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Renewable Energy

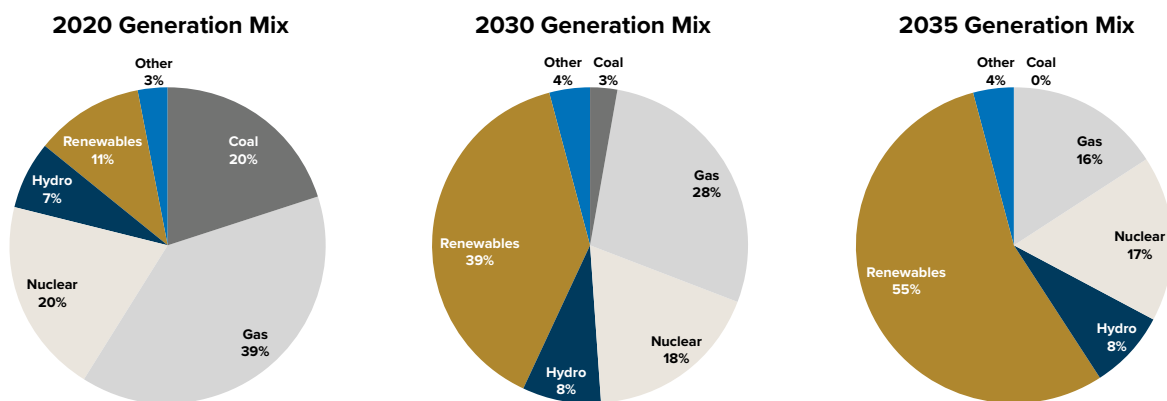
Overview

A combination of factors drove Anchor's increased focus on the utility sector and renewable energy space. First, after the Paris Agreement was signed in 2016 we observed a major shift in sentiment and a heightened global response to reducing carbon emissions. The stock prices of companies in certain industries like energy and utilities – that have higher than average carbon emissions – started to underperform. Second, in 2020 Anchor became a United Nations Principles for Responsible Investment (UN PRI) signatory, formalized our ESG Investment Policy, and started quantifying ESG metrics for our Anchor portfolios. As a result, we started looking into the utility sector to understand why certain companies were outperforming while others underperformed. This led us to spend time researching the renewable energy sector, with a particular focus on solar and wind.

Utility sector

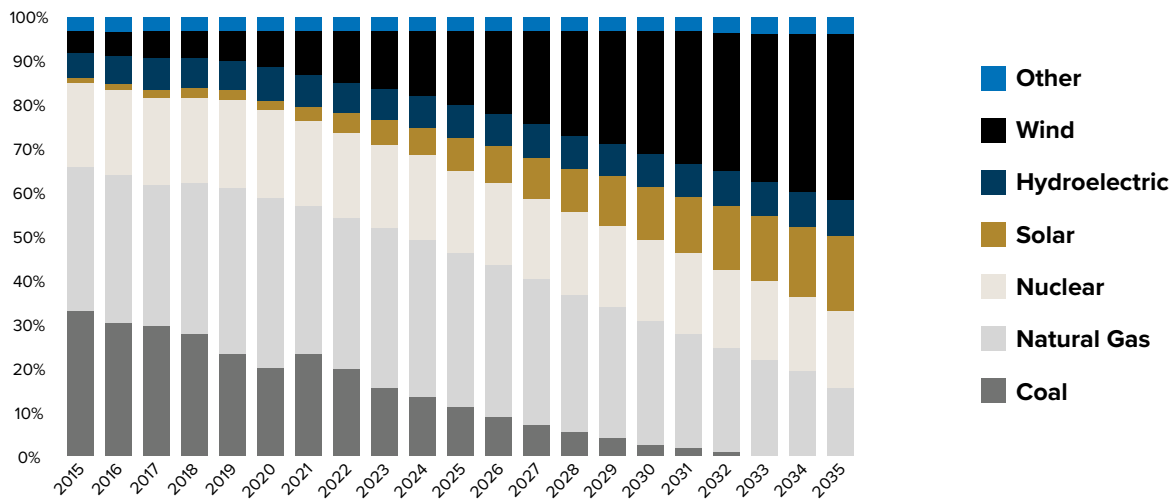
The U.S. utility sector is generally defined as companies that provide water, electricity, and gas to both residential and commercial customers. Rates are regulated, and cash flows are relatively stable and provide relatively high dividend yields. Many value investors look at utilities since they make up a higher percentage weight in benchmarks and tend to behave defensively. What we have found recently is a larger dispersion in performance between utility companies. Furthermore, when we started to quantify ESG metrics for the portfolios, we started seeing the impact that higher levels of carbon emissions were having on the utilities sector.

