



1st Quarter, 2009

## INVESTMENT FOCUS

### Potential Impact of Economic Stimulus Packages

2008 was a tumultuous year for global investments. While most sectors struggled as economic conditions deteriorated, environmental stocks were particularly hard hit. For example, one of the more established alternative energy indices, the Wilderhill Clean Energy Index (ECO), declined 70% during 2008 compared to the S&P 500's decline of 37%. The sector's strong results in 2007 were based on increased public awareness and higher spending on environmental products and services, but several factors were behind the underperformance seen in 2008: declining oil prices, weakness in the Euro, lack of access to credit, and a general flight to larger cap and more liquid names all affected performance. While our outlook remains cautious over the next few quarters as economic data are expected to remain challenging, stimulus packages recently announced by governments worldwide have given us increased confidence in the outlook for environmental securities over the longer term. In fact, the shift towards public sector objectives and spending is likely one of the most significant events in modern financial markets. Consequently, in this quarter's Insights, we outline potential opportunities within the clean technology sector based on the stimulus packages announced to date, with a particular emphasis on the plans proposed by the new Obama administration.

Government spending over the next few years is expected to set records. The Obama administration has proposed an \$825B U.S. economic stimulus bill, with similar plans moving forward in Europe and Asia. As a result, total global stimulus spending is expected to exceed \$2 trillion over the next few years (Exhibit 1). While it is likely that basic infrastructure (highways, rail, bridges, etc) will receive the largest allocation of these funds, environmental spending has also emerged as a key focus. In the U.S., the program includes a set of policies aimed at improving the energy efficiency of the economy and lowering its environmental impact.

For example, the initial House proposal for the economic stimulus package contains provisions for approximately \$21B in renewable energy incentives to support generation and transmission projects, \$11B to modernize the electric utility grid, \$22B for energy efficiency retrofits, and \$19B to improve water and wastewater infrastructure to ensure clean supplies and improve flood control (Exhibit 2). If passed, these provisions will represent an important step towards making up for years of underinvestment in environmental infrastructure. Obama has very aggressive environmental goals, however, which include reducing carbon emissions to 80% below 1990 levels by 2050 and doubling the production of energy from alternative sources over the next three years. If these goals are to be

met, we believe it will be necessary to allocate significantly more government and private funds to these areas. According to analyst estimates, doubling the production of alternative power in the U.S. alone<sup>1</sup> would require approximately \$60-84B in investment over the next three years assuming prevailing construction costs of \$2,500 - \$3,500/kW. While the current spending provisions fall short of these figures, Obama has previously proposed to put aside \$150B for green initiatives over the next 10 years. As a result, we believe further initiatives will follow.

### Exhibit 1: Proposed Global Stimulus Spending

COUNTRY	PROPOSED INFRASTRUCTURE SPEND*
Canada	The 2009 budget will provide \$1B over 5yrs to a Green Infrastructure fund. Additionally a \$1B Clean Energy Fund will be established to support development of promising technologies, including carbon capture and storage.
China	Provincial mainland governments have allocated 10 trillion Yuan (\$1.5T) for infrastructure spending, including rail and infrastructure projects as well as increased social spending.
France	Announced a \$33B stimulus plan (equal to ~1.3% of France's GDP), of which 40% has been allocated for infrastructure investment, research and support for local authorities.
Germany	Announced a \$64.2B stimulus package that includes plans to accelerate investment in transport. It also includes a new lending program for the German-owned development bank Kreditanstalt fuer Wiederaufbau (KfW) to strengthen its lending activities, with a particular focus on its infrastructure program.
India	Proposed a \$4B stimulus plan, with \$3B to boost infrastructure spending.
Peru	Announced a series of measures, including increased spending on infrastructure. The package includes \$3.3B for social works and infrastructure.
Switzerland	Announced an economic stimulus package worth approximately \$750M, roughly 40% allocated for flood defense, natural disasters, and energy efficiency projects. Switzerland is also spending up to \$850M on roads and railways.
Taiwan	Announced ~\$1.7B of infrastructure spending.

