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January 7, 2021

Dear Clients and Friends,

Happy New Year! May 2021 be brighter, happier and healthier for all of you and our world.

Climate change has traditionally been seen as a long-term issue that pragmatists could safely defer to consideration in the future, if at all. Politicians avoided it whether campaigning or governing. The public was vaguely concerned, but tended to underestimate the tangible risks and opportunities it presented to their well-being and their wealth. Investors didn't know how to play it and as average equity holding periods trended below one year it didn't seem relevant to their performance anyway; moreover, datasets available to them about corporate environmental performance were indecipherable to non-specialists and impaired by uneven disclosure. To cap it off, a succession of other seemingly more urgent crises tended to knock climate change off the front page – a financial meltdown, a terrorist event. It was reasonable to expect this pattern might recur as a pandemic took hold in 2020.

Altogether these features spelled opportunity for an active manager blending long-term investment discipline with domain expertise on climate change and other secular environmental trends. The Douglass Winthrop Environment Strategy is grounded in a conviction that environmental opportunities and risks are often misunderstood and mispriced by investors, creating market inefficiencies that we believe we can exploit in pursuit of excess returns for our clients over the long-term – all while serving a useful role in directing capital to profitably serve society's needs.

Given global preoccupation with the COVID-19 pandemic in 2020, and the massive economic dislocation it spawned, we could easily have found ourselves sending you a year-end letter counseling fortitude and patience to look past short-term underperformance while waiting for our long-term horizon to arrive.

In fact, clients of the DWA Environment Strategy were well rewarded in 2020. Our Environment Strategy Composite delivered a 37.66% return, net of fees – over twice that of the S&P 500 – including a shallower pullback in the first quarter market sell-off and a greater-than-market snapback in each quarter thereafter. This was the Strategy's fourth consecutive year of outperformance since its inception in January 2017 (note that past performance does not guarantee future results). In this letter we offer two explanations for this not entirely intuitive result, with illustrations from the portfolio.

First, investors appear to have grasped the parallels between COVID-19 and environmental stressors like climate change, and rewarded resilient and innovative business models designed to withstand these kinds of systemic risks.

Second, we think the market is beginning to appreciate the potentially outsized returns associated with investing in solutions to intensifying environmental challenges, exemplified by 2020's sharp upward moves in rapidly transforming sub-sectors such as renewable energy and electric vehicles. This does not, in our view, mean that the market inefficiencies have been entirely unwound and that the opportunity has run its course. But that opportunity *is* evolving to affect a wider range of companies – from pure-plays to legacy companies in transition, from the obvious sectors to the less obvious ones. Climate change is an all-sector, all-geography affair that will leave no aspect of our lives unchanged. Massive movements of capital lie ahead, leading to attractive opportunities for investors like us who combine a focus on integrating fundamental economic analysis with a specialized understanding of these transformational dynamics and adherence to a long-term view. Let's discuss each of these two explanations in turn.

1. **The COVID-19 / Climate Connections**

COVID-19 preoccupied the world in 2020. But this event appears to have reinforced rather than deferred concerns about climate change. Both present systemic risks to markets and both are globally synchronous in that they affect nearly all countries at once. Neither is a true "black swan" event defined by low-probability and high-consequence; on the contrary, experts have long warned that both were inevitable and urged steps to prepare. Both are rooted in human-environment interaction: in the case of COVID-19, spillover of a dangerous microbe from a wild species to humans, and in the case of climate change, human disruption of the life-enabling atmosphere.

A global pandemic is unfortunately the kind of event that is likely to recur more frequently as climate change degrades and scrambles habitats, prompts human migrations, and expands the reach of disease-carrying insects and animals to new geographies. On a more positive note, COVID-19 adaptations enabled "two years' worth of digital transformation in two months" according to Microsoft CEO Satya Nadella – auguring, to take just one example, enduring reductions in global transportation emissions through workplace virtualization and reduced business travel.

