January 2008

INVESTECO NEWSLETTER

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Contents

Industry News

1. Feature: Global Environmental Sectors Fund launched in January.

Although a trying time in the market, we believe it is a good time for long-term environmental investors. After a year of considerable preparation and planning, the Investeco Global Environmental Sectors Fund had its first close on January 4th. We had a disciplined plan in place for putting capital to work as it was entrusted to us and we were ready to build a portfolio of environmental companies well positioned for the future.

Now, as everyone knows, January, 2008 turned out to be a wild and chaotic month on the global stock market. We had expected that 2008 might be a volatile year, as credit market concerns were well documented and a U.S. recession was all but technically confirmed. So we were prepared for markets to correct. In fact, these market conditions are exactly what portfolio managers want when they have cash to invest, as we do now.

That said, caution is still appropriate; we may be facing a prolonged period of volatility in the capital markets, as excesses of the past decade will not likely be worked out in a month; in fact the next few years are likely to be very challenging for global economies. Undisciplined credit issuance and reckless financial expansion has engendered unprecedented imbalances in global trade, personal savings, and income distribution. Correcting these imbalances will likely take some time.

Despite these significant challenges in the global market, we believe this is a good time to be a long-term environmental investor, for the following reasons:

1. Environmental sectors benefit from strong tail winds. We believe the significant need for capital over the long-term in the environmental economy will continue to drive demand for the products and services provided by companies in our chosen sectors, and will drive long-term outperformance for our portfolios.

2. The global sell off will allow us to buy into companies at more advantageous prices. A correction of the above-noted imbalances also lays the foundation for more sustainable economic growth in the future.

3. The rapid pace of change in environmental sectors and the general economic backdrop will reward those who focus on these specific sectors with information advantage.

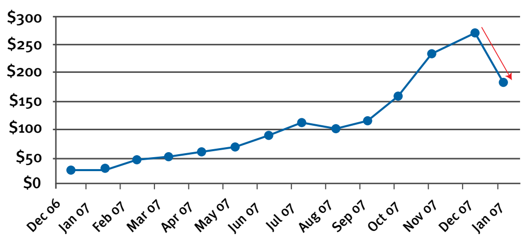
Let's look at each of these separately.

Why the environment?
Assuming that the job of financial markets is to allocate capital to where it is most needed, we feel very strongly that environmental sectors represent one of—if not the—greatest investment opportunities in coming years. The need for capital investment is staggering. Taking electricity generation alone, achieving the recommendation of Sir Nicholas Stern's Royal Commission on the environment to 'decarbonise' 60% of the electricity market would require annual investment in carbon free generation such as wind and solar of at least $0.5 trillion. With oil still accounting for 37% of total energy consumption, alternatives to oil-based liquid fuels figure to be another enormous investment requirement (although biofuels and hydrogen are currently uneconomic and their green merits are debatable, scientific advances may yet change this dynamic). Water infrastructure has been neglected for decades and major investments are required to reduce leaks and to catch up with new development. The consultancy Booz Allen Hamilton estimates the global need for water and other infrastructure investments at more than $1 trillion annually. Add in the wide range of investments to improve efficiency in resource utilization (e.g. metering, insulation, monitoring and control, recycling technologies etc.), and we believe that the environmental economy could account for $2.5 trillion in investment per year by 2030. We believe, then, this is a good space to be in for the long-term.

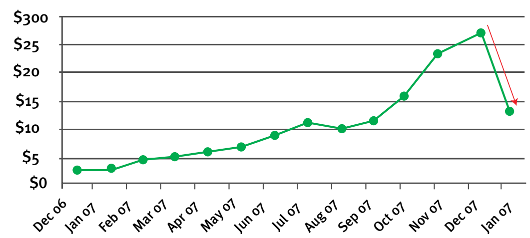
But are the valuations right?
One of the challenges for environmental investors has been price. The sectors are growing, and companies are flourishing, but can one buy in at a reasonable price that will provide attractive returns? In the past, some sectors of the environmental economy have been arguably fully priced. Consider solar, for example. It has been one of the higher-flying alternative power areas of late. Companies that provide technology and services for solar electricity were among the best performers in 2007, with most rising twofold or higher, and standouts such as the American firm First Solar (FSLR) rising more than sevenfold and Canadian silicon refiner Timminco (TIM) rising from $0.30 to over $20, seventy times higher than it began the year. The aggregate market capitalization for solar companies that we follow was approximately $100 billion at the end of 2007, while we estimate total 2007 revenues for these companies at less than $10 billion. Clearly the market is anticipating great future growth in revenues and earnings to justify current share prices.

