Investing for a Better World

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INSIDE

Transparency: A Window into Corporate Responsibility?

By Steve Lippman

Move over "sustainability," there's a new buzzword in town: "transparency."

Transparency—the full, open, and honest disclosure of information by institutions to the public—has emerged as a strategy for issues as diverse as curbing escalating U.S. healthcare costs to fighting corruption in the developing world. It's also emerged as a key tool for promoting corporate accountability and corporate social responsibility, and one that investors are particularly well-positioned to use.

Society hasn't always looked to transparency to solve its ills. In fact, transparency has had some past negative connotations: think of a child's *transparent* excuses to get out of doing chores or your irritation at a co-worker's *transparent* efforts to flatter the boss. Also, the acknowledgement that members of the public require full information because of their legitimate role to play in decision-making is relatively new.

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2006 Advocacy Roundup

By Shelley Alpern

Earlier this year in these pages, my colleague Steve Lippman outlined our advocacy agenda for 2006 in "New Year's Resolutions." We're happy to report a lot of progress toward our goals, particularly on climate change, sustainability reporting and political contributions. We won't be retiring any of our efforts to the attic alongside the ab-flattening exercise devices.

Global Climate Change

We took the lead on resolutions at **Anadarko Petroleum** and **Dominion Resources** addressing those companies' strategies for reducing greenhouse gas emissions. Both were successful in different ways. Anadarko agreed to annually disclose its greenhouse gas emissions, marking continued progress from where

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Dear Reader

Joan Bavaria

Years ago, when our company was being put together, the husband of a former colleague of mine (over coffee after a group dinner), asked me to sleep with his law partners to procure leads for new accounts. At first, I didn't believe him – I thought he was kidding. When I expressed incredulity and declined, he argued with me. "That's the way things are done", he kept saying, "the money is there on the table – you just have to take it." What made the incident more surreal was the fact that his wife was a professional colleague. To him the whole thing was more like brokering. The next day, his wife apologized, rather lamely, but she had done nothing to interrupt a conversation she could hear.

This incident had elements that make it more dramatic than most ordinary business temptations, including sex. But there were others – offers to manage accounts for people who were obviously hiding money or who thought small startup companies were fair game for "favors" that had long strings attached. One of the people involved in an S&L scandal in New England in the eighties, proud of his suburban life as a bank CEO with extravagant trappings and frequent trips to industry events, simply disappeared. I did manage some money for him for a while – with a lawyer looking over my shoulder the whole time. After he disappeared

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Oh Henry! Can He put the "Green" Back in the Greenback?

By Blaine Townsend

Alexander Hamilton, the nation's first Secretary of the Treasury, once said "the national debt, if it is not excessive, is a great blessing." With the national debt now sitting at $8 trillion dollars, do you think Treasury Secretary-nominee and former **Goldman Sachs** CEO Henry Paulson is feeling blessed?

It's true that the budget deficit (as a percentage of gross domestic product) was higher during World War II. But the debt was financed by American citizens, not Asia, and was bolstered by the rise of American power. In fact, it was just after World War II that the American dollar (backed by gold reserves) became the world's reserve currency. And for good reason. At the time, America produced two-thirds of the world's oil, held eighty percent of the world's gold and possessed one hundred percent of the world's nuclear weapons. In the global hegemony business, that's what's referred to as "game, set and match."

Today, the world is a much different place. Many countries have nuclear weapons and America prints money backed by nothing more than promises. America is also forced to *import* 55% of its own oil needs. The only silver lining for Hank Paulson is that (for now) the greenback is still the international reserve currency in large part because the world's thirst for oil is financed with American dollars.

How does this work? Oil contracts with Organization of the Petroleum Exporting Countries (OPEC) are concluded in U.S. dollars. So any country who buys from OPEC must find a way to get enough dollars to meet their oil demand. This creates a huge demand for the U.S. dollars and a floor for its valuation.

At the expense of better fiscal management (like creating demand for dollars because they are the best investment), propping up the oil industry and the "crudeback" has become the shortcut to preserving American economic might. Unfortunately, war, peace and life on this planet hang in the balance. This is where Henry Paulson comes in.

