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Doubting Thomas Edison ... Never!

The great wonder of a free market system is its dynamism. Just look how the Internet rose from obscurity in the early 1990s to become the backbone of global commerce. We suspect we are at the earliest stages of a similar episode of stunning economic adaptability and innovation as our global energy needs are met on a cleaner and geo-politically safer basis. In this newsletter, our optimism that the world will tame its energy demons is discussed, as are the ways in which Hamilton Point is positioning portfolios to benefit accordingly.

TAKING A LOOK AT ENERGY

I recently had the good fortune to attend an Emerging Issues conference held at North Carolina State University's McKinnon Center featuring Thomas Friedman of *The World is Flat* fame, General Electric's CEO Jeffrey Immelt and other experts in areas such as solar, lighting, utility management and the green building industries. Some key takeaways from the conference follow:

- **Too Many People** – Thomas Friedman expects 9.0 billion humans on earth by 2053, up from 6.3 billion now. He further noted that those living an American lifestyle will likely quadruple to 4.0 billion. He worries that energy is not only biotoxic but also politically toxic, as recent problems in Venezuela and Russia confirm.
- **Green Capitalism** – Mr. Immelt spoke about GE's \$14.0 billion business in green product lines, including solar technologies and the manufacturing of windmills and more efficient engines. He quipped that he was no "tree hugger" but did agree that "green" business was good capitalism at work and suggested that every possible energy resource be explored, be it wind, solar, nuclear, ocean wave, etc. GE recently announced plans to invest a stunning \$5.0

billion over the next three years on water and energy projects in Asia, Latin America and the Middle East.

- **Energy Efficiencies** – Amary Lovins of the Rocky Mountain Institute noted that the average car uses 100X its weight in ancient plants each day. He believes the best way to improve automotive fuel efficiency lies in making cars lighter by employing far more composite and plastic materials, so that engines are carrying the equivalent of a load of ping pong balls, not rocks. His company advises manufacturers who want to operate more efficiently, and he claims that "buying efficiency" is 10,000 times cheaper than simply adding more energy to the grid.
- **Solar and Lighting** – Christopher Clemens, an astrophysicist at the University of North Carolina at Chapel Hill, and a shareholder in MegaWatt Solar, reminded listeners that the sun provides the earth with 1,000 watts of energy per square meter every day and that costs to harness the sun's power will drop significantly as innovation continues. Separately, the CEO of CREE, a lighting company, cited the limitations of the current light bulb which uses 90% of the electricity it consumes to produce heat rather than light. The

debate continues as to whether LED (light emitting diode) technology or fluorescent bulbs are the best way to solve this particular inefficiency.

So how much power does the world need for the future and in what form are we going to find it? The best estimates for global economic growth range from 3.0% to 4.5% annually for the foreseeable decades. The US Energy Department estimates that, in 2020, the world will consume 600 quadrillion BTUs of power compared to around 500 quadrillion now. While the use of wind, solar, nuclear and hydropower as energy alternatives will no doubt grow rapidly, none of these options are likely to dominate the power landscape anytime soon.

THE EFFECT OF "ENERGY INTENSITY"

Developed countries produce far more GDP per unit of energy than do emerging economies, yet the majority of future growth is expected to come from inefficient emerging economies. I suspect that energy consumers worldwide will greatly "beat projections" by behaving more efficiently than in the past. As we learned earlier, efficiency returns are higher than investments in new energy. High energy prices, climate change concerns and geopolitical risks will simply force us to do better than dire projections would indicate.

ENERGY = INVESTMENT OPPORTUNITY

In spite of the banking turmoil discussed in our cover letter, we remain absolutely bullish on global growth supported by emerging country infrastructure build-out and the associated growth in consumerism worldwide. Four times as many modern day consumers projected just decades ahead means opportunity for businesses providing clean water, energy and basic consumer products.

Put simply: money will be made (and saved!) solving the energy equation and the world will become

both cleaner and safer on a relative basis. Although investment performance can never be guaranteed, Hamilton Point does own numerous energy companies as well as those whose business it is to maximize efficiencies. In addition, we added meaningful exposure to a portfolio of nearly 50 "clean" companies that garner at least 50% of their revenues from businesses ranging from water desalination and purification to controls, wind, solar and just about every conceivable related technology. These companies are global and both large and small in size.

Thomas Edison, the founder of General Electric and inventor of the light bulb once said, "If we all did the things we are capable of doing, we would literally astound ourselves." In Hamilton Point's view, the world finally "gets it" about our energy opportunities, and once the current banking crisis passes, investors in the right global businesses will doubtless be astounded as well.

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