

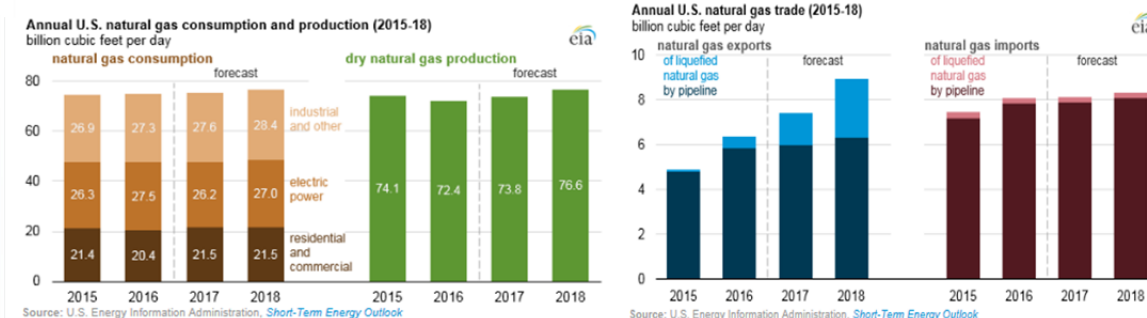
February 17, 2017

Dear clients and colleagues,

For those of us in the Northern Hemisphere, we are in the middle of winter. And it will be a long one, according to groundhog Punxsutawney Phil, who saw his shadow last week, meaning six more weeks of winter.

As we write this comment, natural gas prices in the US hover around \$3 per mcf. Last year at this time, they were around \$2. We believe \$3 represents a new floor for natural gas and that an equilibrium price should be around \$4/mcf. Why? Increased industrial demand (chemicals), power generation and a new factor, exports of natural gas via pipeline and as LNG.

How about a coal revival? Coal has been in a decline for years, first because of environmental reasons, but now because of its economics. Coal is more expensive, even without taxing carbon. It would take natural gas prices above \$4 to bring about switch.



As far as the price of oil is concerned, we believe it will be range bound between \$50 and \$60 a barrel until the next economic slowdown and despite the OPEC supply cut. We recently attended a number of oil and gas conferences and heard from the majority of US shale players that oil prices above \$50 are allowing them to grow and earn a high return on investment. Last week, US oil drillers increased their rig count to 583, the highest since October 2015. We are more optimistic on natural gas than oil for this year and in the medium term.

You will know by now from reading our weekly comments that we believe in the present and future role of renewable energy. An important milestone occurred in 2013 when the world added 143 gigawatts (GW) of renewable electricity capacity as compared to 141 GW added from new plants that burn fossil fuels (including nuclear).

2016 saw solar becoming the highest source of new additions to the US energy grid at 9.5 GW, natural gas was next at 8 GW and wind was at 6.8 GW. These three sources made up 93% of new additions in 2016.

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The cost of producing renewable energy is falling so fast, especially in solar, that although global investment in the industry fell by 18% to \$287B in 2016, during the year a record 70 GW of solar capacity was added, up from 56 GW in 2015, and around 60 GW of new wind power capacity was added, a new record according to Bloomberg.

According to the United States Department of Energy (DOE), in the US in 2016 the solar industry employed more people in electricity generation than gas, coal and oil combined.

2017 should be another record year in terms of solar and wind new additions. Solar manufacturing costs dropped another 30% in 2016, and it is now the cheapest form of new electricity. Saudi Arabia just announced a \$50B spending plan on solar. China, now the biggest producer of solar power after capacity doubled in 2016, is planning to again double capacity in the next two years.

With solar energy storage becoming more affordable, we will reach another tipping point soon, possibly before 2020. This situation will not only impact the coal industry but also large scale utilities that distribute energy over long distances. As an example, Robert has a house in upstate New York, and last week he received a letter offering him the option to switch the source of his electrical power supply to renewables (solar and wind). Opting in means no change in the company supplying the electricity (NYSEG), no change in how the electricity gets delivered and no change in price. We would be happy to send you a copy of the letter if you are interested.

In the not too distant future, installing solar panels with storage will probably be an even more economical option.

So how do we invest in this sector? Many of our companies have significant exposure to the alternative energy sector. Examples of holdings with exposure include: Ormat (ORA US, [www.ormat.com](http://www.ormat.com)), a world leader in geothermal energy both as a producer and equipment supplier; ATN International (ATNI US, [www.atni.com](http://www.atni.com)), an emerging solar energy producer; Disco (6146 JP, [www.disco.co.jp/eg/](http://www.disco.co.jp/eg/)), a maker of dicers, grinders and polishers for the solar wafer and panel industry; Solaredge (SEDG US), [www.solaredge.com](http://www.solaredge.com)), a maker of solar photovoltaic (pv) inverters and solar power optimizers.

Have a good weekend.

The Global Alpha Team

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