

## Shareholder Report First Quarter-2014

Dear Shareholder,

We are pleased to report a strong first quarter. The net asset value was \$51.34 and the Fund's total assets reached \$190,031,586 as of March 31, 2014.

Our gains this quarter were led by several long term Spanish renewable energy holdings including Abengoa, SA (up 55.3%); Acciona SA (up 50.6%) and EDP Renovaveis SA (up 25.4%), along with Danish wind turbine manufacturer Vestas Wind Systems A/S (up 36%).

We felt these companies were still undervalued, as renewable energy investment sentiment remains grim in the region. Some governments, including Spain and Germany, have backtracked on their environmental initiatives. As we described in our 2013 Annual Report discussion, the Spanish government has gone so far as to impose taxes on residential solar power. Most of these companies have responded by developing substantial new business outside of their home countries.

Abengoa is presently developing or operating three major solar projects in the United States accounting for 28% of its total business. These operations join Abengoa's other projects in South Africa, Chile, Israel, Morocco, Algeria, the United Arab Emirates and Spain. Another of our Spanish companies, wind turbine manufacturer Gamesa Corporacion Tecnologica SA, ended up last year as the leading wind power installer (in generated capacity) in Mexico and India and in second place in Brazil. These countries are presently the fastest growing markets for renewable energy and Gamesa realized 70% of its total business among them. The company recently reported that projects outside of its home country have gone from 5% in 2000 to 100% in 2013.

We sold two large French holdings during the quarter including Schneider Electric SA (energy efficient electric components and building systems) when they acquired another company, Invensys PLC, a company that makes software and control systems used by chemicals makers, oil refineries and mining companies. We also sold our remaining shares of Veolia Environnement SA (clean water and industrial energy efficiency). The two sales represented capital gains for the Fund.

Three new companies in the Fund are Cree, Inc., a U.S. manufacturer of highly rated LED lighting and power electronics; Transalta Renewables, Inc., a newly created wind and hydro power division of a larger Canadian power project developer and operator, Transalta, Inc.; and Canadian Solar, Inc., a photovoltaic (PV) module manufacturer and project developer. While its corporate headquarters is outside of Toronto, Canadian Solar maintains its manufacturing facilities mostly in China and most of its management are Chinese.

Cree joins Koninklijke Philips Electronics NV (Netherlands) as our energy efficient LED lighting companies. Canadian Solar is part of our cautious re-entry into solar PV manufacturing and development companies, which now includes SunPower Corp in the U.S., Kyocera Corp. and

Panasonic Corp. (both in Japan). Transalta Renewables is composed of a group of wind and hydro generating projects that Transalta acquired when it took over Canadian Hydro Developers, Inc., along with some additional projects by Transalta itself.

Cree and Canadian Solar do not pay dividends, but they are considered fast growing companies and their share prices had recently retreated to attractive levels.

We have trimmed other holdings to maintain a degree of diversification when share prices rallied to the extent individual securities represented close to 5% of our net assets or, in some cases, rose to a valuation which we felt was excessive. Over the course of the quarter, we reduced our shares of Abengoa, Acciona, Gamesa, EDP Renovaveis, and Vestas. We also sold some of our stock in Fuel Cell Energy, Inc. (molten carbonate and solid oxide fuel cells) after a share price rise of 74 per cent.

The new US Senate Finance Committee Chairman, Senator Ron Wyden, (D., Oregon) has expressed support for tax reform which would provide parity among all forms of energy and create standard renewable tax incentives. This would do away with the uncertainty and disruption presently created by the annual extensions required by most renewable energy public supports and tax benefits. He also suggests that tax benefits provided to the fossil fuel industries, such as master limited partnerships, should also apply to renewable energy.

These new classes of equity assets provide capital for development of renewable energy and energy conservation projects, while paying dividends to investors. The companies, now known as "Yieldcos" are becoming an increasingly popular way for alternative energy project developers and manufacturers to finance their operations. As projects are completed, they are sold to the Yieldcos to operate. The sale provides the development company with income for future projects and the Yieldco provides a dividend to investors from the income derived from by the power they sell to utilities under long term contracts.

Other companies which own renewable assets in the U.S, such as Abengoa, have announced plans to form new Yieldcos. A number of companies which manufacture solar PV panels and develop solar projects, including Sun Edison, Sun Power, Canadian Solar and First Solar, are considering whether to create Yieldcos. There has also been speculation that the European renewables developer EDP Renovaveis, and U.S. utility Nextera might put some of their U.S. based assets into Yieldcos.

There is an expectation that the capital structure of these companies will enable their acquisition of additional assets which will provide increasing dividend distributions. We have some concerns that the initial share price of these new Yieldcos will be unreasonably high and could reduce the projected yield basis of the company's projects and limit the funds available for further asset purchases.

The combination of new business formats for renewables and a degree of policy stability could produce a virtuous cycle where the Yieldcos provide a market for project developers, which would in turn provide a market for manufacturers of solar PV and wind turbines.

