

# Criterion Global Clean Energy Fund



## MANAGER'S COMMENTS - MAY 2010 PICTET ASSET MANAGEMENT



**MARKET REVIEW** The MSCI World Index corrected by over 6% in CAD terms during the month of May. The most relevant macro trend affecting stocks in the Clean Energy sector was once again related to sovereign debt concerns within the European Union. Some of our holdings in the Iberian region were negatively affected. In the energy markets, oil prices and natural gas prices remained stable. In the currency markets, the Euro continued to weaken, thus hurting some of the stocks in the clean energy space which sell solar equipment in Europe while producing in USD-linked regions.

**PERFORMANCE ANALYSIS** During May, the fund underperformed the MSCI World Index. The strongest contributors to performance were Polypore, which manufactures membranes for lithium ion batteries and reported very strong 1st quarter results; Quanta services, which is trading at very attractive valuation levels and is seeing a pick-up in activity; and American Superconductor, which signed a major contract with Chinese Wind turbine producer Sinovel. Underperformance came primarily from our holdings in Wind park operators EDP Renovavies and Iberdrola Renovables. We believe these assets have been unfairly sold off owing to sentiment and represent very attractive risk reward and thus choose to disagree with the market.

**PORTFOLIO ACTIVITY** We took profits in natural gas transportation stock Clean Energy Fuels following a strong performance year to date. We used the proceeds to increase our position in Quanta and initiate a new position in Baldor Electric.

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## PORTFOLIO STRATEGY

The fund's aim remains unchanged, i.e. to be invested in the winners of the energy transition. Within the Technology & Equipment and Energy Efficiency segments, the fund continues to be focused on investing in companies that have the market positioning and the balance sheet to be able to deliver profitable growth. Within the Infrastructure and Resource segments, the fund focuses on companies that have favourable prospects and cash flows relative to their market-implied valuations.

## MARKET OUTLOOK

The outlook for Clean Energy stocks remains attractive. Stock valuations, especially in the wind and solar sector, reflect a very pessimistic development in government support for the coming years, creating buying opportunities. We continue to believe that 2010 will be characterised by the unfolding of government stimulus measures, coupled with a gradual return of private capital to the industry. We are witnessing the first signs of recovery in the electricity markets, which may signal the start of a gradual - albeit slow - recovery of demand and of power prices. This should benefit both renewable electricity producers as well as energy efficiency stocks in general.



A First Asset Company

95 Wellington Street West, Suite 1400  
Toronto, Ontario M5J 2N7  
Toll Free: 1.888.642.5998  
info@criterioninvestments.com  
www.criterioninvestments.com

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