



## JPS Global Investments—The Quarter in Review

October 2009

*Jan Schalkwijk, CFA*

### **Market Summary**

The stock market confounded investors during its downward spiral in 2008 and early 2009. In character, the stock market is again creating awe, though fortunately this time it is headed in the opposite direction. The Dow Jones Industrial Average delivered its best third quarter since 1939, up 15%. The Nasdaq Composite and the S&P 500 Index increased 16% and 15%, respectively.

Some of the companies and sectors that have done the best were those that were hardest hit, such as MGM Mirage, American International Group, and the financial stocks, which were up approximately 25% as a group. It is always good to note that if you are up the most, because you were down the most in percentage terms, you are probably still behind the curve. Case in point: though the financial services sector was up 25% in the last quarter, it is still down 40% from where it was at the start of 2008, as measured by the NYSE Financial Index; the S&P 500 is down 27% over the same time period.

Though bottom fishing has been rewarding as of late, it is my view that quality companies with strong balance sheets or compelling business prospects are a safer bet going forward, as the macro picture still is challenging, with high unemployment, cash-strapped consumers, depressed home prices, troubles in the commercial real estate market, and looming government deficits.

Strong appetite for non-US assets may also be a damper on how far the market can rise, as investors seek distant shores in the hope of finding higher returns in stronger currencies.

### **Sustainable Investing Update**

#### **Does the Sun Still Shine on Solar?**

Investors who got onboard with TAN (Claymore/MAC Global Solar Index ETF) when it came out in April of 2008, are looking rather pale, having lost two thirds of their investment. This loss is a fairly good proxy for what the average solar investor has lost over that time period, with most stocks being down in the 45%-70% range.

So the obvious question is a fair one: where do we go from here? To answer that question, it helps to look at what got us here. A variety of factors conspired to bring down the high-flying solar stocks: the recession, credit crunch, drop in energy prices, and elimination of Spanish subsidies all hurt demand. On the supply side, new polysilicon capacity and increased competition from new market entrants, reduced prices and thus revenues for solar companies.

As investors, we have to look forward, however, and I believe that the future looks bright. Though the reduction in price per watt has been a challenge in the short-term, it will be a positive going forward, as it will lead to increased demand due to lower capital requirements and quicker payback. Though 2009 sales will likely be flat or even down relative to 2008, solar sales have

## JPS Global Investments—The Quarter in Review

picked up in the second quarter as compared to the first quarter, with PV equipment shipments up 81% (IMS Research). According to Barclays Capital, supply and demand are predicted to balance somewhere in the second half of 2010. Meanwhile, solar thermal projects are steaming ahead.

Recently, Engineering firm Bechtel took an equity stake in Brightsource's Ivanpah project, which intends to build three plants for a total of 440 MW at the Ivanpah dry lakebed in San Bernardino County. The plants will use fields of mirrors to focus sunlight on water towers. The steam generated from boiling the water, will turn a turbine and generate electricity.

Another company in this space, eSolar, recently flipped the switch on the first commercial concentrated solar power plant in the US, in Lancaster, CA with a capacity of 5 MW. eSolar has another deal in the works in the Antelope Valley with Southern California Edison for 245 MW. First Solar, not to be outdone, signed an agreement with China to build the world's largest solar plant in Inner Mongolia. The 2 GW plant, would cover 25 square miles (64 square kilometers) and is estimated to take about 10 years to complete.

Our strategy in solar is to look for companies that offer a combination of scale and product differentiation, and ideally trade at a discount to their competition. This might be a tough combination to find in one company, but if we can approximate that mix, I think we will be well situated when solar rebounds.

### **Clean Companies**

As we often discuss with our clients, the green economy is not just comprised of alternative energy and clean technology companies, but also includes those companies that are leaders in managing their environmental impact and reducing their carbon exposure, i.e. the "clean" companies. It is useful to keep a broader definition of the green economy in mind, so as not to limit

investment opportunities to the (often more volatile) "pure-play" companies.

So which are these "clean" companies? There is no clear cut answer to that question as it is hard to quantify and depends on what criteria one uses. However, several media and research companies have ventured to produce their environmental rankings. Though I approach these lists with a degree of skepticism and am often surprised to see certain companies on there, it does provide a starting point from which to conduct further research. Furthermore, companies that appear on multiple lists from different organizations, likely have done something right to warrant such positive attention.

Recently, Newsweek published its 2009 Green Rankings; together with its three research partners, KLD Research & Analytics, Trucost, and CorporateRegister.com. They started with the S&P 500 Index and ranked all companies based on scoring Environmental Impact, Green Policies, and Reputation. Which companies rounded out the top 5? Hewlett Packard, Dell, Johnson & Johnson, Intel, and IBM.

HP was the first major IT company to report the greenhouse gas emissions of its supply chain. A common theme among the top ranking tech companies was energy efficiency improvements in its products or through its services and sizable renewable energy purchases. Johnson & Johnson was acknowledged for its stated commitment and management structure to address climate change, which is rare for its peer group. It also has the largest fleet of hybrid vehicles in the world. It will be interesting to see if, within each sector, 3-5 years from now the clean companies will have performed better than the dirty ones. I have a hunch, someone will be tracking that.

### **ARRA Green Economy Stimulus**

If you visit the Department of Energy (DOE)'s website, you will find that the DOE has awarded \$17.5 billion of the \$32.7 billion authorized under the American Recovery and Reinvestment Act (ARRA). These figures exclude the \$4 billion

## JPS Global Investments—The Quarter in Review

from the Loan Guarantee Program. Note that there is a big difference between “awarded” and “spent.” Of the amount awarded, only \$872 million has been spent; but it’s a start. Also, these monies are separate from the cash grants in lieu of investment tax credit, which are administered by the Treasury in partnership with the DOE. Under this program, about \$1 billion in grants has been released so far.

