Financially speaking

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Three decades, zero emissions: The future of decarbonisation

Transformation of the energy grid as well as increased investment in renewables will result in an opportunity for investors spanning multiple decades as companies start executing on their net zero promises.

The redeployment of capital by utilities companies to fund renewable energy projects and improve resilience in the electricity grid represents a substantial multi-decade opportunity for investors.

But it's up to investors in these companies making net zero pledges to better understand the decarbonisation pathways to find the best opportunities.

Working with companies to understand net zero pathways can help determine whether intentions pledged by companies are genuine, or indeed if decarbonisation pathways can be accelerated.

The mainstreaming of net zero

Making a net zero commitment, we believe, is the norm now, particularly for infrastructure companies that account for the largest producers and consumers of energy.

What's important for investors – beyond setting of long-term targets – is turning 'net zero by 2050 pledges' into short and medium-term targets.

Investors are increasingly pressing companies for supporting evidence on their net zero pledges.

Evidence of commitment to the decarbonisation pathway has expanded to include executive incentives and remuneration being aligned to the short and medium targets set by a company, as well as the measurement of scope 3 emissions (i.e., those that result indirectly from company activities but that are not directly owned or controlled by the company).

The push for greater transparency from companies relating to their net zero ambitions is not only being driven by investors. It's also being driven by customers who are increasingly demanding companies provide more sustainable solutions. Customers want companies to offer products that allow them to access more renewables, allow them to increase their energy efficiency and allow them to operate more within a circular economy.

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Utilities at the forefront

Net zero refers to the balancing of emissions between what's being produced and what's being taken out of the atmosphere in an effort to halt climate change.

Net zero commitments will come from one of three sectors in the infrastructure context: power generation, transportation and the industrial sector.

As renewables technology improves and costs come down, the case for utilities to invest more into this area - while decommissioning old and inefficient coal plants - becomes stronger.

While the power generation sector has been decarbonising for the best part of the last decade, many of the companies in the transportation and industrials sectors are only just embarking on a net zero journey.

The multi-decade opportunity

Within the power generation sector, utilities companies really are at the forefront of the energy transition. It's these companies that will fundamentally shift and change the way that electricity is generated, transmitted, and ultimately distributed to customers over the decades to come.

While utilities companies have historically had more defensive, stable, and low growth characteristics, the role these companies play in the transformation of power generation means they're changing their characteristics.

It's in the redeployment of excess free cash flow over time towards new sources of energy generation and the building of resilience into the grid where the return profile of these companies can really change.

An example of this is United States Minneapolis-based Xcel Energy*, which has earmarked around $US2.5 billion to 2031 for EV infrastructure, according to its June 2022 investor presentations. While Xcel could be considered to be at the forefront of allocating capital to future energy consumption and distribution, other companies are expected to follow.

US Virginia-based Dominion Energy* has earmarked around $US2 billion in renewable natural gas, the company's 2021 Climate Report outlined. Spanish multinational electric utility company, Iberdrola*, meanwhile, is another example of a company investing significant capital towards understanding hydrogen and its uses within the production of green steel, as a fuel source for freight railways and as an alternative to natural gas[1].

Decarbonisation is a multi-decade opportunity for listed infrastructure companies that, we believe, will lead to significant earnings growth in the long term.

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[1]https://www.iberdrola.com/pressroom/news/detail/train_green_hydrogen_will_become_reality_thanks_to_iberdrola_caf

