

October 16, 2020

Dear Clients and Colleagues:

Environmental, Social and Governance (ESG) is a core part of our investment process. It is additionally evident in our portfolio, as we use themes like the environment to classify above average growing markets.

The environment has been, and will continue to be, a key thematic asset class. The MSCI Global Environment Index has outperformed the MSCI World Index year-to-date by a wide margin of 43%. The out-performance was fueled by healthy renewables and green markets across all geographies. In addition, investors have crowded the space under the COVID era as they substitute economically hampered sectors, such as travel and brick and mortar commerce.

Regulations have continued to trend towards curbing carbon emissions globally. Led by states such as California that want to eliminate gasoline-powered engines by 2035, firm goals will continue to appear with time.

As we look at global small caps, we are extremely excited as our investment universe continues to hold incredible opportunities as technologies, regulation and markets evolve. Many technological advances are on the horizon in terms of addressable markets becoming reality. The science to reach our goals as a carbon neutral society is at our doorstep. The majority of these technical feats do not depend on great scientific discoveries, but only on applying technologies we already know exist.

Let's review a few examples of technology breakthrough areas that will create important addressable markets in the future as we curb atmosphere heating gases:

Batteries: Tesla recently held its first battery day. Tesla believes that by improving battery performance, mass usage will occur as the electric vehicle price tag drops to \$25,000. Similar to the early years of solar with inefficient panels, the cost and performance of lithium batteries had been prohibitive to a wide use expansion. Tesla plans to change one anode material to another for 20% improvement. They also plan to change configuration for 16% improvement, these are among the simplest changes. Small technological gains bringing us to the verge of global electricity and transport overhaul.

Deep geothermal: Geothermal power is a key component of our energy future as it is endless, green and, most importantly, base loaded to counterbalance solar. The caveat has been the scarcity of geothermal beds close to the earth's surface. If only we could go deeper and longer. We've had the answer for a decade. Companies are now perfecting the adaptation of oil and gas fracking techniques

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to create deeper and longer geothermal looping systems and access the earth's endless source of heat.

Gas capture: Methane is produced from decaying organics (food waste, livestock and fracking). Methane negatively produces 25 times more heat capturing units in the atmosphere than CO₂. Converting captured methane into a natural gas equivalent (renewable or redeem gas) and then using it for transportation is actually carbon emission negative if we account for manure and other organic emissions. A mix with regular natural gas provides a complete carbon neutral gas, offering the United States (US) energy infrastructure a potential carbon neutral future. As such, the five largest US utilities have committed to zero carbon emission by 2050, renewable natural gas being core to the strategy.

Short of planting billions of trees, CO₂ capture technologies are also growing at a rapid pace. For example, CO₂ can be transformed into building materials, fuels, bioplastics and other products made of carbon. CO₂ and methane processing techniques are now proven, and infrastructure, scale and distribution are the remaining links towards establishing multi-billion dollar opportunities.

Hydrogen: The greenest of all molecules certainly holds great promise. A fuel cell coupled with an electric motor is two to three times more efficient than an internal combustion engine running on gasoline. Fuel cell cost has decreased by 60% since 2006. There are more than 35,000 hydrogen fuel cell forklifts in use across the United States, as well as 9,000 cars and 45 hydrogen stations.

Global Alpha invests in climate change reduction through many companies. Some are already profiting from the mentioned technologies. All our companies are profitable with well-established franchises that are properly capitalized to address these great opportunities.

Clean Energy Fuels (CLNE:US)

Based out of Newport Beach, California, Clean Energy Fuels Corporation designs, builds and operates natural gas filling station for vehicle fleets. It also helps customers acquire and finance natural gas vehicles and obtain local, state and federal clean air rebates and incentives. The company has more than 550 natural gas fueling stations across the US and Canada with 1,000 fleet customers fueling more than 48,000 condensed and liquefied natural gas (CNG and LNG) vehicles. Clean Energy Fuels has two CNG production plants in Michigan and Dallas and two LNG plants in California and Texas.

CLNE is a key player in the redeem fuel deployment story. As redeem fuel production increases at a rapid pace, CLNE's large distribution infrastructure is set to profit from the growing number of fleets committed to carbon neutrality.

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Gentherm (THRM:US)

Minnesota-based Gentherm is a manufacturer of climate control seat systems for the automotive industry. Gentherm is a global company with 23 locations in 13 countries. With leading knowledge of thermal conductivity, the company developed and now sells key battery cooling components to electrical vehicle manufacturers. The speed at which a battery can be charged is directly related to its capacity to dissipate heat.

Biffa (BIFF:LON)

Biffa plc is a waste management company headquartered in High Wycombe, United Kingdom (UK). It provides collection, landfill, recycling and special waste services to local authorities and industrial and commercial clients in the UK. Biffa is the second-largest UK-based waste-management company.

The company is a leading player in capturing organic gases and turning them into energy. Biffa operates over 90MW of generation capacity at 34 operational sites throughout the UK. Landfill gas is converted to energy using 34 generation locations, 42 independent grid connections, 94 gas engines, and three direct factory feeds to Biffa customers.

Ormat Technologies (ORA:US)

Based in Reno, Nevada, Ormat is a leading geothermal energy producer with 933 MW of production globally. Ormat is vertically integrated with a geothermal products division. With pricing differentials between base and peak load widening due to solar popularity, geothermal projects continue to increase in value. Although deep geothermal is in its infancy stage, Ormat is in an enviable position to profit from the emerging opportunity.

Have a great weekend.

The Global Alpha team

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