



JPS Global Investments—The Quarter in Review

Volume 2, Issue 1. April 2008

Jan Schalkwijk, CFA

Market Summary

The first quarter of the year was one that most investors rather forget. The dark clouds that had been hanging over the U.S. economy, resulted in a torrential downpour. The Dow Jones Industrial Average (DJIA) was down 7.6% for the quarter, the S&P 500 Index posted a 9.9% decline, and the NASDAQ dropped a whopping 14.1%. In fact, the DJIA lost over 1,000 points during the quarter, the largest first quarter point decline in the history of the index. Virtually no international equity market provided a safe harbor from the storm, with many falling more than U.S. markets. The turmoil in the bond markets and the inability of the financial system to jump-start itself were among the underlying causes of the significant market declines.

Bear Brought to its Knees. The collapse of Bear Stearns sent shockwaves through the markets. The shareholders of Bear saw the value of their shares decline 96% overnight, when it became clear on Monday March 17th that JP Morgan Chase had agreed to acquire it, with the Federal Reserve's backing, for \$2 a share. Since then, the price has been raised to \$10 per share, but that is still a mere fraction of the \$150 price the shares traded at as recently as last year. Generally, the Fed's action has been well received and restored some confidence to the market.

The Fed has cut the fed funds rate from 4.25% to 2.25% during the quarter and the question is whether there is any room left, as inflation has been rearing its ugly head around the globe. Certainly, most investors would sleep better at night, knowing that there are no more Bear Stearns stories in the pipeline. If the consensus emerges that the worst is behind us, we may yet post positive returns for the year, by the time 2008 is all said and done.

Going for the Gold. T

There was one shiny, bright asset class, tempting investors' palettes: precious metals & commodities. The price of gold and other commodities moved upwards during the quarter, but investors attempting to shift from stocks to gold would have only profited from that if they had anticipated the stock market decline. Merely reacting to it, would have mostly resulted in losses. Having said that, some commodities may be attractive in the long-term and have a place in a well-diversified portfolio.

Though gold is trading at high levels, it is still about 50% below its inflation adjusted all-time high of over \$2,100. As inflation materializes itself, assets such as gold should perform nicely. I would caution against trading gold in the short-term. From one day to the next gold can fluctuate significantly. Over time though, it may yet have a way to run.

Sustainable Investing Update

Global Cities, Local Solutions. Cities around the world are taking on the challenge of going green, recognizing the attractiveness of a low carbon city, in terms of positive environmental impact, quality of life, job creation, good press, and old fashioned urban pride. Let me take you on a quick trip around the world, to showcase how different cities are responding to the challenge. **Los Angeles:** Which city has the most environment-friendly commercial buildings in the country? Indeed; who would have guessed. According to a report released by the Burnham-Moores Center for Real Estate at the University of San Diego, Los Angeles tops the list with 100 energy efficient buildings (based on either Energy Star or LEED status) totaling 26.2 million square feet.

Chicago: The Hanging Gardens of Babylon were built by a ruler of Babylon, to please his wife who longed for the lush vegetation and floral scents of her home country. In Chicago the rooftop gardens serve a different purpose: to cool the buildings during hot summer days and thus reduce energy consumption. The top of a Chicago high rise on a hot summer day can reach 160 degrees. A rooftop garden can take that down by about 70 degrees, by reflecting heat and providing shade. City Hall, the first building with such a rooftop, saved 11% of its annual power consumption in the first year. Today, there are over 4 million square feet of rooftop gardens in Chicago.

Amsterdam: South of historic Amsterdam is a new section of the city called Zuidas, which has a high density of commercial buildings, including many IT companies. The city wanted this section to use 40% less energy than the older sections. This was particularly challenging because of the

large computer rooms that require extensive cooling. The solution that was adopted is based on channeling deeper, cooler water from a nearby manmade lake to cool another water supply, which is then pumped through pipes in the buildings. As the cool water makes its way through the pipes, it radiates cool air. This system requires only 10% of the energy of a conventional air conditioning system, and as such the savings are remarkable.

Abu Dhabi, United Arab Emirates: Masdar City, a city yet to be constructed in the desert sands, will be the world's first zero carbon, zero waste, car free city. The electricity for the six square kilometer Masdar City will be generated by photovoltaic panels, while cooling will be provided by concentrated solar power. A solar-powered desalination plant will generate drinking water and landscaping will be irrigated with treated grey water and waste water. What does all this cost? Well, it doesn't matter; they can afford it! Though the source of the money is the root of the carbon problem, at least the destination holds its solution.

Thane, India: Blackouts are a problem experienced frequently in India's big cities. A friend of mine from Delhi told me that the city has no idea exactly how many people use its electricity, as many undocumented residents just splice juice off the cables on a when-needed basis. Most foreign visitors, checking up on their call centers and factories, do seldom experience this as the large Western hotel chains all have giant back-up generators. I had the fortune of staying in many small, local hotels during my time in India and got a taste of what locals must contend with every day. Needless to say, city governments have a vested interest in providing renewable energy, to help mitigate the problem. Thane, a suburb of Mumbai with 1.5 million

JPS Global Investments—The Quarter in Review

residents, decided to write solar water heaters into the building code as a requirement for developers putting up new construction. Additionally, residents of existing buildings can get a 10% break on property taxes by installing one. The city administration believes that if 25% of the households start using solar water heaters, the city's electricity consumption will go down by 15%.

