

Green Energy at the Crossroads

Revisiting our long-standing assumptions about the growth of the clean technology sector



In January of 2007, Winslow published a special edition of our newsletter entitled “Green Energy 3.0: This Time, It Is Different.” Our report argued that the renewable energy and energy efficiency sectors were at the beginning of a very real and very substantial growth trend – in contrast to two previous “false starts” for green energy, first in the early 1980s and once again in the early part of this decade. And throughout 2007 and much of 2008, we did indeed seem to be witnessing a true green energy revolution.

However, the extreme economic events of 2008 prompted us to reexamine our hypothesis – were we, in fact, too optimistic? We suspect that many investors are equally concerned about the prospects for green energy. To address such concerns Winslow has written this white paper, in which we reexamine our investment thesis for green energy, and provide a comprehensive set of arguments that support our confidence in its long-term prospects.

The Context: Where Are We Now?

Throughout 2007 and 2008, numerous events seemed to herald the dawn of a new age for green energy (we use the term “green energy” to refer to a wide range of technologies, products and services related to renewable energy, energy efficiency and climate change mitigation). The price of oil skyrocketed from \$60 per barrel to a peak of over \$140, creating a very strong economic thesis to support the rapid expansion of renewable energy technologies. Al Gore won an Oscar and a Nobel Peace Prize for his powerful warning about the perils of climate change. Companies and countries all over the world accelerated efforts to create a lower-carbon society. In the U.S., consumption of renewable energy (including geothermal, solar, wind, wood, waste, biomass and biofuels) increased 8% in 2007, while solar energy consumption grew by more than 11% and wind by more than 20% during the year. And Barack Obama was elected on a platform of change, promising a transformation of the nation’s environmental and energy policies.

On the other hand, in 2008 the world suffered one of the great financial collapses in modern history. In the U.S., our banking system was pummeled, our housing and mortgage markets imploded, our automotive industry was on the brink of bankruptcy and as of December 2008 we were officially one year into a potentially long and severe recession. Across the world, economic conditions were similarly dire. Oil prices plummeted from their \$140 peak to as low as \$35 a barrel, causing some to question green energy’s staying power. These powerful financial forces clashed strongly with the powerful fundamental momentum behind the green energy industry; as a result, green energy stocks were severely battered in 2008, even when compared to the generally dismal performance of the stock market as a whole: while the bellwether S&P 500 index fell by 38.5% in 2008, the widely-followed WilderHill Clean Energy Index fell by a whopping 70% during the same period.

At the time of this writing, political support for clean energy was extremely strong in Washington, despite the economic difficulties that the country faced. 2008 saw the passage of legislation in the U.S. that is expected to provide key support for clean and efficient energy for years to come, with measures that included:

- Extension of solar tax credits until 2016;
- Extension of wind tax credits until the end of 2009;
- Extension of business tax credits for fuel cells;
- New business and residential tax credits for geothermal heat pump systems; and
- New tax credits for building energy efficiency, such as energy efficient lighting, efficient heating/cooling and building insulation.

The wind and solar industries had been lobbying strenuously for extension of their respective tax credits, both of which were set to expire at the end of 2008. The long-term extension of solar tax credits, in particular, will provide much-needed regulatory visibility to the industry, essential for long-term financing and strategic planning.

In short, despite much economic gloom, 2008 was one of the best years on record for renewable energy, in terms of policy progress. What’s more, President Obama has specified the renewable energy sector as one focal point of his plans for economic stimulus, with early versions of the package including close to \$100 billion targeted at development of cleaner energy production and increased energy efficiency.

Incredible growth opportunities. Unprecedented economic misfortune. In the face of such powerful and conflicting forces, the question remains: Can the growth in green energy continue? Is it really different this time?

Assumptions Revisited

To answer this overarching question, we started by re-examining the main arguments set forth in the investment thesis we put forth two years ago in our publication, “Green Energy 3.0: This Time, It Is Different,” to determine if events since that time had confirmed or disproved our hypotheses.

Energy consumption will continue to grow.

We predict that energy consumption growth will continue, despite periodic dips and spikes.

