

# 2018 Fall Investment Advisory Board Summit

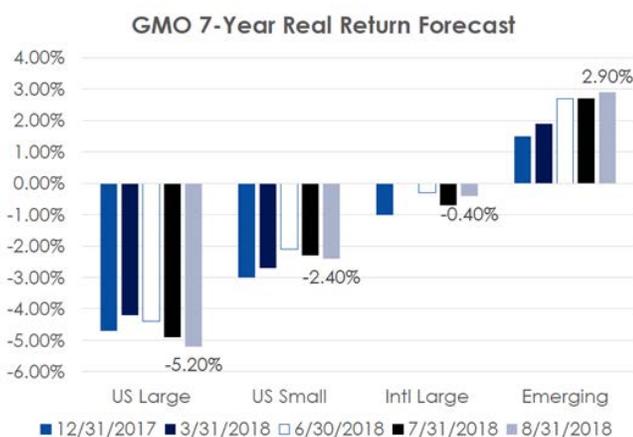
The Windrose Investment Summit is a full day of investment dialogue, including members of the investment team and the Investment Advisory Board. The Board consists of leading investors from well-known groups such as M.I.T., Boston Children's Hospital, Boston College, Bowdoin College, D.E. Shaw and Union Park Capital. The day of meetings is followed by a keynote speaker at dinner and includes Windrose clients.

Windrose Advisors hosted a one-day Investment Advisory Board ("IAB") Summit in October 2018. The event provided a venue for sharing investment ideas, discussing market opportunities and important context for the current economic environment. The discussion focused on a number of current topics, including recent market conditions and private investments. The cross-pollination of investment ideas and market opinions between the WA Investment Team and the IAB should continue to enhance portfolio positioning and manager selection for WA clients through changing market environments. To supplement the IAB's discussions, WA hosted Lucas White of Grantham, Mayo and Van Otterloo ("GMO") to share his thoughts on the climate change, the implications of climate change on the broader market, and how harness secular tailwinds in climate change equities. GMO is a Boston based money management firm founded in 1977 and overseeing more than \$70 billion in assets.

Following are some of the key takeaways from the Advisory Board discussion:

## Rising rates, expensive valuations:

- There has been a divergence between US and foreign equity markets this year. Through the end of September, US equity markets (S&P 500 Index) have returned approximately +11% whereas foreign developed markets (MSCI EAFE Index) and emerging markets (MSCI EM Index) have returned approximately -1% and -8%, respectively.
- The outperformance of the US leaves domestic equity markets expensive relative to foreign markets. According to GMO's 7-year real return forecast (see right chart), US equities are projected to generate a negative real return while emerging markets are projected to generate a modest positive real return over a seven-year horizon.
- Rising interest rates, oil prices, and trade tensions will place pressure on global growth going forward. The US economy is in the late innings of the economic cycle and at risk of overheating, increasing potential downside risks.



Source: GMO

## Preparing for the next downturn:

- Some ways to prepare for a market downturn include increasing allocations to cash, safe-haven assets such as U.S. Treasuries, or absolute return strategies.
- Reflecting on the 2008 global financial crisis, some absolute return strategies demonstrated a potential for outperformance in economic downturns.
- As shown in the chart to the right, Trend Following (CTA's), structured credit (MBS), and Global Macro, significantly outperformed the S&P 500 during the global financial crisis.



Source: eVestment

## WINDROSE ADVISORS

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Lucas White, CFA serves as a Partner and Portfolio Manager at GMO and has been a member of GMO's Focused Equity team.

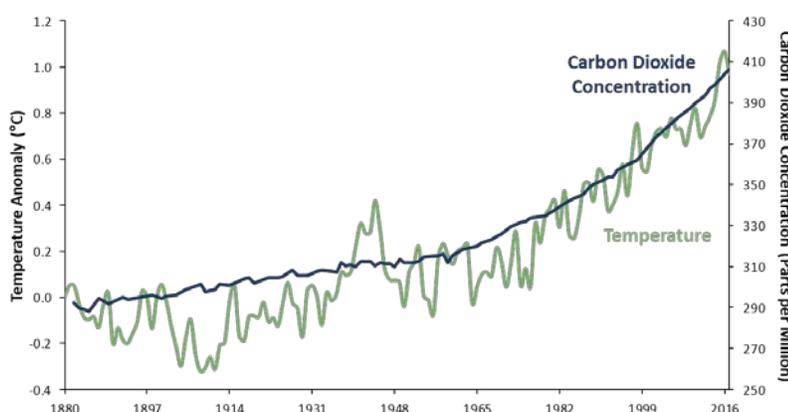


Following are some of the key takeaways from our discussion with Lucas:

## Climate change must be dealt with now:

- Human beings have had a profound impact on the environment, and the world is moving into unprecedented territory. The global population is increasing exponentially, and so too, are carbon dioxide levels, which contribute to global warming. See below chart.
- The world will need a massive amount of investment to mitigate climate change. According to the International Energy Agency, we will need \$9 trillion to decarbonize electricity generation between 2016 and 2050.
- Despite tremendous growth, renewables are still a small piece of the global energy puzzle. However, global policies such as the Paris Accord, the Global Covenant of Mayors, and other initiatives will support the move to sustainable energy over the long-term.

Carbon Dioxide Concentration and Temperature



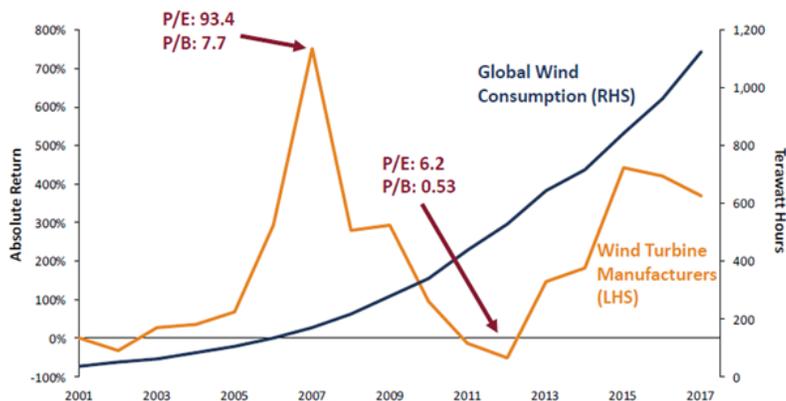
Source: GMO

## Climate change investment opportunities:

- Despite widespread demand for sustainable energy, investors must be discerning. For instance, while investment in the solar sector has been largely disappointing in the past five years, investment in the smart grid sector has been rewarding over the same period.
- As seen in the chart below, investing in the wind turbine sector has been profitable for investors who identified the trough in valuations amid a secular trend of increasing wind electricity consumption. In general, the climate change sector lends itself to value investing because the sector has little analyst coverage and is often misunderstood. It is also a new sector with strong secular tailwinds.

As seen in the chart below, investing in the wind turbine sector has been profitable for investors who identified the trough in valuations amid a secular trend of increasing wind electricity consumption. In general, the climate change sector lends itself to value investing because the sector has little analyst coverage and is often misunderstood. It is also a new sector with strong secular tailwinds.

- Copper will benefit from increased demand for clean energy. Electric vehicles, which have been experiencing rapid growth in sales, use around 3 times as much copper as a gas car. Electric vehicle sales are expected to grow by 30-60% per annum. GMO favors copper producers to take advantage of this secular trend.



Source: GMO

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