Climate impacts intensified in 2020. For example, California had its worst wildfire season ever and the Atlantic experienced the most tropical storms on record. Spurred by such events, we believe that market participants grasped the COVID/climate connections, and began to look past the pandemic – not for a return to normal but to a future that looks quite different from the past, one that we expect to continue to reward companies whose resiliency and other attributes served them well in this year's crisis.

A key difference, though, is that climate change will not be cured by a vaccine delivered at warp speed. This means mitigation *in advance* will be even more important for climate than COVID-19, requiring investment of trillions in private capital into "decarbonization" through the years ahead, directed by consumers' increasing sustainability expectations, proactive corporate leadership and strengthening government regulation.

Evidence for growing acceptance of the COVID/climate connections abounds. According to an Ipsos poll, 71% of people the world over consider climate change as "serious a crisis" as COVID-19.[i] After heated debate, the EU decided to allocate approximately 30% of its $750 billion COVID-19 recovery program to fund the European Green Deal to take the continent to Net Zero emissions by 2050[ii]. China surprised the world in September by targeting Net Zero by 2060[iii]. And in the U.S., Joe Biden won the Presidency featuring clean energy infrastructure prominently in his "build back better" platform for COVID-19 recovery. He committed to re-entering the Paris Agreement and to driving the country toward a new Net Zero emissions goal by 2050; with the Georgia runoffs on January 5 having flipped the Senate, he will also have new legislative and fiscal capacity to execute on his proposals.

We're pleased to report that DWA Environment Strategy portfolio companies have so far fared well through the COVID-19 event. Many had invested in strategic resiliency ahead of the crisis by diversifying, securing or localizing their supply chains, or by investing in direct-to-consumer channels that could withstand retail shutdowns (**Nike and L'Oreal** are prime examples). Many offered hygiene or air purification solutions with immediate application to COVID-19 as well as other emerging environmental threats (see **Ecolab and Thermo Fisher**). Others provided essential services such as electricity, food and water, harnessing their scale to deliver customer affordability and digital innovation for resource optimization, while flexibly pivoting as end-market demand shifted from commercial to residential customers during the crisis (see **Xylem and Waste Management**). Our well-moated technology and industrial companies provided virtualization for work-from-home and remote facility operations, reinvesting their abundant cash flow into AI innovations such as enhanced contact tracing for the immediate crisis and resource efficiency innovations for the factories and farms of the future (see **Microsoft and Schneider Electric**). Our sustainable finance companies refereed the COVID-induced spike in securities issuance, integrating real-time crisis indicators affecting solvency as well as climate-related data into their analytics, indices and ratings to support the orderly functioning of capital markets (see **S&P Global and MSCI**).

2. From the Fast Movers to the Less Obvious

Science fiction writer William Gibson famously said: “The future is already here – it's just not evenly distributed,” by which he meant that location and wealth determine one's access to technological advances. Similarly the market has begun to price in the implications of climate change more efficiently in some sub-sectors (solar, electric vehicles) than others – i.e. the climate re-rating is not yet evenly distributed across the market. We have captured gains for clients in these fast-growing sub-sectors and will continue to invest in their long-term growth prospects, but selectively given heightened commoditization and price momentum risks. We are always investigating less obvious ways to execute on the DWA Environment Strategy thesis as well. Let’s discuss each in turn.

First, many renewable energy and electric vehicle companies advanced in global penetration and market value in 2020, defying low oil and gas prices that could have made them comparatively less attractive. We initiated a position in **Tesla** during the March pullback because it had met our fundamental financial criteria after long residence on our watch list. Nobody could have predicted that amidst a crisis that impaired consumer spending and reduced gasoline prices, Tesla’s cars would sell as well as they did this year, nor that the market’s re-appraisal of its burgeoning growth prospects would drive such a meteoric stock price ascent (up 743% in 2020), given the execution risks that remain. As long-term investors positioned to benefit from “time arbitrage” relative to short-term traders, we didn’t need to predict this timing; indeed, we typically ride through such volatility in pursuit of tax-efficient compounding. In this case, however, we executed three trims to manage risks and lock in client gains as the price appreciated through the year, while maintaining a continuing ownership position in this remarkable company.

