

Environmental Investing



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Risk appetite re-emerged in July as optimism for a global economic recovery continued to build. The second quarter earnings results were better than the market expected, survey data improved and Quantitative Easing exit strategies came into focus.

Performance

The MSCI World Index 8.5% (USD) and the FTSE ET50 Index returned 4.87% (USD) for the month of July 2009.

Eco-energy

In the US in July, guidelines were issued by the Treasury and Department of Energy outlining the application process to receive grants for renewable energy projects. We consider this to be a significant step forward as the grants by-pass the frozen tax-credit market providing up to 30% cash for projects. We do highlight that it will take time for the legislation to be implemented however we are already noting anecdotal evidence of a demand stimulus. The renewable energy industry in China also received a boost in July with proposals from the National Development and Reform Commission of higher targets i.e. 18% of electricity from renewable energy by 2020.

In the solar sector our negative thesis on European downstream solar was confirmed with the release of Q-cells (not held) Q2 results in which profitability collapsed on account of fierce downward pricing pressure combined with an anticipated uptick in volumes not occurring. Upstream European solar has fared better given the high entry barriers and lengthy industry learning-curves with Wacker Chemie (held) reporting robust polysilicon sales and strong profitability despite falling spot prices. Wacker was one of the best active contributors towards fund performance.

In wind, Hansen Transmissions reported a weak set of numbers owing to reduced capacity utilisation given expansion in India and China against a backdrop of limited new orders as turbine manufacturers reduced gearbox inventories. China High Speed Transmission, a Chinese wind gearbox manufacturer, (not held) had stronger performance relative to Hansen during the month which detracted from portfolio performance.

Gamesa second quarter results were strong with all guidance reiterated in terms of profitability to date. The company did flag transient weakness in the US as developers digest the new legislation, financing additionally is constrained but recovery is expected later in the year. New markets such as Italy, Poland and North Africa have gained some traction. Gamesa is one of our core holdings.

FPL Group (held), a US based utility with the largest renewable energy asset base reported in-line results, but tempered its outlook for wind build out as the company revised its near term expectations on wind project additions next year to 1gigawatt from its previous range of 1–2 gigawatts. The company stated that this was a reflection of a weaker economy and its dampening effect on utilities' demand forecasts. The company however remained bullish on the long-term prospects for wind projects.

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Elsewhere in the Ecoenergy theme, strong performance was also seen in emerging market geothermal developer, Energy Development Corporation and a computer software and services engineering company Aveva, which has exposure not only to commodities but also a revival in future nuclear build out as governments look to low carbon energy generation.

Pollution Control

The most significant movement in the pollution control space came from Nine Dragons Paper Holdings (not held) a Chinese containerboard products company as the market priced in the start of a cyclical uptrend in the Chinese paper sector following a tough operating environment in 2008.

Clean Water

Within the water sector, companies continued to report a differentiated picture regarding current demand and growth outlook, indicating a still very large degree of uncertainty and limited visibility regarding order development.

For example water consultancy firm Tetra Tech surprised the market with better than expected profitability, but lowered its growth outlook because of the longer than expected time it will take for the federal stimulus funds to reach the market. Nevertheless, Tetra Tech's orders especially in the environmental service segment continued to grow.

Nalco, the leading US water chemicals company, reported EPS well below the market's expectation and especially those segments supplying the paper, mining and oil exploration industry continued to see massive declining sales through July 2009.

Environmental Technology Market Outlook

According to CleanEdge, renewable sources of energy are beginning to replace coal power in the U.S.: Every year the percentage of U.S. electricity generated from renewables has been increasing, according to the latest figures released by the Energy Information Administration in its Electric Power Monthly report. As a result, by April of 2009, the total was 12.97%, with hydropower accounting for 8.73% and other renewables such as solar and wind 4.24% of all U.S. electricity on average among all the states. Higher wind generation totals in just 4 states accounted for 62.2% of the national increase in wind powered generation: Texas, Iowa, New York, and Indiana. By contrast the percentage of electricity from fossil power is now actually decreasing.

