



Insight's environmental technology stock picks

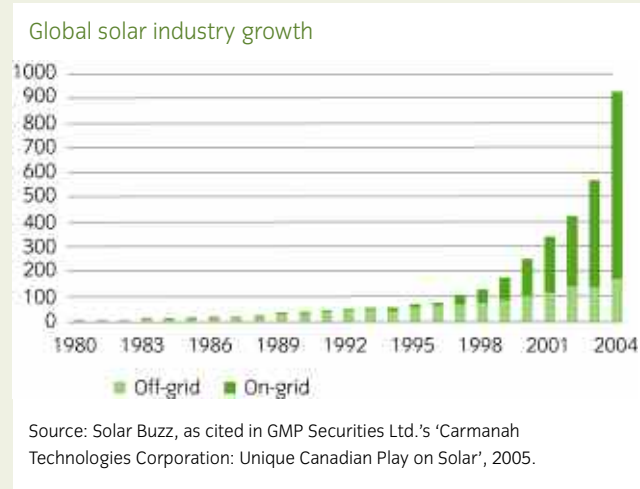
Insight Investment recently visited a number of alternative energy and environmental technology companies in Canada as part of the due diligence process for our Evergreen Fund. This article provides an overview of our investment analysis of two of the companies – Carmanah Technologies and Ballard Power Systems, as well as Insight's fuel cell stock pick, FuelCell Energy.

Carmanah Technologies

One of the companies visited was Carmanah Technologies. Carmanah manufactures solar-powered LED (light emitting diode) lighting used in the marine, aviation and transit sectors including hazard marking, runway edge lights and bus shelter illumination.

Since initially investing in Carmanah in August 2004, the Evergreen Fund has profited from the company's strong performance as market leader in a niche application in the off-grid solar power market (see chart below). Unlike many companies in the solar sector, Carmanah offers cost competitive products that do not rely on government subsidies. As a result, the company has been profitable since 2004 – allowing us to sensibly forecast future earnings. The company's valuation appears high, however we feel that is justified given that earnings are growing strongly.

is well positioned to benefit from the traditional solar power market, which has grown substantially at about 25% per annum over the past 15 years. The chart below demonstrates this growth. 'On-grid' refers to solar installations that are connected to an electricity distribution network; 'off-grid' refers to stand-alone installations such as solar panels on a house. By comparison, hydrocarbon energy (e.g. oil, gas and coal) demand typically grows between 0% and 2% per annum.†



Carmanah's London connection

In September 2005, Carmanah was awarded a Canadian \$1.5 million contract for solar-powered LED bus stop lighting in London. The company will supply 1,200 bus stops between October 2005 and March 2006. Carmanah has been involved with the London solar bus stop initiative from the outset, having delivered the first prototypes in the autumn of 2000 and a subsequent series of successful field trials. The company has recently opened an office in the UK.

Carmanah recently acquired Soltek Powersource, Canada's largest manufacturer and supplier of solar-powered systems for industrial, government, residential and retail applications, with a 60% market share. As a result, Carmanah

† Source: Solar Buzz. Fast Solar Energy Facts, Global Performance. <http://www.solarbuzz.com/FastFactsIndustry.htm>.

Ballard Power Systems

The trip also included a visit to Ballard Power Systems, the largest and highest profile developer of hydrogen fuel cells, which produce electrical power without creating harmful emissions.

The tour of the company's research development, manufacturing and testing facilities was impressive.

The company reiterated its strategy of focusing on the refinement of the fuel cell stack, its core competence, leaving systems and vehicle integration work to its auto industry partners, currently DaimlerChrysler and Ford. Ballard presented its 'road map' to deliver commercially viable fuel cell technology to the auto industry by 2010. The industry drivers for commercialisation of fuel cell

cars – concerns regarding energy security and supply, climate change and urban air quality – continue to strengthen. However, significant technological, cost and hydrogen infrastructure challenges remain. Ballard's partner DaimlerChrysler and most of its competitors believe that commercialisation of fuel cell cars will not realistically take place until 2015.

Despite the pre-eminence of the stock in the fuel cell world, Ballard is not currently held in the Evergreen Fund. As a rule, in the alternative energy arena, Insight prefers to invest in companies that we believe can deliver on short-to medium-term business plans. As the market for fuel cells cars remains some years off, the stock faces significant earnings risk. Consequently, we cannot justify investing in it at this time.

Insight's fuel cell stock pick

Despite the continuing focus on fuel cells in the automotive market, Insight believes that, for the time being, fuel cells for the stationary electric power generation market are more likely to be successful. Our holding for the Evergreen Fund in this area is FuelCell Energy, which produces efficient and clean fuel-cell-powered mini power plants for use by hospitals, universities, hotels, utilities and wastewater treatment facilities. These types of installations are currently benefiting from various government incentive programmes, although they are becoming increasingly economic in their own right.

FuelCell Energy's Share Price



Source: Datastream 15/11/2005.

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