To determine whether solar share prices are reasonable, we have to assess how large this market could become. Our optimistic projection for solar industry revenues is $225 billion by 2030. Assuming no new entrants and allowing the current group of public solar companies effectively 100% of the market for solar modules, if the shares of these companies were awarded a multiple of 1.5 times this revenue (equivalent to the current multiple for the S&P 500 Index), that would imply annual stock price appreciation of 5.4% from the valuations we saw at the end of 2007. While solar equipment could merit a higher multiple, it certainly appears that at the prices we were seeing late last year there was relatively little margin for error, and the best case was, to some extent, already 'priced in' to these companies.

If current markets continue to decline, opportunities may open for those wishing to enter into the solar space. Companies like First Solar have come down more than 30% from their highs. And after all, the outlook for the industry is still very rosy. The optimistic case laid out above would equate to an annual market growth rate of 14.5% per year for 23 years, nearly triple the expected growth rate in global GDP.



First Solar



Timinco

And the solar industry is just one extreme. Other sectors that were reasonably priced before have become even more so. These include areas like geothermal, wind, hydro, conservation and efficiency. We believe that all of these sectors were fairly valued before the stock market correction, and that it was possible to find individual companies that were attractively priced. Today, as valuations have fallen, we are seeing more of these. For example, shares in a company like Boralex, which we believe was a good value at $18 in the fall, is even better value at $15 today. Boralex relies on long-term power purchase agreements, and there is no reason we can see why it should be valued any less than it was in the fall, particularly with their predictable cash flows discounted at lower interest rates. But current market dynamics are indiscriminate, and all companies have been affected. We believe this provides some exciting buying opportunities going forward.

How does our focus help in stock selection?

Our many years of looking at private companies in the environmental economy has given us a sense of what sectors are likely to be well positioned for the future. And because we focus on only a few industrial sectors we are much more familiar with the issues that influence their markets and with the individual players. There are already many examples where a knowledge advantage has helped us identify investment opportunities. The private equity team's due diligence on two geothermal companies led to our conviction to invest in LSB Industries. Another example was our deep knowledge of the food industry, which helped us increase our discount on the future earnings of Sunopta, a stock we were happy not to own in January as it halved in value. Managing both private and public portfolios out of one location enables us to compound and leverage our information advantage.

Times of change in financial markets are also times of opportunity, and this is the case today for our global environmental sectors. Although the world may experience significant economic shocks, we believe that for the environmental investor, the long-term prospects remain sound.

2. Commentary: This is the year for Canada to get serious about reducing greenhouse gas emissions. But what's the best way to do this?

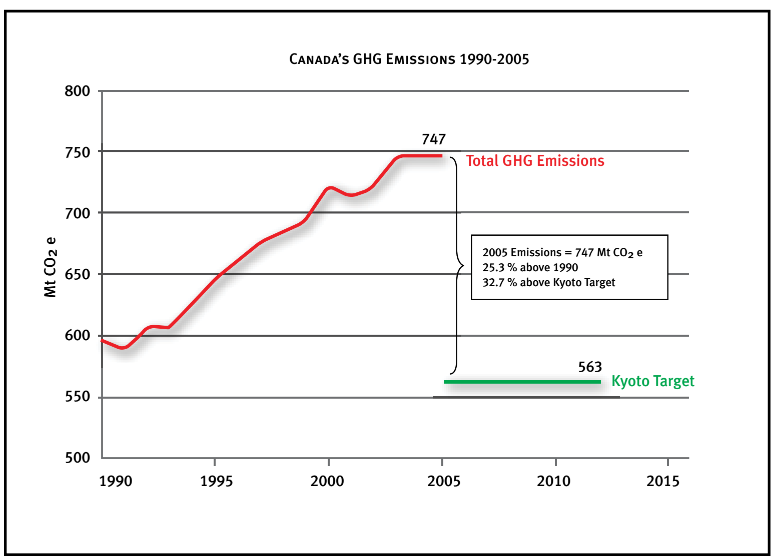
As a country we have one of the worst climate change track records any way you look at it: we are among the highest emitters per capita and our emissions have grown rapidly over the past decade. As a result, we have fallen well short of our Kyoto commitments. Canada achieved notoriety in Bali – where the world assembled to consider the post-Kyoto future – for joining the United States in attempting to water down the conference's statements and goals.

Nevertheless, we were signatories – along with all other participants – to Bali's final decree, which, though unfortunately short of specific targets, did recognize that "deep cuts in global emissions will be required to achieve the ultimate objective of the Convention".

