

November 6, 2020

Dear Clients and Colleagues:

At the time of writing, the results of the United States (US) election were pending, with votes still being counted in key battleground states. As Joe Biden edges closer to the needed 270 Electoral College votes, it appears the Republicans will retain control of the Senate, which could mean several of Biden's progressive plans will probably struggle to pass. Even if Democrats gain control of the Senate, there will be obstacles to successfully pass any legislative agenda, as most bills need a super-majority of 60 out of 100 in the Senate (i.e., filibuster rule). With that being said, we will now discuss the potential implications of policies for a few companies in our portfolio.

In terms of stimulus, the Democrats would like to increase the COVID-19 stimulus package. However, the \$2.2 trillion currently proposed is unlikely to be passed by a Republican Senate, and the size and timing of a stimulus package seem to be the most important factors for the market. A \$2 trillion infrastructure and clean energy fund is also proposed in Biden's potential first term. In terms of their economic policy, Democrats will have to strike a balance between the need to quickly stimulate the economy and their desire to push their green and left-wing agenda in the medium term.

One of Biden's flagship initiatives concerns energy. Along with rejoining the Paris Agreement, the Democrats would like to have a carbon-free power sector by 2035 and attain carbon neutrality by 2050. The green deal could also include incentives for electric vehicles, including 500,000 charging stations. Roughly 60% of US electricity generation currently comes from carbon-intensive processes. The plan is to accelerate the retirement of fossil fuels, and Ormat (ORA IT and ORA US) is a potential beneficiary. Ormat is a leading, vertically integrated company mainly focused on geothermal and recovered energy power businesses, but also a growing presence in solar photovoltaic and energy storage and management services. The company designs, develops, builds, sells or owns, and operates clean, environmentally friendly geothermal and recovered energy-based power plants, usually equipment they design and manufactured themselves. Another company that focuses on reducing carbon emissions is Clean Energy Fuels (CLNE US), who build and operate natural gas filling stations for vehicle fleets. It also helps customers acquire and finance natural gas vehicles and obtain local, state and federal clean air rebates and incentives. CLNE has the largest nationwide network with 550 natural gas fueling stations across the US and Canada.

In Europe, Schweiter Technologies and Landis & Gyr are two companies that may indirectly benefit from a future push to a greener American economy. Schweiter (SWTQ SW) manufactures composite panels and transforms raw materials, such as aluminum, paper, plastics and balsa wood into unique, light-weight solutions. Schweiter is a global market leader in core materials for sandwich

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constructions, particularly for use in wind farms. In a recent update on current business performance, Schweiter noted a good performance in its Core Materials business for the wind energy sector. Landis & Gyr (LAND SW) is a leading global provider of electric and gas smart metering and smart grid solutions to utilities. Energy management solutions help utilities streamline operations and reduce costs, while simultaneously enabling end consumers to control their own energy consumption, which lowers their cost and reduces their environmental footprint. The company has given a consistent message of regulatory delays providing a headwind for growth. This could change given the Democrats' message on becoming carbon neutral.

Any rapid change to carbon-free energy will be difficult to achieve should the Republicans hold the Senate, so a company like Schoeller-Bleckmann (SBO AV) with large exposure to US shale production will be less negatively affected than if the Democrats achieved a clean sweep. SBO is the global market leader for high-precision components, providing non-magnetic drill string components to oil field service companies engaged in directional drilling. It also manufactures drilling motors and drilling tools used for extracting oil and offers repair and maintenance services. However, energy transition is real and, recognizing this, SBO has started investing in early-stage projects to diversify their end markets. The company is looking to offer tools to the aerospace and medical device industries, and considering applications in the geothermal space.

With regard to infrastructure spending, Biden has plans for a \$1.3 trillion package, including approximately \$50 billion for highways and numerous measures to promote a US housing renovation with a view reducing CO2 emissions emitted by buildings. Companies with heavy exposure are likely to benefit from increased volumes and, in turn higher utilization rates, which should support stronger pricing. In this regard, we are comfortable with our position in Eagle Materials (EXP US). Eagle Materials is a diversified producer of basic building products (cement, aggregates, concrete and gypsum wallboard) used in residential, industrial, commercial and infrastructure construction. EXP is a low-cost producer and generates all of its revenues within the US.

The residential sector has been a strong performer in the US construction market, and we think this momentum will continue under a Biden presidency. Our residential construction exposure primarily comes from Century Communities (CCS US), a top-10 national homebuilder with an established footprint in attractive markets and strategic exposure to first-time buyers due to their focus on affordable homes. A less obvious exposure comes in the form of French flooring solutions manufacturer Tarkett (TKTT FP), the third-largest flooring player in the world. It specializes in the production of floor and wall covering for houses, schools, healthcare facilities, retail and hospitality facilities, and sports venues. Tarkett has high exposure to North America and, in their latest trading

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update, noted that the residential market had improved in the third quarter due to good refurbishment and new home construction trends.

In Healthcare, major drug pricing reforms will be unlikely if Republicans continue to control the Senate, yet some changes to Medicare Part D are very likely due to bipartisan support. Any renewed emphasis on Affordable Care Act would potentially be positive for healthcare providers. As a greater percentage of the population could afford typically expensive care.

Two other topics that have been of interest are corporate taxes and trade tariffs. Biden's platform includes increasing the corporate tax rate from 21% to 28%, among other measures. All told, it was estimated that the net impact could reduce the S&P 500 EPS by 9% to 12%. However, it seems unlikely the Democrats will be able to increase taxes. There will likely be no additional tariffs on China and the relationship with the EU should be more favourable.

Have a great weekend.

The Global Alpha team

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