

## Net Green

*Portfolio 21 is a global growth equity fund that seeks long-term capital growth. Employing a bottom-up approach to stock selection, portfolio manager Tony Tursich, along with the portfolio management team, focuses on companies that have positioned themselves to steer through the increased demand for diminishing natural resources, coupled with the deteriorating environmental situation.*

**Q: What is your investment philosophy?**

**A:** Our investment philosophy is to find and invest in companies that have positioned themselves to steer through the increased demand for diminishing natural resources, coupled with the deteriorating environmental situation.

We look for companies that are taking steps to reduce their dependence on natural resources by either developing renewable resources or becoming more energy and resource efficient, reducing waste, and as a result, reducing their cost structure.

**Q: What are the criteria you evaluate these companies against?**

**A:** We evaluate their impact on the environment, and their liabilities in that regard. We have six criteria. The most important is the direct impact of the company's products and services on the environment. We look for companies that are engaging in product lifecycle analysis – they are evaluating their raw materials, they have supplier requirements in place, and they are also taking steps to improve the packaging and transportation in regards to distributing their products; they develop programs to take back and recycle their products, as well as to make their products energy efficient.

Next, we determine whether their investments are in line with their overall environmental business commitment. We look at where they are allocating their research and

development dollars, and then we also consider mergers, acquisitions, divestitures, investments, and new plant equipment.

The next area we focus on is leadership. We like to see the management of the company taking a proactive approach. Then we take a look at the company's environmental management systems to see if the company's facilities are certified to ISO-14001 standards. Then we look at resource efficiency in terms of use of energy, raw materials, waste reduction and reuse.

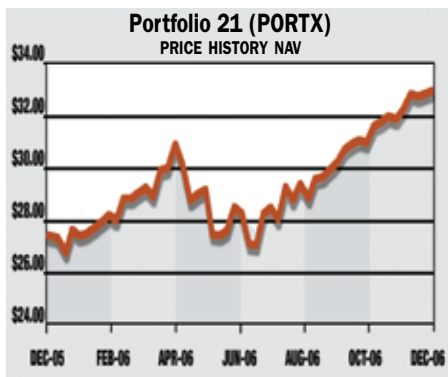
Finally, we address the issue of environmental risks and liabilities. We examine if the company has been successful in reducing its CO<sub>2</sub> emissions and make sure that there are not outstanding environmental liabilities like superfund sites, spills or toxic releases.

**Q: How many companies do you generally put through this evaluation process?**

**A:** We have a list of approximately 200 potential candidates. We check our portfolio and see if we are underweight or overweight in certain sectors or industries. We also consider the financial attractiveness of a particular company. This is a very dynamic list, and we add to it over time, finding companies that are positively mentioned in the news as to taking steps to improve their environmental standing, or companies that have released an environmental report or a sustainability report. We take a look at that report and see if a company has a chance



**TONY TURSICH** is one of the portfolio managers with Progressive Investment Management, performing research and analysis of securities and serving on the Portfolio 21 management team along with James Madden and Leslie Christian. He has over ten years of experience in the securities industry. Tony received his bachelor's degree from Montana State University and his MBA from Portland State University. He has studied European business at Ecole Supérieure de Commerce Marseille-Provence in France and has earned the Chartered Financial Analyst designation. Tony is a member of the Association for Investment Management and Research and the Portland Society of Financial Analysts.



of potentially meeting our criteria, and if so, we add them to this list.

**Q: Are you US-focused, or are you a global fund?**

**A:** We are a global fund. We launched the fund in September of '99 and our intention initially was to develop a domestic fund, but we soon realized that we couldn't qualify enough U.S. companies to create a well-diversified portfolio. Right now, about 25% of the fund is invested in U.S. companies, and about 10% in Japanese companies with the remainder allocated mostly toward Western Europe. We also have holdings in Australia, Hong Kong and China.

