



The start of the new year is a good time for both reflection and outlook. Here are some thoughts as we head into 2009.

-Andrew Heintzman

LESSONS FROM 2008

Valuations matter

Renowned philosopher George Santayana said that those who do not learn from history are doomed to repeat it. Perhaps nowhere is this truer than in investments. Only a few years after the end of the tech bubble, irrational exuberance drove markets to unsustainable levels. And so we renew our continual promise to remember that valuations always matter.

There's no such thing as a free lunch

Watching several high profile hedge funds collapse has helped remind us that investing isn't magic and something that sounds too good to be true probably is. An investment that promises to grow rapidly at minimal risk is not reasonable. And conversely "zero risk" products like GICs and funds wrapped with insurance policies often create zero real returns. There is *always* a trade off between risk and return.

Good investments over time often lead to broad social and economic benefits

The problem with the real estate driven investment boom, and what made it so short sighted, was that it offered no value to society. What is the benefit of building 5,000 square foot homes in the desert? These were castles made of sand, destined to fail with the next economic wave. At least the internet boom boasted increased productivity and opportunity for society as a whole, and that is why it created lasting enterprises like Google and Amazon.

We must move from a culture of consumption to a culture of savings and investment

The declining savings in western countries is the flip side to an economy driven on over consumption and cheap debt. If we are to mobilize the capital required for the really important projects of the future—like building public transit, reforming our electricity system, and developing water infrastructure—we will have to move from a culture of consumers to a culture of savers and investors, and to apply those savings and investments towards the important infrastructure that needs to be built for our future prosperity and productivity.

DEVELOPMENTS WE SEE FOR 2009

With these lessons in mind, we turn to the year ahead. Economic challenges will remain, but new opportunities will present themselves. We predict the following trends will emerge.

Efficiency and conservation will take on renewed interest and attention

As we have long known, saving a kilowatt of energy is much cheaper than producing a kilowatt of energy. And it's invariably greener too. These twin benefits will again cause us to turn our attentions to how to use our resources—and particularly our energy resources—more efficiently.

The smart grid will emerge as a defining focus of new economic growth

A two-way energy grid that maximizes system energy efficiency by improving real time

information flow and allowing for distributed sources of generation will become the most important investment project of the near future. Many of the information and communication technologies developed in the last great investment wave (1990s IT) will have applications to the energy IT wave we see developing today. The scope of electricity infrastructure renewal is enormous: it will cause us to revisit and re-imagine many of our largest industries including energy, automotive, building, and communications. The greatest companies of the coming years may well respond to this enormous global imperative.

Private equity will turn back to the important goal of building quality businesses

The last ten years witnessed an obsession with financial engineering and quick payouts at the expense of company building. A large part of the private equity world virtually forgot the need to build good companies and focused instead on balance sheet engineering, the result of which was to create debt-laden businesses with few competitive advantages. The new focus will be very different. Private equity will need to realize value by creating it, not through borrowing. Solid balance sheets will be essential as private equity begins to focus on the much more difficult—and important—job of

building great companies that can stand the test of time.

Businesses that the world needs will be in a stronger competitive position

We believe that the best companies of the future will be ones that address the demands of a growing world population on limited natural resources. This need still represents the largest economic opportunity of our age. In the past the need for ecologically minded companies has been cast as an issue of corporate good governance and ethical business. In the future, we will come to see them as central to the continuing viability of our civilizations as we continue to seek exponential growth on a finite planet. Therefore, we believe, the next wave of ingenuity and innovation will focus on moving towards a paradigm of “doing more with less”, in areas like energy, water, transportation and food. These will be the growth opportunities of the future.

Despite the economic crisis—indeed, perhaps because of it—a new opportunity is arising to reorient our economies towards a more sustainable path. We believe that the conditions are ripe for businesses that are leaders in sustainability to grow and prosper in the coming years.

We are excited about the opportunities for our sectors, and believe that we are well positioned for an excellent 2009. The Investeco Private Equity Fund III, L.P. for Canadian investors is launching in January. Anyone who is interested in learning more about that fund should visit www.investeco.com, or contact me at 416-304-1750 ext. 398 or aheintzman@investeco.com.