In 2007, we assumed that energy demand would continue to grow, primarily driven by demand growth in the developing world. However, the International Energy Agency (IEA) expects that the current recession will actually reduce overall demand for energy in the short-term, and in 2008 they reduced their “base case” projection for the annual worldwide energy demand growth rate, from 1.8% to 1.6% , based on the long-term impacts of higher prices and lower demand.

Over the long-term, the IEA still predicts continued growth in energy demand in every imaginable scenario, with their base case model showing a 45% increase in worldwide consumption by 2030. Even in their scenarios that factor in the cost of carbon emissions (which translate into significantly higher prices for energy), demand for energy still grows. In one scenario where carbon is priced at a lofty \$90/ton in 2030, the IEA still predicts a 1.2% annual increase in energy demand. Factors such as population growth and income growth in developing countries mean that energy demand is likely to be extremely inelastic in the future – so, in most reasonable price scenarios, long-term growth is expected to continue.

The supply of oil is finite, and declining output is inevitable.

As a non-renewable resource, oil production will certainly peak, although the timing remains uncertain.

In 2007, we suggested that the impact of inherent limitations in the supply of oil, a finite commodity, would assert itself over the next 20-40 years. Since then, there have been indications that some of the oldest and largest oil fields in the world are declining in production. According to the IEA’s 2008 “World Energy

Outlook,” a study of 800 of the world’s largest oil fields revealed that output is declining at an average annual rate of 5.1%. And consulting firm BDO Seidman conducted a December 2008 survey of chief financial officers at U.S. oil and gas companies, which found that 48% of those CFOs believe that the world is currently at its peak oil production rate or will be within the next few years.

However, during the recent oil price spikes, we saw the evidence of the viability of more exotic sources of oil

at higher prices, with new exploration and development of the Canadian tar sands, various deep sea wells and Arctic sites newly accessible to exploration (accessible, ironically, because of Arctic melting that is widely attributed to global warming). The many economic and environmental variables surrounding the potential development of these new sources make it extremely difficult to project the timing of a peak or an inevitable decline in production.

Deepwater oil fields are a good example of the increasing difficulties, risks and expenses involved in developing new sources of oil. According to Chevron, “Finding and delivering oil from a single deep-water field requires a multi-billion dollar investment and boundless energy from thousands of workers.”



The marginal cost of new oil production is rising over time.

In our view, evidence points to marginal production costs in the \$50-100 range.

Two years ago, we wrote about the rising costs of finding and delivering a new barrel of oil, citing one estimate of marginal oil production costs of approximately \$50. Our review found that over the last two years, estimates of marginal production costs have, on the whole, increased, despite the fact that marginal production costs are highly location dependent and therefore hard to generalize. The oil in many new production sites is more difficult to access than in historic sites, and these development projects require much greater investment due to their complexity. A CNNMoney.com report in August 2008 quoted analyst estimates of Canadian tar sands production costs of approximately \$60 a barrel, ranging as high as \$90 per barrel. The CNN report stated that Chevron's Vice Chairman Peter Robertson has predicted that the cost of new production in Gulf of Mexico deep water sites could exceed \$95 a barrel. The lower the price of oil, the lower the incentive for these companies to drill for new oil and develop new projects; as such, many of these exotic new projects were suspended or cancelled as soon as oil prices dropped in the second half of 2008. As the global economy recovers, oil demand should increase again, leading to another cycle of oil price volatility.

U.S. oil imports will grow over time.

Despite a short-term reversal due to recession, we believe that over the long-term demand growth will require more imports.

In 2007, we noted that the imported oil used in the U.S., as a percentage of total oil consumed, had steadily increased over time, up to 60% in 2006. But 2008 actually saw a reversal of this trend – higher oil prices had the effect of encouraging domestic oil production (U.S. oil is expensive to produce and is really only attractive to produce when prices are high). During the first seven months of 2008, the U.S. produced an average of 8.7 million barrels of oil per day, while consuming an average of 19.7 million barrels of oil per day – in other words, roughly 55% of domestic oil consumption was satisfied by oil imports.