It is becoming clear to most observers who study this issue closely that the best and perhaps only way to truly reduce greenhouse gas emissions is to put a price on carbon emissions. As soon as CO2 emissions have a cost, rational users will work to reduce that cost, thereby reducing emissions. A cost of carbon would lead to a variety of positive results, from efforts to decrease emissions and use energy more efficiently to the introduction of new "lower-carbon" technologies. We believe that Canada has to put a cost on carbon if we want to have any hope of hitting our climate change goals in the future.

The two possible ways of putting a cost on carbon are cap-and-trade systems or carbon taxes. In cap-and-trade systems, major emitters must have permits for their emissions, or pay a penalty for emissions that are without permit. Emission permits are initially allocated to market participants through either government grants or an auction process. After the initial allocation the emissions can be freely traded among emitters. Carbon taxes are government levies for every ton of carbon emissions. Both cap-and-trade and carbon taxes create a price for carbon: carbon taxes do so directly, and cap-and-trade systems do so indirectly by limiting the supply of emission rights and allowing their sale and purchase.

Either option has the capacity to be a useful policy tool to start to decrease the amount of greenhouse gases that Canadians emit. Both are in use around the world today: the European Union has had emission trading markets in place since 2005, while New Zealand and Sweden have implemented a carbon tax. We take a look at the pros and cons of these two tools, with an eye to proposing one as the best way to go for Canada.



Cap-and-Trade

Pros: The major benefit of a cap-and-trade system is that we can determine in advance the level of emissions reductions we want to achieve. If we want to reduce a certain amount of greenhouse gases, then we can establish the cap to meet that result. We also have experience with cap-and-trade systems, which have been used successfully in the past. For example, a cap-and-trade system was used successfully to reduce sulfur dioxide emissions and tackle acid rain in the 1980s. One of the arguments in favour of a cap-and-trade system is that costs are paid for by industry (rather than by consumers), but our view is that costs would be passed on to consumers eventually.

Cons: Cap-and-trade systems also have some potential problems. For one, they only apply to large final emitters, and so they leave many emitters out. Secondly, the allocation process can be cumbersome and inefficient. The opportunity to hand out a large amount of valuable credits can lead to cronyism and excess if not carefully controlled. In Europe's first attempt, wide swings in the value of CO2 credits resulted from excess credits being provided to large emitters at the outset. The uncertainty engendered by volatile markets may make businesses less likely to make the up-front investments necessary to reduce emissions, instead opting to pay the penalty. Finally, trading markets carry transaction costs that can be significant, potentially in excess of the costs of administering a tax.

Carbon Taxes

Pros: A carbon tax would be easier to administer than a cap-and-trade system, and it would be more transparent and less susceptible to gaming. Certain knowledge of the price attached to carbon would allow businesses to make long-term investments that reduce carbon at a cost lower than the amount of the tax. Revenues raised through the tax could be spent by governments on green initiatives or used to reduce other taxes or debt.

Cons: Carbon taxes leave the final quantity of emissions uncertain. If emissions cannot be reduced at a cost lower than the tax level, emitters will continue to emit and simply pay the tax. This problem can be remedied over time by raising the tax, or by the government using the tax revenues to support emissions-reducing projects. Additionally, a carbon tax is potentially regressive. As a consumption tax, it potentially impacts low income earners more than high income earners. This can be mitigated with special exemptions similar to what is currently done with the GST. The other problem with a carbon tax is its name: politicians shy away from it, because they have been trained to believe that any kind of tax is inherently unpopular. However, a carbon tax can be implemented in such a way as to negate these problems if it is "revenue neutral"; if the income from the tax is used to reduce other taxes such as income or sales taxes.

Summing it up, the balance in our view tips in favour of a carbon tax as the best means of reducing greenhouse gas emissions in Canada. The price that will be required is hard to predict. In their book *Hot Air*, Jeffery Simpson and Mark Jaccard suggest the eventual price may have to be as high as $150/tonne of CO2. For now, we believe the best policy would be to introduce a reasonable tax, something in the range of $20/tonne, and promise to gradually increase the amount until we are able to achieve our climate change goals. Based on current annual emmissions, a $20/tonne tax would amount to about $15 billion which could be offset by a reduction in tax collected from other sources. The promise of a higher price in the future will motivate action now and reduce the cost of that higher tax when it arrives. It would also reward companies that are already implementing more efficient industrial processes. Delaying action reduces our chances of developing valuable carbon sequestration and energy efficiency technologies that could be sold to foreign markets.

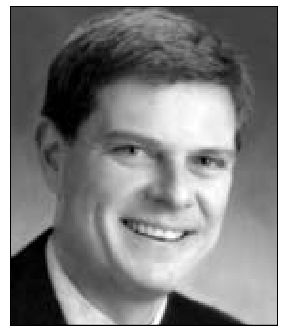
Implementing either a carbon tax or a cap-and-trade system would be a major step forward for Canada. Until the federal government embraces one of these market-based mechanisms we are doomed to continue in our role as one of the world's worst CO_2 emitters, despite all our rhetoric and good intentions. So we support the use of either of these tools. And an effective solution may inevitably require using both. But if we had to choose, the better tool is a carbon tax.