Beijing: China cannot be excluded from this world tour, as their participation is instrumental to solving climate change. The world's eyes are on Beijing, host of this year's summer Olympics. The Chinese are a proud people and want to showcase their country to the world. As such, the city has been closing or relocating its cement kilns, coal mines, and chemical plants. Even the lauded Shougang Group steel plant is operating at reduced levels and is in the process of being relocated 137 miles away to a more efficient facility. There are also plans to cut the number of cars on Beijing's road by 50% during the games and stop construction prior to the games to clean the air. Six Northern provinces have started shutting down factories and slowing power plant production. The big question is what will happen after the Olympics. Perhaps the taste of fresh air will motivate the country to become more permanently engaged in pollution control.

Socially Responsible Investing – Momentum Continues. From 2005 through 2007, socially responsible investment assets rose by 18% to \$2.71 trillion, according to the Social Investment Forum, the trade association for socially responsible investing (SRI). Overall professionally managed assets in the U.S. grew at only 3% during the same period. A majority of SRI assets reside in institutional accounts, amounting to \$1.88 trillion, up 26.2% over the 2-

year period. The increased mainstreaming of SRI, a larger set of investment options, the climate crisis, and the crisis in Sudan have all contributed to the growth. We believe that this growth will continue, which will benefit our clients with an ever larger set of investment choices.

Carbon Market(ing). Does the carbon market really work in reducing global greenhouse gas emissions, or is the carbon market more about marketing? In 2007, EU greenhouse gas emissions rose 1.1%. If Europe is ahead of the U.S. in terms of awareness and regulation, why have they not been able to reduce emissions, one might ask. The problem finds its root in the initial growing pains of the carbon market. Too many credits were awarded at the onset of the cap-and-trade system, which allowed companies to actually increase their emissions and still come in below their caps.

The second phase of Kyoto, from 2008 to 2010, centers around the actual reduction of emissions, whereas the first phase was more about implementing plans. Europe is eager to make the cap-and-trade system work and the financial system enabling the market is bullish (surprise!). The total value of credits traded in the EU scheme increased 55% to \$40 billion last year. Some of the carbon credit brokerage firms have been especially aggressive. EcoSecurities, based in London, has seen its stock price decline from over £4 in early 2007, to under £1 recently, as its carbon projects have been called into questions. The firm allegedly created credits from projects that would have taken place without relying on carbon credit incentives, which goes squarely against the purpose of incentivizing carbon reducing projects, that would otherwise not take place. In the U.S., if a cap-and-trade system is created by Congress, we will hopefully have learned from the mistakes of the EU system. Let's hope for investors and the planet that the cap-and-trade system may yet get it right.

JPS Global Investments—The Quarter in Review

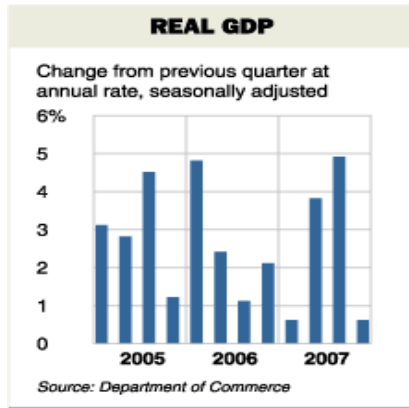
Financial Markets Data

Performance as of 3/31/08

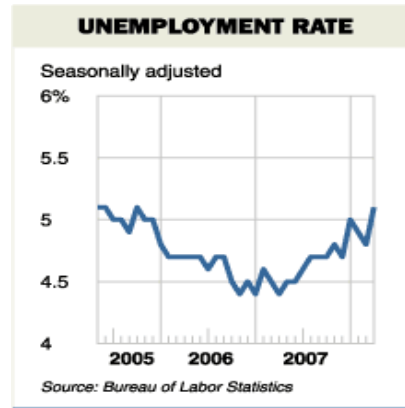
	Qtr	Yr-to-date	1-yr	3-yr avg.
S&P 500 Index	-9.44%	-9.44%	-5.08%	5.85%
Dow Jones Ind. Avg.	-7.00%	-7.00%	1.59%	7.78%
NASDAQ	-14.07%	-14.07%	-5.89%	4.46%
Russell 2000 Index	-9.90%	-9.90%	13.00%	5.06%
Domini 400 Social Index	-9.40%	-9.40%	-5.87%	4.74%

All returns are Total Return, with the exception of NASDAQ returns, which are Price Return.

Economic Indicators



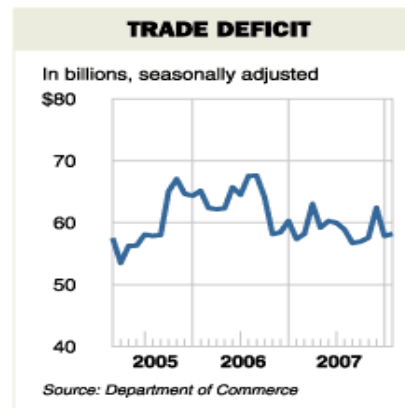
Q4: +0.6%



March: 5.1%



February: +0.1%



January: \$58.2 billion

This material is based on information that we consider reliable, but we do not guarantee its accuracy. Past performance is no guarantee of future results. The opinions expressed herein are solely those of the author and do not constitute investment advice regarding a particular security, strategy, or investment product. No part of this writing may be reproduced in any form, or referred to in any other publication, without express written permission of JPS Global Investments, LLC. 042008