The world outside of the Bush Administration has awakened to the environmental (and economic) danger of a world dependent on oil. As a former board member of the Nature Conservancy, Henry Paulson has been part of this world. He has supported policies that placed global warming over the short term economic benefits of oil dependence. Even his Wall Street legacy has environmentalists hopeful. In 2005 Goldman Sachs committed to spending $1 billion to generate energy from sources other than oil and gas.

How this plays out with a boss who remains wholly supportive (and supported) by the Big Oil industry remains to be seen. After all, the crudeback system is clearly the mainstay of the Bush Administration's policies. To some, it even offers the only logical explanation for the war in Iraq because a passion to stop trading oil in U.S. dollars is a common trait of President Bush's "Axis of Evil" countries (Iraq, Libya, North Korea and Iran). And make no mistake: the countries allied with them would like to follow suit, led by Russia and China. China in fact has already started inking long-term oil and gas supply deals with Iran.

What America needs now is a long-term plan to attract investment in the greenback that is not based on demand for oil or Americans' need for cheap imports. Henry Paulson could bring a unique perspective to this problem. He did demand access to Bush's inner circle of advisors before accepting the nomination, so maybe he has designs on changing the Administration's thinking. If so, let's hope Paulson heeds the words of James A. Baker III, another predecessor in the Treasury post: "never let the other guy set the agenda."

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Robert J. Schwartz, 1917—2006: He Made a Difference

Back in the 1950s and 1960s, no one was talking about CSR (Corporate Social Responsibility), SRI (Socially Responsible Investing), GRI (Global Reporting Initiative) and other acronyms familiar to us today. But there was Robert J. Schwartz, conducting a one-person crusade to bring social justice into the arena of business. Bob Schwartz died on May 9th of heart failure. He was 88. And his passing needs to be marked by those of us who are beneficiaries of his work.

Bronx-born Schwartz was an economist equipped with a strong social conscience. He bristled at Jim Crow practices, he campaigned against the use of nuclear power, marched with protestors of the Vietnam War and traveled to Mississippi to lend a hand in the fight for civil rights. He was arrested several times in demonstrations. He participated actively in a number of liberal organizations: American Veterans Committee, Americans for Democratic Action and SANE (Committee for A Sane Nuclear Policy). In 1966, he tried — but failed — to win the Democratic Party nomination for Congress in New York's 17th Congressional district.

Bob Schwartz brought his social activism into his professional life. Hounded out of the Treasury Department during the McCarthy purge years, he joined the Amalgamated Bank in New York. He began looking at the bank's holdings to insure that investments were not being made in companies that were anti-union or despoilers of the environment. After eight years at Amalgamated, he moved onto Wall Street, first at Bache & Co. and then at Cogan, Berlind, Weill and Levitt, a brokerage house that eventually morphed into Shearson Lehman and then became part of Smith Barney.

Since he wore his social activism on his sleeve, Bob Schwartz was a maverick on Wall Street, but it worked. He had friends who were delighted that someone could assemble for them a "Peace Portfolio" stripped of weapons makers. He found labor unions and church groups happy to turn over pension fund management to him so that they were not investing in companies hostile to their values. For a number of years at Shearson, Schwartz was racking up annual commissions of over $1 million, ranking him among the top-earning brokers at the firm.

In 1982, when Joan Bavaria brought together a group of people in a Lewis Wharf condominium in Boston to seek their counsel in the start of a new investment advisor, Franklin Research & Development, predecessor of Trillium Asset Management, Bob Schwartz was one of the attendees, lending his support and offering his wisdom. He was a friend and advisor to Joan for the next 23 years.

Bob fought a lot of battles. He organized protests against napalm-producer **Dow Chemical**; he targeted textile giant J.P. Stevens, forging an alliance with activist Ray Rogers to force Stevens into signing a new labor contract; he recruited the Sisters of Loretto order to buy shares in Kentucky's Blue Diamond Coal Company, badgering the company to report on its working conditions and eventually to set up a fund of $8 million to compensate families of 26 miners who had lost their lives in the mines. Bob crisscrossed the country in the 1980s to urge state and municipal governments and pension funds to divest their holdings of companies with outposts in South Africa. And when he finally retired in 1989 as a senior vice president of Smith Barney, he continued an activist role, founding EARC: Economists Allied for Arms Reduction. One of his final campaigns was to get the U.S. Navy to stop using its base in Vieques, off the coast of Puerto Rico, for bombing practice. That fight was won two years ago.