Congressman Earl Blumenauer of Oregon introduced a long-awaited legislation to create a Water Trust Fund, a federal funding mechanism along the lines of the highway trust fund. The bill proposes taxes on items such as soda, toothpaste, toilet paper, pesticides and pharmaceuticals to fund \$10 billion in annual spending on water and sewer infrastructure. The bill however is yet to make its way through Congress against the background of growing awareness among policymakers for the need for water infrastructure investments.

The US Environmental Protection Agency (EPA) took the next step in the way of public hearings in setting new hourly standards for nitrogen dioxide levels in cities with more than 350,000 people. The EPA is following a court-ordered schedule for finalizing the new standard by January 2010. Nitrogen dioxide is one of the six pollutants and it is likely the focus of the enforcement will be on vehicles which account for about 80% of the nitrous dioxide emissions followed closely by coal-fired power plants.

In the UK, the Government released its Low Carbon Transition Plan. The plan's key points recommend that by 2020, more than 1.2 million people will be in green jobs; seven million homes will have benefited from whole house makeovers, and more than 1.5 million households will be supported to produce their own clean energy; 40% of electricity will be from low carbon sources, including renewables, nuclear and clean coal and that the average car would emit 40% less carbon than presently. In the power sector, the plan aims for a 50% cut in the annual emission between 2009 and 2020 via a further greening of the electricity mix. The plan also featured new details including £6m of funding to start the development of a "smart grid" and the launch of a new Office for Renewable Energy Development to speed up the growth of renewables in the UK.

China's Ministry of Finance unrolled another big solar subsidy during July called the Golden Sun Project. Under this China will subsidize 50% of the upfront costs for grid connected solar systems (the bulk of demand) and 70% for off-grid. The Golden Sun Project - adds at least another 500 MW of clear support through upfront subsidies for solar projects over the next 2 to 3 years. However there still is no clear feed-in-tariff for solar, and as yet it is not certain whether there will be a cap. This is a positive for the sector.

The US and China signed a deal committing the world's two largest emitters of greenhouse gases to work together to tackle climate change and promote clean technologies. The memorandum of understanding contains no specific commitments or emission targets, but was hailed by negotiators on both sides as representing a major breakthrough in the run-up to UN-backed climate change negotiations in Copenhagen later this year. The document, which was signed after two days of talks between the US State Department and Chinese officials, commits the countries to undertake regular climate change meetings.

It also lists 10 technology areas where the two countries will co-operate to promote wider adoption, including energy efficiency, renewable energy, clean coal, smart grid technologies, electric cars, and clean tech research and development. Secretary of State Hillary Clinton said the agreement would serve to strengthen links between the two countries' fast-growing clean tech industries.

A handwritten signature in black ink, appearing to read 'B. Jankowska', with a large, stylized flourish at the end.

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Past performance is no guarantee of future results. Holdings are subject to change. Current and future portfolio holdings are subject to risk. As of June 30, 2009 the weightings of the following holdings in the Allianz RCM Global EcoTrendsSM Fund were: Wacker Chemie (1.05%), Gamesa (4.73%), Tetra Tech (2.27%), Aveva (1.32%), Q-Cells (0.00%), Hansen Transmissions 1.55%, China High-Speed Transmission (0.00%), FPL Group (2.14%), Energy Development (3.94%), Nine Dragons Paper Holdings (0.00%), Nalco (2.36%).

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The FTSE ET50 Index comprises the 50 largest environmental technology companies by market capitalization (approximately \$650 million to \$9 billion) from a global universe of 400 pureplay environmental technology companies. The Morgan Stanley Capital International (MSCI) World Index (sm) is a free-float-adjusted market capitalization index which is designed to measure global developed market equity performance. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an index.

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