

Ecofriendly Funds

Mutual funds are striking gold in green stocks. Worldwide, funds that invest in alternative energy and other environmentally friendly industries posted an average return of 39 percent in the 12 months ended on May 31, according to data compiled by Bloomberg.

Managers of the best-performing green funds say the boom has only just begun. Rising oil prices and growing concern over global warming have sent green power stocks soaring. Companies involved in water treatment, recycling and waste management are gaining, too.

"People know that we are not on a sustainable path and that in the next five, 10 or 15 years, the main problems will

be environmental," says Nicolas Rochon, who helps manage the 198 million euro (\$248 million) Performance Environnement fund at Paris-based Financière de Champlain. The fund returned 51 percent in the year ended on May 31, the best showing among green funds worldwide, according to Bloomberg data. (See table.) The fund was launched two years ago, with a mere \$400,000 in assets.

Rochon, 28, says many investors believe they'll profit by looking out for the environment. Alternative energy stocks have already surged the way dot-com shares did in 1999. The 40-stock WilderHill Clean Energy Index has rocketed since its

August 2004 debut, gaining 69 percent as of June 5.

During the past decade, investors have poured money into mutual funds that follow environmental, social or religious guidelines. The assets of such funds ballooned to \$179 billion in 2005 from \$12 billion in 1995, according to the Washington-based Social Investment Forum.

Ecofriendly funds represent only a fraction of that universe. The seven U.S. green funds tracked by Chicago-based Morningstar Inc. have a combined \$619 million of assets under management.

Managers of green funds typically invest in small companies that they think are poised

for fast growth. Altshuler Shaham Green Fund, which returned 36 percent in the year ended on May 31 and has 403 million shekels (\$90 million) in assets, supplements its small-cap picks with stocks of large companies it believes are committed to energy efficiency, such as Milwaukee-based automotive systems manufacturer Johnson Controls Inc. and Toyota City, Japan-based Toyota Motor Corp.

"Investing in large conglomerates that invest in energy-efficient products helps offset the volatility of our small-cap holdings," says Yotam Irroni, an analyst at Tel Aviv-based Altshuler Shaham Mutual Fund Management Ltd. Among the Altshuler

green fund's biggest picks are Spanish wind power company Gamesa Corp. Tecnologica SA, Canadian organic food distributor SunOpta Inc. and Chinese solar panel maker Suntech Power Holdings Co.

Rochon invests in 70-80 stocks to reduce the volatility of his fund's returns. He also picks companies with contracts that guarantee stable sales. Performance Environnement invested in Paris-based Sechillienne SA, which has a contract for biofuel power in Guadeloupe.

Jackson Robinson, who started the Boston-based Winslow Green Growth Fund in 1994, hunts for sound, small companies

that have run into some trouble.

For example, Robinson, 64, bought shares of Danville, Connecticut-based organic food distributor United Natural Foods Inc. in 2000, when a new CEO was struggling to upgrade the company's computer systems. At

the time, the stock traded at \$8. On June 5, it traded at \$33.36.

As oil prices have soared, alternative energy has emerged as the hottest investment area for green funds, Robinson says, adding that the rush to these stocks reminds him of the Internet

share frenzy of the '90s. "There are hundreds of companies in this space, and many will not survive," Robinson says. For now, at least, mutual fund managers—and their investors—are seeing green.

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Cleaning up

The top ecofriendly funds have posted an average one-year return of 39 percent.

	Name	Management company	Country	1-year total return*
1	Performance Environnement	Financière de Champlain	France	50.9%
2	Nikko Eco Fund	Nikko Asset Mgmt.	Japan	44.1
3	New Energy Fund (EUR)	Sarasin Investmentfonds	Luxembourg	41.2
4	Impax Environmental Markets Ireland	Impax Asset Mgmt.	Ireland	40.1
5	Winslow Green Growth	Winslow Mgmt.	U.S.	38.6
6	Altshuler Shaham Green	Altshuler Shaham Mutual Fund Mgmt.	Israel	36.1
7	Sompo Japan Green Open	Sompo Japan Asset Mgmt.	Japan	35.9
8	Global Trend New PowerTech	Vontobel Fund Advisory	Luxembourg	33.9
9	Activest EcoTech	Activest Investmentgesellschaft	Luxembourg	32.7
10	Jupiter Ecology	Jupiter Asset Mgmt.	U.K.	32.2

*For the 12 months ended on May 31. Includes funds with assets of at least \$50 million. Source: Bloomberg