



Sustainable Finance

Market Performance—Selected Markets for the Week Ended September 18, 2009

Market	Dec 31, 2008	September 18, 2009	YTD Change	YTD Change %
S&P/TSX	8,987.70	11,445.95	2,458.25	27.35 %
Dow Jones	8,776.39	9,820.20	1,043.81	11.89 %
S&P 500	903.25	1,068.30	165.05	18.27 %
NASDAQ	1,577.03	2,132.86	555.83	35.25 %
NIKKEI	8,859.56	10,370.54	1,510.98	17.05 %
FTSE 100	4,434.20	5,172.89	738.69	16.66 %
DAX	4,810.20	5,703.83	893.63	18.58 %
Hang Seng	14,387.48	21,263.45	6,875.97	47.79 %
Shanghai	1,820.81	2,962.67	1,141.86	62.71 %
DJSI World TR	945.46	1,251.81	306.35	32.40 %
DJSI North America TR	92.85	114.09	21.24	22.88 %
Jantzi Social Index TR	128.27	172.48	44.21	34.47 %
FTSE 4Good Global 100	3,384.13	4,124.31	740.18	21.87 %

Selected Rates (Institutional)

Description	Price or Rate Sep 18, 2009
CDN/US Dollar \$	1.0724
CDN/Euro €	1.5767
CDN/Swiss Franc	1.0418
CDN/Japanese Yen ¥	0.0117
CPI—Canada (TTM Total CPI)	(August 2009) - 0.80 %
CPI—USA (TTM Total CPI)	(August 2009) - 1.50 %
CPI—Euro Zone (TTM Total CPI)	(August 2009) - 0.20 %
Gov't Canada 1 Year T-Bill	0.50 %
Gov't Canada 5 Year	2.63 %
Gov't Canada 10 Year	3.39 %
Gov't Canada 30 Year	3.91 %
Gold (US\$/oz)	1,012.30
Oil (US\$/ BBL WTI Cushing)	72.04

Week in Review

Gold again continues to surprise and oil continues its inexorable climb.

Yes there may be some ups and downs in the price of these two commodities but for my money I think oil will do better than gold and will eventually eclipse the \$ 147.00 all time high made in the summer of 2008.

Despite sluggish economies and re-

cession, oil continues to climb. What do you think will happen when we are humming again?

This was a pretty positive week in the markets with most markets posting gains.

US retail sales and industrial production advanced for August which was a good sign. Markets in the US posted an average gain of 2.50% to 3.00% while the Ca-

nadian markets gained as well although slightly lower at about 2.00%

Canadian overall inflation is still negative 0.8% year over year. We do not look at core inflation because we do not know anyone who does not use fuel or food. How economists came up with that one still amazes us.

The Asian markets were pretty quiet with

the Hang Seng posting almost a 1.00% gain while Japan was down almost 1.00% and the Shanghai index was off 1.50%.

The Europeans had a good time of it with the Germans posting a 1.66% gain for the week and the UK posting a healthy 3.66% gain for the week.

The sustainability and social indexes reflected the performance of their home

markets.

Clearly, if we look at the returns markets have generated this year it seems that we are having a stellar year.

One must remember however that these are reaction rallies that have little fundamental or economic underpinnings at this juncture.

Reality check. The Dow Jones industrial average is still 30% off its October 2007

high of 14,279.96. The TSX is still 24% off its May 2008 high of 15,154.77. The Shanghai is still a whopping 52% off its October 2007 high of 6,124.04.

At this time in the markets the possibility of a stall and fall is very high with the probability of increased returns falling all the time.

We are cautious and will not likely be entering the markets

any time soon on the equity side unless there is a very compelling reason to do so.

For those of you who own equity mutual funds and have done well this year it may be time to pare back your holdings and wait for the weakness to come. Unless of course you are in a DSC fund.

Trevor Giles

Sustainable Investing— Carbon Finance

Few people have heard of or have the slightest idea of Carbon Finance. In fact if you asked most Canadians you would likely get a blank stare.

The reality is that in Canada there are less than 500 individuals who have a clue what Carbon Finance is and of those about 100 really understand it.

Not to be arrogant but I count myself in the group of 100 that really understand it.

Carbon Finance is a subset of finance that is concerned with the investing in and financing of projects that generate carbon credits and all the ancillary activities that fall from that process.

Most people have heard of the Kyoto Protocol. The current Canadian Administration has and despite legislation requiring its adherence has chosen to completely ignore it.

I wish I could do that with a particular piece of legislation called the Income tax Act but I digress.

While many have heard of the Kyoto protocol there is also widespread ignorance (planned or otherwise) of the mechanics of the protocol that support the generation and growth of Carbon Finance.