The big picture is still the same in the U.S., regardless of short-term economic gyrations. According to an October 2008 Advance Summary of the *U.S. Crude Oil, Natural Gas and Natural Gas Liquid Reserves 2007 Annual Report* from the Department of Energy's (DOE) Energy Information Administration (EIA), merely ramping up drilling of domestic oil sources will not be adequate to meet our growing energy demands. The U.S. simply does not have nearly enough oil reserves for that task. The EIA reported that proved reserves of crude oil in the U.S. have declined by more than a third since 1977, as production has outpaced new additions to proved reserves.

Our energy security is highly sensitive to relations with leading oil exporters.

In our view, U.S. dependence on oil imports continues to exert an unfavorable influence on our foreign policy.

In 2006, the Council on Foreign Relations summarized the problem in its report, *National Security Consequences of U.S. Oil Dependency*: "America's dependence on imported energy increases its strategic vulnerability and constrains its ability to pursue foreign policy and national security objectives. At the same time, energy suppliers – from Russia to Iran to Venezuela – are able and willing to use their energy resources as leverage to pursue their strategic and political objectives . . . The challenge over the next several decades is to manage the consequences of unavoidable dependence on oil and gas that is traded in world markets and to begin the transition to an economy that relies less on petroleum. The longer the delay, the greater will be the subsequent trauma."

Over the past two years, this situation has not improved, and in many cases foreign policy problems have been exacerbated. Iran continued to push its nuclear ambitions with 2008 tests of long-range missiles that could reach targets in Israel. Hugo Chavez's regime in Venezuela maintained its anti-American foreign pol-

icy stance; it recently signed a civilian nuclear pact with Russia, and even hosted a highly controversial visit from two Russian strategic bombers. Russia re-emerged as an aggressive international actor, becoming more confrontational with both the U.S. and its own neighbors, as evidenced by its activities in Georgia last year. In early 2009, Russia shut off its delivery of natural gas through Ukraine to Western Europe; the situation was resolved, but it highlighted the vulnerability of energy supplies in that region. Security experts postulate this action was in retaliation for Ukraine's pro-western leanings, highlighting the link between energy supply and foreign affairs.

Our centralized energy infrastructure is vulnerable to attack, natural disaster or accident.

We believe that our centralized energy system is still as vulnerable as it was two years ago, and that distributed energy solutions offer a compelling alternative.

In 2007, we stated that accidents at the Three Mile Island and Chernobyl nuclear facilities, as well as the 2003 Northeast blackout and the terrorist attacks of 9/11, had raised concerns about the safety and security of a centralized energy production / distribution system. This is still the case today. The tight interdependence of our infrastructure means that failure in any part of the chain, whether due to attack, accident or simply age, can have significant consequences in many other parts of the chain.

A more diverse energy infrastructure, which incorporates distributed generation, continues to offer a partial – and environmentally beneficial – solution. Already, a number of companies, from startups to established multinationals, are developing and marketing distributed energy, or “off grid,” solutions – ranging from residential solar systems, to geothermal heat pumps, to sophisticated energy demand management systems. Furthermore, such solutions are slowly being hooked up to the electric grid via “smart grid” technology, paving the way for coordinated and efficient management of these widely-dispersed energy production sites.

These systems are gaining momentum in the marketplace. Not only do they provide security due to their independence from the electric grid, but they often provide price protection during periods of high energy prices and a reduction in carbon footprint, a factor that is becoming increasingly important as the cost of carbon emissions is slowly integrated into the energy consumption equation.

Clean energy technologies are improving in terms of both cost and capabilities.

With consistent cost and performance improvements across the clean technology sector, many technologies are approaching cost parity with traditional energy, and some have already arrived.