Chart 1¹



Source: Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.

In analyzing the utility space by 2020 performance, we observed that the outperformers had higher ESG scores. The utility stocks with the best ESG scores are ones that have moved their generation mix away from fossil fuels to renewable energy or ones that have articulated their plans for migrating to renewable energy within a certain timeframe. Morgan Stanley estimates renewable generation will reach 55% of the power grid mix by 2035.² Factors contributing to the expected growth in U.S. renewables and energy storage are the December 2020 stimulus, a continued decrease in the costs for clean energy and the potential for additional federal support towards renewables and clean energy.³

Chart 2⁴

Source: Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.

At Anchor, we have been focused on moving our utilities exposure to those companies that have embraced renewable energy or have a committed plan toward transitioning their portfolio to the renewables space. While these companies tend to command a premium compared to the rest of the utility space, we believe that the business strength provides defensiveness as the markets transition more towards ESG investing.

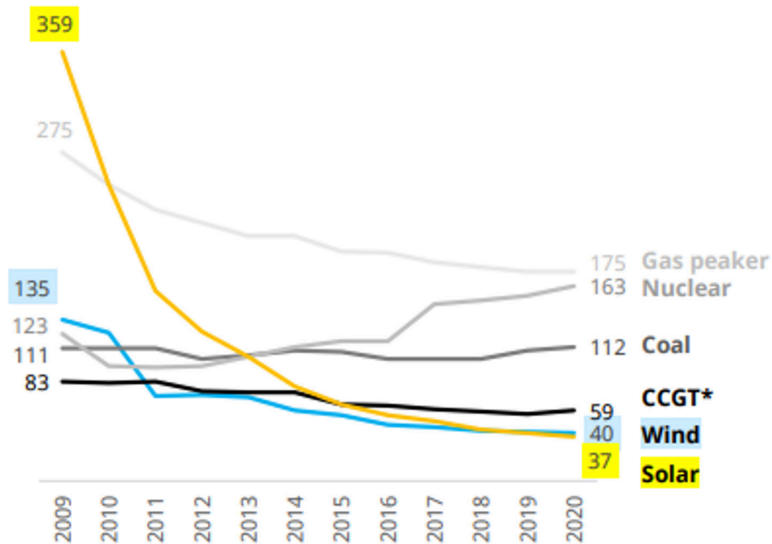
Solar

In looking at the renewables space, we spent time on the two areas where most utility companies are focusing their efforts. Solar is one of the fastest growing forms of renewable energy with numerous economic and environmental benefits that make it an attractive complement and/or substitute for traditional forms of energy generation.⁵ Currently, solar only accounts for ~3% of global energy generation, but is expected to grow to 10% by 2030 and greater than 20% by 2050, based on conservative estimates.⁶

The attractive qualities of solar are numerous, including no generation of greenhouse gases or other emissions and use of minimal amounts of water compared to traditional energy generation assets.⁷ Additionally, in recent years the average cost for solar has dropped significantly and is now over 20% less than the cheapest fossil-fuel competitor.⁸ This rapid price decline means that solar projects and developments are now possible with limited or even no financial incentives, a major change for an industry that was heavily reliant on government subsidies in the past. Once installed, solar energy systems last 25+ years and require very little maintenance and oversight, minimizing operating expenses and resulting in a substantially fixed electricity cost with minimal increases or volatility over the life of the system.⁹ While solar still cannot be used as the sole source of power today, given its reliance on sunlight, continued advancements in energy storage capabilities will allow solar to be utilized much more frequently as an alternative power source moving forward.

