

Welcome to secular growth views. I am Christophe Schmid, CEO and Head of Investment Strategies at iX-7 Asset Management SA, a Swiss-based FinTech company. Along with my colleagues, I'll provide you with an in-depth view on subjects of interest in the investment world. It is September 9th, 2021 10:15 a.m., in Geneva.

Afraid about lacking growth? X-Ride the next super cycle.

Many of us are worried about the classic transition into the middle phase of the economic cycle. The market rotation observed since this past spring reflects investors' concerns about rising inflation and is dimming confidence in company results. But, surprisingly, the economy and a large majority of companies continue to deliver strong data and forecasts. And such stark divergence has rarely been observed in the past. The question to be answered is: Are the present EPS results and forecasts sustainable because of reshuffled economic activities, or is it more a race to the bottom? We don't think that the latter is the case. Here are some reasons why.

In the past we suggested that investors look out for those structural changes that generate the growth opportunities that create benefits for the mass market. Such trends include tele-medicine, biotechnology, information technology, robotics, automation, and the energy transition. Typically, our Family-Trust Fund invests successfully in the leading companies from these sectors.

Today, we are taking a closer look at the energy transition, which typically has long-duration assets with important capex, a positive track record for beating forward earnings estimates, and a solid valuation support.

The energy transition is not just about oil majors becoming clean; it is more about electric vehicles, grid modernization, power distribution, and alternative power generation via solar, wind, water, and hydrogen.

Engaging assets in the energy transition includes investing in the electrical sector and multi-industry names. Most of them have a strong link to the utility sector which makes these initiatives, from a risk point of view, a conservative investment opportunity. This is because allocations are steady, and the present cycle is about new construction and remodeling. In absolute terms, it is a simple large-scale upgrade cycle to revamp outdated systems, enable EV-charging opportunities, create storing opportunities, and modernize the entire grid infrastructure.

We consider that the opportunities can be broken down into the following themes:

- 1) **Building a resilient electric grid:** Extreme temperatures, fires, and floods are taking a toll on electric grids. The next generation of electric grids is expected to be resilient in these specific cases. Upgrading and transforming the existing infrastructure and transitioning energy from high to very low voltage systems will require large capex.
- 2) **Sustainability of constructions:** Forty percent of global CO2 emissions are due to fossil energy consumption that is in one way or another related to the construction industry. The re-design and process optimization, the use of recycled products and equipment, and the use of alternative products will help increase efficiencies.
- 3) **Novel technologies:** Advanced technologies are the backbone of all newly established industries. In the drive to capture carbon, do the electrolysis, integrate wind and solar

energy, and gain energy from waste management, partnerships with tech-enabled companies and start-ups are needed. Also, we see that promising projects are expected to be funded by new and existing venture capital funds so that projects can reach mass market status in a short period of time.

- 4) **Decarbonization of the oil and gas sector:** Multiple companies have elaborated strategies that aim at going “green”. As a result of these undertakings, we expect new energies, such as hydrogen, will emerge.

X-Ride into the future

Those investors who have fallen in love with the energy transition are presented with numerous investment opportunities. We believe that ultimately bottlenecks will be solved, and a full array of enablers will compete for market share with an aim to provide clean energy resources. Consequently, new revenue opportunities will be generated as a complete rehabilitation of the systems in place is overdue. For investors this is expected to be highly beneficial.

Example: Growth related to EV-charging stations. Making an infrastructure available that can serve up to 8 percent of US vehicles will require investments in the region of USD 15 billion by 2030. And looking a little further into the future, for full re-electrification, which is estimated to be achieved by 2040, about USD 50 billion will be required.

Companies that do not achieve transition, especially those in high polluting industries, could see the loss of significant market share and ultimately market cap. Tightening regulation in environmental standards could become effective quicker than expected. Therefore, corporate governance and social responsibility will be, more than ever, a key measurement for investment decisions.

The energy transition is expected to highlight and accelerate a bifurcation of the economic and financial systems between the East and the West. China recently signaled their intent to improve the stability of its domestic financial markets and focus on self-reliance of its technology sector. This pivot may lead to two different standards, and we would expect it may weigh on sales for multinationals with strong exposure into China and in the South Pacific region.

The related buy list is providing details of the underlying opportunities in each sub-theme.

Personally, I am happy to discuss your point of view with you, so make sure you drop a comment on our blog at <https://www.ix-7.ch/Community/Blog.aspx> and follow us via our LinkedIn account for more news. Thanks for listening and enjoy reading our detailed views!

Valuable links:

Investment analyses: <https://shop.irisos.ch/energy-transition-opportunities>

Quarterly investment outlook: <https://www.ix-7.com/documents/>

Exclusive deals: <https://www.ix-7.com/exclusive-deal/>

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