



THE ECONOMICS OF CLEAN ENERGY

How Will the “Inflation Reduction Act of 2022” Impact ESG Investors?



Trillium Asset Management, LLC (Trillium) has long championed the view that the transition to clean energy is crucial not only to our climate but also our economy—and this position is gaining support. In a move that surprised many, last week Senators Joe Manchin and Charles Schumer announced they reached a deal to support a tax, energy, and healthcare bill called the “Inflation Reduction Act of 2022.” While this agreement is a scaled down version of the original infrastructure bill proposed last year, the package earmarks **a record \$369 billion for climate and clean energy** provisions. If passed, these historic investments will bring down consumer energy costs, increase American energy security, and reduce greenhouse gas emissions.

How Does The Bill Advance Clean Energy And Reduce Carbon Emissions?

Reduce Energy Costs

The “Inflation Reduction Act of 2022” aims to lower energy costs for Americans by incentivizing us to make our homes more energy efficient through a series of tax credits and rebate programs. Direct consumer incentives to purchase electric appliances, heat pumps, rooftop solar panels, electric HVAC, electric vehicles and more will reduce the current high costs of energy and decrease utility bills while making individual investments in these areas more affordable, with a significant portion of the bill directed toward low-income households and disadvantaged communities.

Decarbonize the Economy

The “Inflation Reduction Act of 2022” seeks to reduce emissions from all sectors of the economy through targeted Federal support of innovative climate solutions in the form of tax credits, grants, and procurements. Over \$60 billion supports on-shore clean energy manufacturing across its entire supply chain—from production to storage to transportation. These investments will help reduce inflation and the risk of future energy-related price shocks by lowering the cost of clean energy and vehicles while alleviating bottlenecks in the supply chain.

Is Clean Energy More Costly To Produce, Store, And Deliver?

A few years ago, cost was the biggest hurdle to getting onboard the transition to clean energy; that concern is outdated. Scale has been reached in clean energy production making it cheaper to produce than its fossil-fuel counterparts.

In fact, IRENA (International Renewable Energy Agency, an intergovernmental organization supporting countries in their transition to clean energy) calculated a potential global net savings of \$55 billion in 2022 based on renewable capacity added in 2021 and current fossil fuel prices¹. Further, supply chain bottlenecks and skyrocketing commodity prices are avoided when using renewables rather than fossils to generate

power, freeing economies from volatile fuel prices and creating savings for consumers and communities.

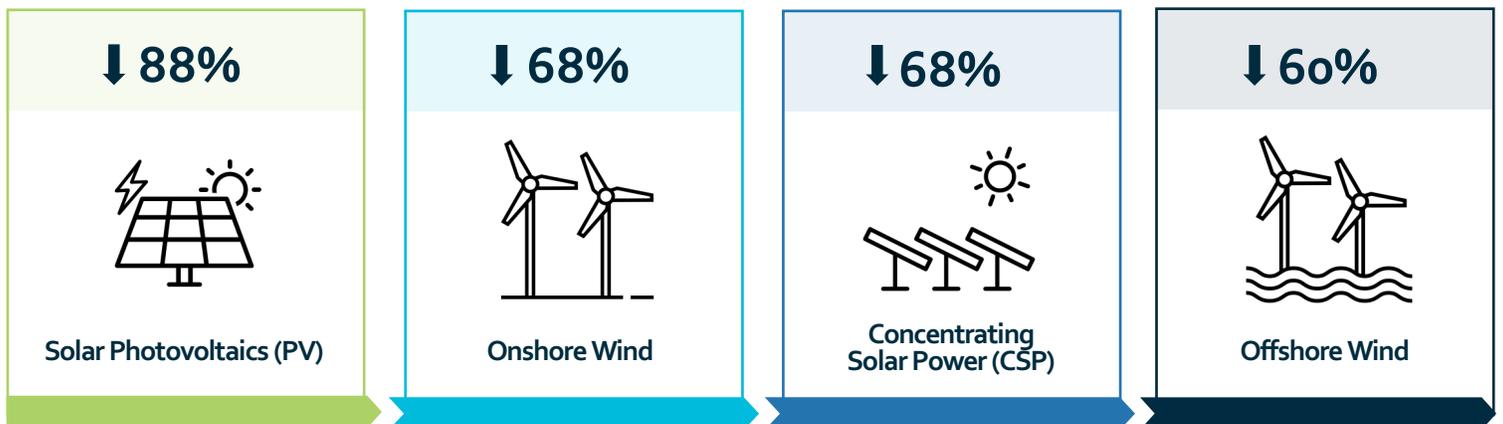
How Does this Bill Impact Trillium Portfolios?

