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Fund in Focus: PowerShares Wilderhill Clean Energy Portfolio

John Southard, manager since March 2005
S&P Rank: Not Ranked
Katrina Stirs Up Interest in Green Power ETFü

By Richard Diennor,
Standard & Poor's

When Hurricane Katrina blew through the Gulf of Mexico, damaging oil drilling and refining operations, it also stirred up interest in PowerShares WilderHill Clean Energy (PBW), an exchange-traded fund.

The portfolio has grown briskly in the weeks since the storm hit as investors have eyed companies that produce power without harming the environment. It has also benefitted from a focus on alternative energy sources sparked by the surge in oil and gas prices this year.

But anyone thinking of jumping into the fund should be prepared for a possibly bumpy ride, people connected with the ETF caution, in part because it holds many small-cap stocks.

Assets in the Wilderhill Clean Energy have increased to $157 million from about $60 million in Katrina's wake, says John Southard, a managing director with PowerShares Capital Management who has overseen the seven-month-old offering since its inception.

The ETF tracks an index developed by Wildershares LLC. Its investments include companies that produce clean and renewable sources of energy, like wind and water, as well as those that make fuel cells, which use hydrogen to generate electricity. The portfolio excludes nuclear power companies because of the environment hazards posed by radiation.

WilderHill Clean Energy also keeps a good chunk of its assets in technology companies whose products facilitate clean energy production. Information technology companies currently account for about 29% of the fund's stocks, according to its web site.

For example, the ETF has stakes in American Superconductor (AMSC) and Intermagnetics General (IMGC), which are working on so-called high-temperature superconductors that are being developed to help transmit electricity more

efficiently.

In hunting for companies dedicated solely to clean energy, the fund will buy those with market caps as small as $50 million, says Robert Wilder, Wildershares' chief executive. "You have to have a low floor to get into pure plays," he says.

Shares of these micro-caps can be volatile, and that is reflected in the ETF's benchmark index, which "can drop like a rock," Wilder says. In addition, smaller-cap tech-related issues typically have higher betas.

Oil and gas prices present another potential hazard for the fund's investors, Southard says. Interest in alternative energy could wane quickly if prices decline, and "that could cause these stock prices to go down," he cautions.

Since its introduction on March 3, the fund has managed to stay in the black. It was up 1.5% between then and last Friday. By comparison, the Standard & Poor's 500-stock index returned 3.8% in the same span.

PowerShares offers ETFs that attempt to beat market indexes instead of just tracking them. The firm's products seek to replicate what it calls "Intellidex" indexes, which are designed to beat the benchmarks of traditional indexed ETFs through stock selection.

Southard thinks WilderHill Clean Energy will do well even when oil and gas prices fall. "I think this is not a short-term phenomenon predicated on short-term energy prices," he says of investor interest in alternative energy sources. "I think it's a trend that people are pushing for."

Though WilderHill Clean Energy is still too new to carry a fund report or Star ranking, it is clear that ETFs continue to grow in number and have distinctive characteristics. As these investment vehicles evolve, Standard & Poor's will continue to track them and further clarify their role in asset allocation.

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