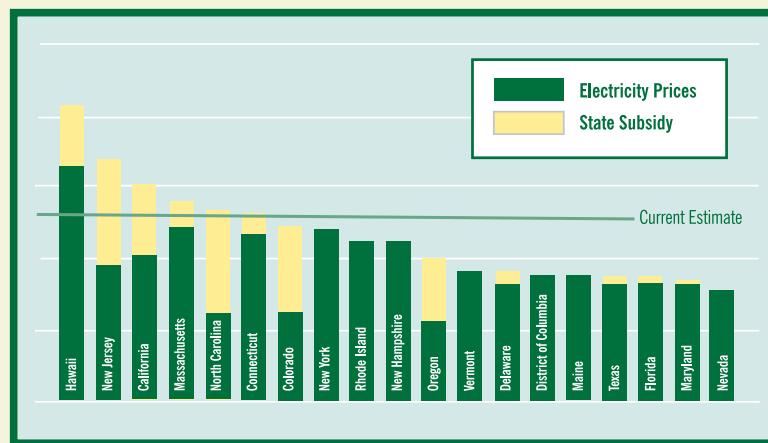
In January 2007, we wrote about the rapid developments in energy efficient technologies, in terms of both cost effectiveness and performance. That trend has continued, with innovative new developments such as smart electric meters and demand side management tools that are emerging to curtail peaks in energy demand and are already making it possible for utilities to manage and protect the load on the grid. New regulatory frameworks such as “decoupling” are emerging to encourage utilities to help their customers use resources efficiently, as opposed to simply selling as much energy as possible. And lower-tech solutions such as building insulation and better windows are helping to reduce the significant amount of wasted energy that leaks out of our aging homes and offices.

Renewable energy technology is also undergoing rapid price/performance improvement. As manufacturing becomes more advanced and industry volumes have grown, the cost per kilowatt hour of renewable energy has been steadily dropping. At the same time, the price of standard electricity from the grid has been increasing; according to the EIA, the retail cost of electricity for consumers actually increased 24% between January 2006 and October 2008 (the latest data available as of January 2009). The fact that electricity costs are still rising is often lost amidst the news about falling oil prices. In other words, the cost of traditional electricity and the cost of renewable electricity are converging rapidly, and we appear to be on the verge of the holy grail of renewable energy, “grid price parity,” when those two costs become equal. Depending

Solar Energy Pricing (cents/kWh)

In a number of states, solar electricity is already cost-competitive with electricity from the grid.

on local pricing conditions and state support, grid parity should roll across the country over several years. As shown in the accompanying chart, Ernst & Young's current estimate of the price of solar electricity shows



Adapted from Ernst & Young, *United States Renewable Energy Attractiveness Indices 3Q 2008*

that solar has already achieved grid parity with the help of subsidies in New Jersey, California, Massachusetts, North Carolina and Connecticut. In Hawaii, solar electricity is more cost-effective than the grid even without subsidies.

The significance of grid parity for the renewable energy industry cannot be overstated

– for the vast majority of electricity consumers, electricity is electricity, and price is the only thing that matters. Once we reach the point where there's no difference in price between green and brown electricity, adoption of green energy should happen on a massive scale.

Momentum is building for action against climate change.

In our view, there is now a significant and meaningful drive for stronger climate change policies around the world, and in the U.S. at both the federal and state levels.

In 2007, we wrote that “the contribution of modern society’s energy addiction to climate change is both undeniable and evident,” and that early signs of “carrot and stick” initiatives to combat global warming were emerging nationally and internationally.

Awareness has continued to grow, and consensus around the need for action has solidified. In a Harris Interactive poll taken in June 2008, 62% of all U.S. adults agreed that it is important that the next President of the United States initiate strong action to address climate change soon after taking office.

And as global action on climate change continues to progress, U.S. participation in the process is finally gaining significant traction. First, the lack of federal climate change action during the Bush administration led to a variety of state programs and regional coalitions among U.S. states. Currently, 34 states have put in place mandatory renewable portfolio standards – in other words, two-thirds of the country has active regulations that are steadily transferring energy generation to climate-friendly sources. Additionally, regional coalitions have been formed for the purpose of creating carbon reduction strategies such as cap and trade programs or regulatory carbon reductions, including the Regional Greenhouse Gas Initiative (10 states in New England and Mid-Atlantic), the Midwestern Regional Greenhouse Gas Reduction Accord (12 states), and the Western Climate Initiative (seven states and four Canadian provinces).

