

How to profit from global warming

As the green bandwagon gathers pace, investment options are examined by **John Mulligan and Ali Hussain**

WHEN The Good Life aired on the BBC in the 1970s, its green-conscious leading characters were portrayed as eccentric misfits. Today, the green bandwagon has gone mainstream.

Dozens of Irish companies have been established that intend to produce renewable fuels such as ethanol, while business heavyweights such as Larry Goodman and Sir Anthony O'Reilly are investing heavily in foreign companies that will generate fuel from crops.

Going green can be profitable, but how can ordinary consumers capitalise on global warming?

As of last week, investors can put money into the European Investment Bank's (EIB) new Climate Awareness Bond, a vehicle that protects your initial investment sum and guarantees a minimum redemption value at maturity in 2012 worth 105% of the capital invested. It is the first time the EIB has made a bond available to investors across Europe.

It will pick projects to invest the money in, primarily in Europe, including those involved in renewable energy

and energy efficiency. According to the EIB the bond is a "unique initiative" to help the Continent achieve the European Union's 2020 climate change goals. This aims to generate a 20% reduction in greenhouse emissions by 2020 compared to 1990.

Investment in the bond can be made in €100 blocks and the return will be linked to the performance of the Environmental Leaders Europe 40 Index, which was created for the bond. It comprises 40 of Europe's largest and most "environmentally sound" companies, according to the EIB.

No Irish companies are included in the index, and some of the more surprising businesses on the list include BP, whose poorly maintained pipeline in Alaska burst last year spewing out 200,000 gallons of oil; the mining giant BHP Billiton; and Royal Dutch Shell and Statoil, which are co-developing the controversial Corrib gas field. The bonds can be bought at any main bank for about another three weeks. Investments are subject to a 3% upfront fee.

Those with a bit more free

cash can always opt for other green funds, but although there are some ethical funds, there is only one green fund available from an Irish institution.

The Green Effects vehicle from Dolmen Securities requires a minimum investment of €5,000. Firms currently in the fund's holdings include Vestas, a Danish wind energy turbine manufacturer, and Solar World, a German energy producer. The 30 holdings are selected based on the Natural Stock Index, created in 1997 by the German magazine Nature.

Robert Power, Green Effects' fund manager, described it as "relatively specialised" and added that within the past 12 to 18 months there has been increased interest in the fund, citing the maturing of special savings incentive accounts as a possible reason.

Power said it is a "myth" that green and ethical funds by their nature will perform less strongly than traditional funds

that include anything from weapons manufacturers to tobacco firms.

Launched in 2003, the Green Effects fund has performed strongly since the beginning of this year, up 11.5%. Since its inception it has beaten returns of leading indices such as the S&P 500, the FTSE-100 and DJ Stoxx 50.

Green Effects has attracted a broad investor base, according to Power, who said that institutions and individual clients have signed up for it. There's a 2% entry fee, while the annual management fee is 0.75%.

Further afield, the newly launched UBS global warming index will initially track temperature variations in 15 American cities, making so-called "weather futures" available to investors for the first time. Such derivatives have been commonly used by agricultural firms and even Bord na Móna to hedge against bad weather. Investors will be able to bet on the index using certificates, which are essentially like tracker funds, and warrants, a type of option on the index available via UBS's private bank.

Justin Modray, of Bestinvest, an adviser, said alternative-energy investing is potentially lucrative, but can be a high-risk area with many of these firms dependent on a high oil price. You can reduce risks by buying a fund but these, too, can be volatile.

"Investors are likely to have

high exposure to the oil price through their existing portfolios, so adding an alternative energy fund may be a step too far at present," said Modray. "If you do invest you might hit the jackpot shorter term, but plan to invest for at least 10 to 15 years in case you don't."

Modray recommends the Merrill Lynch New Energy Technology investment trust, headed by Robin Batchelor, though he warns its volatility can be high.

Allied Irish Banks will launch its Green Fund soon, but Donal Forde, the bank's managing director, describes it as just a "first step" in developing its green credentials.

AIB is making a contribution to the fund for every one of its customers who opt to have their deposit, current or credit card account statement delivered electronically.

The fund will invest in one international and one national environmental project. This could eventually lead to a more investor-focused managed green fund, but Forde said consumer sentiment towards such funds is still not strong enough to warrant the introduction of one.

"I think there's still a bit of anxiety about them," he said. "There's certainly an appetite, but on a global basis, green funds tend to offer returns in the bottom quartile of those achieved overall by funds. They can't be an excuse for fund managers to underperform."

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