

Introduction to ICP Global Transition Fund

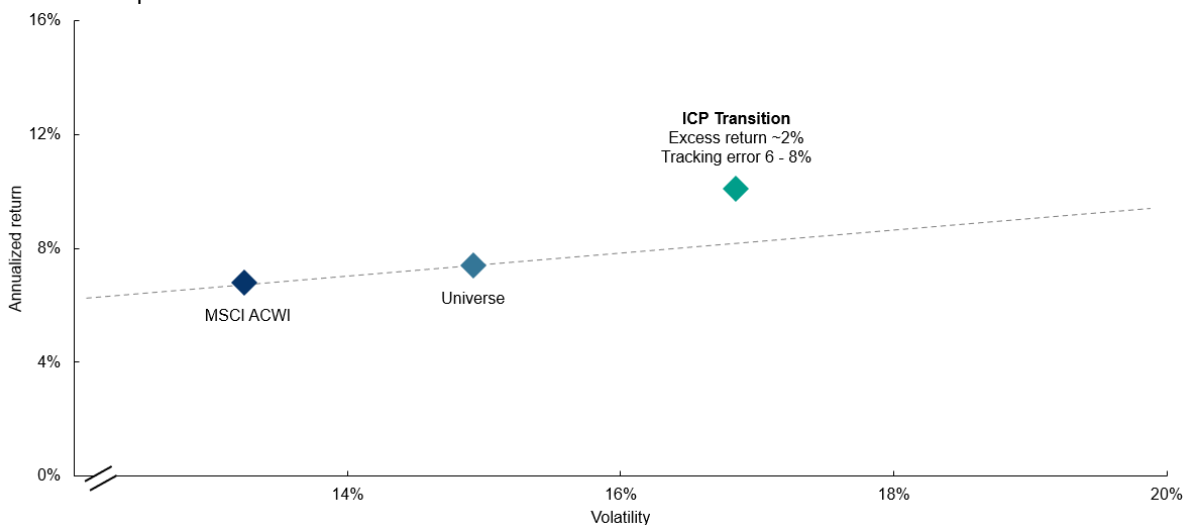
ICP Asset Management aims to bring capital together with industrial capabilities to invest in the transition to a low carbon economy. Our global transition portfolio, with 80-120 companies, aims to provide broad exposure to the companies driving this transition. In our view, the winners in the transition are the companies that are material contributors to the transition with a tailwind of growth and a demonstrated ability to defend and build their margins and market share.

We know that this transition will require significant and persistent capital investments. We believe that this will lead to long-term growth that is higher than what market expectations reflect. The transition will inevitably disrupt large sections of the economy, facilitating both tremendous value creation and value destruction. Like other major transitions or rapid growth stories, uncertainty abounds. The growth opportunity will itself present the risk of exuberance. The implicit demand for innovation engenders technology risks. The ramp-up in public investment will lead to faster expected earnings growth that push up stock prices, while supply chain disruptions or rising real rates can lead to sharp corrections. We deal with these uncertainties inherent in the transition story by selecting companies with proven technologies and business models that have achieved commercial scale.

We believe that such a portfolio of companies has the potential to generate about 2% excess returns over the long-term relative to the broad market. The rationale for this outperformance is two-fold. First, companies with high returns on capital and growth tailwinds have an excellent ability to compound capital. Second, the market tends to structurally underestimate the persistence of the excess economic returns of such companies.

Exhibit 1 shows our expected risk and reward characteristics for the ICP Transition portfolio versus the broad equity market.¹ We aim to deliver superior returns by investing in high-quality companies within segments of the economy that are poised for higher growth than what the market is pricing in. Due to our focus on quality companies, we expect these returns to come with more moderate volatility compared to an all-out growth strategy.

Exhibit 1: Expected risk and reward characteristics of ICP Transition versus broad market



¹ The broad market refers to MSCI All Country World Index (ACWI). Absolute and relative risk estimates are based on FactSet's ex-ante risk model. Returns are based on realized ACWI returns the last 5 years in USD, adjusted for differences in absolute risk and expected excess return.

