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PUW: Crushing The Clean Energy ETF Competition

Across the board, energy ETFs have had a rough start to 2012. The price of crude oil has slumped significantly, pushing down demand for energy stocks both in the traditional sense and in the clean energy domain as well.

This news has been especially unfortunate for clean energy companies as it comes at a time of reduced subsidies from many of the biggest Western governments. Furthermore, clean energy companies seem to be under continuous pressure and have been some of the worst investments over the long term for many investors.
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Beyond this space, there has been a single ETF that, at time of writing, is up on the year, the **PowerShares Wilderhill Progressive Energy ETF (PUW)**. This outlier has managed to add roughly 0.9% so far in 2012, outperforming the broad energy sector by close to 700 basis points and crushing many of its counterparts in the clean energy segment by even more than that.

This performance has been downright incredible when one compares it to the returns that investors have been seeing in a number of other clean energy ETFs so far this year. In fact, the three funds that have more assets than PUW in the broad clean energy ETF world have an average performance of –roughly -13% at time of writing.

Given this broad divergence, many investors have likely been scratching their heads, wondering just how PUW managed to outdo its competitors by so much to start the year. Below, we highlight some of the main reasons for PUW's likely outperformance and how the product has managed to be such a star not just in the clean energy market but in the broad energy ETF space as well:

PUW tracks the WilderHill Progressive Energy Index to give investors exposure to the broad clean energy space with a slight twist. The index provider doesn't focus on the broad space but instead targets firms that are engaged in transitional energy technologies that improve the use of fossil fuels and nuclear power.

As a result, the index is composed of companies focused on the following areas: alternative energy, better efficiency, emission reduction, new energy activity, greener utilities, innovative materials and energy storage. The Fund is rebalanced and reconstituted quarterly and charges 70 basis points a year in fees.

With this focus, the product has a heavy tilt towards growth companies that are also on the small side. In fact, large caps constitute about 25% of the portfolio while small caps make up about 40% of the total assets.

From a sector perspective, industrials account for about 50% of the sector exposure, while energy and technology round out the top three. Given this exposure profile, the fund may not be the most directly correlated to the energy industry and instead may just be a tangential play on the space. This is further confirmed from an industry look; electrical equipment and heavy machinery account for the two biggest segments from this respect.

Investors should also note that PUW has a heavy focus on American firms and U.S. dollar exposure. American companies account for 70% of the assets while U.S. dollars account for nearly all of the currency exposure.

While this scenario may not be good when emerging markets are soaring, it has been a great strategy as the dollar has strengthened and emerging and European markets have crumbled in recent months.

Lastly, the product also seems to benefit from its well spread out nature among the fund's 55 components. Currently, no single stock accounts for more than 2.8% of the asset total ensuring that just under one-quarter of the total exposure goes to the top ten holdings.

Clean Energy ETF Competition

Surprisingly, many of these figures are quite different when one looks at the rest of the clean energy ETF space. Seemingly, the other three relatively popular ETFs in the space—**PBW**, **PBD**, and ... — all have a slightly different focus. While this tilt may not matter much when markets are going up across the board, it has clearly been a huge factor during the tumultuous markets that investors have seen as of late.

For example, PBW had a heavy focus on technology companies which account for over one-third of the total exposure. This is led by semiconductors, electrical equipment, and electronic components from an industry look, while the cap exposure is heavily focused on micro cap securities.

PBW has apparently fallen behind thanks to the riskier nature of its holdings and the greater focus on the tech space. While the country and currency exposure is similar to what investors see in PUW, PBW has clearly just been too volatile for many, pushing the product down over 16% so far this year.

In another PowerShares example of this, investors can look to the Global Clean Energy Portfolio, PBD. This product uses an equal weight methodology to achieve exposure to the space, once again putting a big focus on technology.

However, in this case, industrials account for about 30% while safe utilities account for another 22% as well. Given this and the inclusion of some large and mid cap securities—these make up about 35% of the exposure—it may initially be unclear why PBD has lagged and lost about 11.3% so far this year.

Seemingly, the product has been hurt by its country and currency exposure, stemming from its more global focus. The product puts just 34% in North American securities and about 32% in the hard hit European region.

In addition to this, the product has just 38% of its assets in dollars, with a host of other foreign currencies comprising the rest. Since the dollar has been relatively strong this year, this has likely also contributed to the underwhelming performance of PBD to start 2012.

Lastly, investors have the case of the … **Alternative Energy ETF (…)** as well. This product focuses on alternative energy companies but uses more of a cap weighted focus, giving it a higher concentration level in its top securities.

Given this top heavy approach, some might assume that this is the culprit for …'s double digit loss so far to start 2012. However, both of the fund's top components were star performers as both Cooper Industries and Cree have been in the green to start the time period.

However, once again the heavy focus on semiconductors and pint sized securities has helped to sink the product. Small and micro caps make up close to 60% of assets while tech accounts for nearly one-third of the total exposure in ….

Beyond this, the product has also been hurt by a modest level of exposure to European equities. North American companies make up roughly three-fifths of the total while European assets account for about 20%. Thanks to this and the modest levels of European currency exposure—roughly 20% in total—and … was unable to cash in on the strength of some of its top holdings in the first few months of the year.

Conclusion

Although the energy market has been quite rough this year, there have been a few stand outs. While a broad play on the space seems like a bad idea some of the more specialized corners of the market have held up surprisingly well in the face of market turmoil. Seemingly these corners are a little less correlated with the price of oil and have been able to trade on their own fundamentals instead of on commodity prices.

This has especially been the case of PUW so far this year as the ETF's focus on transitional technologies and more industrial companies have saved it from a big slump. Furthermore, the currency and country exposure has proven to be a big issue as well, as PUW tilts towards dollars and the U.S. in general while many of the other products have a more global focus.

Thanks to these realities, it looks as though PUW could be a good pick if market trends continue and investors want to maintain some level of exposure to the energy space. While the product isn’t the most direct play on the industry, this tangential exposure could be the way to go when energy markets are uncertain and other clean energy products are having a difficult time keeping their heads above water.