

August 22nd, 2008

Dear clients and colleagues,

This week was dominated by geopolitics. Russia invading Georgia, Pakistan's Musharraf stepping down, Iran's nuclear program in the news again, Venezuela nationalizing more assets, Terrorist attacks. All those events again reminds us of the need to consider Country risk premium when investing globally.

The Global Small Cap Fund is focused on developed markets. A maximum of 20% may be invested in emerging markets. We would make sure that it is through a stock listing in one of the developed exchanges to insure enough transparency and governance. Emerging countries where we may invest are mostly China and Taiwan. We will not make any investments in Frontier markets for example, Russia, Indonesia, etc.

The last week saw big gains by commodities and a correction in the other sectors, particularly the financials. Earnings season is now over. There were no big surprises other than worse than expected results for financial companies and a 3rd quarter of negative profit growth. The recent strength of the US\$ will be a positive for European exporters going forward and we do not think the market has factored it yet.

Some of you have asked me to elaborate on the alternative energy sector, the next few pages do that.

Our featured company this week is our investment in the alternative energy sector.

Ormat Technologies (NYSE: ORA) is an Israeli company incorporated in Nevada with a substantial part of its operations in the US. www.ormat.com

Price: \$49.81, Market cap: \$2.2B, P/E: 40x, long-term growth rate: 22%, insider ownership: 56%, dividend yield: 0.4%

Ormat is the World's technology leader in geothermal energy solutions. It is a vertically integrated providing solutions and investing in the production of geothermal power, recovered energy generation (REG) and remote power. The company currently produces 386 MW of power, mostly in the US. That will grow to 626 MW in 2009. Worldwide, the potential for geothermal capacity in the next 20 years is 148 000 MW with 9 500 MW currently installed, a huge opportunity. It terms of costs, geothermal is the most cost-effective of the alternative energies, already much cheaper than nuclear or natural gas and around the same as coal.

Our investment thesis is that we own a company that is the leader in its field, with solid revenue visibility, thanks to its installed power base. A profitable company with very solid growth prospect. The main risk is financing, as most of the projected growth of the company comes from developing power projects using its technology.

The company may look expensive from an EPS point of view, but our DCF analysis, using a 25% growth rate for the next 10 years, then 8% long-term and 11% discount rate gives us a valuation of \$98 for a 108% return.

Have a good week.

Robert Beauregard

ALTERNATIVE ENERGY

One of my mentors at Military College was Pierre Rivard who went on to found Hydrogenics (HYGS). So, from the early 80's, I have heard of fuel cells and other alternative energy.

When I worked at IBM a few years later (late 80's), I met with the Chief Technology Officer, he was giving a speech on IBM's technology roadmap. He used 4 assumptions for the long term: Free memory, free computing power, free telecom and free power. The first 3 have happened. The last one remains to be achieved.

Let me start by giving you a few statistics.

There are two main users of power: electricity production and transportation.

Electricity production worldwide today is 16.4 trillion kWh, which is projected to grow to 27.1 in 2025, an actual growth rate of around 2%. Today, 66% is produced by fossil fuel, mainly coal. The rest is hydro, nuclear. Wind, solar, geothermal, biomass and other alternative energy sources are still less than 3% of the total. However, wind power, solar power and geothermal have now reached a point where costs are becoming competitive with gas-fired or nuclear utilities, companies are well funded and mostly profitable and large multinational such as GE are now entering the industry, bringing scale and cost reduction to the manufacturing process.

If you add environmental and strategic concerns to a competitive business case, even with reduced subsidies, you create the conditions for a disruptive change.

Alternative energies should represent more than 15% of the total electricity generation by 2020 meaning that the growth of solar and wind will be more than sufficient to address all the future growth in demand and displace some of the current generation, i.e. fossil fuel.

And that scenario does not even include energy savings technology such as the LED or efficient light bulbs or energy savings glass for building and houses which might even reduce total demand growth.

In terms of transportation, 75% of oil demand is consumed by cars on the road. And over 15% of the total oil consumed is by US cars. The chairman of Nissan says that by 2015, over 50% of all new cars sold will be hybrid. That means that oil growth should be negative for years to come. In the longer term, hybrid/fuel-cell cars should be the dominant technology. Actually, Honda is now leasing such a car in California.

A few words on the various alternative energy sources:

Solar: The largest source of energy and it is free. Costs today are around \$9 per watt. That is expected to go down to around \$4 per watt in 2012. At that price, it would mean energy delivered between \$0.12 and \$0.18/kwh, a level very competitive with current gas-fired or nuclear power prices. The large players are Sharp, First Solar, Q-Cells, Sunpower, GE, etc.

