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Two New Indexes Help Wean Us From Oil Addiction Via Clean Energy and Cleantech

by Bill Baue

The WilderHill New Energy Global Innovation Index tracks clean energy companies internationally, while the Cleantech Index tracks cleantech companies in the US.

SocialFunds.com -- "America is addicted to oil," said President George W. Bush in his [State of the Union](#) address last week. "The best way...

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The WilderHill New Energy Global Innovation Index (ticker: [NEX](#)), which seeks to be "the purest and most authoritative benchmark for the development of the clean energy industry worldwide," tracks 86 clean energy companies trading on 18 markets globally.

"What we are seeing is that mainstream investor interest in the energy side of sustainability has really rocketed in the past 24 months, starting with [CalPERS/CalSTRS Green Wave Initiative](#), then with [Goldman Sachs](#) investments in [Zilkha Renewables](#) and [Nordex](#), [GE's Ecomagination](#), [BP's Alternative Energy](#) initiative, and now the President's State of the Union speech," said Michael Liebreich, CEO of [New Energy Finance](#), co-publisher of the NEX index. "The interest in clean energy is driven not just by sustainability issues and the Kyoto Protocol, but also by oil depletion and energy security concerns, and our impression is that it is far outstripping interest in other areas of cleantech."

"That said, we see the debate as being far more about clean versus conventional energy, rather than clean energy versus cleantech," Mr. Liebreich told SocialFunds.com.

Indeed, the clean energy and cleantech indexes are distinct enough as to be complementary.

"They track somewhat differently, as the global focus of NEX nicely allows for noncorrelation with US indexes such as the Cleantech Index," said Rob Wilder, founding CEO of [WilderShares](#), the other co-publisher of the NEX index. "The Cleantech Index also offers exposure to areas like water that aren't covered in the NEX alone." The non-correlation with US indexes also distinguishes NEX from its

precursor, the WilderHill Clean Energy Index ([ECO](#)), launched in August 2004. "There are aspects sizably represented within NEX, like wind power, that are less weighty in ECO--in part because many wind power companies are based in Europe, Asia, and elsewhere outside the US," Dr. Wilder told SocialFunds.com.

Elias Azrak, co-founder of the ECO index and also of [CleanTech Capital Indices](#) that publishes the Cleantech Index, points out that constituents in ECO and the Cleantech Index overlap only by about 20 percent--NEX and the Cleantech Index overlap even less.

"I do not think NEX and the Cleantech Index are competing with each other but by launching more products, we are helping to develop liquidity and attract more capital to the environmental sectors, which is the name of the game," Mr. Azrak told SocialFunds.com.

PowerShares Clean Energy ([PBW](#)), an exchange traded fund (ETF) tracking the ECO index that launched in March 2005, has over \$310 million in assets under management.

PowerShares Water Resources ([PHO](#)), an ETF tracking the Palisades Water Index (ZWI) that Mr. Azrak helped launch in December 2005, has more than doubled assets from \$138 million by the end of last year to over \$370 million now.

Mr. Liebreich of New Energy Finance places the growth of ERI in a broader context. "In all of our research at New Energy Finance we are trying to define a new asset class for investors - in other words a group of investments that is subject to one defined set of drivers, that exhibits non-correlated behavior vis-a-vis other asset classes," he said.

"What we have seen from the back-testing of the NEX is that we have been able to identify a group of publicly quoted companies for which this holds."

Three-year annualized returns for NEX would have been 29.27 percent, slightly underpacing the Amex Oil index (30.23 percent), but outstripping the S&P 500 Energy index (26.73 percent), the NASDAQ 100 (18.67 percent), and the S&P 500 (12.37 percent.) Preliminary results of backtesting for the Cleantech Index show three-year annualized returns of 30.75 percent. "It is clear that a professional investor who had previously been investing in the energy sector, whether utilities, oil and gas, or both, would have enhanced returns and/or reduced risk by investing against the NEX," said Mr. Liebreich. "That is very, very significant, because it can unlock far more investment volume into the sector than just retail flows from the

concerned wealthy."

Investable products are in the works for both NEX and the Cleantech Index.

"We've just signed with PowerShares to offer an ETF for NEX in the US, following a registration process," said Dr. Wilder. "But we also expect to offer other products outside of the US based on the NEX Index, and welcome inquiries about that."

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