



Sustainable Finance

Market Performance—Selected Markets for the Week Ended August 21, 2009

Market	Dec 31, 2008	August 21, 2009	YTD Change	YTD Change %
S&P/TSX	8,987.70	10,831.18	1,843.48	20.51 %
Dow Jones	8,776.39	9,505.96	729.57	8.31 %
S&P 500	903.25	1,026.13	122.88	13.60 %
NASDAQ	1,577.03	2,020.90	443.87	28.15 %
NIKKEI	8,859.56	10,238.20	1,378.64	15.56 %
FTSE 100	4,434.20	4,850.89	416.69	9.40 %
DAX	4,810.20	5,462.74	652.54	13.57 %
Hang Seng	14,387.48	20,499.02	6,111.54	42.48 %
Shanghai	1,820.81	2,960.77	1,139.96	62.61 %
DJSI World TR	945.46	1,169.43	223.97	23.69 %
DJSI North America TR	92.85	109.11	16.26	17.51 %
Jantzi Social Index TR	128.27	161.67	33.40	26.04 %
FTSE 4Good Global 100	3,384.13	3,934.41	550.28	16.26 %

Selected Rates (Institutional)

Description	Price or Rate Aug 21, 2009
CDN/US Dollar \$	1.0799
CDN/Euro €	1.5488
CDN/Swiss Franc	1.0176
CDN/Japanese Yen ¥	0.0114
CPI—Canada (TTM Total CPI)	(July 2009) - 0.09 %
CPI—USA (TTM Total CPI)	(July 2009) - 2.10 %
CPI—Euro Zone (TTM Total CPI)	(June 2009) - 0.10 %
Gov't Canada 1 Year T-Bill	0.57 %
Gov't Canada 5 Year	2.50 %
Gov't Canada 10 Year	3.39 %
Gov't Canada 30 Year	3.95 %
Gold (USF/oz)	954.00
Oil (USF/ BBL WTI Cushing)	73.29

Week in Review

It was a missed week in global markets with the Europeans and the Americans have a better time of it than the Asian and Canadian markets.

Asian market speculators started selling on concerns that China was going to back off on credit creation and we all know that will end in tears of they do.

On average Asian markets were off 3.00% to 4.00% for the week while their

bonds rose on buying of safety.

The Canadian stock markets were exciting to say the least. A large drop at the beginning of the week followed buy steady increases each day indicates some good underlying market strength.

You know there is confidence when you get these solid steady recoveries over a few days. Overall Canadian markets ended the week almost at the same level as the

previous week.

The US markets were strong. Some positive news was out indicating the US may be coming out of recession and that the health care issue may be losing ground.

Americans and universal health care is an interesting study in risk mismanagement at the personal level. There are so many that have been swayed by ridiculous ads disparaging the UK and Canadian health care systems

and it looks as though Americans do not want to pay more taxes for universal health care.

So for the “saving” of a few dollars a month in taxes for a universal health care plan, Americans are willing to pay the “Hospital Induced Bankruptcy Lottery” that their system is renowned for.

Overestimation of small risks (increased taxes) and underestimation of small risks are hallmarks of the

human thinking process and leads to many poor decisions. Good luck President Obama.

This week the Europeans had a great time in the markets. France has seen manufacturing increase and Germany is seeing growth in services while the news in the US about the housing crisis easing significantly was also well received. On average European markets were up about 3.00%.

I am not sure how many of you follow oil but in late December 2008 it hit a low of around \$35.00 USF/BBL. At its closing price this week of \$ 73.29 USF/BBL it represents a price increase of 109% in 8 months. That much of a rebound in that short a time period in the context of the recession we went through it nothing short of stunning.

Read whatever you can about “Peak Oil” and you will under-

stand why. At this level, it is cheaper than coffee but may not be for long. Time for a hybrid. And even despite some very large finds recently, the cost of extracting that oil is growing higher each year. And no one I know will explore, drill, and sell for less than their cost with a profit.

Trevor Giles

Sustainable Investing— Part Two

Sustainable investing was borne from two complimentary yet distinctly separate investment disciplines.

The first, and perhaps most significant influence on sustainable investing came from Socially Responsible Investing or SRI.

SRI in Canada has its genesis with the formation of the Taskforce on the Churches and Corporate Responsibility in 1975. Its purpose was to acquire and share research and to develop strategies for addressing issues related to corporate social responsibility.

In the US SRI started in 1928 with the formation of the Pioneer Fund that

avoided investing in alcohol and tobacco manufacturers.

Essentially, SRI involves four distinct and complimentary focal points.

The first is screening. Screening eliminates investment in companies or industries that are viewed as detrimental to society in general. For instance, alcohol, tobacco, nuclear, weapons, gambling, and pornographic industries are almost always excluded.

