Sustainable Funds

by Sheridan Admans, Investment Adviser

There's no denying it: global warming is a hot topic. According to a growing number of scientists, unless we dramatically curb the way we currently use fossil fuels, mankind poses a very real threat to the ecology of the planet. Of course there are the cynics who argue that global warming is just part of a natural cycle which is being exploited to increase taxes. Unfortunately, we can't afford to wait and see who is right.

What isn't questioned is that temperatures and sea levels are rising. Oil exploration success has been in decline since the 1960s and according to OPEC "at the rate of production in 2007, OPEC's oil reserves are sufficient to last for more than 80 years" but more alarmingly "non-OPEC oil producers' reserves might last less than 20 years". Faced with these facts, we need to consider reducing our reliance on fossil fuels, before the lights flicker and eventually go out.

However, rationing resources isn't the answer to the problem; it will only prolong the inevitable. Plus, nations experiencing major economic growth like China are unlikely to forego the resources they need to build their economies and enjoy the quality of life experienced in the West.

Therein lies the conundrum: world economic growth is key to ensuring that millions of people enjoy a better quality of life, but how can the world reconcile the increased demand on agriculture, energy, clean water and robust shelter required to achieve that growth? A raft of measures are required including vast amounts of capital, technological innovations, a sea change in government policy and the cooperation of all the major economies and trading partners. No mean feat. The challenge facing even the most progressive of countries, is how to nurture companies that can help combat the effects of climate change: those that can adapt to change, innovate, engage low carbon processes, harness alternative energies, improve distribution or use more sustainable materials on a scalable, commercial basis.

That said, the early signs of progress are starting to appear. The election of President Obama is a significant indication that the world's largest economy is ready to embrace a real shift in government policy. In his inauguration speech, Obama said: "We will harness the sun and the winds and the soil to fuel our cars and run our factories." His stimulus package proposes that tens of billions of dollars are used to encourage the smarter use and distribution of the nation's electricity, provide tax credits for wind farm developers, as well as providing 460,000 green energy jobs. His administration will also endeavour to reduce carbon emissions by 80% of 1990 levels by 2050.

China is also making steps towards improving the environment. According to the Carbon Dioxide Information Analysis Centre, China invested $10 billion in renewable energy in 2008; an investment second only in the world to Germany. Plus, in January 2009, it announced that it would subsidise the purchase of clean-energy vehicles for public fleets in 13 of its cities.

Higher taxes could help the environment by convincing companies to change their ways. In January 2009, Exxon argued that raising the cost of carbon-emitting fuels could change consumer behaviour and spur entrepreneurship. Some members of the scientific community also believe taxation on carbon emissions is the way forward. It could create a pricing floor that encourages energy producers and energy-reliant companies to innovate. Companies willing to reduce their reliance on fossil fuels and lower emissions could also be rewarded with lower carbon taxes. But for tax measures to be effective there must be an international effort led by the world's major carbon producers.

Tax breaks may be a carrot; a stick could be losing market share to those competitors who are willing to innovate and adapt. With this in mind, in February 2009 Centrica announced that it would create 1500 green jobs this year and invest £15 billion before 2020 in new power generation. Centrica is dedicating money, time and resources to ensuring a more sustainable future knowing that this could help increase profit over the long-term. For example, Ceres, an AIM traded company, has designed a product that provides electricity and heat by harnessing fuel cell technology that uses existing natural gas. Through partnership with Centrica, it hopes to become the main source of energy in the home while offering customers lower energy bills.

There is one certainty in these uncertain times: investor opportunities. Take a look at the three funds on the next page which feature in our Platinum 120 range. These are all funds seeking returns from companies engaged in tackling climate change and protecting the environment – areas of investment which are set to gather momentum over the long term.

Due to the global exposure of these funds, the nature of the technologies being explored and the fact that many of the underlying companies are small companies we do consider these funds to be a higher risk. They are a long-term investment and are likely to perform better in a growth market, but past performance is not a a reliable indicator of future performance. If in addition to growth you want to build a portfolio of investments that offers global exposure and believe that sustainability of the planet and its resources are fundamental to our progression then these funds are worth a look.

Schroder ISF Global Climate Change Equity Fund Managers: Matthew Franklin and Simon Webber

0% initial charge see page 3

Our risk rating: H10 | Fund size: £13.4m at 14 July 2009 | Yield: 0.00%

Aim: To provide capital growth primarily through investment in equities and securities of worldwide issuers which will benefit from efforts to accommodate or limit the impact of global climate change.

Opinion: The fund's objective is to produce capital growth by investing in companies that either mitigate or adapt to the effects of global climate change and is structured around five themes: energy efficiency, clean energy, environmental resources, low carbon fossil fuels and sustainable transport. The managers are free to invest in companies that offer the greatest opportunities for investors.