Making sense of the energy transition

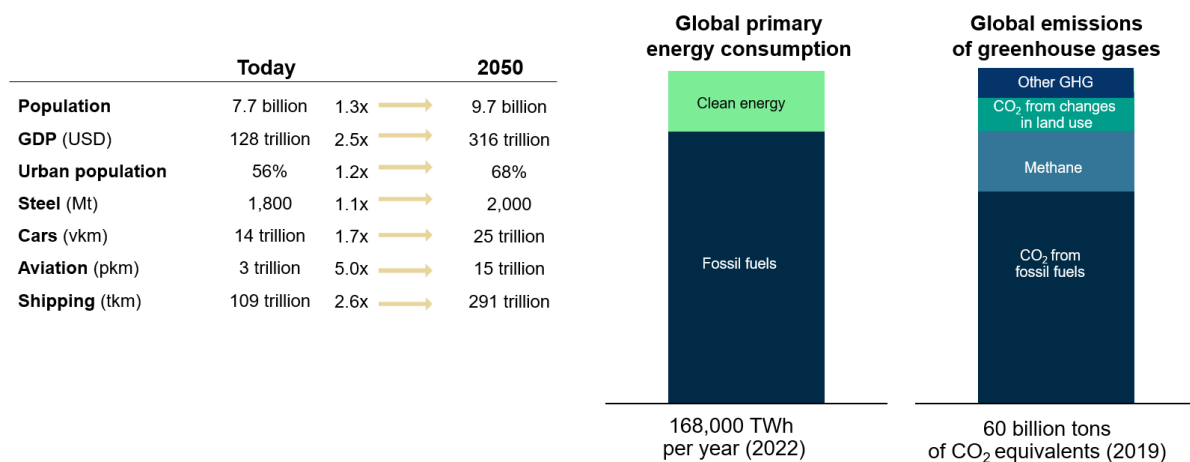
The Challenge

We cannot predict the future, but we can anticipate it. By 2050, nearly 10 billion people will live on the planet. Roughly 70% of this population will be concentrated in urban areas. World GDP will more than double from what it is today. These secular trends – population growth, urbanization, economic growth – are observable and inevitable (see Exhibit 2)².

Since the industrial revolution, nearly all human progress has been associated with greater emissions of greenhouse gases. If we take seriously the task of reducing emissions, then our biggest energy sources — coal, oil and gas — would become less available to the economy. Today, more than 80% of our energy is supplied by fossil fuels. A transition away from fossil fuels means that energy will be in short supply.

When energy is a binding constraint, the economic activities that will prosper are the ones that are energy resilient. This includes activities within renewable energy value chains that will benefit from higher energy prices. This also includes energy efficient activities, such as switching to LEDs for lighting, replacing internal combustion engines with electric ones, or adopting heat pumps for heating. We are more skeptical of activities that utilize a large amount of energy to decrease CO₂ levels by a modest amount; these are activities that require more energy in the form of electricity than what is required from fossil energy sources today. Green hydrogen for transportation is such an example, as is e-fuels for aviation, or direct air capture technologies.

Exhibit 2: Secular trends shaping the future have implications for energy consumption and global emissions

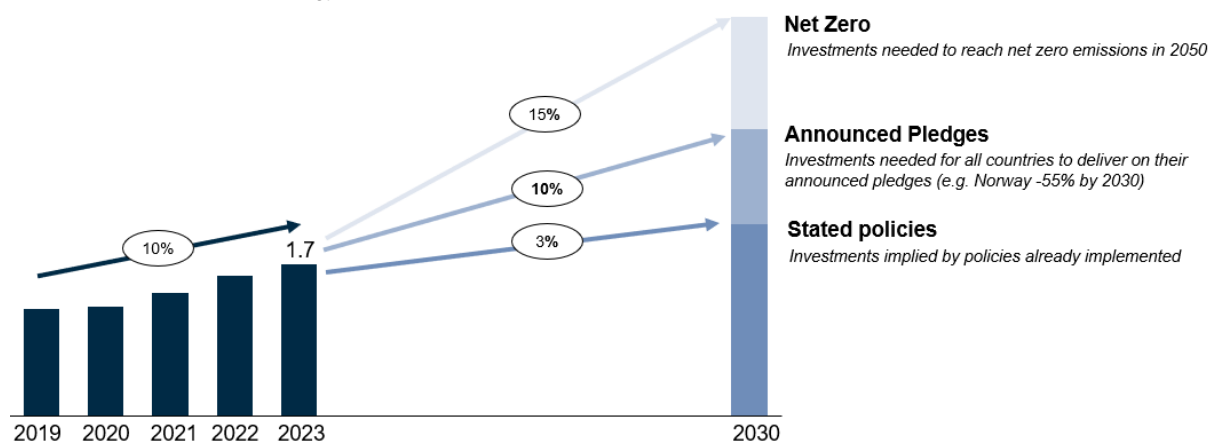


² Source: IEA, IPCC, ICP Asset Management.

