

Europe: In Search of Greener Returns

The manager of Financière de Champlain's eco-focused funds offers his top picks for water, waste, and renewable energy stocks

by [Claudia Perotti](#)

With Earth Day 2007 drawing near, corporate leaders, shareholders, and fund managers are encouraging the pursuit of a greener approach to business.

As the effects of climate change become more apparent, and the supply of fossil fuels diminishes, Big Business is reconsidering its options and evaluating more ecology-minded investments. It is estimated that within 20 years, fossil fuel production will have peaked. Based on this time frame, business and investors are under pressure to look for alternatives as new resources for a major transition from traditional energy.

French independent fund management group Financière de Champlain—established seven years ago and now managing €475 million—was the first French fund to specialize in such investments. Partner Nicolas Rochon warns that before investing in eco-focused situations in a particular country, one must be well-versed in the country's environmental regulations.

Not Yet Profitable

Financière de Champlain's environment portfolio identifies three major green issues—water, waste, and renewables—across which investments are fairly evenly distributed.

The renewable energy solution is considered a vital weapon in combating climate change. Rochon says renewable plays tend to be dynamic. Investments are, for the time being, small- and mid-cap driven, offering double-digit growth. However, investors must be vigilant because, in spite of high cash generation, many of the renewable energy producers are still not profitable.

Water offers strong growth prospects. Demand for drinking water is expanding rapidly, given the brisk pace of urbanization in highly populous Asian countries. Water investments are typically larger-cap companies, with high early-stage capital expenditure and above-average dividend yields.

Diversifying to Spread Risk

Waste disposal has become a major problem for the developed world, with landfill sites now overflowing. The average French person creates 350kg of waste per year, while the typical U.S. individual produces 550kg.

In India, only 100kg of waste is produced per person, though increasing urbanization will boost waste production. Waste management companies tend to be mid- or large-cap.

Rochon says that by diversifying the investment themes and working with a range of market capitalizations, the fund is able to spread risk in order to manage volatility effectively. When asked which technology offered the best long-term investment, Rochon said he was confident that solar power would become the standout alternative among the various new technologies currently available. Nano and thin film technology will continue to enhance the appeal of solar panels that can already be used on a personal, as well as industrial, level—unlike windmills, which require space and are used mainly on large-scale projects.

While wind energy and biofuels are good solutions over the middle term (15 to 20 years), over the long term Rochon does not consider them the best alternative.

Generating Strong Returns

To be sure, alternative energy solutions are heavily regulated, and investors must be aware of the directives that fuel the dynamics of this market. For example, Germany set out strong regulations for the solar business over four years ago and has now taken pole position on the solar track, supplying 55% of megawatts installed globally.

As an investment opportunity, many nontraditional energy providers have already generated strong returns. Financière de Champlain's Performance Environnement fund delivered an absolute return of 52.8% in 2005 and 32.83% in 2006. So what are its strong convictions for 2007?

Based on the Performance Environnement fund (Europe only) and its younger, better-travelled sibling Performance Environnement International, German renewable plays Conergy, the aptly named Solar Millennium, and Plambeck look like good bets. Enertad in Italy and Sunpower ([SPWR](#)) in the U.S. are also considered sound investments.

In the area of waste, Rochon advises picking up stock in France's Pizzorno, Hera of Italy, and Republic Services ([RSG](#)) and Covanta ([CVA](#)) of the U.S. Finally, companies such as France's Veolia, Manila Water of the Philippines, and Cemig of Brazil make up Financière de Champlain's water treatment favorites.

Perotti is managing editor of Standard & Poor's European MarketScope.