Chart 3¹⁰

Mean unsubsidized levelized cost of energy (LCOE), \$/MWh



*CCGT = Combined Cycle Gas Turbine

Source: <https://investors.canadiansolar.com/static-files/1187f4e6-4bcd-407d-96c5-d078d5d70037>

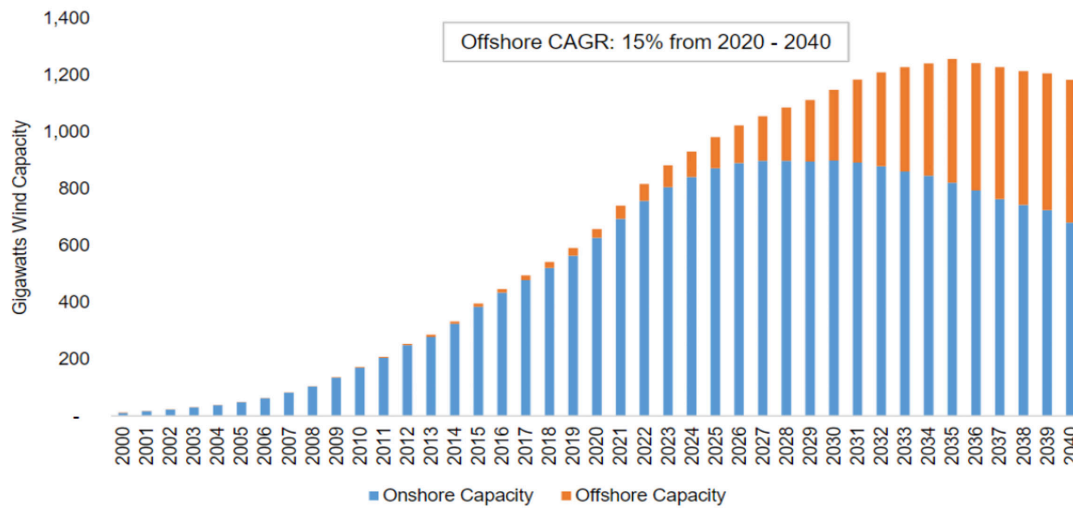
In our analysis of the solar industry, we have examined both the solar panel manufacturers, which tends to be a more commoditized segment of the market, as well as companies that produce technology that converts energy from the panels into usable electricity. We believe there are numerous investment opportunities in the solar power technology space.

Wind

The wind industry has also grown in size, driven in part by the support of government subsidies. The growth of wind projects has primarily been on-shore to date, but that is slowing down. Now there is more of a focus on offshore wind projects. The cost of wind has declined significantly and has become one of the cheapest sources of energy. In the U.S., on-shore wind costs have declined from \$100/MWh in 2014 to around \$40/ MWh in 2020⁹. The costs have declined primarily due to increasing turbine capacity and longer wind blades. China and the U.S. have led the way in wind installations.

Chart 4 ¹¹

Global Installed Wind Capacity Outlook (Gigawatts)



Source: Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.

In looking at the wind industry, there are a couple of ways to invest. One such way is investing in companies that manufacture wind turbines and blades, and another is investing in the utilities that are focused on wind energy. We find that the utilities are a better way to capture the wind theme, but we continue to follow the entire universe.

Conclusion

As part of Anchor's ESG efforts, a continual goal is to increase our focus on climate change and reducing carbon emissions by investing in companies that are aligned with these goals. In addition, we engage with companies on their actionable efforts to shift towards renewable energy. It is exciting to see that investors are having a meaningful impact on shifting the narrative around ESG and realigning companies focus towards renewable energy. We believe that the shift will continue to accelerate, especially as costs decrease, and ultimately all stakeholders will benefit.

