



# banking with a green conscience

MASTERFILE

In 2003, New Yorkers experienced a major power outage that was the first indication of an impending energy crisis. But it has spurred one bank to see the value of investing in alternative energy, writes **Lawrie Wiegler**.

MANHATTAN INVESTMENT bank Ardour Capital has an ordinary name, and resides in an ordinary location, the Empire State Building. But it is unique. For, while its brokers are committed to helping institutional investors find strong-performing stocks, the focus is solely green or 'clean'.

It's a simple concept, and yet by all accounts a new notion for Manhattan, if not the whole US banking and investment community which trails London in the range of ethical investment funds available to patrons with a conscience.

But the tide is turning and America's political leaders are championing the notion of energy independence. The US Government, for example, is offering tax incentives for individuals using a solar water heater or energy efficient windows. Therefore, investing in environmentally friendly businesses could prove to be an influential trend affecting the strategies of US technology companies

Speaking from the bank's 30th floor offices, Ardour's research director, Walter Nasdeo, says that alternative energy has always resonated with him. But Ardour, founded in Midtown Manhattan in 2002 by partners Kerry Dukes and Brian Greenstein, did not begin with green intentions in mind.

"They weren't quite sold on it because if you go back to 2002, the alternative energy market was just a shambles, right? We had 9/11, which made the whole market crazy. The alternative energy stocks had just cratered," Nasdeo explains.

His reckoning was that if the team "put together some really smart guys with science background and Wall Street understanding, we could really plant our flag here".

Since New York endured two major blackouts (in 2003 and 2006), the city should be interested in at least investigating alternative energy sources, or such was Nasdeo's theory. The bet paid off – today Ardour touts 21 staffers in New York and two in its Boston office, and has

staked its claims from Europe to China to the Americas, sponsoring an annual energy conference and publishing its own index.

In a stock market rippling like laundry in a windstorm, it's impressive that Ardour has not only survived, but thrived.

Yet, whether the model is sustainable depends on unknown factors – such as a new political regime, the adoption of green alternatives in America and even the fickleness of fate. So the company is not taking chances, and has the PhDs onboard to prove it.

#### IN THE BEGINNING

The process starts with the corporate finance experts who find alternative energy companies that may need to raise money or do mergers and acquisitions work, proxy solicitation or warrant conversions.

The research team, led by Nasdeo, has allowed Ardour to spin on a unique premise for Wall Street. "Investors like it because we can look at things a little bit differently and give them a different angle due to our understanding of these technologies," Nasdeo says of the deals they conduct.

The team prepares research and posts a target on the companies. "The institutional investors will read our research, and if they like it and agree with what we're saying, they'll buy the stock," says Nasdeo.

Ardour also has a six-person broker team tasked with conducting multi-million-dollar transactions each day on technologies such as fuel cells, wind power, micro turbines, clean coal, geothermal solutions, ultracapacitors and more.

But what led to all of this? To hear Nasdeo tell it, the August 14, 2003 power outage on the Eastern seaboard sounded an alarm so loud that investors flocked to alternative energy stocks.

"Those outages, that blackout, really highlighted how one thing could lead to another and basically knock out the whole eastern seaboard into Canada,"

says Nasdeo, adding: "This thing should have been truncated at any point along the way. Somebody should have said the switch needs to be flipped."

Indeed, the 2003 north-east outage – which affected millions throughout not only New York but up through parts of Canada – elucidated weaknesses of the grid. This made the politicians nervous. President George W Bush updated the country's Critical Infrastructure Initiative, a measure enacted during the Clinton Administration, to broaden the definition of 'infrastructure' as a response to the concerns.

All of this is indicative of a trend, perhaps especially in the US, says Gartner's Simon Mingay, who covers IT management: "America's focus is primarily on saving energy costs and, of course, energy independence. That's much more of an issue than climate change, for the most part."

Mingay analyses the need for capping GHG emissions and researches other environmental measures. His team believes the current trend in both media coverage and political circles centres on environmental sustainability and greenness for a good reason – the climate is changing.

"As long as the science behind climate change doesn't get discredited – and of course that isn't likely, or scientists suddenly get a lot more optimistic about the impact and speed of climate change, then I think the broader issues around environmental sustainability are going to be a topic of increasing awareness," says Mingay.

And those who will become increasingly more concerned, he says, include a "broader set of stakeholders" than those who've previously been concerned – investors, consumers, executives and employees. These stakeholders are going to have an interest in this, to varying degrees.

He points out that America's people and organisations are being much more progressive than their government, ►

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### EMPOWERING THE STATES

BP Alternative Energy broke ground in Texas on its first wind-powered site, Silver Star 1, last September. Located 80 miles south-west of the Dallas/Forth Worth metropolitan area, the project runs on 60MW. Clipper Windpower of Carpinteria, California has a 15 per cent stake in the \$100m project and has loaned two dozen of its 2.5MW wind turbine generators.