The Opportunity

Extrapolating from what we know, realizing a lower carbon future will require unprecedented capital expenditure. Unlike in the preceding decades where investments were in intangibles, these investments will flow to physical assets. What do these assets include? They include new sources of renewable energy generation. It also includes an extensive network of transmission and distribution lines to move electricity to users. It will include the trillions of electric vehicles that move us around, and billions of heat pumps and mega tons of insulation that will keep our homes warm while energy efficient. It will include the minerals and materials that are indispensable ingredients for the transition. In addition to these physical assets, we need and expect even more digitization as a means of resource efficiency. This is because increasing efficiency is the most economically sensible way of reducing energy consumption.

Exhibit 3: Global clean energy investments (USD trillion, real 2022 dollars)



The estimates for the range of investments required for transitioning the global economy to a low carbon future range from USD 2 trillion per year today to USD 4-6 trillion by 2030 (see Exhibit 3).³ We have already witnessed that the global investment in the transition reached a new high in 2023. The question is not *whether* this capital is deployed, but rather *which* segments of the economy will see the most investments.

³ Net Zero investments based on IEA World Energy Investments, 2023. Calculations by ICP Asset Management.

How should investors position for the new economy?

Like the digital transformation, the energy transition will transform what is produced, how it is made, and in the way in which we live and work. Private capital will necessarily play a role because the upcoming capex cycle will be too large for governments to bear on their own, and because governments are increasingly fiscally constrained.

With the benefit of hindsight, we can appreciate that the historical megatrend of digitization did not unfold linearly. It had starts and stops. It had winners and losers. Like digitization, the energy transition – and adjacent industrial revolution that it requires – is bound to be disruptive. After all, the world must change the way it makes, moves, and uses energy. For energy producers, this requires a complete transformation of the energy that is produced and distributed. For energy users and energy-intensive industries, incumbents will increasingly face challenges by new entrants that can produce more energy-efficient goods and services or produce those goods and services more energy efficiently.

The implications for equities

From an equity perspective, “transition” stocks will be sensitive to the breadth and pace of the underlying shift in the real economy as it transitions to a lower carbon new economy. This is what we describe as the “transition beta”. Embedded and inextricably linked in this transition beta are market expectations on capex growth, regulatory shifts, and carbon pricing. Companies with a high transition beta are those that are most exposed to the shift and have a higher likelihood to benefit from the transition.

Transition stocks will also be sensitive to expectations for future interest rates and growth. The transition means building large-scale infrastructure, which requires financing – often at relatively long periods – and is therefore interest rate sensitive. Like other rapid growth stories, uncertainty abounds. The growth opportunity will itself present the risk of exuberance. The implicit demand for innovation engenders technology risks.

Like other major transitions, we expect disruptions and dislocations and technological risk. A growing literature shows that technological revolutions – from railroads to the internet – are accompanied by stock market bubbles. One of these studies⁴ argues that bubble-like patterns in stock prices are partly due to a shift in uncertainty from idiosyncratic to systematic risk as technologies get widely adopted. New economy stocks initially go up in value as cash flow expectations are revised upwards. This effect is eventually offset by higher discount rates associated with increased systematic risk, ultimately pushing stock prices down again.