Below an article from last week USA today:

Paul Davidson, USA TODAY

Electric utilities are warming to solar power in a shift that promises to turbocharge a technology that has been hindered by high prices and slow consumer adoption.

Pacific Gas and Electric (PCG) in California announced last week it will buy 800 megawatts of solar-generated electricity from two companies, enough to light 239,000 homes. Within three years, PG&E will buy its solar energy from OptiSolar and SunPower, which plan to build the world's two largest solar farms in California as part of the deal.

It would nearly double the USA's entire solar-panel capacity. Driving the trend are solar's falling costs and state alternative-energy mandates.

Solar power has grown but still makes up well under 1% of U.S. power generation. More than 90% of solar panels have been installed on rooftops by maverick consumers and businesses. Utilities' embrace of solar energy will help push it to about 10% of power generation by 2025, predicts Ron Pernick, principal of research firm Clean Edge.

"Just a handful of utilities doing something big changes the scale of the entire market," says Julia Hamm of the Solar Electric Power Association.

Solar power typically has cost about twice as much as electricity from fossil-fuel-fired plants. But PG&E Vice President Fong Wan says prices in last week's deal approach electricity from natural-gas-fired plants. "The cost has come down to a point where we're comfortable doing it," he says.

Prices for solar-generated electricity have been falling, thanks largely to increasing manufacturing capacity and technological improvements, SunPower's Julie Blunden says. Other recent deals:

- Building farms. Florida Power & Light and Sempra Generation, a power wholesaler, each plan to build solar farms of up to 25 megawatts in Florida and Nevada, respectively.
- Purchasing power. CPS Energy in San Antonio, Duke Energy in North Carolina and Florida Municipal Power Agency say they'll buy solar power from suppliers willing to invest in new generation. That avoids upfront construction costs for utilities.
- Installing panels. Utilities are putting panels that feed into the grid on neighborhood roofs. That sidesteps the need for costly transmission lines. Southern California Edison last week began placing panels on 100 warehouses in the Los Angeles area. Duke Energy, Long Island Power Authority and Portland General Electric in Oregon plan similar initiatives.
- With costs for traditional power plants rising and solar falling, "We see a convergence coming," Duke executive Owen Smith says.

Wind: also a free source of energy. The big players are Vestas (Denmark), GE Energy (US), Gamesa (Spain), Enercon (Germany), Suzlon (India). The global installed capacity of wind electricity production at the end of 07 was 94.1 thousand MW. That is forecast to more than triple in the next 5 years. Again, in the case of wind, costs are now down below \$0.20 per kWh and that should continue coming down. Everyone has read about T. Boone Pickens and his project for wind farms in Texas.

On the Fuel Cell side, everybody is focusing on automotive. One should not forget that in terms of stationery power, fuel cell have the highest electrical efficiency (>50% conversion fuel to electricity), they do not need any permitting and one can avoid transmission and distribution infrastructure. Although not as important as solar and wind, fuel cell now cost around \$0.18 per kWh. Big players are United Technologies, GE, Siemens and Fuel Cell Energy.

On the automotive side, one should not discard the Japanese car companies and remember the way they introduced hybrids, the secret there is the hybrid/fuel-cell as opposed to a pure fuel-cell car.

From there, one should think about the idea of power to the grid and imagine how much power, 70 million cars per year could produce if they were plugged to the grid.

I have not talked about other alternative energies such as cellulose ethanol, biomass and geothermal.

Finally I attach an article from CERA.

Investment in clean energy technologies could exceed \$7trillion by 2030 as public policy and private investors continue to underpin a major shift in the global energy mix.

That is the conclusion of a major new report from research firm Cambridge Energy Research Associates (CERA), which argues that clean technologies are fast approaching the energy mainstream.

Daniel Yergin, chairman at CERA, said that the combination of public concerns over climate change and the expectation of increasingly stringent carbon legislation had led to a fundamental strengthening of the business case for clean energy technologies, such as wind turbines, solar panels and biomass generators. "Clean technology [is moving] across the great

divide of cost, proven results, scale and maturity that has separated it from markets served by mainstream technologies and processes," he added.

The report warns that clean energy technologies are likely to have a "disruptive rather than incremental impact", meaning that mass adoption of certain technologies could be achieved very rapidly and with serious adverse consequences for conventional energy firms.

For example, once modular and distributed photovoltaic solar panels reach a certain price point they have the potential to seriously disrupt traditional centralized models of energy production and distribution. Similarly, the report predicts that "breakthroughs in cellulosic ethanol can disrupt the traditional vehicle fuel system if scale, logistics, and costs prove manageable".