



JPS Global Investments—The Quarter in Review

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Market Summary

The 2nd quarter was the best quarter for stocks since 2003, with the Dow Jones Industrial Average 11% above where it finished on March 31st and the S&P 500 Index 15% higher. It is a reminder that markets are forward looking in nature. Looking in the rear view mirror, or out of the side window, we see an ugly recession with high unemployment. However, looking forward a consensus seems to be emerging that the economy will not collapse, but stabilize and eventually expand. Investors should be cautious, however, as progress will likely be uneven, with occasional disappointment, as market participants try to figure out where to go from here.

Globally, markets have rallied even stronger, with the MSCI World Index up 21%. Perhaps this lends credence to the idea that in times of crisis the U.S. still benefits from a flight to “quality,” having lost less of its value compared to major international markets, but that when investors start looking for growth, other markets with fewer structural problems may hold greater promise.

Sustainable Investing Update

Carbon Risk & Opportunity

At the very root of sustainable investing lies the idea that if you consider environmental criteria in the investment process, you will reduce risk and

enhance opportunity. Carbon exposure is probably the most well defined example of this concept. The Environmental Protection Agency (EPA) breaks down the U.S. economy’s 7.15 billion metric tons of green house gas emissions for 2007 into the following economic sectors: Electric Power 34.2%, Transportation 27.9%, Industry 19.4%, Agriculture 7%, Commercial 5.7%, and Residential 5.0%. The regulatory winds are blowing in the direction of pricing carbon. It could take the form of a carbon tax, or perhaps more likely, a cap-and-trade system, or some sort of hybrid structure. The uncertainty relates merely to timing and depth of regulation. So then, from a risk perspective, an investor would want to favor companies that have a below average carbon footprint relative to their competitors and, from an opportunity perspective, seek out companies that would benefit from selling goods and services that contribute to a reduction of carbon output.

Let’s take a look at the Utilities sector to get an idea of how an investor might strategically address carbon risk. According to Trucost, a research firm that helps companies and investors measure and reduce carbon exposure, the *average* U.S. utility company could face financial risk of over 40% of EBITDA if carbon cost \$28 per ton. So when we invest in a utility, we would look at companies that have a carbon footprint well below average. Based on that reasoning, one might want to stay away from Allegheny Energy Inc, which has the highest carbon intensity (carbon exposure per

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dollar of revenue) and favor companies such as PG&E (which we hold), or FPL, the largest owner of wind energy generation capacity in the United States. Incidentally, Allegheny is down almost 40% over one year, versus PG&E being up about 10%, as of July 23rd, 2009. I don't contend that the 50% differential is all because of carbon risk, but I certainly would be willing to pay a higher premium for lower carbon exposure, when comparing two companies in the Utilities sector and my hunch is more investors are starting to feel this way.

ACESA

The Waxman-Markey bill, also known as the American Clean Energy and Security Act (ACESA), cleared the House and the ball is now in the court of the Senate. Passage is not a foregone conclusion and furthermore, there is a good chance it will get watered down, before becoming law. The current draft of the bill would give away about 80% of the pollution permits in early years, to be phased down to 30% by 2030. The idea of the giveaway is to lessen the burden on consumers and reduce the "disproportionate" impact on certain sectors of the economy (according to companies in those sectors).

Martin Feldstein, economist at Harvard, pointedly noted that it is in fact the burden on the consumer that might be needed to change consumption behavior; a concept that might be a non-starter for most politicians. Jim Hansen, former NASA scientist and climate change expert, had an interesting idea when he testified early this year to the House Ways & Means Committee: allow the cost of carbon to trickle down to the consumers, but give them an offsetting tax credit. If a particular household consumes less carbon than the average household, their tax credit will outweigh their carbon costs and they come out ahead. This would incentivize people to consume less carbon and reward those who make an effort to be more efficient.

Another interesting component of ACESA is a federal Renewable Energy Portfolio Standard (RPS), mandating 12% of electricity to be generated from renewables. This would impose a RPS on those 17 or so states that do not have one yet. How it would affect the other 33 states that already have standards in place, which are mostly in the 15-20% range, is not entirely clear to me. Other components of the bill include up to \$50 billion in Department of Energy (DOE) loans for advanced vehicle development and building code standards to make new buildings 30% more efficient by 2010 and 50% more efficient by 2016. Clearly this bill is wide in scope and will hopefully address both the demand side (consumers) and the supply side (industry).

Wood Pellets?

