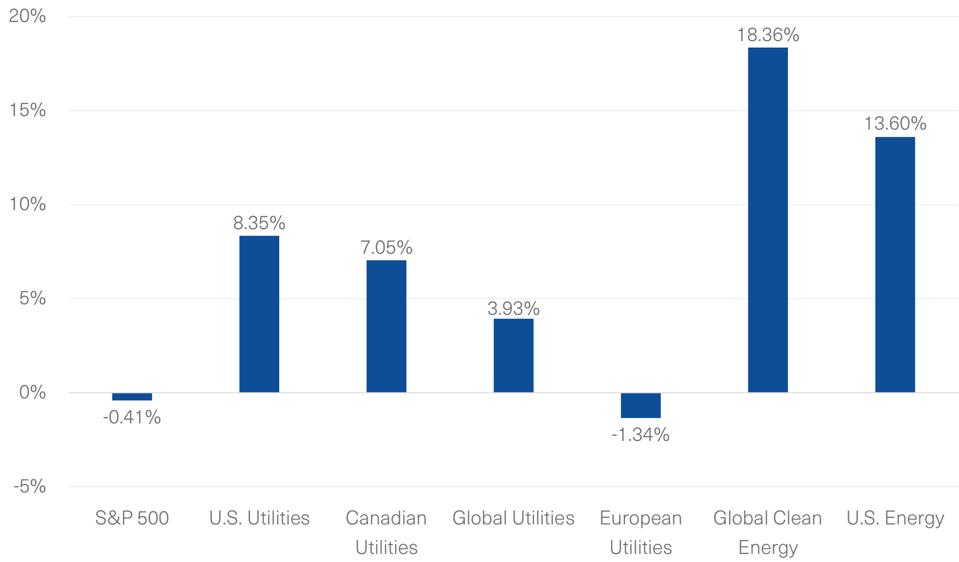
Renewables: A Clean Solution

Funds in focus: Brompton Sustainable Real Assets Dividend ETF (BREA), Sustainable Power & Infrastructure Split Corp. (PWI, PWI.PR.A)

Since Russia's invasion of Ukraine, the S&P Utilities index is up 8.3%, significantly outperforming the S&P 500 by 8.8% as of March 11, 2022. In fact, both North American and Global Utilities have generated gains that surpassed the returns of their respective broad indices. The Global Clean Energy basket in particular delivered gains of 18.4%, even topping the S&P Energy's (the top performing sector in the S&P 500) performance by 4.8% (Chart 1). We believe Utilities and Renewables are attractive assets to own in the fog of the Russia-Ukraine conflict. In contrast to many other sectors, Utilities provide insulation from geopolitical risk due to their highly localized nature.

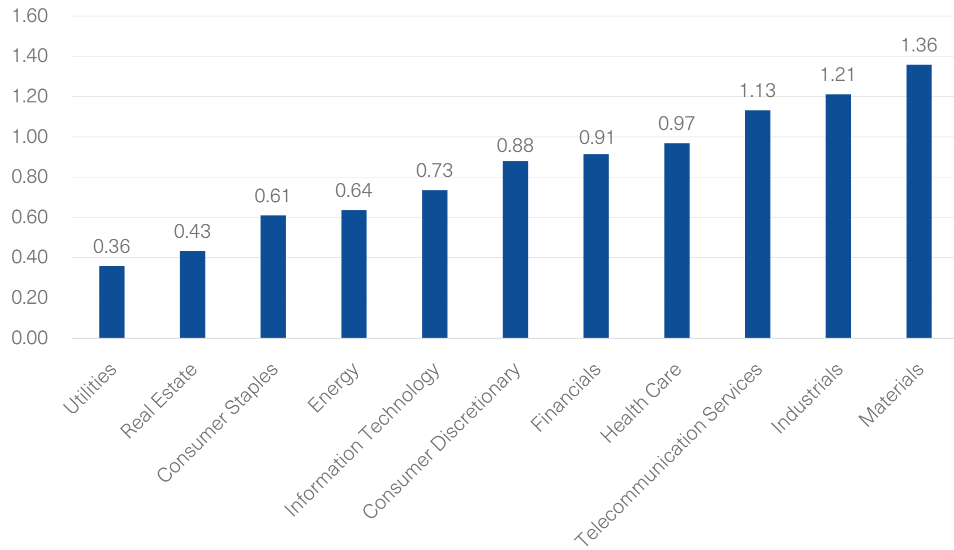
Chart 1: Return of Utilities vs. Other Sectors Post Russia's invasion of Ukraine (Return from February 23, 2022 - March 11, 2022)