His legacy will endure.

It Seems to Me

Milt Moskowitz

Liz Rollins

Robert J. Schwartz
1917—2006

"Why have I tried to make a difference?

Because I am an American who thinks of himself as a native of all countries and a citizen of the world. Because I am a Democrat who is more of a socialist than a centrist but is something of both. Because I am an economist who, to paraphrase what has been said of many Quakers, started in Wall Street to do well and ended by doing good. Because I am a non-practicing Jew who is more of an atheist than an agnostic, but an atheist who strives to live according to what was inscribed on the Tablets, and to practice what was preached in the Sermon on the Mount."

—Robert J. Schwartz

From an unpublished memoir which I had access to because of my friendship with an editor, Alison Owings.

Transparency: A Window into Corporate Responsibility? (cont'd)

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The more traditional attitude of deference to expert elites is well illustrated in the advice distinguished judge Oliver Wendell Holmes gave to doctors in 1871: "Your patient has no more right to all the truth you know than he has to all the medicines in your saddle bags. He should get only just so much as is good for him."

Now however, we live in an era where scandals have rocked many of our most trusted institutions, notably governments, corporations, and the media, but also the American Red Cross, the Olympics, and even the TV game show American Idol. Who's left to trust?

Sunshine really is the best disinfectant, or in corporate-speak, "what gets measured gets managed, and what gets reported gets results."

At the same time, the internet and an increasingly global communications network allow people direct access to information as never before. As a result, institutions face increasing demands to provide information that enables the public to judge performance for themselves. In addition to empowering individuals with information, such disclosure provides an important accountability mechanism for ensuring that governments, corporations, non-profits and other groups are more honest, efficient, and responsible. After all, companies and other organizations feel pressure to "get in shape" if they know they'll be baring all to the public. Sunshine really is the best disinfectant, or in corporate-speak, "what gets measured gets managed, and what gets reported gets results."

For these reasons, socially responsible investors have long championed increased transparency, particularly about social and environmental issues that can have long-term impacts on companies but are often ignored by traditional financial analysis. Shareholders are uniquely positioned to argue that companies should release this information and have successfully gotten companies to disclose everything from their total greenhouse gas emissions to their policies on political contributions. This trend has accelerated as larger institutional investors have grown increasingly comfortable supporting demands for disclosure on social and environmental issues that can have material impacts on long-term shareholder value.

Here are just a few ways that investors have promoted more responsible business practices simply by asking companies to disclose what they are doing.

Disclosure of Political Contributions

Do you have a somewhat hazy memory that John McCain (and Russ Feingold) put a stop to corporate political contributions a few years back? If only it were that simple. In 2002, Congress did pass McCain and Feingold's Bipartisan Campaign Reform Act (BCRA), which prohibited corporations from making unlimited (so called "soft money") contributions to national political parties and to committees controlled by federal officeholders. But the law allows corporations to contribute soft money to non-connected political committees (commonly called 527s), to political parties at the state level, and to state and local candidates. It also allows companies to funnel political contributions through their trade associations. The non-partisan Center for Political Accountability has found that "As a result of BCRA, corporate political money has not stopped flowing; it just moves through different channels." Companies don't have to publicly report many of these contributions, and boards of directors typically exercise little oversight on political contributions.

Trillium Asset Management and other investors have banded together to work with the Center for Political Accountability to demand disclosure and effective oversight of corporate political contributions. In response to this two year old campaign, 10 large companies have agreed to publicly report all their political contributions on their websites each year, publicly disclose their guidelines for political giving, and ensure their boards of di-

Transparency: A Window into Corporate Responsibility? (cont'd)

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rectors review all soft money political contributions on an annual basis. (These ten companies are **Bristol-Myers Squibb**, **Coca Cola**, **Eli Lilly**, **Johnson & Johnson, McDonald's**, **Morgan Stanley**, **PepsiCo**, **Schering-Plough**, **Southern Company**, and **Staples**.) Investors are now asking more companies to follow these ten leaders on political disclosure, and to boost disclosure further by including contributions channeled through trade associations. Over time, we expect this effort will dramatically improve disclosure and accountability for corporate political contributions.