According to BP, this is the first application at scale of Clipper's new C-96 wind turbine technology for BP. The energy producer spun off its alternative offshoot from BP America in 2005. With this project, BP expects to generate enough carbon-free electricity to power approximately 24,000 homes.

"Wind power is domestic, cost-competitive and offers rural communities a fresh revenue stream without impact to traditional farming practices," says Bob Malone, chairman and president of BP America. "BP believes that sustainable energy alternatives and the development of the wind industry are in the best interests of the nation."

BP is one of many US companies cashing in on wind power. For example, Larry Miles, president of Bellevue, a Washington based Wind Turbine Company, focuses on designing, manufacturing and selling wind turbines. They've operated from this premise since 1989, investing \$15m in developing the machines. The company has focused on downwind turbine technology, claiming that their 750kW turbine will feature a 60m rotor and reach a rated capacity in 11.5m/second winds.

"The electricity generated is sold, generally speaking, to utility companies. So, among the earliest customers for wind energy in this country was Pacific Gas and Electric and Southern California Edison," explains Miles.

He says that neither company owns a wind turbine themselves, so they must partner with one such as his to tap the appropriate technology.



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Walter Nasdeo, Ardour



◀ generally speaking. To that end, he proposes that a key to furthering this progress is tackling climate change with information and communication technology wherever possible.

#### OPTIMISTIC VIEW

This stance is exemplified in the US in many ways: by a steady rise in the number of hybrid vehicles sold; a rise in the number of energy-efficient bulbs installed; and in Manhattan, for example, efforts on the part of its mayor to support public transportation through a congestion pricing scheme, modelled after London. So far, efforts have been futile.

But in a volatile market, it would seem problematic to bet and invest heavily in what ten years ago would have been mere poppycock. After decades of

reliance on the blue chips, could it really be all that wise for Wall Street's investors to turn to what could be called 'green' chips?

John Ewen, senior vice president in charge of corporate finance, has an MS in geophysics and a BS in environmental systems technology. He points out that most of the companies Ardour look at have some type of technology attribute.

Ardour sells reports in the fields of alternative energy resources, distributed generation, enabling technologies and energy efficiency. Such reports back up the company's stance on these publicly traded stocks. Ewen, for example, believes that pure energy technologies will drive the alternative market.

"Everyone was happy with \$26 oil for a while," says Ewen, but now "anybody with a technology that saves energy

and offers a payback period of two years or less can make inroads in the market".

Yet, what it all foretells for the overall state of the economy remains unclear.

Mingay is optimistic: "We think this is a trend that's going to be around for some time. And it's quite conceivable that while the focus today is on GHG and carbons, there is no reason to think the debate around sustainability is going to stop there."

Meanwhile, Ardour is trying to stay a step ahead – discreetly. Nasdeo says they do the leg work for investors who often may not want a company to know it is a potential investment target. And when an area gets exciting, Ardour will dedicate an analyst wherever appropriate.

"Few investors are totally involved in just one sector," says Nasdeo. ■

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##### REGENERATING CONNECTICUT

Connecticut's Governor Jodi Rell has taken a bold stand toward instituting green practices.

In January, Rell instituted Connecticut's Vision for a Cleaner, Green State with the goal of being in full swing by 2020. One of the beneficiaries of this scheme is FuelCell Energy, which has been brokered by Ardour many times. The company makes its living through a virtually non-polluting model of providing energy electrochemically transmitted.

FuelCell received \$4m from the state at the bequest of Rell, a move designed to bring more jobs that are focused around Rell's goal that 20 per cent of all energy used and sold comes from clean, renewable resources.

FuelCell's VP of investor relations and corporate communication, Lisa Lettieri, says that fuel cells are gaining traction because of their connection to alternative energies more than as a single alternative. She adds that they describe themselves as touting ultra-clean technology.

"You're either going back to the grid [the rest of the time] or you could have fuel cells there complementing that clean installation with ultra-clean power, generating a lot less carbon dioxide than the grid but still more than solar or wind," says Lettieri.

However, fuel cells may be riding the crest of a downward market, according to a source with another fuel cell company, Taras Wanekwycz, co-founder of Horizon Fuel Cell in Singapore.

"Certainly financial market conditions will continue to deteriorate in 2008, which means companies heavily reliant on external capital for operations will not be able to keep the pace. Over the next months, it will be interesting to keep a close eye on fuel cell companies that have decreased reliance on external capital for growth, as some new players with new models could emerge as leaders," he writes.