Ecofin Energy Transition UCITS

Q4 2020 QUARTERLY COMMENTARY

The fund's NAV (Class E) increased by 26.0% in Q4 and outperformed the MSCI ACWI by 16.1 percentage points (all total returns in EUR). For the full year (calendar 2020) the fund's NAV increased by 39.3%.

As of 31 December 2020

(All total returns in EUR)	**3 months %**	**6 months %**	**1 year**	**Since 29.01.2019 %***	**Since inception* %**
EETU NAV (Class E)	26.0	45.2	39.3	73.3	54.6
MSCI ACWI	9.9	13.8	6.6	29.8	23.7

*Until 5 June 2019, the Ecofin Energy Transition UCITS Fund (formerly known as the Tortoise Energy Transition UCITS Fund) (the "Fund"), a sub-fund of the Gateway UCITS Fund PLC, was managed by GCA Investment Management LLC, with Ecofin Advisors Limited providing investment advisory services from 29 January 2019. On 6 June 2019, Ecofin Advisors Limited was formally appointed as the investment manager of the Fund.

At the end of December, the fund had 31 positions and by region was invested 25% in North America, 40% in Europe and 32% in Asia.

Attribution for the strong outperformance of the benchmark during the quarter was broadly spread and the list of top contributors has representation across all three major regions and risk categories. Over the course of the year the fund outperformed the MSCI ACWI by over 32 percentage points – well above our annual performance targets.

After a quiet start to the quarter, November turned into a major inflection point in terms of progress against COVID-19 and the U.S. political backdrop, both of which have significant implications for the Energy Transition investment universe. Developments in the last two months of the year, therefore, merit further explanation.

The NAV delivered +15.2% in November. The major move in equity markets was predominantly a result of two catalysts:

- The Pfizer-Biontech interim data update which showed >90% efficacy. This was the major driver of the factor rotation towards cyclicals and value. Moderna followed with equally promising efficacy data later in the month; and
- Joe Biden winning the U.S. presidential elections, with the probability of either a narrow Republican or Democrat Senate majority (which was the eventual outcome post the Georgia run-off elections in January 2021). The even party split in the Senate likely limits risks of major tax policy or tech sector regulation while leaving the door open for market-friendly incremental fiscal stimulus and an infrastructure bill.

We were satisfied with the alpha generation during what became a pronounced rotation in factor leadership which had dominated much of the year until November. The investment team had anticipated that the COVID-19 vaccine phase 3 trial update would occur at some point in late October or early November and while not expecting such positive efficacy, we had positioned the portfolio to have some exposure to "vaccine rebounder" stocks – companies favourably exposed to a rapid economic recovery cycle, especially with regards to mobility which has suffered as a result of lockdowns. The strong alpha generation in the month was delivered, therefore, by a combination of tactical upsizing of some of our "vaccine rebounder" positions into November and strong performance from some of our large more idiosyncratic positions.

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After an extraordinary November, the MSCI ACWI continued its upward trajectory in December as greater certainty around the U.S. political outcome emerged and more supportive datapoints from the various leading vaccine trials were released. The alpha generation was driven by stocks across multiple regions and themes, including especially two Chinese stocks which are benefitting from China's accelerating pivot to renewable power generation and electric vehicles, as well as a particularly strong opening performance from a newly listed U.S. battery company.

2020 was a year of real tests for fundamental managers: one of the greatest idiosyncratic economic shocks in modern history, leading to record levels of realised volatility; individual-level exposure to health safety risks, with attendant disruptions in normal work functionality; capped with truly unprecedented levels of political unrest in the U.S. We believe our portfolio construction process, with delineated risk profile segregation, performed at the high end of our expectations through what was undoubtedly a real-life stress test. Even our annualised turnover for the year remained muted, despite numerous opportunities or occasions for more active trading.

WHAT WORKED WELL THIS QUARTER

China Longyuan (916 HK), a Chinese power generation company with most of its generation coming from renewables, was the top performer in the quarter. The company has a handful of potential company specific positive catalysts ahead, on top of the improving backdrop for accelerated renewables deployment in China as the country looks to meet long term zero carbon targets and in the shorter term seeks to decarbonise its manufacturing supply chains. At the end of December, Longyuan was the largest position in the portfolio.