Extractives Industry Transparency Initiative

Here's a paradox: some of the poorest countries in the world are those with rich deposits of gold, oil, diamonds, and other natural wealth — countries which receive hundreds of millions of dollars in royalties and other payments from international mining and oil companies for access to those resources. Yet these countries seem to lack the money to provide the most basic services for their citizens, from education to efforts to fight HIV. Where does the money go? Sadly, much of it is often spent on pet projects that benefit the ruling elite or is outright stolen and diverted to secret bank accounts.

To fight this problem, in the late 1990s, a coalition of non-profits began calling on companies to "publish what you pay," on the theory that a full disclosure of payments would make it harder for corrupt government officials to steal or misallocate funds. In 2002, UK Prime Minister Tony Blair took up the cause and recruited a broad coalition of countries, companies, investors, advocacy groups, and major funding institutions like the World Bank to join the Extractives Industry Transparency Initiative (EITI). Over twenty developing countries, such as Azerbaijan, Nigeria, and East Timor, have signed on to the EITI and agree to regularly publish independently audited figures of all material payments they receive from oil, gas, and mining companies. Major companies such as **BP, Chevron**, and **Shell** have endorsed the EITI and agreed to help support its implementation. Trillium Asset Management and other socially responsible investors were early endorsers of the Publish What You Pay campaign and have also formally endorsed the EITI.

Global Reporting Initiative

Any regular reader of *Investing for a Better World* and our website has read about our strong support for the Global Reporting Initiative, a comprehensive set of guidelines for companies to report their social and environmental performance that was developed by environmental, labor, and human rights groups from around the world, along with companies, accountants, and many other groups. This year, Trillium Asset Management participated in a major update of the guidelines which will be unveiled in October and helped lead a coalition of investors that asked more than 40 companies to begin reporting using the GRI guidelines. As a result, major companies within our holdings, including **AIG** and **Illinois Tool Works** have agreed to issue their first-ever sustainability reports. We consistently hear from sustainability champions within companies that the very act of having to publicly report their policies and performance drives many companies to make new commitments and invest resources and time on environmental and social initiatives.

Major companies within our holdings, including AIG and Illinois Tool Works have agreed to issue their first-ever sustainability reports.

And More

There are many more ways investors are using the power of disclosure to demand more responsible business practices, such as getting **Wal-Mart** to disclose diversity data for its workforce and **GE** to disclose the money it has spent on lawyers and efforts to delay cleaning up its PCB contamination of the Hudson River. It's all just part of our *transparent* efforts to get companies to act more responsibly.

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the company was when we began engaging in 2003; we therefore withdrew the proposal. Dominion, the Richmond-based electric power provider, declined to produce a public report analyzing its strategy for profitability in the inevitably carbon-taxed future, even though its industry emits 40% of the U.S.'s carbon emissions and 10% of global carbon emissions. Now that more than 22% of its shareholders supported our resolution, arguments may sound more persuasive. (Twenty-two percent may seem low as a measure of presidential popularity, but in our context, it's practically a landslide.)

A successful "sustainability reporting" resolution at **American International Group (AIG)** also paid big dividends in this area. On May 15, AIG became the first U.S. insurance company to adopt a policy to reduce the risks of climate change through a variety of instruments and investments. (See Steve Lippman's "Insuring Against Climate Change" in this issue.) We joined with the Service Employees International Union to press **Wells Fargo** to join other banks that have begun reporting on their environmental and social policies, and we're particularly eager for Wells to report how it is dealing with the hot topic of climate change. Unfortunately, the SEC allowed Wells Fargo to keep the resolution off its ballot on procedural grounds.

We're joining with other filers to tip those companies still on the fence into joining the increasing number of companies issuing sustainability reports. The reports are critical in ensuring that companies address social and environmental issues that relate to their business.