Next, the concept of shareholder action provides a proactive voice for the investor. Companies cannot operate without capital and when capital comes with conditions for social change it can be a powerful influence on

corporate actions currently and in the future. Many large institutional investors that follow an SRI mandate use shareholder action very effectively to promote better corporate social responsibility.

The third focal point in SRI is community economic development. Community based investment entities seek out and invest in projects that will have the most significant positive community impact versus the highest return on investment. In this way SRI helps with local job creation, social housing projects, and funds for entrepreneurs that may not be able to attain capital through conventional means.

The fourth SRI focal point is that of social

venture capital. Anyone who has been involved in venture capital, and I have, knows that venture capitalists do not always consider non-financial criteria in their investment decisions. SRI venture capital funds consider social and environmental criteria when making an investment. A good example would be some of the labour sponsored funds that exist in Canada.

So we can see from the information above that SRI has had an incredible impact on sustainable investing. But to complete the picture we have to look at climate change and the impact it has had on sustainable investing.

The greater awareness of the impacts of

climate change and the implied effect that humans have on the planet overall has lead to a greater awareness of resource and planetary capacity constraints.

From this has followed that energy efficiency, life cycle design, recyclability, carbon footprint, and closed loop manufacturing must all be considered when determining the sustainability of any enterprise; public or private.

As we move ahead, resource prices, energy prices, and carbon prices will all increase as the world struggles to feed, cloth, educate, house, and provide the basic necessities of live for almost 9 billion people by 2025. Forget the possibility of eve-

ryone living the western lifestyle.

So, not only must a company be a good corporate citizen, consider the social impacts of its operations, have excellent governance, but it must also be efficient, non-polluting, recycling, and employ the

latest in design and manufacturing to become and remain a sustainable entity according to the Bruntland Commission report of 1983 mentioned in Sustainable investing—Part One.

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Selected News Articles

Socially Responsible Investment Matches Conventional Market Strategies

Socially responsible investment is booming, with the total dollars under management by U.S. funds specializing in this strategy more than quadrupling, from \$639 billion to \$2.7 trillion, between 1995 and 2007. But how has this ethically enhanced approach to investing fared in terms of market returns?

Of late, not so hot. Although the stock prices of publicly held companies identified as socially responsible are up in 2009, over the last three years they show an average annualized return of -5.7 percent, according to index data from KLD Research & Analytics. The following table

charts the performance of different baskets of U.S. equities that meet a range of social, environmental, faith-based and other standards.

These poor returns are no surprise, given the state of the markets since 2008, and obviously aren't confined to socially responsible companies. More notably, businesses that get high marks for their corporate governance, environmental, diversity and other policies have over the years matched, and even marginally exceeded, the returns of other companies. KLD's Domini Social Index 400 has slightly shaded the S&P 500 for the last decade or so (click on chart to expand). The performance of socially

responsible investments also varies considerably according to their philosophy, whether it's to favor companies with strong labor relations or those that, say, support Catholic doctrine.

For now, SRI remains a niche, but rapidly growing, market. As of 2008, worldwide investments in the sector amounted to roughly \$5 trillion, only seven percent of total assets under management. In the U.S., the largest SRI market with \$2.7 trillion under management, roughly 11 percent of investment targets such companies, compared with 17 percent in Europe. The strategy is most popular in the U.K., where 20 percent of total funds under

management are involved in SRI. Since 2003, the SRI market has grown 22 percent annually, a far higher clip than for conventional investments.

Some SRI funds are doing exceptionally well. Appleseed, a no-load U.S. mutual fund with \$27 million in assets, has a trailing one-year return of 9.4%, far outpacing the S&P 500. The fund, whose equity holdings include pharmaceuticals such as Pfizer, health care giants such as Johnson & Johnson and tech plays such as Teradata, refuses to invest in tobacco, alcohol, pornography, gambling or weapons companies.

Appleseed's longer-term performance is equally strong, powered recently by a

rebound in the markets. Since launching in late 2006, the fund has a return of roughly 10 percent, compared with the S&P 500's return over that period of -24 percent.

The standard knock on SRI is that investors might have to shun the best-performing stocks and can't seek refuge in certain equities, like defense industry stocks, that may offer shelter in periods of high market volatility. They may do "good," in other words, without doing "well."

Recent academic research confirms this disadvantage. Indeed, some studies show that stocks of companies in 'sin' industries, such as booze and tobacco, typically

net higher returns than those of companies in other sectors. Interestingly, however, the lower returns funds generate by avoiding certain stocks appear to be offset by the higher overall market performance of socially responsible companies.

Take this recent joint study by researchers at Santa Clara University and Barclays Global Investors, who reviewed 15 years of stock returns of socially responsible companies. Stocks of companies rated as very socially responsible yielded higher returns than stocks of companies that fare poorly on such measures, the authors concluded. They also said that investors who want their port-

folios to reflect their values should use a best-in-class approach to stock-picking. That means putting money into socially responsible companies, while refusing to shun the stocks of any individual business, such as tobacco companies.

