

Tailwinds for Global Renewables and Sustainable Infrastructure

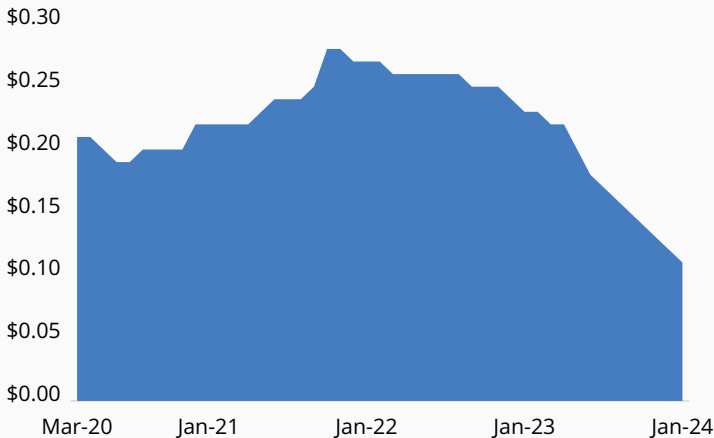


Falling inflation, subsiding supply chain headwinds, and a normalizing interest rate environment set the stage for an improving renewable power investing environment. Coupled with this better fundamental backdrop, we believe today's attractive valuations offer an enticing entry point into the asset class. We expect growing positive sentiment toward listed renewables and sustainable infrastructure amid several specific tailwinds we see supporting the group this year and beyond: declining equipment costs, improving costs of capital, and continued demand for renewable deployments.

Utility-scale solar costs declining. Excess production capacity of solar panels in China and restrictions related to Chinese exports to the U.S. resulted in a flood of excess supply globally. As a result, solar panel costs reached record lows in 2023. Utility-scale solar has been among the largest sources of capacity added to U.S. grids in recent years. We anticipate this trend will accelerate as lower input costs support the long-term trend of declining installed costs.

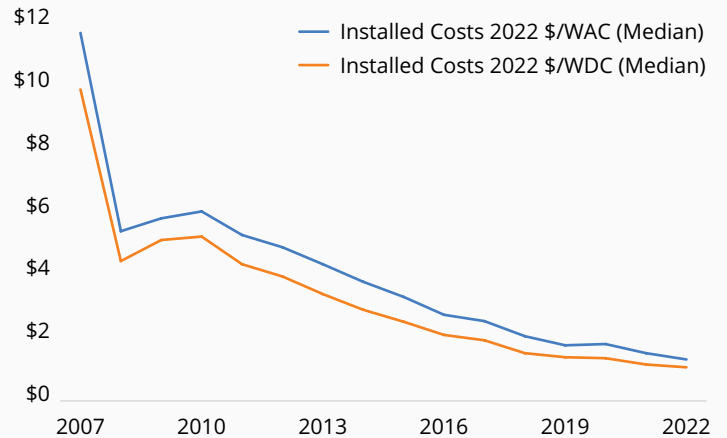
UTILITY-SCALE SOLAR COSTS ARE DECLINING

USD Per Watt



As of January 31, 2024. Source: Bloomberg, PV Infolink Consulting.

Utility-Scale Solar Installed Costs (2022 \$/W)



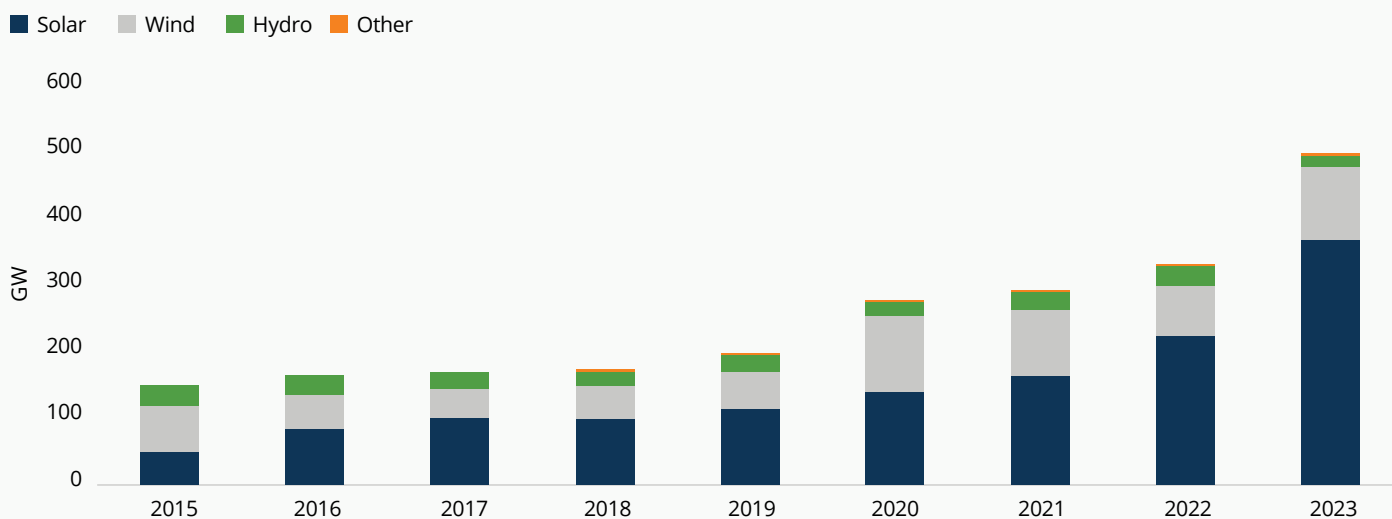
As of October 2023. Source: Lawrence Berkeley National Laboratory. "W" stands for watt. "WDC" stands for watts direct current and "WAC" for watts alternating current.

A more favorable financing outlook. Elevated financing costs from restrictive monetary policies in recent years increased the cost of funding long-duration projects, particularly in the wind sector. Cost inflation and higher costs of capital go hand in hand. However, as we begin to see input costs rolling over, and interest rates falling, financing costs are likely to moderate. An abatement in capital costs and an increase in companies' internal rates of return (IRRs) will likely accelerate any projects that have been delayed due to the recent higher rate environment. The global renewables build-out is still in its infancy. This megatrend will take decades, and we think recent headwinds related to interest rates will be a blip on the long-term horizon.

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Global deployment continuing to set records. Despite challenges related to inflation and capital costs in recent years, annual spending on renewables continues to set records. 2023 exemplified this robust global development activity, with record capacity additions largely led by additional increases in solar and incremental offshore wind. We expect further step-function renewable capacity additions across all sources (wind, solar, biomass, etc.) to be supported by favorable economics, energy security concerns and public policy.

RENEWABLE CAPACITY ADDITIONS SET A RECORD IN 2023



As of December 31, 2023. Source: International Energy Agency.

A BUYING OPPORTUNITY

Against this backdrop, we believe valuations across wind and solar names appear attractive, presenting a buying opportunity. That said, even as fundamentals across the renewables and sustainable infrastructure landscape remain robust, there are market risks to consider. A volatile inflation and interest rate environment ahead of potential Federal Reserve rate cuts could weigh on the sector, as could power pricing dynamics and policy uncertainty arising from elections across the globe.

Amid these potential market risks, we believe it's important to work with an active manager who can focus on the most compelling opportunities as market conditions change. We believe an active approach that focuses on companies with infrastructure-like business models and industry-leading growth prospects can potentially help mitigate volatility and risk.

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All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Real assets include real estate securities, infrastructure securities and natural resources securities.

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