

Photo: REUTERS

Clean stock investors should look overseas

In international markets clean technology is performing very well, compared to its weak role locally, writes

Those looking for a clean and green investment in technology that improves the environment, and a comparatively solid return, should not invest in Australia. The reason, industry observers say, is the lack of proactive government measures such as a price for polluting the air with carbon dioxide.

of Australian CleanTech, which compiles the ACT index, says stock selection "focuses on companies whose output positively enhances the communities and ecologies in which they reside: it is about doing more good rather than less bad".

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A greener deal

- Australia's clean technology market index has fallen 65 per cent in the past three years.
- The market here is regarded as "depressing" and underdeveloped.
- Operating in more beneficial frameworks, clean stocks in

10 years in clean energy, according to a monthly report from Arkx Investment Management.

Arkx (pronounced ark-ex) offers the Arkx Clean Energy Fund, comprised of clean-energy shares, none of which are Australian. And it has done well, both against the standard benchmark for clean-energy stocks and against the MSCI index of leading global stocks. In

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You can get high-performing investments in this area overseas – in fact one fund of foreign cleantech shares offered locally outperformed the standard benchmarks, including a diversified equity portfolio, in the latest financial year.

But Australian clean-technology stocks perform well below the standard measures of overall stock performance such as the S&P/ASX 200 index of leading stocks. This is shown by the ACT Australian CleanTech index, which recorded a loss of 32 per cent.

In the same period the S&P/ASX 200 index recorded a gain of 11.8 per cent and the S&P/ASX Small Ords index, which measures the performance of stocks with comparatively small capitalisation, rose 10.5 per cent. John O'Brien, managing director

"Our performance shows it's a new sector in Australia. There's not many larger, dedicated clean, green companies: of the 78 in the index, most are pretty small. Only a few are of any size and the small caps got hit harder in the global financial crisis," he points out.

"If you keep digging in, you can find five or so larger companies, but they all had their own issues and performed worse than their peers. The story is that it's a fairly immature sector in Australia. Having said that, the ACT index was reasonably tracking the Small Ords index a few years ago (in financial year 2006-07) and looked like it might stay above the benchmark."

But over the past three years the index has lost a whopping 65 per cent of its value, compared with a 30 per cent decline for the ASX 200 index and a drop of 42 per cent for the Small Ords index.

O'Brien says the story of environmental investments in

- Operating in more beneficial frameworks, clean stocks in overseas markets perform well.
- The Arkx Clean Energy Fund is one that performs above trend.

Australia is a depressing one compared to global clean-tech stock performance.

"The drivers of this poor performance include weak and inconsistent political leadership on environmental issues."

Asked what investors should look for in a clean-tech investment, O'Brien replies "there are some Australian stocks that have had extremely good performance, but it takes some research to get a feel for them".

"Investors have more choice when it comes to international stocks and there are also some local funds looking at international stocks and doing quite well. That's a more reliable way of investing unless you go stock picking."

Although there are some encouraging trends in Australia – such as the take-up of wind energy, home installations of solar panels and a growing trend towards recycling – finding the stocks that will give good returns even in these areas "needs a bit of work which makes it hard for mums and dads".

Overseas investments in this area tend to do much better, reflecting regulatory regimes and government initiatives that encourage clean energy and emission reduction, even in China, which is now the biggest global oil consumer and seen as a big contributor to carbon dioxide pollution.

China plans to spend up to \$US738 billion (\$816 billion) over

none of which are Australian. And it has done well, both against the standard benchmark for clean-energy stocks and against the MSCI index of leading global stocks. In the past 12 months the Arkx fund was up 15.1 per cent compared to a drop of 14.3 per cent for the new energy index and a rise of 8.4 per cent for the MSCI World Index.

The result was achieved despite the fund's 23 per cent weighting towards China, where the sharemarket fell dramatically.

Tim Buckley, joint managing director of the Arkx fund, says the results reflect the fact that, firstly, "we back countries where governments understand the importance of renewable energy and are actively promoting development of new technology; we have zero weight in Australia at the moment, although our investors are Australian based, because there are better opportunities offshore".

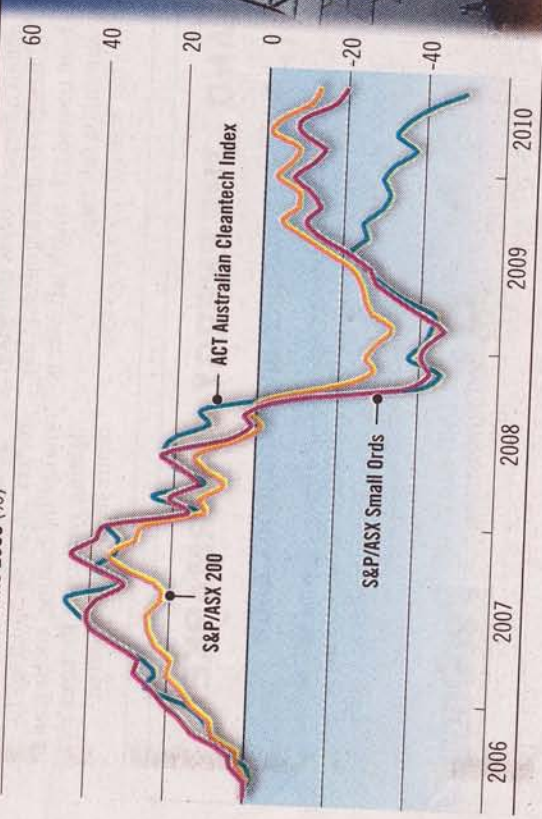
Secondly, one of the fund's objectives is to invest for superior returns by "looking for companies leveraged to opportunities in the move to clean energy". That includes using key metrics to ensure sensible balance sheets.

"Average debt among the companies selected for the fund is 15 per cent of enterprise value and seven of the 22 companies included have net cash," Buckley says. "We look for very conservative balance sheets because when you're investing in high growth you shouldn't have financial leverage on top. These are proven, profitable businesses, not start-ups."

Although Arkx has attracted limited funds of around \$6 million to date, in December 2009 it announced a strategic partnership with Ascalon Capital Managers, an incubator of boutique funds, owned by Westpac Banking Corporation, which will help it formulate an offering designed for retail investors.

Wiling investments

Performances since June 2006 (%)



SOURCE: CLEANTECH

