

heavily involved in the British home-heating fuels market. "The weather had a material effect on the company's performance last year," said O'Donoghue. "DCC quantified the effect of last year's mild winter as having a €6m hit on its profits. People just didn't use as much fuel as they had been expecting."

"It didn't really have an impact on the company's share price, but it took some of the gloss off its results. DCC is now working off the assumption that the same weather will repeat itself this year. But if it is a particularly cold winter, and it distributes more fuel than expected, that will be benchmarked against a mild winter in 2006."

Theoretically, a cold winter could trip a slight rise in DCC's share price.

"You could also speculate that because McInerney Holdings, the home builder, has got a growing business in the north of England [where there is currently flooding], it could be adversely affected this year," said O'Donoghue.

Retailers, who rely on getting customers out of the house to spend money, and exploration stocks, which can see

millions of euro wasted in mining is held up by high winds, are also susceptible to weather patterns.

Eason said that despite perennial moaning about the rain, the impact of the weather on Irish companies' share prices is usually short-term.

"It should be borne in mind that held-up building activity still has to be done. But it could conceivably take the gloss off a set of interims," he said.

There can also be an upside for the construction sector if there is bad weather. "Existing buildings that have been destroyed will have to be built again," said Eason. "CRH is heavily exposed to the American construction sector and, while hurricane season over there might have a short-term negative effect, in the long-term CRH will benefit from all the rebuilding."

Its roofing materials division in America outperformed analysts' expectations in 2005 in the aftermath of Hurricane Katrina. Builders' merchants such as those owned by the Grafton Group can also get a lift from bad weather.

"Kingspan is another Irish company

said. "It owns Century Homes, which makes timber-frame houses. Builders who were affected by the rain recently might look at ways of minimising the future risk. Timber-frame homes are less weather-reliant [because their construction is factory-based], so this could be good for Century over time," he said.

Another thing to consider in Ireland is that the mention of weather as a factor just increases negativity and suspicion towards a stock, says Eason.

"The [Irish] market is a paranoid beast," he said. "There are doubts about the construction sector at the moment. So if a construction company was to blame poor results on a 'weather issue', people in the market might think they are using it as an excuse to cover up an underlying factor. Using weather as an excuse could actually feed into negative comment about the share price."

The best examples of performances going down the drain along with the rainwater are to be found abroad in global insurance and utilities.

Colum O'Connor, an alternative

Asset Management, said: "Biofuels companies are heavily dependent on commodities prices such as corn and rapeseed. A poor harvest can see those prices shoot up."

Treasa Ni Chonghaile, who manages a water fund at KBC Asset Management, said Consolidated Water, a company involved in desalination activities in the Caribbean, saw some of its operations wrecked by a hurricane in 2004.

"A repeat of this is seen as one of its key risks. This has been discounted into the share price," she said.

Eason added that international insurers, such as Swiss Re, can be strongly affected by weather-related events.

"They get hit big-time at certain periods in the year when higher claims because of the weather are likely [such as hurricane season in Florida]," Eason said. O'Donoghue said he has heard stories of global financial companies employing meteorologists to work in their commodities divisions. If things go wrong, at least then they can really blame it on the weatherman.

# Turn green and make others envious

RICHARD POWER manages the Green Effects fund at Dolmen Securities, a Dublin-based stockbroker and fund manager with €2 billion under management.

Launched in October 2000, Green Effects invests in 30 ethically screened stocks. It has €45m under management of which 30% is invested in US equities, 25% in the eurozone, 17% in Scandinavia and 16% in Japan. Water, paper and financial services are the biggest industry sectors in the fund.

Green Effects is open to those with at least €5,000 available. Investors include Green party TD Ciaran Cuffe.

## Investment philosophy

Green Effects invests in the 30 companies included in the natural stock index developed by the German magazine Nature.

The index excludes companies involved in nuclear energy, armaments and genetically modified products. It also avoids businesses whose production processes damage the environment, that use child labour or discriminate against minorities.

While companies must be included in the index before Green Effects will invest, Power decides the exposure to individual stocks and sectors.

"We don't track the index or use it as a benchmark," he said. "While the index has 30 stocks we started off with just 10 and built up to include all 30 by adding two or three new stocks a year."

The green credentials of some of the fund's biggest positions — coffee giant

## Market MOVER

Richard Power

Starbucks, Australian bank Westpac, American mortgage lender Fannie Mae — are not immediately apparent.

"Not everything is vetted purely on how it interacts with the environment," said Power. "Westpac, for example, has substantial exposure to alternative energy through its lending policies. It also tries to be socially responsible through its employment practices and in the extent of female representation on its board."

Shimano, the Japanese bike manufacturer, ticks various boxes for the fund. Cycling is the environmentalists' preferred mode of transport and Shimano also scores points for its efforts to be a good corporate citizen.

## Performance

Green Effects has outperformed most of the leading global stock-market indices. It grew by 88% in the three years to the end of May, compared with 64% for the Euro Stoxx 50 index, 46% for the FTSE 100 and 24% for the S&P 500.

The fund grew 13.6% in the first five months of 2007, compared with 9.5% for the Euro Stoxx, 5.5% for the FTSE and 5.9% for the S&P.

## Buying and selling

Recently the fund added to its position in Britain's Severn Trent, a €3.6 billion waste and water utility. "It has been a strong performer, but the shares have suffered as bond yields improved," said Power. "We've bought on the weaknesses. Severn Trent has a dividend yield of 4.8% and is undervalued at current levels."

He took a profit on Starbucks after it admitted hitting 2007 profit targets would be challenging. The news sent shares to a near two-year low, although a 20% rebound since then has led Power to start adding to his position again.

Two stocks constantly on the radar screens of any ethical fund manager are Solar World, a German manufacturer of solar panels valued at €131m, and Vestas, a Danish leader in wind turbines, which is worth €1.5 billion.

"We're always

watching for weak days on which to buy these stocks," said Power. "Solar World is an exceptionally strong performer with a full order book for its panels. It's trading at €64 at the moment, €2-€3 off its all-time high. We are looking out for a sub-€60 entry level."

Vestas has soared from 240 Danish kroner to a high of 400 kroner in the past six months and is trading at 355 kroner currently. "It is quite a volatile stock and, at these levels, we're waiting for weakness towards 300 kroner," said Power.

## Outlook

A flood of money into alternative energy has sent stock prices soaring, although Power believes comparisons with the dotcom bubble are misleading.

"The sector is being driven by fundamentals," he said. "Mandates from governments to find

alternative energy sources are huge and companies that come up with innovative designs will continue to be rewarded. Alternative energy is a sector in which every investor should have an interest."



Power: solid fundamentals

Niall Brad