We also participated selectively in 2020’s rising tide for renewables, maintaining our position in **NextEra**, the largest renewable energy operator in the U.S, and as of year-end the nation’s most valuable domestic energy company, surpassing even Exxon Mobil. And we invested in Q3 in **Hannon Armstrong Sustainable Infrastructure**, a savvy financier of renewable energy and energy efficiency with programmatic and repeatable origination relationships across many technology partners.

One such Hannon relationship is with **Trane Technologies**, a longtime holding. The world is on track to become dramatically hotter, affecting livability, workability and even survivability across many regions[iv]. This will make Trane’s air conditioning a crucial tool of adaptation to climate change. But Heating, Ventilation and Air Conditioning (HVAC) systems are also a big part of the problem, accounting for roughly 40% of a building’s energy consumption and potentially as much as 25% of the world’s greenhouse gas emissions by 2030, due to their electricity consumption and use of refrigerant chemicals. Trane CEO Mike Lamach set out to make his company a leader in mitigating this threat, by investing in technology to use more benign, non-HFC refrigerants well ahead of competitors and regulatory requirements. In 2014, he committed to phasing out HFCs by 2030, paving the way to make, five years later, the largest B2B greenhouse gas emissions reduction commitment in any sector: to reduce Trane’s customers’ greenhouse gas emissions by 1 billion tons by 2030 (the same as today’s combined annual emissions of the U.K., Italy and France)[v]. And policy is finally catching up. The just-passed $900 billion U.S. stimulus package was celebrated for extending the Investment Tax Credits for solar and wind energy, but less noticed was that it also contained perhaps the biggest U.S. climate policy victory in a decade: a phase-down of HFCs by 85% over the next 15 years. This should reward Trane’s foresight with enhanced growth, and it is also expected to unlock faster action by China and India under the UN’s Kigali Amendment to globally phase out the same HFC chemicals. Global success in this endeavor could shave an extraordinary 0.5° C off the future global temperature increase[vi].

Let’s turn to a new holding in a less obvious sub-sector. We use our proprietary Douglass Winthrop “E-Map” to source diversified ideas across nine segments of the transition landscape, with special interest in growth drivers uncorrelated to the market. One such factor that does not rise and fall with GDP is power outages driven by hurricanes, wildfires, ice storms, flooding, heat waves and wildfires. Such outages are up 67% in the last decade, due in large measure to climate change.[vii] This finding underpinned our recent investment in **Generac Holdings**, the dominant seller of home standby power generators with 75% share in the U.S. and a footprint across 150 countries. Like Trane, Generac's products offer both adaptation to and mitigation of climate change. Only 5% of its 53 million addressable households in the U.S. have a standby generator today and every 1% of penetration growth from here is worth about $2.5 billion at retail, equal to Generac's entire sales today. In 2019, Generac extended its legacy business from generators to battery storage systems and engineered them to work seamlessly with rooftop solar systems. We monitored Generac through 2020 as it benefitted from the COVID-19 "home as sanctuary" trend. A key catalyst for our investment was its acquisition in October of Enbala Networks, a software platform enabling Distributed Energy Resources (DERs) such as owners of Generac's home generators or solar-integrated batteries to be paid for offering standby capacity and "frequency regulation" services to utilities trying to balance the grid as intermittent renewable energy is added to it. Enbala gets paid for helping dispersed resources operate together as a "virtual power plant." In September, Order 2222 was released by the Federal Energy Regulatory Commission, ushering in a level playing field for DERs ("Grid 2.0") and, we believe, expanding Generac's growth runway.