Second, President Obama is expected to usher in a new approach to climate change and energy independence as a focal point of his administration’s economic recovery plan, being developed by the administration and Congress as this paper is being written. Among the proposed initiatives within the President’s “New Energy for America” plan:

- Within 10 years save more oil than we currently import from the Middle East and Venezuela combined;

- Put 1 million Plug-In Hybrid cars – cars that can get up to 150 miles per gallon – on the road by 2015;
- Ensure 10 percent of our electricity comes from renewable sources by 2012, and 25 percent by 2025;
- Implement an economy-wide cap-and-trade program to reduce greenhouse gas emissions 80 percent by 2050;
- Establish an aggressive energy efficiency goal to reduce electricity demand 15% below DOE's projected levels for 2020; and
- Others including smart grid investments, stringent green building regulations and an overhaul in appliance efficiency standards.

Even if the above plans are only partially implemented, President Obama's "New Energy for America" strategy represents a major transformation of U.S. energy policy, in a direction that will require massive growth from the green energy sector.

Some new realities to take into consideration

Having re-examined our main arguments in support of green energy, we can now move the discussion to some new concepts. Four important trends have emerged in recent months, all of which demonstrate the fact that a massive societal shift to cleaner energy is not some future event, but is happening right now.

Utilities and investors are backing away from coal due to its economic and environmental risks.

While the rate of new coal-fired power plant construction in developing countries such as China is still staggering, many in the U.S. are thinking twice before planning new coal-fired generation facilities – and investors are thinking twice before investing in them.

One of the drivers for this slowdown is uncertainty regarding air regulations. An Environmental Protection Agency (EPA) appeals board ruled in December 2008 that the EPA needs to consider carbon dioxide emissions as part of its evaluation of a plant's permit application. That appeals board ruling was overturned by President Bush's EPA Administrator, Stephen Johnson; and now his decision is expected to be challenged by President Obama's EPA Administrator, Lisa Jackson...in other words, the question of how greenhouse gas (GHG) emissions factor into the permit application review process is substantially up in the air for the time being. This legal uncertainty follows on two important U.S. Supreme Court decisions. In April 2007, the Court found that the EPA has authority to regulate carbon and other GHGs, and should do so unless it can prove a scientific basis for not doing so. And in December 2008, the Court reinstated the Clean Air Interstate Rule, an unpopular rule governing power plant emissions that is expected to be reworked under the Obama administration. All of this activity in recent years has clouded the regulatory future for carbon-intensive energy sources such as coal.

In addition to questions over permitting, an overhanging uncertainty is future climate regulations. While many agree that some form of regulation is likely during President Obama's first administration, there is no shortage of opinions as to what that regulation might look like. In the absence of concrete information, some investors are beginning to factor in a price for carbon on their own. For example, in a February 2008 speech, Bank of America's Chairman and CEO Ken Lewis stated that the bank is now factoring carbon pricing into risk and underwriting models, estimating the price of carbon at \$20-\$40 per ton.

The challenging combination of regulatory and pricing uncertainty is causing utilities to rethink plans to invest in new coal-fired generating capacity. For example, the 2007 private equity acquisition of Texas utility TXU Corp., brokered with the help of the Natural Resources Defense Council, was conditioned on the company agreeing to drop plans to build an additional eight coal-fired plants. More recently, the potential

for temporary demand reduction due to macroeconomic conditions – as well as graphic scenes splashed over holiday newscasts in December 2008 of toxic muddy coal ash from a leaking waste containment pond demolishing homes in Tennessee – have reinforced the notion that new coal capacity is not very desirable. In January 2009, Texas-based Dynegy announced it was cancelling a joint venture to develop new electricity generating facilities, including coal-fired plants, and re-evaluating its participation in two coal-fired plants already under construction. Also in January, the developers of a coal-fired power plant in Montana – who had already sunk \$40MM and five years into the plant – abandoned the project; the project manager for the proposed Highwood Generating Station stated that the 250-megawatt proposal “just simply cannot be accomplished” given the current “aura of uncertainty” surrounding coal-fired power.

Renewables are financeable.

