



Sustainable Finance

Market Performance—Selected Markets for the Week Ended September 25, 2009

Market	Dec 31, 2008	September 25, 2009	YTD Change	YTD Change %
S&P/TSX	8,987.70	11,212.39	2,224.69	24.75 %
Dow Jones	8,776.39	9,441.27	664.88	7.58 %
S&P 500	903.25	1,044.38	141.13	15.62 %
NASDAQ	1,577.03	2,090.92	513.89	32.59 %
NIKKEI	8,859.56	10,265.98	1,406.42	15.87 %
FTSE 100	4,434.20	5,082.20	648.00	14.61 %
DAX	4,810.20	5,581.41	771.21	16.03 %
Hang Seng	14,387.48	21,024.40	6,636.92	46.13 %
Shanghai	1,820.81	2,838.84	1,1018.03	55.91 %
DJSI World TR	945.46	1,226.24	280.78	29.70 %
DJSI North America TR	92.85	112.16	19.71	21.23 %
Jantzi Social Index TR	128.27	168.67	40.40	31.50 %
FTSE 4Good Global 100	3,384.13	4,049.39	665.26	19.66 %

Selected Rates (Institutional)

Description	Price or Rate Sep 25, 2009
CDN/US Dollar \$	1.0915
CDN/Euro €	1.6025
CDN/Swiss Franc	1.0618
CDN/Japanese Yen ¥	0.0122
CPI—Canada (TTM Total CPI)	(August 2009) - 0.08 %
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	0.49 %
Gov't Canada 5 Year	2.86 %
Gov't Canada 10 Year	3.36 %
Gov't Canada 30 Year	3.88 %
Gold (US\$/oz)	997.50
Oil (US\$/ BBL WTI Cushing)	65.87

Week in Review

Not a great week in markets. However, not entirely unexpected.

The FOMC in the US kept their rates in the 0-0.25% range. At these rates they are practically giving money away for nothing. Funny but I don't see people being able to borrow at low rates.

US durable orders were poor, falling 2.4% in August and sales of existing

homes fell 2.7% in August while the pace of new home sales fell to 0.7% year over year increase.

Canadian retail sales fell in July although the trend suggests it will continue to grow.

So really where is the surprise? You tell everybody that the financial world is going to collapse and then when they cut spending of house buying you are surprised? Come on.

So markets were down the world over. So much for non-correlated market diversification preached by every financial guru we hear. Gold and oil even fell.

When people want to get out of a burning house they all head for the exits at the same time.

The leader in the carnage was the Shanghai index falling almost 7.00% for the

week. The faster they rise the quicker they fall. The Japanese market fell 1.18%, and the Hang Seng dropped 1.66%.

In Europe the German markets were off 2.55% while the UK saw a drop of 2.00%.

Here in North America the S&P 500, NASDAQ and S&P TSX were all off about 2.60% while the Dow Jones dropped 4.32%. Ouch!

The sustainability/Social indices were down as could be expected but fell in the range of 1.93% to 2.23% which is a relatively better showing. Remember though that you cannot eat negative relative returns.

So what does all this mean. Well I think that markets are starting to lose momentum and starting their stall period. This week could be followed by more weak-

ness or a small rally but more possible than not markets will have a hard time going higher. A sell off of up to 50% of the gains made for the year is possible so keep you eyes on the ball.

I am not trying to be a pessimist here but markets have lives and like humans they experience ebbs and flows in their cycles. After a certain period of time whether a gain or a loss, a mar-

ket will have to come to a rest and either retreat, not being able to continue its current direction, or proceed sideways as it catches its breath in order to decide its next move.

Our lives are spent trying to decipher the nuances of this dance. Sometimes we are right on rhythm and sometimes we cannot keep the beat.

Trevor Giles

Sustainable Investing—Rare Earth Elements

So what exactly is rare earth elements and what does it have to do with sustainability and investing?

Well, when I speak of rare earth elements I am referring to the periodic table of the elements that runs from atomic weights 57 to 71. They are also known as Lanthanoids. I'll skip the definition of that one.

The list may also include Beryllium, Cesium, Gallium, Germanium, hafnium, indium, Lithium, Niobium, Rubidium, Tantalum, Tin, and Zirconium.

Now why would a guy involved in sustainability investing be looking at rare earth elements? Very simply because

they are in demand and because they are used in some very important applications that involve sustainability.

One of the reasons these materials are called rare earth is because they are, well, rare in concentrations that make them economical to mine on a commercial scale.

More importantly their use in certain clean technology applications makes their demand price curve very attractive to investors.

The dominant producer of rare earth elements (REE) is China. While there are some sites looking to open in the US and Canada and some smaller ones scattered around the globe.