Sustainability Reporting

In addition to the AIG breakthrough, resolutions that Trillium co-filed at **Chubb** and **Illinois Tool Works** bore vital (if wonkish) fruit; ITW will produce its first sustainability report, and Chubb agreed to study the feasibility of producing one. While we successfully negotiated at all the companies where we filed sustainability reporting resolutions, other filers got record support for these resolutions, including a near majority 48% at **Terex Corporation**. We're joining with other filers to tip those companies still on the fence into joining the increasing number of companies issuing sustainability reports. The reports are critical in ensuring that companies address social and environmental issues that relate to their business.

Equal Employment Opportunity

For a number of years, shareholders have aided equal employment advocates by pressing companies for more transparency about their workforce demographics and their programs to increase diversity and dismantle glass ceilings**. Home Depot** and **Wal-Mart** are two such companies that have received numerous proposals from investor coalitions calling for the release of EEO-1 data (a snapshot of the workforce broken down by sex, race and employment level).

After many years of prodding, this spring **Wal-Mart** finally released its entire EEO-1 data sheet on the Walmart Facts Website, "setting a new standard in corporate transparency not only for retailers but for all Fortune 500 companies," according to the Interfaith Center on Corporate Responsibility.[1] The company has compiled easy-to-use charts comparing its hiring performance with industry composites and U.S. employers as a whole. We give due credit to Wal Mart on this one. The numbers don't always make them look bad, either.

So take note, **Home Depot!** Earlier this century, the retailer reneged on a pledge to shareholders to provide EEO-1 data, prompting the resumption of shareholder resolutions in 2005 and 2006. The 2006 vote – 36% — is the highest *ever* on this topic.

Most shareholder resolutions calling on companies to expand their nondiscrimination policies to include protections for sexual orientation and/or gender identity don't come to a vote, because most companies have simply responded by imple-

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menting the proposal. **ExxonMobil** is the exception, having famously committed in 1999 to turning the clock *back* by closing out Mobil's same-sex domestic partner benefits. This year's resolution at ExxonMobil garnered 34.6%, its highest level to date. A first-year resolution at **Expeditors International** received 32%. Since the threshold for re-filing a first-year resolution is 3%… we may yet meet again. We humbly withdrew our sexual orientation policy resolution at **Halliburton** after submitting an improperly dated filing document, but we expect our humility to fade as the 2007 filing deadline approaches this autumn. Many companies quietly have changed their policies in between filing deadlines, so we're also keeping our fingers crossed.

Political Contributions Accountability

Yet another resolution bore fruit at **Southern Company**. We had asked for semi-annual public reporting on Southern's political contributions to candidates, parties, political committees, and "527" groups (which can range from groups like the Swift Boat Vets to quasi-party groups like the Democrats' or Republicans' Governors Associations). After a respectable 11% vote last year, Southern reconsidered its stance on disclosure and has now committed to maintaining control of all political donations at the parent-company level, and to posting all political contributions (including 527s) on its web site.

Early on in the shareholder season, we withdrew a resolution at **Eli Lilly** after the company agreed to strong new board oversight and disclosure of its political contributions.

Environmental Health & Justice

Our resolution at **Chevron** concerning their potentially enormous environmental liabilities in Ecuador drew about the same support as last year: 9%. The lawsuit stems from the irresponsible drilling practices of Texaco in the ecologically hypersensitive rainforest regions of the country (Texaco was acquired by Chevron in 2001). Area residents have also fallen victim to a remarkable array of illnesses and cancers from their dependence on the petro-contaminated rivers and streams. The resolution results disappointed, but Chevron is feeling increased scrutiny overall on Ecuador, as was evident in a 2005 Bob Herbert op-ed in *The New York Times:*

> *Please welcome the latest entry to the Chutzpah Hall of Fame: the mighty Chevron Corporation....Officials at Chevron do not see [the situation in Ecuador] as their problem. They will tell you that they've cleaned up any mess they might have made, and then some. And they will deny to their dying breath that they have harmed anyone.*[2]

Following a withdrawal of last fall's resolution at **Johnson & Johnson** concerning the impact of new European cosmetic safety requirements, we've taken part in our first multi-shareholder meeting with the company. Among other steps, we're asking the company to sign the Compact for Safe Cosmetics (see www.safecosmetics.org).