At the same time that fossil fuels such as coal are becoming less attractive, renewable energy sources such as solar and geothermal power are becoming more attractive. Even in this dismal economic climate, solid projects are being funded and completed, and proving their effectiveness.

For example, in late December 2008, Sempra Generation announced the completion of the largest thin-film solar power project in America, California’s 10 MW El Dorado Energy Solar project, which provides enough electricity to power 6,400 homes. Sempra also announced that it was entering into a 20 year power purchase agreement for the solar power with California utility Pacific Gas and Electric. The project uses First

Solar’s thin film technology, a very cost-effective solar option for utility-scale projects. First Solar’s technology offers the additional benefit of not using water in power generation, a critical factor in the southwestern desert. According to Michael W. Allman, President and CEO of Sempra Generation, “The size and scope of this new solar generation facility clearly demonstrates that we can build projects on a scale that helps utilities meet their renewable energy goals.”



The largest solar project in America: Sempra Generation’s 10 MW facility in Nevada uses First Solar technology.

And in early January 2009, Ormat

Technologies, a geothermal power plant developer and operator, announced that it had secured over \$100 million in long term debt refinancing for the expansion of a geothermal power project currently under construction in Kenya. The ten-year loan was provided by a group of European Development Finance Institutions and demonstrated the investors’ confidence in geothermal power and Ormat, at a time when trust is scarce and credit is hard to come by.

Detroit is counting on green.

The fourth quarter of 2008 marked a particularly low point for many American businesses, but few suffered as deeply or publicly as Detroit’s Big Three. For years, American carmakers somehow stayed afloat while losing market share and making inefficient cars and trucks that became increasingly unpopular as gas prices rose. But even though gas prices have fallen considerably in recent months, the combination of high cost structures, the tightening of credit for consumer auto loans and consumers’ general fears about buying during a severe recession finally caught up with American automakers, leading GM and Chrysler to warn of imminent bankruptcy if the government did not provide immediate emergency financing. The Big Three

were eventually given a lifeline to carry them through to the next administration, promising big changes that would put them on the path to profitability.

Even without new environmental requirements that enforce a higher standard of fuel efficiency, all three U.S. automakers are already talking a green game, and they're not the only ones. Reports from the 2009 North American International Auto Show in Detroit in January made it seem as if the auto companies are seriously competing with each other for green credibility. For example, according to headlines from the New York Times and Green Car Congress, Honda is challenging Toyota's status as king of the hybrids with a new hybrid that is cheaper than the Prius; Toyota is scurrying to beat GM to be the first one out with a plug-in electric car in 2010; and Ford is promising to bring out four electric cars by 2012. Even *Car and Driver* agreed, stating, "Despite fire-breathing, high-performance introductions from Audi, Ford, and Mercedes, the hottest debuts [at the Detroit Auto Show] are new hybrid and electric vehicles." According to *Green Car Congress* and *Car and Driver*, new products include:

- A number of hybrid and electric concept cars from smaller startup companies, such as the plug-in hybrid Karma from Fisker and the electric Roadster from Tesla;
- Chrysler's slew of electric vehicle (EV) concept cars: the Jeep Patriot EV, Dodge Circuit EV, Jeep Wrangler Unlimited EV, Chrysler Town & Country EV and 200C EV;
- GM's 2010 Chevrolet Spark efficient minicar;
- Ford's new EcoBoost engine that provides more power from a smaller engine, used in the 2010 Ford Flex, 2010 Lincoln MKS and Lincoln C concept car, as well as the new Ford Fusion/Mercury Milan hybrid;
- Honda's re-emerging 2009 Insight hybrid; and
- Toyota's third generation 2010 Prius with solar powered ventilation system, new 2010 Lexus HS250h hybrid and the electric FT-EV concept car.

Given the amount of money and number of years it takes an auto company to develop and roll out a new vehicle, it is clear that the next few years will continue to bring new green cars to showrooms and dealerships. It seems that car companies, domestic and foreign, are committed to going green at last.

Green isn't just about the environment anymore.