Most of the production comes out of China.

REE are used in applications like super magnets and high capacity storage batteries.

Two of the more well know applications are the motor magnets in hybrid vehicles like the Toyota Prius and in wind turbine generator magnets. They are also used in electronic polishers, superconductors, optoelectronics and refining catalysts.

In these applications REE produce higher power magnets for the weight that operate better at high temperatures.

Production of hybrid vehicles is climbing all the time and despite the economic

issues lately, wind turbine sales will recover.

In addition, the batteries in hybrid vehicles like the Prius use even more REE.

Each Prius uses 1 kg of Neodymium for the motor magnets and up to 15kg of Lanthanum for the battery. With sales estimated to be 1 million units in 2010 there is a lot of REE that will be used.

It is quite likely that China will soon start consuming all the REE that it produces which is forcing users to find alternative supply sources.

This is good news for investors as it does not take a rocket scientist to figure out that demand will soon outstrip supply and force the prices of

REE to rise.

For Canadians there is a company that we can invest in that will provide the ability to participate in the REE "gold rush" that will likely follow.

We are already investigating this firm for inclusion in our investment process.

What is particularly appealing about this company is that it is also dedicated to sustainability which means that our firm can and will likely include it in our investment process.

In days gone by a mining company would likely have been the last on our list but with global emphasis on sustainability now insinuating itself in to all facets of commercial

activity, we find the choices are growing.

For this type of mining it is also crucial because the mining of these materials and their extraction and refining can produce fairly toxic byproducts and it is therefore important to our firm and to our investors that these concerns are addressed.

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Selected News Articles

Carbon Offsets: Q & A; What are they? How do they work? And will they really reduce emissions?

Q: How is a carbon offset different from allowances in a cap-and-trade market?

A: In a cap-and-trade market, an allowance is a permit to emit one ton of greenhouse gases, defined as carbon dioxide or its equivalent. Under the Waxman-Markey climate-change bill passed by the U.S. House in June, utilities and other industries would receive a certain amount of these allowances gratis, but gradually Washington would place tighter caps on emissions with the aim, by mid-century, of reducing overall U.S. greenhouse-gas emissions about 80% from 2005 levels. To comply with the federal caps, companies would have to reduce emissions or buy more allowances.

Or they could buy carbon-offset cred-

its, an alternative to allowances. An offset is a certificate that one ton of greenhouse gases was destroyed, and it is generated by projects that absorb carbon or otherwise reduce emissions. For example, a landowner who plants an acre of new forest could generate credits based on how much carbon dioxide those trees will draw from the atmosphere. The landowner could then sell the certificates as offsets to investors or corporations.

Under Waxman-Markey, a corporation could buy an offset and count it against its emissions. Market watchers expect the offsets to trade at roughly 80% to 90% of the market value of the allowances. They likely won't trade at par because there would then be no incentive to buy offsets as an alternative to allowances. If offsets cost the same as allow-

ances, the polluter would just buy an allowance.

Q: How big a market are we talking about? When will it get going?

A: Industries facing caps on their emissions will have the right to buy a total of two billion tons of carbon offsets annually. But brokers anticipate the offsets will trade only thinly until emissions-reduction targets become more stringent after the initial phase-in of emissions caps.

When the market gets started depends on congressional passage of a climate-change bill. Waxman-Markey calls for a cap-and-trade market to begin in 2011, but some are skeptical the bill will move through Congress quickly enough for that to happen. Goldman Sachs, for example, says it may be 2011 before a bill

passes.

At this point, it isn't clear how much of the sprawling House bill will survive in the Senate, where moderate Democrats and Republicans could join forces to water it down. The cap-and-trade bill is on the calendar, but senators probably won't begin debating it until health care is off their plate.

Q: So will offsets work? Will buying and selling these credits reduce emissions?

A: That depends on the integrity of standards and the efficiency of their creation and certification, says one broker. If standards are too loose or arbitrary, projects may earn credits without causing a net reduction of greenhouse gases, and investors will be reluctant to take part. If they are too tight, or the application

process for credits too onerous, corporations may shy away, and not enough carbon-reduction projects will receive funding.

Critics point out that in the first year of the EU's carbon-trading scheme, some industries were actually able to increase their greenhouse-gas emissions by buying offset credits to compensate.

Q: Can individual investors participate in the offset markets, or is it just for industry?

A: Investors will be able to buy and trade offsets just as they can oil and wheat futures, and many already do: Anyone with an account at a brokerage such as Citigroup Inc. can trade on the futures arm of the Chicago Climate Exchange. Carbon hedge funds also are popping up. This summer, Canada's **Blue Marble**

Capital Partners Ltd. started a fund to invest in established carbon markets and "emissions units in future carbon regimes." Another firm, CF Partners (U.K.) LLP, seeks arbitrage opportunities in the emissions markets. Nasdaq's Mr. Voss says one popular strategy for carbon-contract traders is to profit from variations in the price difference between allowances and offsets.