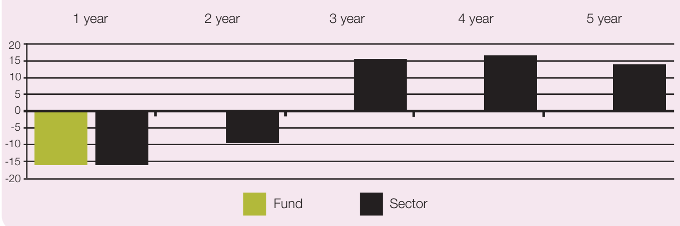
The fund managers, Matthew Franklin and Simon Webber, have a team of six global sector specialists and two climate change specialists researching ideas for this fund. They are also supported by a global network of over 70 in-house analysts. Typically the fund will hold between 50 and 100 companies selected from around 500 climate change companies.

Benefits: The fund is not limited by ethical, sector or regional constraints or dictated by a benchmark. It has very little overlap with other mainstream global equity funds and therefore would fit nicely into a diverse portfolio.

Discrete quarter-end performance to 30 June 2009

	1 year	2 year	3 year	4 year	5 year
Fund	-16.1%	n/a	n/a	n/a	n/a
Global Growth	-16.1%	-9.2%	15.6%	16.8%	14.1%

Performance chart



Jupiter Ecology Fund Manager: Charlie Thomas

0% initial charge see page 3

Our risk rating: H10 | Fund size: £272m at 30 April 2009 | Yield: 0.80%

Aim: To achieve long-term capital appreciation together with a growing income consistent with a policy of protecting the environment. The fund's investment policy is to invest worldwide in companies which demonstrate a positive commitment to the long-term protection of the environment.

Opinion: The fund's objective is to produce capital growth by focusing on investments that 'provide solutions for environmental and social problems as well as those which are actively managing their environmental and social impact'. This objective is based around six green themes: clean energy, water management, waste management, green transport, environmental services and sustainable living.

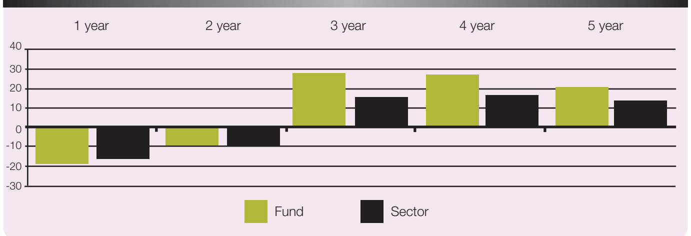
This is one of the longest running funds to operate in this sector having been launched in 1988. The fund manager, Charlie Thomas has been the lead fund manager of both the Jupiter Ecology Fund and Jupiter Green Investment Trust since September 2003. He is supported by Jupiter's specialist environmental team.

Benefits: The fund is managed with a bias towards global medium and small capitalised companies but does not rule out large companies. It has been a top quartile performer on a cumulative basis over the last 3 and 5 year periods.

Discrete quarter-end performance to 30 June 2009

	1 year	2 year	3 year	4 year	5 year
Fund	-18.7%	-8.9%	28.6%	27.0%	20.9%
Global Growth	-16.1%	-9.2%	15.6%	16.8%	14.1%

Performance chart



Allianz RCM Global Eco Trends Fund Manager: Bozena Jankowska

0% initial charge see page 3

Our risk rating: H10 | Fund size: £12.5m at 14 July 2009 | Yield: 0.00%

Aim: To achieve long-term capital growth by investing in companies across the globe that are directly or indirectly active in the following three sectors: eco-energy, pollution control and clean water.

Opinion: The fund's objective is to produce capital growth by investing in large, medium and small capitalised companies around the globe to provide the potential for capital growth. These companies fit into the climate change story by being active in alternative energy sources, energy efficiency, environmental quality, waste management, recycling, water treatment and supply; all themes that we expect to gather momentum over the long-term.

The fund manager, Bozena Jankowska is the head of sustainable research at Allianz and holds a BSc in Environmental Science and an MSc in Environmental Technology demonstrating extensive knowledge in the field in which she invests. She is supported by a Sustainability Research team. Typically the fund will hold between 50 and 70 companies.

Benefits: The fund is not constrained by ethical, green or sustainability screening; it screens out companies active in financials, defence, tobacco and a large part of the consumer sector. A maximum of 20% may be in emerging markets.

Discrete quarter-end performance to 30 June 2009

	1 year	2 year	3 year	4 year	5 year
Fund	-28.2%	n/a	n/a	n/a	n/a
Global Growth	-16.1%	-9.2%	15.6%	16.8%	14.1%

Performance chart