Chart 5¹²

Name	Symbol	Carbon Emissions Score	Renewables Opportunities Score	Toxic Emissions Score	Water Stress Score	Overall ESG Rating	2020 Performance
Orsted A/S	ORSTED-CSE	7.00	6.60	10.00	10.00	AAA	82.0%
EDP - Energias de Portugal, S.A.	EDP	5.00	7.60	9.70	10.00	AAA	54.9%
Iberdrola, S.A.	IBE-MCE	5.00	7.50	9.30	9.80	AAA	31.0%
NEXTERA ENERGY, INC.	NEE	5.00	7.20	6.50	9.60	AAA	29.7%
AMERICAN WATER WORKS COMPANY, INC.	AWK	9.00			4.30	BBB	26.7%
ENEL - SPA	ENEL-MIL	6.00	7.10	9.90	9.80	AAA	21.7%
THE AES CORPORATION	AES	4.00	7.30	4.60	7.00	A	21.0%
ALGONQUIN POWER & UTILITIES CORP.	AQN	4.25	6.20	6.40	7.20	AA	20.6%
CHESAPEAKE UTILITIES CORPORATION	CPK	3.00				BBB	14.7%
PG&E CORPORATION	PCG	7.00	5.20	4.40	5.90	BB	14.6%
Xcel Energy Inc.	XEL	5.00	5.70	5.80	5.90	AA	7.7%
DUKE ENERGY CORPORATION	DUK	4.00	6.90	3.70	5.60	A	4.6%
Eversource Energy	ES	8.50	6.70	6.80	8.10	AA	4.4%
AMEREN CORPORATION	AEE	4.00	5.60	4.60	5.90	A	4.2%
Essential Utilities, Inc.	WTRG	5.00			7.30	BBB	2.8%
WEC ENERGY GROUP, INC.	WEC	5.50	4.40	6.10	7.30	A	2.5%
PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED	PEG	7.50	4.70	7.90	9.00	AA	2.0%
Fortis Inc.	FTS	4.00	4.90	7.50	8.00	AA	1.8%
THE SOUTHERN COMPANY	SO	5.00	6.20	4.80	8.20	A	0.4%
CMS ENERGY CORPORATION	CMS	5.25	4.80	7.20	7.90	AA	-0.3%
CHENIERE ENERGY, INC.	LNG	6.50			1.20	A	-1.7%
PNM RESOURCES, INC.	PNM	5.00	5.80	5.50	2.50	BBB	-1.9%
NRG ENERGY, INC.	NRG	5.00	3.40	1.20	4.10	B	-2.5%
ALLIANT ENERGY CORPORATION	LNT	5.50	5.20	5.00	7.70	AA	-3.1%
NATIONAL GRID PLC	NG-LON	7.00	6.10	8.50	8.70	AAA	-3.2%
DTE ENERGY COMPANY	DTE	5.00	4.20	5.00	7.40	A	-3.3%
EXELON CORPORATION	EXC	3.00	5.80	7.60	7.50	A	-4.0%
Dominion Energy, Inc.	D	5.00	6.60	4.40	7.10	A	-5.0%
IDACORP, INC.	IDA	6.00	5.10	4.90	4.70	A	-7.5%
PINNACLE WEST CAPITAL CORPORATION	PNW	6.75	5.40	6.80	8.00	AA	-7.6%
AVANGRID, INC.	AGR						-7.7%
NATIONAL FUEL GAS COMPANY	NFG	3.00		3.00		BBB	-7.8%
THE WILLIAMS COMPANIES, INC.	WMB	3.50			7.20	BB	-8.7%
AMERICAN ELECTRIC POWER COMPANY, INC.	AEP	5.25	6.10	4.80	7.30	A	-8.9%
MGE ENERGY, INC.	MGEE	3.00	5.90	4.50	4.80	BB	-9.3%
Eversource Energy	EVRG	6.00	5.30	4.20	5.40	BB	-11.6%
VISTRA CORP.	VST	2.00	3.90	2.50	2.40	B	-12.1%
ATMOS ENERGY CORPORATION	ATO	3.00			7.10	A	-12.6%
SEMPRA ENERGY	SRE	7.50	5.00	6.90	10.00	A	-13.1%
EDISON INTERNATIONAL	EIX	8.00	6.70	8.00	9.90	BBB	-13.3%
