

Future mobility – investing for impact and sustainable change

According to the International Energy Agency (IEA), transport has the highest reliance on fossil fuels of any sector, and accounted for 37% of global carbon dioxide emissions from end-use sectors in 2021. The replacement of traditional internal combustion engine (ICE) powered vehicles with electric vehicles (EV) is therefore a core component of the transition to a more sustainable future.

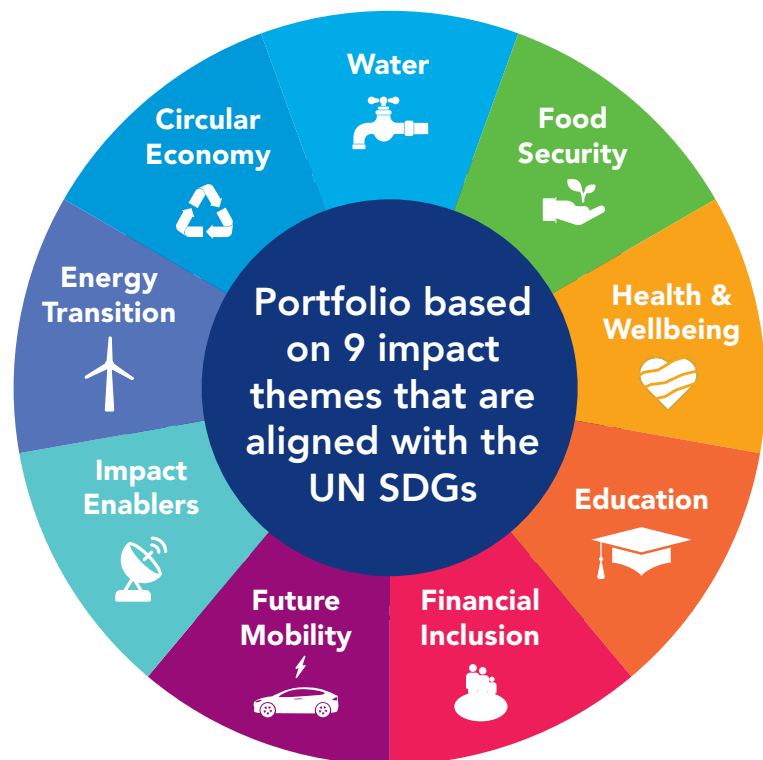
In reference to S&P Global Mobility, EV sales grew by about 36% year-on-year from 2021-2022. Our view is that EV uptake will reach a ‘tipping point’ as better battery and charging technology improves useability and prices come down. As a result, we expect the EV market to grow significantly in the medium-to-long term.

This expectation is supported by research by BloombergNEF, which predicts that in the wake of the Inflation Reduction Act (IRA) more than half of car sales in the US – a market where EV uptake has been relatively slow – are now expected to be electric by 2030.

Overall, the bigger picture means that the industry will need to plan for significantly increased volumes. Eliminating supply chain bottlenecks and ensuring adequate growth in the production of the metals and minerals essential for EV power trains – which take energy stored in a vehicle’s battery system and supply it to the motors – will be critical.

While there’s plenty of open road ahead, it’s still early in the race to be predicting individual winners. As a relatively new, high growth market with excellent long-term prospects, the EV industry is full of young, dynamic companies. However, vehicle research and development is extremely costly, and production at scale even more so – most pure EV manufacturers have therefore yet to turn a profit, and their success in a highly competitive market is far from assured.

In the context of the Federated Hermes Impact Opportunities Strategy – a high-conviction global equity strategy consisting of nine impact themes that align with the UN SDGs –, we are looking for companies with the potential for long-term outperformance both in terms of financial returns and driving sustainable change. From an investment standpoint, the EV market has the potential to deliver strong growth and outperformance. It also aligns well with our Future Mobility and Energy Transition impact themes.



However, we prefer companies with strong market share. Unlike many technology subsectors, the existence of incumbents and the brand-led nature of the automotive industry makes it highly competitive and hard to dominate. Given the difficulties in predicting clear winners, we think there are better ways to play the EV theme than investing directly in vehicle manufacturers.

Auto suppliers that provide key parts to the automotive industry are an excellent way of gaining indirect exposure to the market. In particular, we prefer to focus on those suppliers developing products essential for the electrically powered, self-driving vehicles of the future.

One example of a key technology is the silicon carbide (SiC) wafer. SiC has great potential in the automotive industry – in fact it’s likely that all electric vehicles will eventually use SiC chips. The significant expected growth in the EV market

is therefore a major potential driver for the SiC market.

Read our Impact Opportunities Report and case study to find out more about the Strategy’s exposure to SiC and other leading edge automotive technologies through its holdings.

Scan the QR code to learn more



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FOOTNOTE

- <https://www.iea.org/topics/transport>
- <https://www.spglobal.com/commodityinsights/en/market-insights/blogs/metals/013123-ev-sales-momentum-to-face-challenges-in-2023-but-long-term-expectations-unaffected>
- <https://www.bloomberg.com/news/articles/2022-09-20/more-than-half-of-us-car-sales-will-be-electric-by-2030>

Disclaimer: The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. The strategy has environmental and/or social characteristics and so may perform differently to other strategies, as its exposures reflect its sustainability criteria. Past performance is not a reliable indicator of future results. This advert is for professional investors only. The views and opinions contained herein are those of the author and may not necessarily represent views expressed or reflected in other communications. This does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments. Issued and approved by Hermes Investment Management Limited which is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET. In Spain: This document is issued by Hermes Fund Managers Ireland Limited, Branch in Spain, with Fiscal Identity Number W0074815B, registered in the Mercantile Registry of Madrid, - Volume 40448, Book 0, Sheet 16, Section 8, Page M-718259, first registration, with domicile at Paseo de la Castellana 18, 7ª planta, 28046 Madrid - Spain, and registered in the Comisión Nacional del Mercado de Valores with official registration number 36.