Diversify with environmental thematic investing

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Event summary

The Mackenzie Greenchip strategy is a focused approach to environmental thematic investing, targeting companies that address ecological challenges such as resource scarcity, population growth, and climate degradation. The strategy's disciplined value investment approach has contributed to its long-term performance, making it an attractive option for investors.

Why it matters:

Overly negative sentiment in the environmental space has created very attractive valuations:

- John Cook highlighted the significant impact of political changes on sector sentiment, particularly the Trump administration's skepticism toward the energy transition. Despite the challenges, the path to lower energy costs lies in advancing the energy transition.
- No matter the prospects for a company or sector, an investment will only pay off in the long-term if the valuation at purchase is appropriate. Weighted average holdings in the fund now trade at historic discounts to internal estimates of intrinsic value and the team sees plenty of upside.

Initial and evolving strategy investment thesis:

- The team's initial investment thesis since 2007 remains relevant today. The team focuses on identifying companies providing solutions to ecological challenges, including resource scarcity, population growth and climate degradation. Identifying companies providing solutions to these challenges has been a successful strategy, with sectors like solar energy and electric vehicles (EVs) showing exponential growth.

- Global clean energy investment remains strong. In 2024, for every $2 invested in clean energy, only $1 was invested in fossil fuels. The US is a small part of this market (~15%).

Impact of tariffs and US policies:

- The discussion included the impact of tariffs on the Greenchip portfolio, particularly in the US. Tariffs have made some green technologies significantly more expensive in the US than in other regions, slowing the transition but also creating attractive valuations.

Growth in renewable energy and electric grid equipment:

- The team detailed the substantial growth in renewable energy sectors, especially solar and wind, and the increasing demand for grid equipment. While solar growth may slow, it remains the cheapest way to produce new electricity. The demand for grid equipment is expected to continue growing due to the aging global electricity grid.

- The team continues to see value in its solar and onshore wind holdings. The strategy also has strong exposure to electric grid related investments, ranging from power equipment, utilities and cabling to battery storage. Some of the strategy's best performing holdings in 2024 were grid-related

Role of integrated utilities:

- Integrated utilities play a crucial role in grid development and renewable energy projects. The team emphasized the shift in capital expenditure towards building new transmission lines and distribution services, highlighting the attractive business model of utilities with regulated returns.

Electric vehicle market dynamics:

- The EV market continues to grow, driven by declining battery prices. We discussed the regional differences in EV adoption, with significant growth in China and varying incentives affecting sales in Canada. The strategy focuses on investing in electrical component manufacturers and materials companies rather than EV manufacturers themselves.

Benchmark agnosticism creates strong diversification benefits:

- The strategy is very different from broad indexes, in terms of both geographic and industry allocations.

- It is typically concentrated in industrials, utilities, materials and technology; however, its technology exposure is mostly solar equipment and energy efficiency companies (power management semiconductors), not software.

- The portfolio currently has less than 20% allocation to the US and this figure has never exceeded 25%, a stark contrast to the MSCI ACWI index which has over 60% allocation to the US.

Long-term performance and value discipline:

- John Cook underscored the long-term performance of the Greenchip strategy, attributing its success to a disciplined value investment approach. Despite recent challenges due to higher interest rates, the strategy's focus on undervalued companies in the energy transition space remains strong.

What advisors can do about it:

- Assess clients' current portfolios to identify areas where diversification can be improved, particularly in sectors like industrials, utilities, materials and technology, with a focus on renewable energy and grid-related investments.
- Evaluate clients' investment goals to determine the appropriate allocation to the Greenchip strategy, which offers exposure to undervalued companies in the energy transition space.
- Consider the geographical diversification benefits of the Greenchip strategy, which has a lower allocation to the US compared to broad indexes.

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For more information about the Mackenzie Greenchip Global Environmental All Cap Fund, please speak to your Mackenzie sales team.