Investeco News

3. Investeco teams grows

Investeco is delighted to announce that we have been joined by two outstanding individuals.

Stephen Griggs, Special Advisor



Stephen Griggs is a financial services executive with significant experience in the retail, high net worth and institutional investment management industry in Canada. Most recently, he was the President and CEO of Legg Mason Canada Inc., with responsibility for the Canadian operations of Legg Mason, Inc., one of the world's top 5 global investment management firms with assets under management of nearly $1 trillion. Stephen has joined Investeco as a Special Advisor, assisting Investeco both on the private equity side—where he has significant deal experience—and in the formation of the new Investeco Global Environmental Sectors Fund.

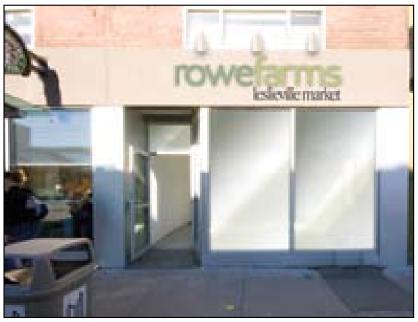
Chuck Holt, Director of Operations

Investeco has also been joined by Chuck Holt, who has taken a full-time position as Director of Operations. Chuck joins Investeco from Shibley Righton LLP, a Toronto-based law firm, where he practiced corporate and commercial law. Chuck will head up the administration of Investeco's public and private funds.

4. Rowe Farms plans to open a Leslieville store

Rowe Farms, the oldest and largest supplier of natural meat products in Ontario, is opening a natural meat store in Toronto's Leslieville area. Dubbed by Toronto Life as an up and coming food destination, the corner of Queen and Logan now features an organic bakery, artisan cheese shop and a natural food store. As of March 1st, that will include Rowe Farms first Toronto store. Until now, Toronto residents who wanted Rowe products were forced to shop at the North Market of the St. Lawrence Market on Saturdays, where Rowe Farms has a well-attended retail space. The store will sell the full line of Rowe products, including beef, chicken, turkey, pork, lamb and eggs. In addition, the store will carry a selection of local healthy foods, including nitrate free deli products, Organic Meadow dairy products, artisan breads, spices and seasonings.

“We are very excited about opening our store in the Leslieville community,” said Rowe Farms CEO Jamie Cooney. “This store will allow consumers daily access to our anti-biotic free, growth hormone free and conscientiously farmed products. The Leslieville store will compliment the strong offering we provide each Saturday at the St. Lawrence Market and will feature chefs in store to help customers make the most of our exceptional meat and egg products.”




Computer Generated Renderings of new Rowe Farms Retail Location in Leslieville

In June of 2006, Investeco Capital acquired a majority interest in Rowe Farms. Since that time, the company has attracted an outstanding management team and developed a strategic plan focused on further developing the 30 year old farmer/supplier base and growing the retail side of the business from 4 to over 25 stores in Ontario in the next 5 years. Rowe farms has outsourced all processing of its products to federally certified plants in Ontario which offer the highest level of food safety and quality available, allowing the company to further develop its wholesale business supplying tier 1 retailers such as Whole Foods, Loblaws, and Highland Farms.

5. Triton Logging begins logging in Malaysia

Triton has begun logging a 4,000 hectare area of Lake Kenyir, in the State of Terengganu in Malaysia. At 260,000 hectares, Lake Kenyir is the largest man-made lake in South East Asia, created to provide power for the Sultan Mahmud Hydroelectric Power Plant. The lake has a significant submerged lumber resource, and Triton is the only company in the world with a technology available to easily, safely and cost-effectively log it. Triton has also begun to aggressively target lumber resources in other promising reservoirs around the world. Worldwide there is an estimated $50 billion of uncut trees submerged in man made lakes created for hydroelectric facilities. Triton’s goal is to be the worldwide leader in harvesting that lumber, and it has developed a patented un-manned submarine, called the Sawfish, for this purpose.


Triton’s logging in Malaysia

6. Schneider Power raises $3 million flow-through financing

Schneider Power Inc. closed a $2.7 million dollar flow-through financing with D&D Securities Company on December 28th 2008. The proceeds of the financing will go towards finalizing pre-construction engineering for the second phase expansion of the Providence Bay Wind Farm on Manitoulin Island, Ontario. Funds will also go towards the installation of two new meteorological towers in Nova Scotia and in Manitoba, respectively.

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