Performance

The following table summarizes the performance of the DWA Environment Strategy. While 2020 was clearly a strong year, we always remind clients that this is a long-term strategy. We develop our investment theses with an eye to 2030 and beyond, implying target value realization across that timeframe and unavoidable uncertainty around its timing, including likely pullbacks along the way. Past performance is no guarantee of future results. (Note: Inception date is January 1, 2017)

Performance through 12/31/2020	Cumulative Inception to Date	Annualized Inception to Date	3 year Cumulative	3 year Annualized	1 year	Q4 - 2020
DWA Environment Strategy -- Net of Fees	132.37	23.46	83.33	22.39	37.66	12.61
DWA Environment Strategy -- Gross	140.19	24.49	87.91	23.40	38.74	12.79
MSCI World SRI Index	79.37	15.73	45.08	13.21	19.86	12.29
S&P 500 Total Return Index	81.35	16.05	48.85	14.18	18.40	12.15

To our clients, thank you for your continued trust in us to protect and grow your capital. To our friends, we welcome the opportunity to discuss the Environment Strategy with you if this is of interest. Please contact Josh Huffard (josh@douglasswinthrop.com), Bowdy Train (bowdy@douglasswinthrop.com) or Dan Abbasi (dan@douglasswinthrop.com) to schedule a conversation. We can all be reached at 212-557-7680.

Sincerely,

Douglass Winthrop Advisors

[i] https://www.ipsos.com/sites/default/files/ct/news/documents/2020-04/earth-day-2020-ipsos.pdf
[ii] https://www.politico.eu/article/how-eu-climate-change-promises-survived-the-coronavirus-plague/
[iii] https://www.theguardian.com/commentisfree/2020/oct/05/china-plan-net-zero-emissions-2060-clean-technology
[iv] https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts
[v] https://www.tranetechnologies.com/en/index/sustainability/gigaton-challenge.html
[vi] https://www.ccacoalition.org/en/news/latest-us-pandemic-relief-bill-includes-hfc-phasedown
[vii] https://medialibrary.climatecentral.org/resources/power-outages#:~:text=Climate%20Central%20updated%20an%20analysis%20of%20national%20power,outages%20caused%20by%20extreme%20weather%20in%20recent%20years.

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The DWA Environment Composite (the "Composite") contains all fee-paying, discretionary accounts that are managed according to the Strategy. DWA also manages accounts outside of the Strategy. A composite of all DWA accounts would have higher or lower performance over different time periods, with increased dispersion among accounts due to meaningful differences in holdings.

Reference Index Disclosure: The Strategy is not managed to a benchmark. The benchmarks most commonly chosen by our clients based on the Strategy are the MSCI World SRI Index and the S&P 500 Total Return Index. The MSCI World SRI Index is a capitalization-weighted index that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. The S&P 500 Total Return Index includes reinvested dividends. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Index figures do not reflect the deduction of any fees, expenses, or taxes. Investors cannot invest directly in an index. The indices' performance results are intended to illustrate the general trend of the equity market for the Strategy's investable universe and are not intended as a benchmark for the Composite.

Risk Disclosure: Investing involves risk, including the possible loss of principal. There may be market, economic, or other conditions that affect client account performance, or the performance of the referenced market indexes. The Strategy may invest in small-and medium-capitalization companies. Investments in these companies, especially smaller companies, may carry greater risk than is customarily associated with larger companies. A client account invested in the Strategy will hold fewer securities and have less diversification across industries and sectors than a diversified portfolio, such as a portfolio based on an index. Consequently, a client account and/or the composite performance may diverge significantly from the referenced market index, positively or negatively.

Net Performance: Net returns are calculated net of actual management fees incurred and transaction costs. Fees for accounts in a composite may differ at the firm's sole discretion from the stated fee schedule for new accounts. Performance is calculated on an asset weighted, time weighted return basis. Valuations and performance are reported in U.S. dollars. Returns are not audited.

GIPS Documentation: Douglass Winthrop Advisors claims compliance with the Global Investment Performance Standards (GIPS®). A compliant presentation is available at www.douglasswinthrop.net/gips (password: DWAGIPS2020). A list of the composite descriptions and/or our DWA GIPS Policies and Procedures is available upon contacting our New York office.