The big winners were European developers. Iberdrola received \$545 million in two rounds, for numerous wind projects. German power giant Eon, received \$122 million, Eurus Energy Holdings (Japan) secured \$91.4 million, and Energias de Portugal \$47.7 million, all for wind projects. Half of this money was handed out in a \$502 million allocation in early September. This initial tranche is expected to fund projects for an aggregate of 850 megawatts in capacity and 2,000 new jobs.

Competition for the DOE grants has been fierce. For example, in August the DOE received around 570 applications from utilities requesting as much as \$14.6 billion in Smart Grid funds, which is more than three times the amount that has been appropriated for Smart Grid. On the battery front, there has been some action as well. On August 5, the DOE announced \$2.4 billion in matching grants. Johnson Controls and A123 Systems were awarded \$300 million and \$350 million respectively. Considering that these funds need to be matched, the actual impact of the program will amount to \$5 billion in investment.

Clearly, government stimulus is finding its way into the green sector. There can be some discussion as to whether the money is being distributed fast enough and to the most deserving candidates, but the process itself is unmistakably underway. Though oftentimes contract winners will be located overseas, to a large extent job creation as well as the benefits of having a cleaner energy infrastructure, will accrue to the US.

### **Clunked out of Cash**

The cash for clunkers program is one of the more successful economic stimulus programs undertaken by the government to date. It achieved its objective of getting customers back into showrooms and driving off the lot in more efficient cars. According to the Department of Transportation, the average fuel economy of the trade-in vehicles was 15.8 miles per gallon (mpg), and that of the new cars sold under the program was 24.9 mpg. So the net improvement of the substitution program was 9.2 mpg or a 58% improvement in fuel economy.

The critics lamented that all the program did, was pull forward future sales that would have happened anyway. However, I would argue that the goal was to give the economy a targeted (green) adrenaline shot, even at the risk of taking away from future sales. After all, the economy needs help now, and spreading those sales out over the next 5 years would not have had the same effect.

On the environmental side, thanks to the cash-for-clunkers program, there are 700,000 cars on the road today that are getting 58% better gas mileage, and will save the average driver \$600 per year. The fact that the old cars had their lifespan reduced, would offset some of the environmental benefit, but on the whole I would say the program was a net benefit for the environment.

Which brands were the big winners? Here’s the top 5: Toyota Corolla, Ford Focus, Honda Civic, Toyota Prius, and Toyota Camry. And what were the top 5 trade-ins? Ford Explorer 4WD, Ford F-150, Jeep Grand Cherokee, Ford Explorer 2WD, and the Dodge Caravan. As investors in Toyota, we were happy with the results, but it once again illustrates that although the stimulus plan is domestic, we have to look for the winners globally.

# JPS Global Investments—The Quarter in Review

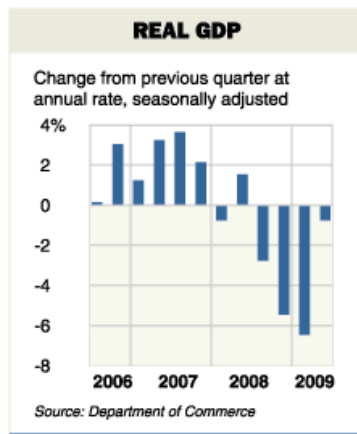
## Financial Markets Data

### Performance as of 9/30/09

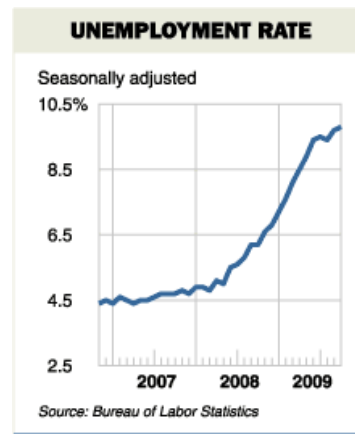
	quarter	yr-to-date	1-yr	3-yr avg.
JPS Green Economy Fund, LP	12.61%	20.74%	17.08%	N/A
S&P 500 Index	15.60%	19.25%	-6.92%	-5.43%
MSCI World Index	17.28%	26.15%	-2.56%	-5.31%
KLD Global Climate 100 Ind.	16.96%	27.74%	0.89%	0.57%
WilderHill Clean Energy Ind. (PBW)	7.74%	25.99%	-26.92%	-13.57%

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

## Economic Indicators



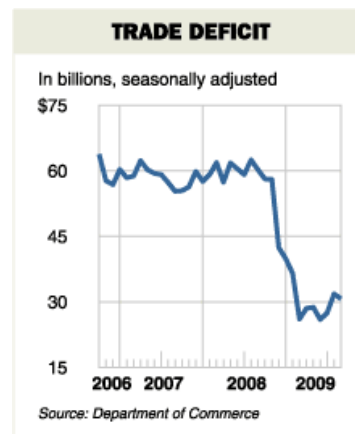
Q2: -0.7%



September: 9.8%



September: 53.1



August: \$30.71 billion

This material is based on information that we consider reliable, but we do not guarantee its accuracy. Past performance is no guarantee of future results. The opinions expressed herein are solely those of the author and do not constitute investment advice regarding a particular security, strategy, or investment product. No part of this writing may be reproduced in any form, or referred to in any other publication, without express written permission of JPS Global Investments, LLC. 102009