One of the most heartening developments over the last few months has been the transformation of green energy from an environmental interest to a national interest. Previously, solar panels and wind turbines were viewed only as tools to fight climate change. Now, however, they are viewed as tools for job growth and economic recovery, and President Obama has firmly linked the development of green energy with the creation of jobs as a central theme of his economic plans.

He outlined his plan in a speech two weeks before his inauguration, stating, "To finally spark the creation of a clean energy economy, we will double the production of alternative energy in the next three years. We will modernize more than 75% of federal buildings and improve the energy efficiency of two million American homes, saving consumers and taxpayers billions on our energy bills. In the process, we will put Americans to work in new jobs that pay well and can't be outsourced – jobs building solar panels and wind turbines; constructing fuel-efficient cars and buildings; and developing the new energy technologies that will lead to even more jobs, more savings, and a cleaner, safer planet in the bargain."

Conclusion: Green Energy – the Time is Now

Throughout this paper we've highlighted a number of factors that, in our view, point to a bright future for green energy:

- Many energy producers no longer view coal as a reliable primary source of new energy generating capacity.

- Oil, while less expensive now than it has been for years, is a finite resource; production at existing fields will inevitably begin to slow, and new supplies are increasingly expensive to access.
- The U.S. does not have adequate oil left in the ground to meet its energy demands, and its dependence on oil supplies from nations with a relatively hostile stance toward the U.S. leaves it vulnerable from a national security standpoint.
- Our centralized energy infrastructure leaves us vulnerable to attack or system failure.
- Current economic conditions are providing a respite, but the continued march of worldwide energy demand growth is inevitable.
- Mature renewable energy generating technologies have become legitimately competitive sources of energy and are increasingly viewed as attractive investments.
- Developing energy and energy-saving technologies will play a major role in future energy needs.
- Momentum for tackling climate change is building, led by citizens and policymakers in the U.S. and around the world.
- The idea of driving economic recovery through the development of green energy is gaining real momentum as the Obama administration takes over in Washington.

Given these factors, we believe that growth in green energy and clean technology will continue for many years to come. The dangers of a fossil fuel-driven world are enormous – climate change and other environmental hazards are real and growing threats to our survival, while rising energy demand coupled with declining resource availability appear to have essentially written the obituary for an oil-based economy and society. Our collective awareness of these problems and our drive to tackle them head on have reached critical mass around the world. And the primary solutions to the problems – renewable energy sources and efficiency technologies – have become more effective, more scalable and less expensive. In our view, the time for the green energy revolution is now, and although the current recession may slow down its progress, forward movement seems inevitable. □

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The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The WilderHill Clean Energy Index (ECO) is a modified equal dollar weighted index comprised of publicly traded companies whose business's stand to benefit substantially from societal transition toward the use of cleaner energy and conservation. You cannot invest directly in an index.

Winslow Green Growth Fund Top Ten Holdings as of 12/31/08

Waterfurnace Renewable Energy.....	6.43%
First Solar Inc.....	6.06%
American Superconductor Corp.....	5.14%
AMAG Pharmaceuticals.....	5.00%
LSB Industries.....	4.78%
Telvent Git, S.A.....	4.64%
Energy Conversion Devices Inc.....	4.56%
Sims Metal Management Ltd.....	4.49%
Surmodics Inc.....	4.18%
Bankrate Inc.....	3.73%

Winslow Green Solutions Fund Top Ten Holdings as of 12/31/08

Vestas Wind Systems.....	4.47%
Ormat Technologies Inc.....	4.27%
Covanta Holdings Corp.....	4.24%
Avista Corp.....	4.06%
First Solar Inc.....	3.96%
Telvent Git, S.A.....	3.86%
Sims Metal Management Ltd.....	3.78%
Valmont Industries.....	3.63%
United Natural Foods Inc.....	3.62%
Novozymes A/S.....	3.40%

As of 12/31/08, the Funds held none of the securities mentioned in this document, with the following exceptions: First Solar comprised 6.06% of the Winslow Green Growth and 3.96% of the Winslow Green Solutions Fund, and Ormat Technologies comprised 4.27% of the Winslow Green Solutions Fund. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

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