We already added two Yieldcos to the Fund: NRG Yield, Inc., which was created by the broader power company, NRG, Inc., and Pattern Energy Group, Inc. which was created by a

private equity group. Both corporations were started to hold and operate renewable energy assets. Another is Hannon Armstrong Sustainable Capital, Inc., the first Real Estate Investment Trust (REIT) to focus on clean energy infrastructure financing.

We made additional purchases of mostly Canadian based renewable developers/operators for their consistent dividends. This group includes Innergex Renewable Energy, Inc., Northland Power, Inc., and Algonquin Power & Utilities Corp. These companies, along with Brookfield Renewable Energy Partners LP, operate hydro assets in Canada and the U.S and have diversified by developing wind and solar projects. Some of them were up for the quarter—Brookfield, 11.4%; Northland, 8.1%; Algonquin, 2.9%—and Innergex was down by 9.7 per cent.

We added shares of other dividend payers: Johnson Controls, Inc. (building energy controls and stop/start batteries for hybrid vehicles), Philips Electronics, Panasonic (which makes batteries, electronic products and solar PV cells), and Hannon Armstrong.

Also in this category of steady dividend-paying companies, the Fund added modestly to our shares of the three natural gas and electricity distribution companies: New Jersey Resources, Inc., South Jersey Industries, Inc. and WGL Holdings, Inc. A recent issue of *Value Line Investment Survey*<sup>®</sup> cited the increased income and profitability from each of these companies' renewable energy projects as significant factors in their growth.

*Value Line* specifically noted that South Jersey's "combined heat and power (CHP) projects and solar energy projects were drivers of first quarter results." New Jersey Resources Clean Energy Venture division added a new solar system that will power the Woolrich Township Municipal Building in southern New Jersey. WGL sponsors subsidized wind power options to its utility customers and also underwrites solar installations for local municipal buildings, schools and non-profit organizations.

The new strength in solar is driven by a combination of falling prices for basic materials (primarily polysilicon) and solar panels, more efficient modules, an improved financing environment, government subsidies and policies that encourage wider development of clean energy. A number of the smaller, less financially stable solar companies folded in the last few years, leading to a fiercer competition among the remaining companies for the expanding business. The recent imposition of a tariff on Chinese-produced, inexpensive solar panels (alleged to be government subsidized) has helped level the economic playing field in the U.S. market, although this action may possibly reduce the profitability of new projects.

A number of unregulated, independent utility-like firms, the largest being SolarCity Corp., offer to install and lease roof top solar equipment, providing homeowners and small commercial buildings a means to reduce their electric bills by paying the solar firm for electricity, instead of paying their conventional utility. The solar provider can borrow from lenders who use the anticipated future revenue from the homeowners' leases to secure the loan. Several solar manufacturers, including SunPower, a Fund holding, have added similar leasing operations to their business.

The conventional utilities are required to buy excess power from homeowners in states with net metering laws. The conventional utility provides electric service when required by the

solar customer (i.e., if the sun isn't shining and the homeowner isn't able to store energy). This kind of service is not available everywhere, but is growing rapidly in those areas where net metering rules are in effect.

This new model of solar power is reviving interest in an energy system known as "distributed generation." Rather than relying on geographically wide transmission systems carrying power from large electrical plants, a distributed generation system involves creating a series of smaller, interconnected grids. Power is generated from a number of sources, like individual buildings along with local power plants, and fed into the grid where it can be distributed from the points of generation to consumers. Distributed generation systems would be particularly good ways to bring renewable power to undeveloped areas where there is presently no transmission infrastructure. It holds great promise in many locations in Asia, Africa and Latin America.

In the developed world (North America, Europe, Japan, etc.), it will require major investment to create the significant changes in existing transmission facilities that would be necessary. In the end, however, such a grid system would be cheaper to operate, less prone to wide scale disruptions and much cleaner for the environment. The present surge in solar PV use seems to be driving parts of the U.S., Western Europe and Japan in that direction.

Despite the Fund's recent positive performance and NAV growth, share redemptions still outnumber share purchases. We are making greater efforts to publicize New Alternatives Fund and we hope wider publicity will reach new investors. We also anticipate the introduction of new on-line services for our shareholders in the near future. We should have further details in our semi-annual report later this year.

**Shareholders Comments: We continue to welcome advice and comments from shareholders. You can contact us by regular mail, telephone or e-mail at [info@newalternativesfund.com](mailto:info@newalternativesfund.com).**

David Schoenwald  
Murray Rosenblith  
6/10/14

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This report is intended to give you a feeling of what we have been doing and why we do it. For more complete and official data see our annual or semi-annual financial report.

This report must be preceded or accompanied by the New Alternatives Fund's current prospectus. Shares of the Fund are distributed by Accrued Equities Inc. and Foreside Funds Distributors LLC.