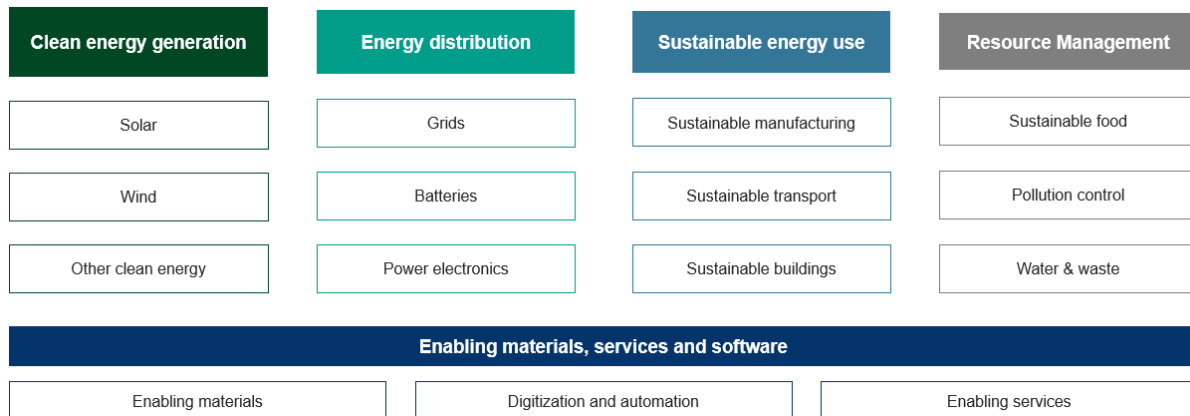
We deal with the technology risks and financial uncertainties inherent in the transition story by selecting companies with proven, profitable business models. These companies exhibit pricing power today, and we expect them to maintain or grow their margins and market share because of their competitive advantages within a segment. The segments in which these companies operate are, by construction, high growth segments where we believe the overall growth opportunity has been underappreciated by the market. Identifying such quality companies within high growth segments means we can achieve superior returns from growth with more moderate volatility than an all-out growth strategy.

⁴ Lubos Pastor and Pietro Veronesi, "Technological Revolutions and Stock Prices," *The American Economic Review*, Vol. 99, No. 4 (Sep. 2009), pp. 1451-1483, American Economic Association.

Our Approach

Our view is that the transition to a low carbon economy is already happening. But it is gradual and distributed unevenly across sectors and geographies. This is why we have created a taxonomy with 15 segments where we can observe investment-led growth. These 15 segments, described in Exhibit 4, fall into five broad themes for the sake of clarity: (1) energy generation, (2) energy distribution, (3) energy use, (4) resource management, and (5) key enablers.⁵ Key enablers are companies that provide essential goods and services across multiple segments that enable the energy transition to play out.

Exhibit 4: The investment universe focuses on the most attractive segments of the transition.



The bottom-up process of filling out the companies in these 15 segments requires mapping companies along their value chains. Understanding the supply side and industry dynamics within these segments in this way allows us to go beyond how much a segment will grow, to understanding what the competitive advantages of a given company within a segment are. Our thesis is that companies that are exposed to bottlenecks within these value chains will have more durable pricing power.

Our investment focus is to find quality businesses compounding their capital within the emerging universe of companies driving the economic transition to a lower carbon economy. We define a quality company as a firm that can sustain a high return on its operating capital employed and do not rely on significant leverage to generate these returns. At the same time, these companies have a source of growth to be able to reinvest their cash flows at a high rate of return. There is a deep empirical literature demonstrating that high quality companies tend to generate outperformance, and that this premium is relatively consistent over time and across markets. Our own experience at Norges Bank Investment Management (NBIM), the manager of the world's largest sovereign fund, found that quality-based investment strategies can generate excess returns – especially in high growth environments.

The quantitative data can point us in the direction of a quality company on a backwards-looking basis. We supplement this with a forward-looking view by digging into how companies within a segment can take advantage of their positions and pricing power to expect to see an upward inflection in growth, margins, or both. We also draw on industrial insights from the Aker Expert Network, a group of 50+ domain experts selected from across the 30,000 Aker Group, to better understand supply side and industry dynamics in the segments in which we invest.

⁵ This taxonomy represents the contours of the investment universe. These segments are selected based on observable and expected capex growth. The investment universe is built bottom-up by mapping companies to these segments by determining what activities each companies have relevant exposure to, and determining whether this exposure is material by revenue exposure. We utilize data from Revere Business Industry Classification System (RBIC), MSCI, and FactSet to map companies' revenue exposure. Companies are included in the investment universe if they have more than 20% revenue towards one or more of our 15 segments. We assign a segment based on dominant revenue.