The upshot? Over the long haul, socially responsible and conventional approaches to investment do about equally well. The lower returns resulting from screening out certain stocks are balanced by the higher returns produced by using some social responsibility criteria. Let your conscience dictate.

Article by Alain Shertzer, August 12, 2009 on bdn.com

Report Says Geothermal is Leaving Wind, Solar in the Dust

Just \$3.3 billion in R&D spending could propel geothermal energy to be the cheapest energy technology, even beating fossil fuels on a cost-per-kilowatt-hour basis, according to a new study.

The report from Melissa Schilling, a professor at New York University at Stern, indicates that geothermal has surpassed wind as the most efficient alternative energy technology. In addition, geothermal technology is improving at the fastest rate, the report says.

Those accomplishments are even more noteworthy considering that geothermal has been underfunded by the government and private sectors, indicating that geothermal has the biggest impact among alternative energies for each dollar of R&D spending, she said.

"Current capacity doesn't give you that much insight into what technology

will win the race," Schilling said. "Instead, investors should be looking at the shape of the performance trajectory."

The study included data from the U.S. Department of Energy's National Renewable Energy Laboratory on the cost per kilowatt-hour at active power generation projects in 2005:

- Geothermal, \$0.031 to \$0.08
- Wind, \$0.043 to \$0.055
- Biomass, \$0.066 to \$0.08
- Solar, \$0.11 to \$0.31
- Hydroelectric, \$0.006
- Coal \$0.021
- Nuclear, \$0.022

Schilling's study examines various energy technologies and tracks their S-curves, which plot the performance of technology against the money invested to reveal the biggest technological pay-offs. Schilling determined that geothermal is on track for significant future improvements in technology that will

reduce the cost further.

Wind energy is just a few cents more than geothermal, but "the performance trajectory of wind is already slowing, while geothermal is exponentially increasing," Schilling said.

Meanwhile, solar lags significantly behind both technologies in cost and projected improvement, according to the study. Hydroelectric is cheap but geographically constrained, while wave and tidal technologies are too immature to provide concrete data on cost, she said. Biomass is too land- and water-intensive to be competitive, she said.

"The findings are very surprising because most people are not paying attention to geothermal," she said. "We went into this really rooting for wind and solar, probably because they're the ones you hear about the most, and they're received a lot of investment, particularly solar."

The study also looked at fossil fuels, noting little-to-no improvement in efficiencies despite continued government investment. Schilling said the findings indicate that traditional fossil fuels have likely reached their performance limits.

Schilling called for governments to invest more evenly across energy technologies, calling both geothermal and wind underfunded relative to solar and fossil fuels.

"It doesn't make that much sense to be putting that much money in fossil fuels," she said. "If that money were directed to geothermal, it could move a lot faster. Solar is so far away from being cost effective, and tremendously far away from being efficient. Right now the bigger and quicker payoff is geothermal."

Schilling's study took into account the two types of geothermal technologies: hydrothermal and hot dry rock. Hydrothermal, also called hot water,

is much cheaper right now because it's an easier technology, but its growth is limited because it's geographically constrained, she said. Hot dry rock is more complicated and more expensive but can be developed anywhere in the U.S., she said. The U.S. has enough hot dry rock resources to serve as the primary energy source for 30,000 years, the report said.

The study was based on the amount of public-sector spending on each technology, as well as the NREL's aggregate data on the cost per kilowatt-hour at active power generation projects, providing more accurate results than looking at individual companies' claims, Schilling said.

While most of the projects are located in the United States, the findings can be applied to other countries because the U.S. has broad spectrum of geographical terrains that can be found elsewhere, she said.

"It's not representa-

tive of the world, but the U.S. is not a specialized part of the world," she said. "At the end of the day, a certain cents-per-kilowatt-hour in Kansas would be the same as in Europe."

Schilling said that the projected growth trajectories could change if governments adjust their renewable energy spending. Additionally, an advantage for solar and wind is that they can be enacted on a small scale, while geothermal requires significant upfront investment and transmission lines. However, the study cites a report from NREL suggesting that the cost to build transmission lines is often overstated.

"I would not count wind out. I think it's a good idea to have a slightly diversified energy portfolio," she said. "But wind and geothermal are in a completely different class than solar thermal and solar photovoltaics. It will be a long time before they could be competi-

tive."

Schilling said she's already working on a study to explain why certain energy technologies receive more attention and investment.

One factor, she said, could be whether existing companies would benefit from the emergence of a new industry with closely related technologies. She referenced semiconductor makers such as Applied Materials turning to solar, and turbine engine makers such as General Electric or Siemens embracing wind. However, the companies most equipped to develop geothermal are oil and gas developers, who would benefit the least from geothermal's success, she said.

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