



2nd Quarter, 2008

INVESTMENT FOCUS

Examining Another Key Investment Theme: Environment Health and Safety

As we have highlighted in previous quarters, the Acuity Clean Environment Fund focuses on investment opportunities within four key themes where innovative solutions are being applied to critical environmental issues. These themes are: (i) Energy and Power Solutions; (ii) Water and Wastewater Solutions; (iii) Waste Management and Pollution Control; and (iv) Environment Health and Safety. This quarter we examine the challenges and opportunities within our fourth theme, Environment Health and Safety.

Climate change should not be considered a purely environmental or developmental issue. Drivers of climate change, coupled with globalization, are having a negative impact on the key components that sustain human health. Already threatened in much of the developing world, air and water quality, access to sufficient food and shelter, and an adequate social framework are being further compromised by current trends in energy use, development, and population growth. For example, the World Health Organization (WHO) estimates that roughly 800,000 people die each year from causes attributable to air pollution, 1.8M from lack of access to clean water and poor hygiene, and 3.5M from malnutrition. In addition to the increasing pressure on these natural, economic, and social systems, global health challenges are also being increased as a result of climate change in more acute ways, such as through natural disasters and epidemics.

Significant progress has been made in the control of a number of infectious diseases over the past few decades. Malaria, for example, has been eradicated in areas inhabited by over 1.6 billion people according to the WHO. This progress, however, is coming under pressure as the transmission of a number of lethal vector-borne¹ infections (eg. cholera, diarrhea, malaria, dengue fever) is highly sensitive to changes in temperature, humidity, and rainfall. While exposure to these threats is much higher for residents of tropical nations, transportation efficiencies, tourism, and global trade are bringing new cases of these diseases into the industrialized world (Exhibit 1).

¹ A vector-borne disease is one that is transmitted between individuals through an intermediary host, such as ticks, mosquitoes, or animals.

As awareness of the potential impact of infectious diseases develops, we believe there will be opportunities for investment in companies developing more accurate diagnostic tools and efficacious anti-viral drugs and vaccines. Since a global epidemic would also have a significant effect on healthcare delivery and the handling of food and other goods, we also see investment opportunities in companies providing health services, instrumentation, and sanitation technologies. We highlight one such opportunity, Thermo-Fisher Scientific (NYSE:TMO), on the following page.

Exhibit 1: Global Status of Major Vector-Borne Diseases

Disease	Populations at Risk (MM)	Prevalence of Infection (MM)	Possible Change of Distribution as a Result of Climatic Change
Malaria	2100	270	Highly likely
Lymphatic filariases	900	90.2	Likely
Onchocerciasis	90	17.8	Likely
Schistosomiasis	600	200	Very likely
African trypanosomiasis	50	(25k new cases/yr)	Likely
Leishmaniasis	350	12 infected (+400k new cases/yr)	Not known
Dracunculiasis	63	1	Unlikely
Dengue fever	n/a	n/a	Very likely
Yellow fever	n/a	n/a	Likely
Japanese encephalitis	n/a	n/a	Likely

Source: World Health Organization. Based on world population of 4.8Bn (1989).

Another important public health challenge facing the world today is the protection of employees and communities from industrial hazards. Due to a lack of investment in the maintenance of aging infrastructure, along with tougher regulations worldwide, companies are facing numerous challenges related to monitoring and control of dangerous substances found in older structures such as asbestos, lead paint, silica, and PCBs. Consequently, we believe companies that provide monitoring equipment, training, and response capabilities will present considerable investment opportunities as traditional industries are forced to reengineer their production processes and facilities dramatically to remain competitive.

NEW & NOTABLE

Evidence of the Greening Consumer?

Climate change and the state of the environment rank among the most important issues facing the world today. While the subject of the environment has been appearing frequently in the media and in public debate for some time, related concern by consumers has yet to be reflected in their purchasing decisions. Quite simply, consumers have shown strong vocal support for an environmentally-friendly lifestyle but haven't been prepared to pay for it. A recent study examining transportation trends in the U.S., however, may indicate a shift in behaviour.