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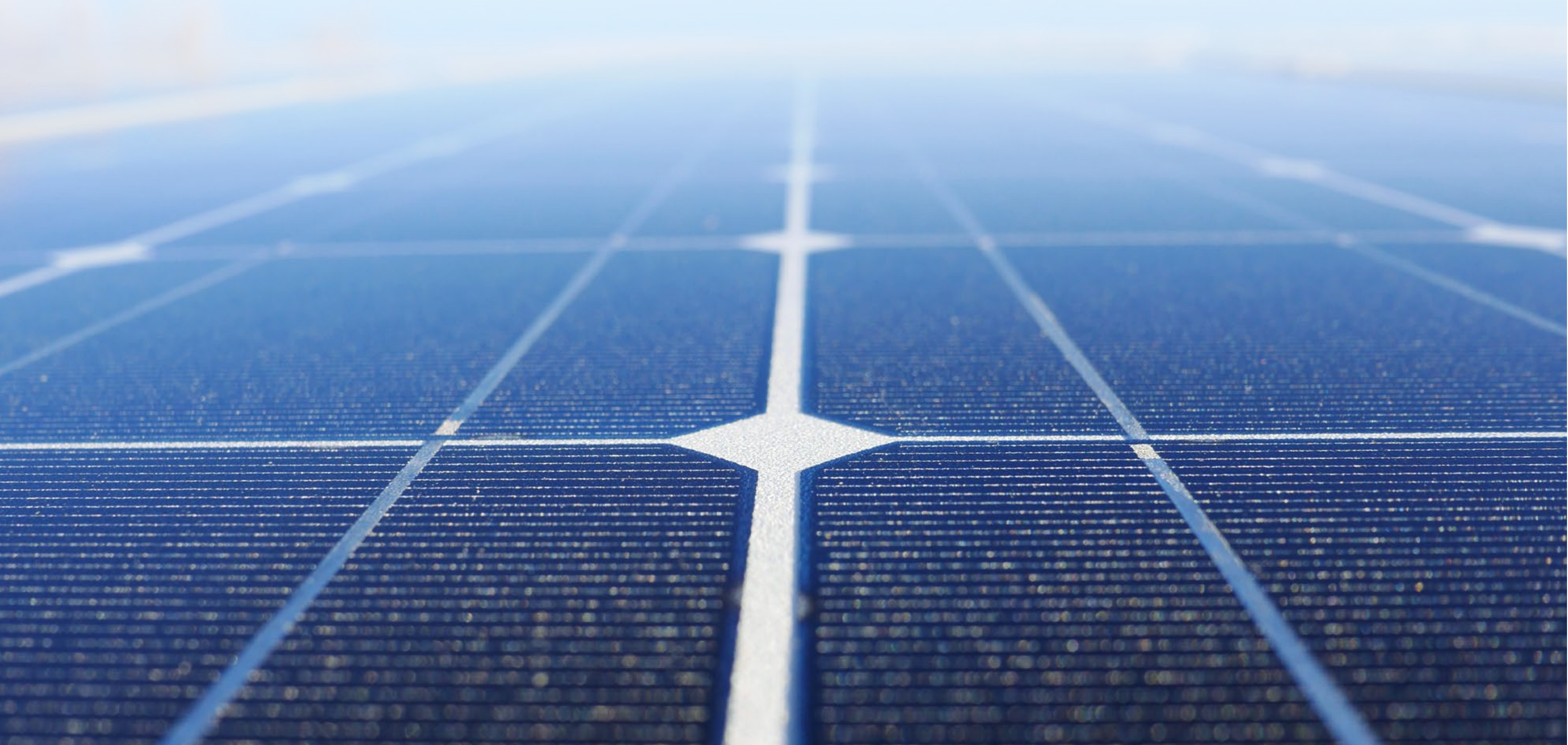


When the falling AUD can benefit your investment portfolio

By Daniel Pennell, Senior Portfolio Manager, Plato Investment Management.

While the Australian Dollar has been sinking versus the US Dollar for the majority of 2022, many have seen a big hit to the hip-pocket when it comes to the cost of travelling or paying for goods or services from the US.

But for investors whose equity portfolios have strong geographic diversification, a falling AUD historically tends to boost overall portfolio returns and help reduce risk in volatile markets.

Let's look at how.

If prices of imported goods are rising overseas, the value of any global investments should increase to offset, or hedge, against these rising prices.

In addition, an investor protects against the depreciation of their currency because their overseas assets are now worth more to them when converted into AUD. In this example the strong US dollar will buy more Aussie dollars when converted.

But what's more interesting is how currency has worked to benefit Australian investors in falling markets.

Historically there has been a strong relationship between the Aussie dollar and global equity markets. With a positive correlation over the last 20 years, the AUD is seen as a 'risk on' currency. This means it moves with markets, generally weakening when equity markets fall and strengthening when markets rise.