The economics of clean energy make sense—for companies, communities, and the climate. This is why we see many companies across industries already investing in carbon reduction programs—while enhancing their profit margins, expanding their business portfolios, and creating new markets for climate-friendly products and services. And Trillium’s Shareholder Advocacy team works directly with our portfolio holding companies to help them make the transition to clean energy.

While Trillium does not bake legislation into our investment case, this bill would clearly benefit many of the holdings in our ESG and Impact-focused portfolios. One of the megatrends that our analysts and portfolio managers have long sought exposure to is “Climate Solutions,” which has sub-themes of energy-efficiency/electrification, green building, and renewable energy. We believe further investment in and adoption of climate solutions aligns with our investment theses on companies in this megatrend and will add alpha to our growth-oriented portfolios over our investment time horizon (3-5 years).

Cost of Electricity from 2010 to 2021¹

2010 to 2021 witnessed a seismic shift in the balance of competitiveness between renewables and fossil fuels



¹Source: IRENA

Trillium “Climate Solutions” Portfolio Holdings²

Trillium’s investment strategies hold companies that we believe are strategic ESG leaders with above-average operating fundamentals and growth opportunities over the long-term—including climate solutions leaders.

Below are a few companies held within our portfolios with business models clearly exposed to climate solutions, and that highlight the breadth of our exposure across the climate solutions supply chain.

EDPR.LS: EDP Renovaveis S.A.

Renewable energy producer and project developer focused on CO₂ and water-free energy generation.

TT: Trane Technologies

Provider of climate control products and services that address energy efficiency and environmental sustainability in buildings, industrial processes, and transportation.

LIN: Linde PLC

Global provider of industrial gases, including hydrogen, to increase industrial energy efficiency and reduce air emissions.

SEDG: SolarEdge Technologies

Clean energy technology company providing control systems for solar PV panels, as well as e-mobility and power storage.

TTEK: Tetra Tech

Provider of consulting, engineering, program management, construction management, and technical services to optimize clients’ water management activities and reduce their overall environmental footprint.

RUN: Sunrun

Solar PV and battery storage installation and finance company enabling solar energy to reach homeowners outside of the traditional affluent demographic bracket.

FSLR: First Solar

Designer, manufacturer, and retailer of PV solar modules with thin-film semiconductor technology aimed toward large, utility-scale projects.

HASI: Hannon Armstrong

Financier of projects related to energy efficiency, renewable energy, and sustainable infrastructure markets, offering a range of investment structures such as debt, equity, and real estate investments.

ORA: Ormat Technologies

Renewable energy generation and storage company that designs, develops, builds, owns and operations geothermal and recovered energy-based power plants globally.

²This list is not inclusive of all Trillium portfolio holdings or all climate solutions holdings. These companies were selected based on breadth of business models in the climate solutions arena.

Building Long-Term Value

Undoubtedly, the first half of 2022 has been challenging for ESG investors as markets have overwhelmingly benefitted energy, commodities, defence sectors, and value-oriented stocks—areas that we do not invest in based on strategy objectives and our focus as a values-oriented, long-term, core investor. We will not change our objectives or focus in the face of a temporary crisis.

This time does remind us however that renewables and energy saving are critical to establishing global security: geopolitical, planetary, and economic. As an ESG asset manager, we believe our role in achieving this security not only requires investing in renewable energy companies, but also thinking creatively about the role companies providing products and services throughout the global economy will play in the transition from fossil fuels to renewable energy sources—and helping them get there.

Doing so, we believe we can deliver strong, risk-adjusted performance over the long-term to our investors.

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About Trillium Asset Management

Trillium Asset Management offers investment strategies and services that advance humankind towards a global sustainable economy, a just society, and a better world. For 40 years, the firm has been at the forefront of ESG thought leadership and draws from decades of experience focused exclusively on responsible investing. Trillium uses a holistic, fully integrated fundamental investment process to uncover compelling long-term investment opportunities. Devoted to aligning stakeholders’ values and objectives, Trillium combines impactful investment solutions with active ownership. The firm delivers equity, fixed income, and alternative investments to institutions, intermediaries, high net worth individuals, and other charitable and non-profit organizations with the goal to provide positive impact, long-term value, and ‘social dividends’.

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