Cleantech is not a comprehensive description of the green economy. Case in point: the low tech wood pellet. European utilities, in their quest to meet renewable portfolio standards, are scouring the earth, looking for pellets to burn as a substitute for coal. And who is a major exporter of wood pellets? The Southeastern U.S. Wood pellets, made from fast growing trees or sawdust, look like oversized multi-vitamins, with a rougher surface. It is more expensive to burn than coal (unless of course we account for the full cost of coal), but it is less capital intensive than installing wind and solar generation and is widely considered carbon neutral. The greenhouse gases released when the pellets are burned, would have ended up in the atmosphere anyway, as trees die and decompose.

Renewable portfolio standards in the EU call for a 20% renewables mix by 2020. Last year, Europe imported €66.2 million in wood-based fuels in the first quarter of 2009, an increase of 62% from the same period last year. Some of the companies involved in the pellet business are JCE Group, Dixie Pellet, and Phoenix Renewable Energy. These are not publicly traded companies

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unfortunately. However, for the adventurous investor, wood pallets are now traded as a commodity on the Amsterdam energy exchange. I think we will pass for now.

Water World

With the continuing drought in Southern California and other areas of the U.S. and the increased attention that is directed (rightfully so) towards water issues by the media and investors, I wanted to spend some time on the topic. In my corner of the world, San Diego is currently under mandatory water restrictions, whereby you can only water your lawn 3 days out of the week and not during the 10 am to 6 pm time frame. Commercial car wash facilities that do not use partially recycled water will see their water supply cut; clearly not a good business to be in at the moment. In addition there are targeted water use reductions, which could see a surcharge for over-usage and a laundry list of other stipulations.

The ongoing drought in the Colorado River basin, reduced snow pack & runoff in the Northern California Sierras, and a court-ordered reduction of Southbound water from the State Water Project have significantly curtailed the amount of water available in San Diego. Considering that the region relies on extra-regional resources for 90% of its water, the need for water preservation is undeniable. Other areas of the country are experiencing similar problems. You may recall the case of Georgia, where lawmakers in 2008 tried unsuccessfully to move the state border north, so that they could claim a part of the Tennessee River and secure additional water supply.

Increased water scarcity seems to be here to stay. So how should an investor respond to this? As is often the case, one has to look at the investment thesis both from a risk and an opportunity perspective. The risk side is pretty straight forward: certain industries are more water

intensive than others, and certain companies within those industries are paying more attention than their competitors with regards to addressing their water footprint.

In 2004, Coca Cola shuttered a bottling plant in South India, after local residents rose up and claimed the company was depleting and polluting the local water supply. SAB Miller, the South African brewer, faced similar problems in Dar es Salaam, Tanzania, where it contributed to the salination of the city's aquifers, which are only sufficient at present to provide for a third of the three million residents. The company took note and has since invested in water purification technology for the plant and has conducted a study to calculate its water footprint, indentifying 30 sites in South Africa, India, and Peru that are vulnerable to future water shortages. Clearly, these companies can't afford to tarnish their brand, if they wish to sell beverages in these markets.

From the opportunity side, an investor could look at waste water treatment, water management, utilities & infrastructure, desalination (especially energy efficient desal options; which are still early stage), and water rights. Although there is some controversy surrounding the latter, if ownership of water leads to more efficient use, better stewardship, and greater access, it may be a worthwhile consideration. In our portfolios, we continue to hold Veolia in France, the world's largest water company, as it provides us global exposure to multiple water industries through one investment. Exchange traded funds offer another alternative, and for some clients we have bought the Calvert Global Water Fund. Climate change coupled with population growth will continue to drive the need for investment in water infrastructure and efficiency. Our next investment in the sector, we hope to make in Asia/Oceania or Africa where the need and the opportunity may be the greatest.

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Financial Markets Data

Performance as of 6/30/09

	quarter	yr-to-date	1-yr	3-yr avg.
JPS Global Green Economy SA.	20.13%	15.66%	-25.26%	N/A
S&P 500 Index	15.93%	3.16%	-26.22%	-8.22%
MSCI World Index	21.22%	7.56%	-31.09%	-9.01%
KLD Global Climate 100 Ind.	26.84%	9.21%	-29.22%	-3.96%
WilderHill Clean Energy Ind. (PBW)	32.63%	16.94%	-48.44%	-19.06%

All returns are Total Return, with the exception of MSCI World Index and PBW returns, which are Price Return.

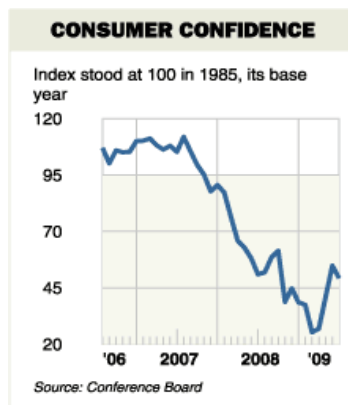
Economic Indicators



Q1: -5.5%



June: 9.5%



March: 49.3



May: \$25.96 billion

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