For a local investor this can be beneficial. When global equity markets fall, a weakening AUD will boost the portfolio return on your overseas equities, in AUD terms.

The two charts to the right illustrate this.

You can see throughout this year (chart on top), as the AUD fell, so did the US stock market.

Between 31 March 2022 and 30 September 2022, the weaker AUD (-14.5%), means the one US dollar of returns earns 14.5% more AUD. Consequently, the US market in AUD terms has only fallen -7%, vs the S&P 500 headline fall of -20.2%.

You can also see a similar result during the 2008 financial crisis bear market (chart on the bottom).

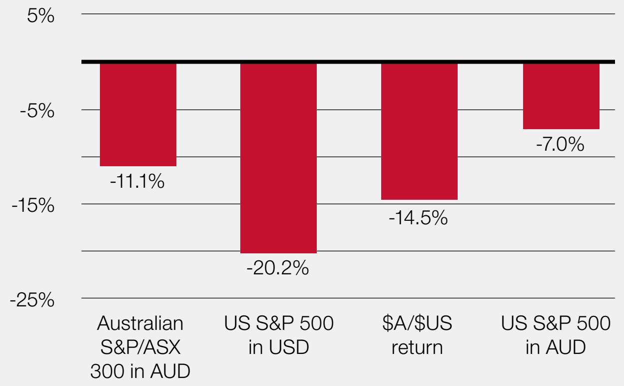
Unhedged can be your friend

While many investors chose currency hedged allocations to hedge away currency risk, we think allocating a portion of your income-generating global equities portfolio to unhedged global equities, can work to buffer against falling markets and imported inflation.

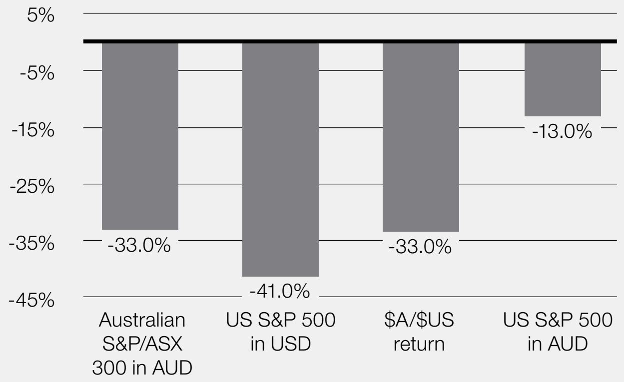
At Plato, our Global Shares Income Fund does not hedge and therefore provides income investors the diversification benefits of exposure to other currencies, given the strong tendency for the Australian Dollar to weaken in times of weak equity markets.

Of course, investing in global shares presents a range of possible risks for a new investor and every investor's circumstances are different, so one should always seek professional advice.

Market Moves 31 March 2022 to 30 September 2022



Market Moves 30 June 2008 to 27 February 2009



Cyber security

The COVID-19 pandemic has significantly increased Australian's dependence on the internet. This reliance has also led to an increase in opportunities for cyber criminals to exploit vulnerable targets. According to the Australian Cyber Security Centre, over the 2020-21 financial year there has been a 13% increase in cybercrime reports from the previous year, with losses totalling more than $33 billion.*

We know cybercrime is a real threat to all Australians, which is why it is important that we all do what we can to keep our data, systems and devices safe.

We ask you to please check the sender address on all correspondence you receive, and never click on a link you are unsure of. Here are a few simple steps we recommend to help keep you cyber-safe:

What you can do to protect your personal information

- **Install anit-virus software** on all your devices and regularly update the software
- Never give out your personal information over the phone unless you have **properly identified the caller**
- **Use a strong password** or unique passphrase and activate two-factor authentication where possible
- Remember that we will **not ask you to perform financial transactions** over the phone
- **Don't share your personal information** or whereabouts on social media
- Let us know if you see an **email from us that you think is a scam**

*Source: ACSC Annual Cyber Threat Report 1 July 2020 to 30 June 2021
www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-july-2020-june-2021

Thinking ahead? Let's talk about strategies for creating a positive financial future.

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