



Although I like to think that I am not a short-term investor, I have to admit to you that the market moving 20% above its March 9th low and the clean tech indices moving up 30+%, has put me in a decidedly better mood. Whether it lasts is anyone's best guess, but I have noticed lately that the news I read contains the occasional story of timid optimism among the doom and gloom reports. There are still some "known unknowns" on the horizon that concern me: What is going to happen with the adjustable rate mortgage waive that is coming due later in the year, what about the commercial real estate market, what about the glut of derivatives? As these and other issues unfold, we can expect additional volatility in the near term. However, many investments will still look cheap, which affords opportunities to buy assets at attractive prices and continues to be a tough environment in which to sell assets.

During our last conference call we talked about the green economy as it relates to China. I wanted to expand on that topic, as I think it is a theme that will become dominant in the next few years and it might be worth some consideration.

We often read of China and the environment in a negative context. However, we should also acknowledge that China wants to compete in the areas of alternative energy and efficiency and realizes that it will not be able to secure long-term growth without managing its environmental impact. In fact, we should be happily welcoming the Chinese into the space. After all, without co-opting China (and India) there will be no containment of climate change, preservation of biodiversity, and reversal of environmental degradation.

The Chinese government is establishing a regulatory framework that will incentivize green industries and secure the necessary foundation for growth. Take the transportation industry for example. As reported by the Xinhua news agency in January, the Chinese government will subsidize clean-energy vehicle purchases for public fleets in over a dozen metropolitan areas, including Beijing and Shanghai. Furthermore, local governments are being asked to allocate funds for the building and maintenance of facilities for green vehicles. China's government also provides research-and-development subsidies for car companies and tax breaks for consumers.

With regards to national renewable energy targets, China's 11th Five Year plan calls for 16% of the energy mix to come from renewables by 2020, and for China to cut SO_x and CO₂ emissions 10% by 2010. Today renewables are at 8%, 95% of which is hydro (China currently has the biggest hydro energy capacity in the world at 145 GW). To achieve its goal, China will invest an estimated \$400 billion over the next decade. Though China still has some untapped hydro potential, much of the increase in renewable energy will have to come from wind and solar.

With regards to wind energy, China currently ranks number 5 globally and increased its installed capacity by a tentative 65+% in 2008 (EIA estimate). According to the China Environment & Resources Committee, the target for wind energy capacity growth is 1,100%. Chinese regulation

dictates that 70% of the hardware for commercial wind farms must be produced in China, which bodes well for opportunities to invest locally in wind energy. In our portfolios, we hold BYD in the hybrid/electric car segment and Suntech Power in the solar industry, and are researching additional opportunities.

Our next State of the Green Economy web conference call will take place on Thursday April 9th at 11:30 am PDT. To sign up, please go to: <http://www.eventbrite.com/event/316205780>

As always, I invite you to contact me if you want to discuss any of the topics in this newsletter.

Best Regards,

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