**Q: Can you give an example of an actual company that turned into a holding?**

**A:** Novozymes, a Danish company, is the largest manufacturer of enzymes used in a broad array of production methods. Novozymes has developed an enzyme to break down corn and sugars and turn it into ethanol, an alternative fuel. They have invested heavily, improved this enzyme and reduced the cost of converting corn or sugars into ethanol by a factor of 10. They are continu-

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ously striving to improve this efficiency and as a result, they are seeing tremendous growth here.

We have held Novozymes for a considerable time. They publish an environmental report indicating their factory improvements in terms of emissions and use of raw materials, and their facilities are all ISO-certified. Our research team looks at all of this information and makes a decision based these factors. I'm not going to submit a company to the research team unless it's attractive from a financial standpoint, in terms of growth, valuation and portfolio correlation. If we are underweighted in the healthcare sector, I'll actively seek out companies in this area to help increase our exposure.

**Q: Are you looking for some particular growth characteristics?**

**A:** We are looking for companies that have been growing at a decent rate over the past 5 to 10 years. We are looking at companies that are profitable and reporting consistent earnings growth.

The growth rate depends on the sector. If we are looking at a computer or semi-conductor company, a good growth rate would be at the market or above, so if the semi-conductors market is growing at a 10% clip per year, then we'll look at companies that are growing at least at that rate or more.

**Q: Do you measure yourself against any benchmark?**

**A:** We use the MSCI World Index as our benchmark, which is the most widely recognized and used global benchmark for developed markets. We look to align our portfolio to come close to the allocation of our benchmark. Even though we may see more growth in a particular industry sector, we still want exposure to other sectors that aren't growing as fast due to the world market demand. We are looking to maintain a well diversified portfolio with exposure to all industry sectors.

**Q: Can you give an example of a company that didn't pass your screening?**

**A:** A US-based company called AES is one of the largest power contract generators, and they also operate in the regulated utilities business. We have been watching AES and

the company is making significant investments in renewable energy and developing renewable energy power plants.

They have broad exposure to Latin American emerging markets and we find that attractive from a growth and valuation standpoint. In terms of our environmental sustainability criteria, this company still generates the bulk of its electricity through fossil fuel burning and coal power plants, and we would need to see greater environmental commitment and investment from AES before it would pass the criteria for our mutual fund. The company is still investing in coal fire plants which emit a lot of CO2. This company is taking small steps now, and hopefully at some point we'll be able to qualify them, but right now they do not pass our selection criteria.

**Q: Could you discuss one of your top holdings?**

**A:** The top holding in our fund right now is IBM. IBM first developed an environmental protection policy back in 1971. Since then the company has made tremendous progress on environmental issues. IBM already has high supplier standards in place, and even helped develop the electronic industry code of conduct. IBM also provides detailed metrics on investments, expenditures, savings, and cost avoidance associated with environmental protection. Over the past 7 years, annual savings from environmental efforts have exceeded environmental expenses by an average of two to one. Innovative metrics from IBM include those associated with its take-back and recycling of computers relative to sales of new systems. On a global scale, the company resold, reused or recycled 17 PCs for every hundred new sales. Although these figures are fairly low, the company's transparency is expected to help drive industry-wide improvement.

Basically, our evaluation focuses on the impact of the company's products, what investments the company is making, what they are doing in terms of leadership for their industry, and what environmental management systems they have in place for reporting emissions and making improvements.

**Q: Do you believe that the environmental policy in companies helps them to be more profitable?**

**A:** The concept behind Portfolio 21 is that the world economy is being significantly impacted by climate changes. We believe companies that are taking steps now to reduce their risks associated with climate change and diminishing natural resources are going to be able to better survive in the long term, and also be more profitable today because they are able to improve their use of natural resources and other efficiencies. This is the number one financial consideration behind our investment philosophy. That's why the name of the fund is Portfolio 21, where 21 stands for 21st century.

**Q: How many stocks do you have in the portfolio?**

**A:** We currently hold approximately 88 stocks in the fund. The turnover for our fund is very low. Since inception in 1999, our turnover has been in the single digit percentages, so below 10%.