Q: Would it be smart to invest in offsets now? What's the bottom line?

A: Research firm Ecosystem Marketplace estimates that the average off-exchange price of a U.S. voluntary offset rose 20% to \$7.34 a ton in 2008. On the futures section of the Chicago Climate Exchange, the right to buy an allowance or offset in the federal market in 2013 (or a state market if no

federal market materializes) recently traded for \$10.25 a ton, while offsets linked to 2009 projects were selling for roughly 25 cents a ton. If buying an offset now with an eye to selling it in the federal market, investors should investigate the vintage of the project from which it stems, says Blue Source's Mr. Spencer. The starting bid for a permit to emit carbon dioxide in the March 2011 auction is supposed to be \$10 a ton.

Goldman Sachs says investors also can play the carbon market by investing in or betting against the stocks of companies that stand to win or lose under a federal cap-and-trade system.

WSJO
September 21, 2009
By Rob Curran

If we want to move towards a low-polluting, sustainable society, we need to get consumers to think about their purchases.

David Suzuki

CO2 Emissions Tumble; Leaders to Meet On Climate

LONDON/NEW YORK (Reuters) - Recession has set the stage for the sharpest fall in world greenhouse gas emissions in 40 years, an estimate Monday showed, as world leaders gathered in New York to seek a way forward on a new climate change treaty.

The International Energy Agency said global output of carbon dioxide, the most common greenhouse gas produced by burning fossil fuels, would fall by about 2.6 percent this year amid a tumble in industrial activity.

It expressed hope that the world would seize on the decline to shift to lower-carbon growth despite worries that governments might

take it as an excuse for inaction.

"This fall in emissions and in investment in fossil fuels will only have meaning with agreement in Copenhagen which provides a low-carbon signal to investors," IEA chief economist Fatih Birol told Reuters.

World leaders are to meet at U.N. headquarters Tuesday for a one-day climate summit to try to unlock 190-nation negotiations on a new deal to combat global warming due to be hammered out in Copenhagen in December.

China will be key to those talks.

Chinese President Hu Jintao is expected to unveil on Tuesday new measures his

country intends to take to tackle global warming, although experts say this may focus on goals for curbing "carbon intensity" -- the amount of emissions per unit of economic output -- rather than absolute cuts in emissions.

U.N. climate chief Yvo de Boer said the Chinese leader's speech would thrust his country into a new leadership role.

"This suite of policies will take China to be a world leader on addressing climate change, and it will be quite ironic to hear that tomorrow expressed in a country (the United States) that is firmly convinced that China is doing nothing to address climate change," he told reporters.

Negotiations among 190 nations are stalled over how to share the burden of curbs on gas emissions through 2020 between rich and poor nations and how to raise perhaps \$100 billion a year to help the poor combat warming and adapt to changes such as rising seas or desertification.

EYES ON CHINA, UNITED STATES

Some experts expressed doubts that recession and falling industrial output could be a springboard to greener growth.

"When politicians talk about the financial crisis everything is about returning to growth, which means higher emissions," said Paal Prestrud, director of the Center

for International Climate and Environmental Research in Oslo.

"We have to reduce emissions in a planned way to avoid social problems, not through recession," he said.

Aside from China, eyes at the summit will be on the United States. Environmentalists hope the pair, the top emitters which account for more than 40 percent of the world total, will find common ground to help spur the Copenhagen talks. President Barack Obama will have to persuade the rest of the world that Washington is serious about cutting its emissions when it looks unlikely the U.S. Senate will pass climate legislation in time for Copenhagen.

The U.N. talks are "dangerously close to deadlock," European Commission President Jose Manuel Barroso said in New York, challenging developing nations to do more in order to secure financial support from industrialized nations.

"This may not be a simple negotiating stand-off that we can fix next year," according to notes from his speech. "It risks being an acrimonious collapse, delaying action against climate change perhaps for years."

British Prime Minister Gordon Brown opened the possibility of turning the December 7-18 Copenhagen talks -- due to be a meeting of environment ministers -- into a summit of world leaders.

"If it is necessary to clinch the deal, I will personally go to Copenhagen to achieve it -- and I will be urging my fellow leaders to do so too," Brown wrote in an article in Newsweek magazine.

On September 24-25, leaders of the G20 will meet in Pittsburgh but Washington said it would not include a major discussion of how developed nations should provide financial support to developing nations to cope with climate change

Reuters
September 21, 2009
By Alister Doyle and Jeff Mason