\* Excluding Canada, all values in USD

Source: I3D Research, Acuity Investment Management Research

With the details of the stimulus package still under review in both the House and the Senate, many questions remain on the exact policy mechanisms that will be employed in the stimulus bill. Additional detail is expected over the next few weeks, however, as Congress would like to present the final version of the bill to Obama for his signature by mid-February. In the longer term, we expect Obama's stated interest in developing a green economy to drive investment in cleantech. In the near term, though, the sector will likely remain volatile as investors consider the current tight credit market, softer industrial demand, and low commodity prices. These

<sup>1</sup>Specifically, the goal is to add 20 GW of wind power and 4 GW in the aggregate of solar and geothermal power capacity over the next three years.

issues notwithstanding, we believe that governments worldwide, and particularly the Obama Administration, will use the current economic crisis to shift energy and environmental policy in a new direction that would directly benefit a number of themes within our Clean Environment Fund. In particular, we believe the outlook for less capital-intensive solutions such as smart grid technology, energy efficiency products and materials, new vehicle technologies, and certain water solutions has improved in this environment. In our company spotlight, we highlight Pall Corp., a water investment that we believe is well positioned to benefit from this policy shift and to weather the current economic volatility.

## Exhibit 2: Summary of U.S. Stimulus Bill (Initial House Proposal)

	Amt (US\$B)	% Total
<b>Infrastructure</b>	<b>\$194</b>	<b>24%</b>
Clean, Efficient, American Energy:		
Repair Public Housing & Make Energy Efficiency Retrofits	\$16	2%
Weatherize modest-income homes	\$6	1%
Renewable Power Generation Incentives	\$21	3%
Smart Grid Investment Program	\$11	1%
Clean Water, Flood Control, and Environmental Restoration	\$19	2%
Highway Construction	\$30	4%
Transit & Rail Investment	\$10	1%
Modernize Federal & Other Public Buildings	\$31	4%
Modernize Schools	\$14	2%
Higher Education Modernization	\$6	1%
Healthcare IT, Electronic Record Keeping	\$20	2%
Preventative care in hospitals	\$4	0%
Expand Broadband Penetration	\$6	1%
<b>Other Fiscal Spending</b>	<b>\$356</b>	<b>43%</b>
<b>Tax Cuts</b>	<b>\$275</b>	<b>33%</b>
<b>Total Fiscal Stimulus</b>	<b>\$825</b>	<b>100%</b>

Source: Acuity Investment Management Research

## NEW & NOTABLE

### Cleantech Venture Investments Reach New Highs

Cleantech venture financing reached a record level in 2008 despite the ongoing credit crisis and deteriorating economic conditions. According to The Cleantech Group, venture investments in North American, European, Chinese, and Indian environmental companies totalled \$8.4B in 2008, representing an increase of 38% over the previous year. The top beneficiary during the year was the solar sector – thin film solar companies in particular – with approximately 40% of the total investment dollars. Other sectors with significant investor interest included next generation biofuels, transportation, and wind.

As venture investing is recognized as a leading indicator of overall investment patterns, we are encouraged by the strength shown in 2008. Although a slowdown of deals was observed in the fourth quarter as a result of the deteriorating macro conditions, we believe new government policies, especially those of the Obama administration, will help invigorate investments in 2009.

### International Renewable Energy Agency Established

The International Renewable Energy Agency (IRENA), established to promote and develop renewable energy worldwide, held its founding conference in Bonn, Germany on January 26, 2009. Participation in the conference exceeded expectations, with 120 delegates attending and 75 countries signing the founding document for IRENA. While this engagement is encouraging, it should be noted that a number of large industrialized nations including the U.S., U.K., Japan, and China have yet to sign the treaty.

Although there are other multinational agencies working to remove some of the obstacles that have delayed the adoption of renewable energy, IRENA is the first agency to focus solely on these issues.

## COMPANY SPOTLIGHT

### Highlighting Acuity's Clean Environment holdings

#### Pall Corp.

Headquartered in East Hills, New York, Pall Corp (NYSE:PLL) is a global supplier of high-end filtration equipment, consumables, and services for a diverse group of end markets within the life science (38% of sales) and industrial (62% of sales) sectors. The company has the largest revenue base in the fragmented \$35B filtration industry and the largest market share in many of the segments in which it competes.

Pall's products and services are used for critical applications such as removing bacterial and viral impurities from blood and purifying municipal drinking water or food supplies. The high level of technology required in these applications means that Pall's products are aimed at the premium end of the market. Key global trends—such as higher health standards, stricter environmental regulations, increased demand for commodities, and population growth—mean that many of these markets are growing. For example, the need for purified water, whether it is for drinking or for use in manufacturing processes, is increasing worldwide at the same time as supplies of clean water are dwindling. As a result, there has been strong demand for filtration products to purify and conserve water supplies, creating an industry now worth approximately \$9B worldwide.

Our positive outlook on Pall Corp is based not only on the strength of the company's product platform, but also on the attractiveness of its business model, in which approximately 75% of revenues are recurring and are relatively insensitive to the economic environment. In addition, the company has a strong balance sheet with improving operating margins and return on equity.

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