One of the most important components of the Kyoto Protocol is the Clean Development Mechanism or CDM.

The CDM allows developed countries to accumulate credit for reduced carbon emissions for projects in developing countries that reduce the amount of carbon emissions that, in the absence of the project, would have been released into the atmosphere.

Given the fact that Canada will be so far off its Kyoto commitment when the Protocol expires in 2012 one would think that Canada would support as many CDM projects as it could. Unfortunately not so.

The implementation of the Kyoto Protocol and its ratification in 2005 provided a very strong base for the growth of Carbon Finance.

There are firms that

finance carbon reducing projects. There are firms that invest in clean technology. There are legal firms that handle the sale of carbon credits and carbon credit financing agreements. There are banks and securities firms that trade carbon credits. There are firms that verify that the projects undertaken are producing the carbon savings as detailed in their initial plans. There are carbon trading exchanges.

From humble beginnings the carbon market has grown exponentially over the past ten years. With the possibility of a cap and trade system in the United States and a successor agreement to the Kyoto Protocol that is to be negotiated in Copenhagen this December,

the potential of Carbon Finance is huge.

What does this mean for sustainability investors and socially responsible investors like you?

Very simple. Soon there will be a Global carbon standard and soon, within 10 years, there will be no commerce that is not affected by carbon markets and the price of a tonne of emitted carbon.

It is quite likely that carbon finance will be the largest sector within finance as it will be driven by direct or indirect energy usage and the requirement to pay for carbon emissions.

As an investor and as a purchaser of goods and services, you will be affected by the

price of carbon emissions in everything that you do or buy.

So it is likely a good idea to have a basic understanding of Carbon Finance and how it may affect you.

We have made it a priority as we are confident that knowl-

edge of this arcane field of finance will eventually benefit our investors.

Look at the site www.carbonfinance.org to give you an idea of how it all works.

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Selected News Articles

A Year After Lehman, the Pain Remains

The storm has broken and government action means the danger of markets crashing has passed – now economies must go green.

It is a year since the world economy teetered on the edge of calamity. In the span of three days, 15-17 September 2008, Lehman Brothers filed for bankruptcy, the mega-insurance company AIG was taken over by the US government and the failing Wall Street icon Merrill Lynch was absorbed by Bank of America in a deal brokered and financed by the US government.

Panic ensued and credit stopped circulating. Non-financial companies could not get working capital, much less funding for long-term investments. A depression seemed possible.

Today, the storm has broken. Months of emergency action by the world's leading central banks prevented financial markets from crashing. When banks stopped providing short-term liquidity to other

banks and industrial companies, central banks filled the gap. As a result, the major economies avoided a collapse of credit and production. The sense of panic has subsided. Banks are once again lending to each other.

Although the worst was avoided, much pain remains. The crisis culminated in a collapse of asset prices at the end of 2008. Middle-class and wealthy households around the world felt poorer and therefore cut their spending sharply. Sky-high oil and food prices added to the pain, and thus to the downturn.

Enterprises could not sell their output, leading to production cuts and layoffs. Rising unemployment compounded the loss of household wealth, throwing families into deep economic peril and leading to further cutbacks in consumer spending.

The big problem now is that unemployment continues to rise in the US and Europe, because growth is too slow to create enough new jobs. Dislocations are still being felt around the world.

A huge debate has ensued around the so-called "stimulus spending" in the US, Europe and China. Stimulus spending aims to use higher government outlays or tax incentives to offset the decline in household consumption and business investment.

In the US, for example, roughly one third of the \$800bn (£490bn) two-year stimulus package comprises tax cuts (to stimulate consumer spending); one third is public outlays on roads, schools, power and other infrastructure; and one third takes the forms of federal transfers to state and local governments for health care, unemployment insurance, school salaries and the like.

Stimulus packages are controversial because they increase budget deficits and thus imply the need to cut spending or raise taxes in the near future.

The question is whether they successfully boost output and jobs in the short term and if so, whether they do enough to

compensate for the inevitable budget problems down the road.

The true effectiveness of these packages is not clear. Suppose that the government gives a tax cut in order to increase consumers' take-home pay.

If consumers expect that their taxes will rise in the future, they may decide to save the tax cut rather than boost consumption. In that case, the stimulus will have little positive effect on household spending but will worsen the budget deficit.

An early assessment of the stimulus packages suggests that China's programme has worked well. The sharp fall in China's exports to the US has been compensated by a sharp rise in the Chinese government's spending on infrastructure.

In the US, the verdict is less clear. The tax cut has probably been saved rather than spent. The infrastructure component has not yet been spent because of long lags in turning the US stimulus package into

real construction projects.