Source: Bloomberg as of March 11, 2022

Utilities tend to outperform during times of uncertainty. Since Russia's invasion of Ukraine, investors trimmed exposure to high beta (ie. volatility) sectors such as Information Technology and Consumer Discretionary and sought protection by owning assets with more defensive qualities, such as Utilities and Consumer Staples. As shown by the chart below, Utilities have the lowest 1-year beta among all the S&P 500 sectors (Chart 2). A lower beta translates into less downside risk, which protects investors from drawdowns during volatile times like the market is experiencing currently. Moreover, investor sentiment for Utilities and Clean Energy stocks were weak heading into 2022, with many hedge funds and actively managed funds underweight the sector. The sector as a whole has persistently traded at a P/E discount to the S&P since May of 2020, which provided an attractive entry point for investors. We became incrementally more bullish on the sector earlier in the year since the growth trade was starting to lose steam while Utilities and Renewables fundamentals continued to improve, especially given the recent release of European Union's ("EU") "REPowerEU" plan.

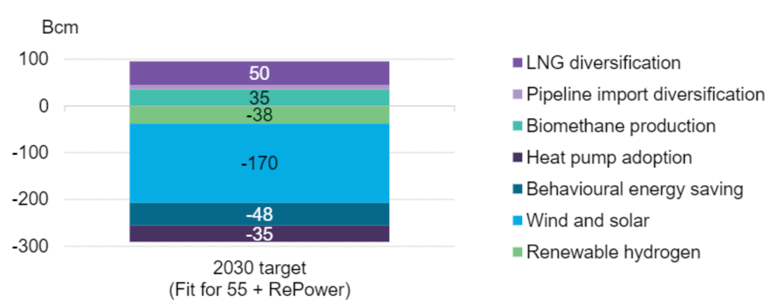
Chart 2: 1-Year Beta of S&P 500 Index Sectors (Returns from March 11, 2021- March 11, 2022)



Source: Bloomberg as of March 11, 2022

On March 8, 2022 the European Commission released its "REPowerEU" plan, which aims to reduce Europe's reliance on Russian gas. The EU currently imports 90% of its gas consumption, with Russia providing more than 40% of EU's total gas consumption. This plan sets out measures to displace 102 billion cubic meters (Bcm) of Russia gas imports in 2022 (equivalent to nearly 3/4 of Russian gas imports) and pledged to stop buying gas from Russia altogether by 2030. In order to fill the gap in fossil fuel, European utilities will need to accelerate their shift towards renewables, energy efficiency and battery storage (Chart 3).

Chart 3: European Commission's Estimated Impacts of Measures on EU Gas Supply and Demand by 2030



Source: BNEF as of March 14, 2022

In the power sector, the EU announced plans to deploy 480 gigawatts (GW) of wind capacities and 420GW of solar capacities, as well as to increase average wind and solar's deployment rate by 20% to assist in the transition. The EU will also support the development of renewable hydrogen and the push for energy savings. We believe incremental solar and wind capacity deployment is crucial to meeting EU's ambitious targets. Renewables provide an indigenous fuel source and every Megawatt generated from renewables displaces gas or coal. These accelerated renewables targets over the next 8 years will help drive additional capacity at renewables players, which consequently should drive incremental returns for existing renewable players.

The Russian-Ukraine conflict acted as a catalyst for Utilities and Renewables, but we believe the global shift towards renewables and energy independence is a long-term theme that will take decades to play out. The push for renewables is not just an EU story, but a global story. The levelized cost of energy for renewables will continue to decline, and unprecedented policy support will ultimately reward renewables companies and renewable investors in the long run.

Brompton's Approach

Brompton Sustainable Real Assets Dividend ETF (BREA) and Sustainable Power & Infrastructure Split Corp. (PWI, PWI.PR.A) invest in renewable and energy efficiency companies that are leaders in the energy transition space. Their scale and leadership positions allow them to generate superior returns relative to their peers in an increasingly competitive environment.

BROMPTON FUNDS

VALUE

INTEGRITY

PERFORMANCE

THE FOUNDATION FOR EXCELLENCE

Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3