Enbridge Inc.	ENB	6.00			9.70	A	-13.5%
ENTERGY CORPORATION	ETR	3.00	3.40	5.70	7.00	A	-13.5%
NISOURCE INC.	NI	3.00	3.00	8.10	8.50	A	-14.6%
NORTHWESTERN CORPORATION	NWE	3.00	4.10	5.60	6.20	A	-15.3%
ONE GAS, INC.	OGS	3.00				A	-15.6%
CANADIAN UTILITIES LIMITED	CU-TSE	3.00	4.20	5.80	8.50	BBB	-16.2%
CONSOLIDATED EDISON, INC.	ED	6.00	6.90	8.40	8.60	AA	-16.7%
PPL CORPORATION	PPL	4.00	3.10	4.90	7.90	BBB	-16.8%
SOUTHWEST GAS HOLDINGS, INC.	SWX	3.00				A	-17.1%
NEW JERSEY RESOURCES CORPORATION	NJR	3.00				BBB	-17.3%
CENTERPOINT ENERGY, INC.	CNP	5.00	3.40	5.50	6.50	BBB	-17.9%
BLACK HILLS CORPORATION	BKH	3.00	5.50	6.00	6.90	BB	-19.0%
TC Energy Corporation	TRP	4.50			10.00	BBB	-19.1%
UGI CORPORATION	UGI	5.00		3.20	6.40	A	-19.7%
Spire Inc.	SR	3.00				BBB	-20.1%
PORTLAND GENERAL ELECTRIC COMPANY	POR	3.00	6.80	4.10	5.90	A	-20.5%
ALLETE, INC.	ALE	3.00	7.70	4.60	5.40	BBB	-20.6%
HAWAIIAN ELECTRIC INDUSTRIES, INC.	HE	4.00	6.20	4.50	5.60	A	-21.7%
OGE ENERGY CORP.	OGE	5.25	4.40	5.70	8.10	A	-24.8%
UNITIL CORPORATION	UTL	3.00	6.10	5.10	6.70	BBB	-26.0%
KINDER MORGAN, INC.	KMI	3.00			6.80	BBB	-30.5%
SOUTH JERSEY INDUSTRIES, INC.	SJI	8.50				A	-31.1%
TARGA RESOURCES CORP.	TRGP	6.50				BB	-32.4%
FIRSTENERGY CORP.	FE	7.00	2.50	4.80	7.40	BB	-33.8%
NORTHWEST NATURAL HOLDING COMPANY	NWN	3.00				BBB	-35.0%
ONEOK, INC.	OKE	5.50			10.00	A	-44.3%

Source: MSCI ESG Manager

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- 1 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 2 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 3 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 4 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 5 https://s2.q4cdn.com/646275317/files/doc_financials/2020/ar/First-Solar-2020-Annual-Report.pdf
 - 6 <https://investors.canadiansolar.com/static-files/12c9ecb7-9635-44d4-ab8a-2d6da7c3c2b3>
 - 7 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 8 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 9 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
 - 10 <https://investors.canadiansolar.com/static-files/1187f4e6-4bcd-407d-96c5-d078d5d70037>
 - 11 Morgan Stanley Research. US Power, Utilities & Clean Tech. "We Remain Bullish on Renewables Installations Through 2035". February 1, 2021.
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