**Q: What kind of buy and sell discipline do you have?**

**A:** Our trading strategy would be best characterized as 'buy and hold', where we look to invest in a company for the long term. If there is a company or sector that is not very attractive at the moment, we can allocate funds elsewhere. Thus we can reduce our exposure to certain companies or sectors by essentially not allocating new funds there, but we want to hold these companies over the long term and indefinitely. We are at the mercy of the market and we want to have significant exposure to the areas that are performing well.

To date, we have been able to adjust our exposure to certain sectors and stocks with the allocation of new money. We trim when positions reach a certain point. Our exposure has been limited, though, because we have been seeing significant cash flows into the fund.

**Q: With such low turnover, you have the opportunity to select the companies you are holding for the long term.**

**A:** Yes, and that's our strategy. Our process of putting a company through our screening is very stringent. We have two full-time

researchers committed to this process and we are now adding a third position. Our research analysts spend a lot of time doing very detailed analysis on the companies. Once our upfront research is completed and assuming the company passes our selection criteria, we look to hold the stock indefinitely, as long as the business model of the company continues to meet our criteria.

**Q: What risks do you monitor and what do you do to mitigate them?**

**A:** Diversification is the best way to manage risk. With a global mutual fund we have exposure to many regions in the world, and we maintain a well-diversified portfolio across the globe and across industry sectors. We also focus on investing in companies that are industry leaders, like IBM – companies that are profitable, that are growing consistently, and that have broad geographic exposure so they are not dependent on one particular economy. We like to see companies that are paying dividends and increasing those dividends at regular intervals.

We also control risk by focusing on the biggest and best companies in the world that are profitable, growing and pay dividends. We have currency risks because we invest in a lot of foreign securities but we don't hedge against this risk. Over the long term we feel that currencies will adjust to reflect returns across different regions. Trying to make currency bets and plays is something we don't want to get involved with, but at the same time, we feel that the structural bets are secure in the U.S. - budget deficits and the trade deficits make foreign currencies, particularly European and Asian currencies, more attractive than the U.S. dollar at the moment, and we don't see that changing soon.

The companies in Portfolio 21 have a risk premium that's not priced into the stock, and this will ultimately benefit the stock prices of our portfolio over time as investors come to realize that the risks we are addressing need to be examined and considered. We do have a unique approach to identifying and managing risk. We believe that over time it is going to be the single most important issue to consider as it is a global issue, not a local issue. 

## Portfolio 21

Symbol	<b>PORTX</b>
Website	<a href="http://www.portfolio21.com">www.portfolio21.com</a>
Address	Progressive Investment Mgt. Corp. 721 NW Ninth Ave., Suite 250 Portland, OR 97209
Tel. No.	877-351-4115 ext. 21
Inception	09/30/99

### PORTFOLIO

Total Net Assets*	\$164.3
Avg Mkt Cap (\$ Weighted)*	\$33,620
Average Price/Earnings Ratio	20.73x
Average Price/Book Ratio	3.53x
Turnover Ratio	4%

### INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

### RISK (MSCI EAFE ND INDEX)

Alpha	-0.34
Beta	1.01
R-Squared	0.79
Ann. Std Deviation	10.44
Ann. Sharpe Ratio	1.11%

### RETURNS VS. MSCI WORLD EQUITY INDEX

	PORTX	Index
1 Year (Cum.)	24.38%	20.65%
3 Year (Ann.)	15.17%	15.23%
5 Year (Ann.)	10.33%	10.49%

### RETURNS VS. S&P 500 INDEX

	PORTX	Index
1 Year (Cum.)	24.38%	15.80%
3 Year (Ann.)	15.17%	10.43%
5 Year (Ann.)	10.33%	6.19%

### FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee **	2.0%
Total Expense Ratio	1.5%

### PORTFOLIO MANAGER

Anthony Tursich	09/30/99
James Madden	09/30/99

\*millions \*\*on shares held less than 60 days

Data through: 12/31/06

Source: Company Documents; Lipper

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