The third part – the transfer to state and local governments – almost surely has been successful in maintaining spending on schools, health and the unemployed. In short, the US stimulus effects on spending have probably been positive but small, and without a decisive effect on the economy.

Moreover, concerns about the enormous US budget deficit, now running at \$1.8 trillion (£1.1 trillion) – 12% of GNP – per year, are bound to increase. This will not only create enormous uncertainties in politics and financial markets but will also dim consumer confidence as households focus their attention on potential future budget cuts and tax increases. The US has reached the practical limits of reliance on short-term stimulus spending and will need to start cutting the budget deficit and fostering alternative pathways to growth.

When the crisis deepened a year ago, Barack Obama introduced into the presi-

dential campaign the theme of a "green recovery", based on a surge of investment in renewable energies, new electric vehicles, environmentally efficient "green" buildings and ecologically sound agriculture.

In the heat of the battle against financial panic, policy attention turned away from that green recovery. Now the US needs to return to this important idea.

Debt-burdened consumers in the US and Europe will limit their spending for years to come as they rebuild their wealth and pension assets.

But the resulting economic slack gives us the historic opportunity – and need – to compensate for low consumer spending with increased investment spending on sustainable technologies.

Government policies in the US and other rich countries should stimulate those investments through special incentives.

These include: a cap-and-trade system for greenhouse gas emis-

sions; subsidies for research into and development of sustainable technologies; feed-in tariffs; regulatory incentives for renewable energy; consumer subsidies; and implementation of "green" infrastructure programmes, such as mass transit.

The rich world should also provide the poorest countries with grants and low interest loans to buy sustainable energy technologies, such as solar and geothermal power.

Doing so would add to the global recovery, improve long-term environmental sustainability and accelerate economic development.

The crisis can yet be an opportunity to turn from a path of financial bubbles and excessive consumption to a path of sustainable development. In fact, seizing this opportunity is the only recipe for genuine growth that we have left.

The Guardian
September 13, 2009
By Jeffrey Sachs

"I'd put my money on the sun and solar energy. What a source of power! I hope we don't have to wait 'til oil and coal run out before we tackle that."

Thomas Edison

Siren Song: The Eternal Lure of Offshore Wind Power

The sirens of yore tempted from the sea. So do modern-day sirens—offshore wind turbines.

Once again, there's all kind of optimism these days about the future of offshore wind power, now—as always—the next big thing in clean energy. The latest iteration: A new report from the European wind lobby explaining how Europe could get about 10% of its electricity from offshore wind by 2020. That's similar to the

rosy projections made this spring by U.S. Interior Secretary Ken Salazar.

For the European Wind Energy Association, past is indeed prologue—when it's convenient. The wind-power group's faith in offshore wind boils down to a simple recipe: Wind power on land has worked so well and grown so fast, and "there is nothing to suggest that this historic onshore wind development cannot be repeated at sea."

The group then goes on to detail all the challenges that actually stand in the way of Europe installing 40,000 megawatts of offshore wind by 2020 (it has just over 1,100 megawatts today). That includes the need to develop a new family of robust offshore turbines; solving problems of siting; figuring out how to link offshore transmission networks; and figuring out how to install and maintain the turbines offshore in the first place.

This isn't the first time Europeans have been bullish on offshore wind. Back in 2003, the group expected 70,000 megawatts by 2020. In 2004, the lobby confidently predicted there would be 10,000 megawatts of offshore wind in Europe by 2010; today the group is hoping to breach 2,000 megawatts.

Still, hope springs eternal. Not only will offshore wind power grow at the same pace as onshore wind power, it will buck

history and get cheaper as it does so. The AWEA's report says that 40 gigawatts of offshore wind will cost about 55 billion euros (it's confusing, but that appears to refer just to the cost of the wind turbines). That works out to 1.38 million euros per offshore megawatt.

If recent history is any guide, that low-cost offshore wind will be tough to achieve. Between 2004 and 2008, according to AWEA's data, the cost of offshore wind power

grew every year—from about 1.94 million euros per megawatt to 2.4 million euros last year. The hoped for economies of scale of offshore wind have yet to materialize, it seems. Then you have to tack on the cost of building huge, high-voltage transmission networks, undersea support structures, and new ports to handle the complicated engineering tasks.

Still, the daunting challenges of offshore wind aren't discouraging big en-

ergy groups. Vestas, the Danish maker of wind turbines, just unveiled its latest massive machine built specifically for the rigors of the offshore market. And General Electric, which makes everything from nuclear plants to wind turbines, said Monday it aims to break into the offshore wind market thanks to the acquisition of a specialized Norwegian wind firm.

WSJ Blogs
Keith Johnson
September 15, 2009