Changes in vehicle buying and driving behaviours have been emerging over the past year. Notably, demand for large SUVs showed the first signs of weakness, with sales in the first part of the year down 25% compared to 2007. Although the use of public transportation is on the rise, with 2007 ridership reaching the highest level in half a century according to the American Public Transportation Association, consumers do not yet appear ready to shun their vehicles. Rather, sales of small cars such as the Honda Fit and Toyota Yaris have more than made up for the decline in SUV demand with sales up by over 37% compared to the prior year. Furthermore, global sales of Toyota's Prius hybrid recently passed the 1 million mark.

These behavioural modifications may be more a function of the dramatic increase in fuel prices than of heightened environmental awareness. Regardless of the motivation, however, we expect high commodity prices will continue to make many environmental solutions more economically appealing, creating investment opportunities in such solutions over the the next few years.

Canada Improving Commitment to GHG Emissions Reduction

Canada's approach on GHG emissions has been the subject of significant scrutiny in recent months, mainly as a result of the government's perceived lack of commitment to the Kyoto Protocol. While these criticisms may be justified, recent policy developments provide encouragement that Canada plans to reduce its GHG emissions footprint.

Upon signing the Kyoto Protocol in 1997, Canada committed to a GHG emissions target of 6% below 1990 levels during the initial implementation phase. According to recent studies, however, we are currently 30% above this target. Furthermore, Canada was also recently notified that it was being investigated for violating a Kyoto reporting requirement. If found to be in violation when the Kyoto compliance committee meets later this month, Canada's right to trade in this international carbon-trading scheme would be suspended. We note, however, that such a ruling would be primarily be symbolic since Canada does not participate in any of Kyoto's emissions credits or carbon-trading programs.

While these developments do not cast Canada's environmental policy in a positive light, we note that both the B.C. and Federal governments have unveiled new frameworks for reducing GHG emissions intensity in the past few months. The B.C. plan mainly targets consumer emissions and emissions down the production stream through the

application of a pure carbon tax. The federal framework, on the other hand, focuses on larger emitters higher up the production process (i.e. coal-fired electricity generation and oil sands). Regardless of the exact implementation (Kyoto Protocol, regional carbon trading, or carbon tax), we believe the trend is clear: there will be meaningful costs for emitting CO₂. Companies with cleaner fuels and production processes (such as those in the Acuity Clean Environment Fund) are well positioned to benefit.

COMPANY SPOTLIGHT

Thermo Fisher Scientific, Inc.

Formed in 2006 through the merger of Thermo Electron and Fisher Scientific, Thermo Fisher Scientific (NYSE: TMO) has the broadest product portfolio and largest revenue base in the bio-analytical industry. The company is a leading global provider of analytical instruments, equipment, consumables, software and services, with sales exceeding \$9.6B in 2007.

A number of important global issues are currently driving growth at TMO. For example, as a result of increased concern over the transmission of infectious diseases, genericization of key drugs, and more stringent regulatory requirements, spending on drug discovery and development has been on the rise in recent years. With the life sciences and healthcare sectors accounting for approximately two-thirds of the company's revenues, we believe TMO is well positioned to benefit from these trends.

Furthermore, increased public concern over product safety (largely as a result of recent high profile cases of food and toy contamination) along with increasingly stringent regulatory frameworks have been driving sales of products with environmental applications. For example, there has been strong demand for TMO's Mercury Freedom™ air quality analyzers, which U.S. utilities have been using to monitor their mercury emissions. Moreover, the company's Niton® XRF analyzers can be used to verify the elemental content of industrial materials for compliance with hazardous substance restrictions.

In addition to the strong demand and regulatory environment outlined above, we believe TMO's shares will benefit from merger synergies over the near term as the company executes on its vertical integration strategy.

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