Our Solution

We believe that institutional investors will increasingly need to “future proof” their portfolios by intentionally and intelligently increasing their exposure to the companies driving the transition to a low carbon economy. Our global transition portfolio, with 80-120 companies, provides broad exposure to the companies we believe are best positioned to benefit from the investment-led growth inherent in this transition. In our view, the winners in the transition are the companies that are material contributors to the transition with the demonstrated ability to build their margins and market share.

We believe that this portfolio of companies has the potential to generate excess returns over the long-term relative to the broad market. We attribute 2% excess returns to two key underlying drivers – investing in segments of underappreciated growth and persistent return on capital that tends to be underpriced in the market.

Information for qualified investors in Switzerland

This collective investment scheme may only be offered in Switzerland to qualified investors in accordance with Art. 10 of the Collective Investment Schemes Act (CISA) and Art. 4 para. 3-5, Art. 5 para. 1, Federal Act on Financial Services (FinSA)

1. Representative

The representative in Switzerland is OpenFunds Investment Services AG, Freigutstrasse 15, 8002 Zurich.

2. Paying Agent

The paying agent in Switzerland is Società Bancaria Ticinese SA, Piazza Collegiata ,6501 Bellinzona

3. Place of Reference of the Relevant Documents

The prospectus and the Key Information Document (KID), the fund contract as well as the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland.

4. Place of Performance and Jurisdiction

In respect of units offered in Switzerland, the place of performance is at the registered office of the representative. The place of jurisdiction is at the registered office of the representative or at the registered office or place of residence of the investor.

Disclaimer

This note has been prepared solely to provide information of the ICP Transition Fund.

This note contains confidential information and is furnished in confidence solely to the recipients. Any reproduction or distribution of this note, in whole or in part, or the disclosure of its contents, without the prior written consent of ICP Asset Management AS ("ICP AM"), is prohibited. By accepting a copy of this note, you will be taken to have represented, warranted and undertaken that you have read and agreed to comply with the contents of this disclaimer and that you will treat and safeguard as strictly private and confidential all information herein.

This note does not constitute and under no circumstances shall this note be deemed or construed to be a prospectus, an offer to sell, or the solicitation of an offer to buy or subscribe for any security or other financial instrument or for investment management or advisory services. This note does not constitute any marketing of investment opportunities, investment advice, investment recommendation, investment analysis or similar. Hence, it is not prepared in accordance with such rules and regulations. No part of this note or the fact of its distribution should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. No determination has been made regarding the suitability or otherwise of any securities, financial instruments or strategies for particular clients or prospects. The information contained herein is provided on the basis and subject to the explanations, caveats and warnings set out in this disclaimer.

The material in this note is intended to be current per the date of this note (unless otherwise stated). ICP AM has no obligation to update or revise this note. Information contained in this note is not exhaustive and must be read in conjunction with relevant additional information.

Although all information has been obtained from, and is based upon sources believed to be reliable, including information obtained or derived from data published or prepared by third parties, it may be incomplete or condensed, and its accuracy cannot be guaranteed. None of ICP AM, nor any of its affiliates, directors, officers, employees, agents, service providers, advisors or representatives (each an "ICP AM Party") makes any representation, warranty or undertaking, express or implied, as to the accuracy, completeness or correctness of the information contained herein. Furthermore, in no event will any ICP AM Party have any liability whatsoever to any recipient for any loss or damage of any kind or for any other consequence of any decision of whatever nature which is in any way based on information in this note.

The recipients must make their own independent assessments of the information contained herein after making such investigations and taking such advice as may be deemed necessary to evaluate its content.

All statements of opinion and/or belief contained in this note and all views expressed and all projections, forecasts or statements relating to expectations regarding future events, or the possible future performance represent ICP AM's own assessment and interpretation of information available to ICP AM as at the date of this note (unless otherwise stated herein). No representation is made, or assurance given that such opinions, beliefs, views, projections, forecasts or statements are or will be correct. Future events or possible future performance are subject to a number of known and unknown risks, facts and assumptions which may lead to changes and unexpected developments. Under no circumstance does ICP AM accept any responsibility for any forward-looking statements, assumptions or similar information contained herein.