	P&L/NAV in Q4
China Longyuan	2.8%
Contemporary Amperex	2.7%
Quantumscape Corp	2.6%
Sunrun	-0.3%
Schindler	-0.1%
Waste Connections	-0.0%

CATL (300750 CH), a Chinese battery manufacturer and one of the largest electric vehicle battery manufacturers in the world, had a strong quarter as a result of the ongoing high penetration of electric vehicles sales in Europe and China, exposure to popular Tesla models, and incremental China capacity expansion announcements. CATL is likely to be a dominant player in the electric vehicle battery industry, and the runway for growth remains very attractive given current electric vehicle penetration globally is currently in the low single digits.

Quantumscape (QS U.S.), a U.S. solid state battery company, was the third best performer in the quarter, with the majority of the return coming in December. Quantumscape merged with a SPAC at the end of November and is an example of an infrequent investment by this fund in very early stage businesses. Solid state batteries are showing good potential to be the next major step-change in electric vehicle battery technology later this decade. On these occasions, position weights are below average, but the return potential is still very material to the portfolio. In this instance the stock moved significantly higher relative to our entry point in September and we felt it prudent to significantly trim down the position into the strength as a result.

WHAT DIDN'T WORK WELL

None of the holdings in the portfolio had a material negative impact on the performance of the fund in the quarter.

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LOOKING AHEAD

In our Q3 letter we mentioned that expectations for a COVID-19 V-shape recovery were being adjusted lower on account of a resurgence of the virus in Europe. As things stand today, with two major new strains from the UK and South Africa with higher contagion levels challenging hospital ICU capacity in Europe and the U.S., the short term trajectory of mobility and economic activity is once again in need of being revised lower. The apparent high transmission rates of some new strains point to more stringent and longer lockdown measures and place even greater importance on the availability and pace of vaccine rollouts. The divergence between medium-term expectations of "back to normal", thanks to the vaccine rollout, and the deterioration of short cycle datapoints risks turning into a chasm which will challenge the resolute optimism of equity markets over the next months. While early messaging around the new strains has been that the current leading vaccines will retain significant efficacy, we are still to see precise statistics around this. Material downside to the global economy and global equities could arise if the current versions of the vaccine have little to no efficacy against new, quickly emerging mutations which would then require the vaccines to be altered and vaccination processes to start again from square one. Current vaccine efficacy against new strains will therefore remain a critical datapoint and many uncertainties remain.

Beyond COVID-19 uncertainties, we remain very confident in the ability of the energy transition investment universe and our master themes to be the source of attractive investment opportunities. In many ways 2020 saw a magnification of the scale of the future energy transition themes across which the fund invests. For example, as a result of increasing sovereign net zero carbon pledges and green hydrogen targets, the pace and size of renewable power generation capacity have concurrently expanded.

We expect further policy decisions in 2021 to expand the scope of our core investment themes even further, for example via a more coordinated approach to carbon border taxation between the EU and the U.S. The rollout of carbon border taxation policies in Europe and the likelihood of a U.S. border adjustment tax during the Biden administration has important implications for major manufacturing export hubs. We think this should result in an acceleration of corporate driven decarbonisation through signing direct renewable power purchase agreements with zero carbon power generators.

The Biden administration, with its narrow Senate majority, can now look to pivot harder towards decarbonisation, electrification, and electric vehicles. The Senate majority opens the door to bigger green stimulus on top of principally pursuing the administration's green agenda through government agencies and executive orders.

Despite much ink being spilled more recently on the energy transition topic, we are still in the very early innings when it comes to the progression of many of our investment themes. Many countries and regions only recently declared 2040-2060 net zero carbon targets (with the U.S. still to set one), so we are practically in the first couple of years of a twenty to forty year transformational global project. Battery electric vehicle penetration is only low single digits globally today, and green hydrogen penetration is close to zero. Global manufacturing supply chain decarbonisation is still in its infancy and as a topic is only just now being considered. These themes and many new emerging ones will drive idea generation for the strategy over the next months and years.

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