Healthcare

Last but certainly not least, the resolution that we co-filed with members of ICCR at **Pfizer** (requesting it to reinstate a former policy of limiting price increases to the cost of inflation) drew 7% this year. In this sector, we're also in dialogue with **Merck** about their political donations policy. We regret to report that our resolution at **Avon Products** requesting greater transparency related to their breast cancer philanthropy failed to gain enough votes for resubmission, but are looking forward to pressing our case at a meeting scheduled for this summer.

Earlier this century, Home Depot reneged on a pledge to shareholders to provide EEO-1 data, prompting the resumption of shareholder resolutions in 2005 and 2006. The 2006 vote – 36% — is the highest ever on this topic.

Footnotes

[1] http://www.iccr.org/news/press_releases/2006/pr_wmteeoreport041106.htm

[2] "Rainforest Chernobyl," Bob Herbert,The New York Times, October 27, 2005.

Novo Nordisk

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Novo Nordisk (NYSE – NVO) is the worldwide leader in the fight against diabetes. Its Diabetes Care segment provides insulin analogs, human insulin and insulin-related products, and oral antidiabetic drugs. Its Biopharmaceuticals segment provides haemostasis management, growth hormone therapy, hormone replacement therapy, and other products.

Much of Novo's growth comes from insulin analogs, which are synthetic, as opposed to human insulin. The key to avoiding hypoglycemia with insulin lies in the creation of delivery methods that emulate physiologic insulin secretion. Conventional (human) insulin preparations make emulation impossible, while insulin analogs can closely mimic physiologic patterns. The company created the world's first insulin pen device, and now is a world leader in production and distribution of these revolutionary insulin delivery systems.

Novo's commitment to corporate social responsibility is reflected in its annual report, which integrates financial, social and environmental reporting. In 2001 Novo launched a wide variety of activities to improve access to diabetes care that reached an estimated 21 million people worldwide. Novo has offered human insulin to the public health systems in the 50 least developed countries, at prices not to exceed 20% of the average price in industrialized countries.

Novo has set an ambitious target for reducing its CO_2 emissions by 10% in the period 2004-2014. In the absence of reduction initiatives, the company estimates that CO_2 emissions would grow by 67%.

Novo's product mix is not issue free: there has been significant controversy over hormone replacement therapy for women, and concerns about 'normal' kids using human growth hormone.

— Adam Seitchik, CFA & Eric Becker, CFA

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MEMC Electronic Materials (NYSE – WFR) is a leading and well-positioned semiconductor wafer maker that plans to ramp up its growth by entering into silicone wafer production for the fast-growing solar energy industry. Currently, solar companies are responsible for 10% of MEMC's sales. As a result, MEMC is rightfully getting the attention of investors looking for exposure to the growth of the solar photovoltaic market.

MEMC is the fourth largest manufacturer of polysilicon and silicon wafers for the semiconductor industry worldwide (13-15% market share).

Unlike its competitors in the semiconductor wafer market, MEMC is a vertically integrated supplier. In addition, the company has a reputation as being the most efficient capital user among major wafer manufacturers; to meet capacity goals the company reuses existing facilities in lieu of building new ones.

Suppliers of polysilicon currently have strong pricing power in the semiconductor and solar industries, as demand has outstripped supply. Analysts project this shortage will last until 2008. It is important to note that solar companies are currently willing to pay upfront to secure polysilicon supply.

MEMC recently announced an agreement to supply solar wafers to Motech, a Taiwan based producer of solar cells beginning in July. According to the agreement, MEMC will supply wafers on a take or pay basis over the next 8 years generating a minimum of $1.6 billion in revenues. Analysts believe additional partnerships could be announced before the end of the year, which would further drive revenue and profit estimates.

—Sonal Mahida & Samuel B. Jones, Jr., CFA

New Hampshire Community Loan Fund

Overview

New Hampshire Community Loan Fund (NHCLF) is a nonprofit community development loan fund and micro finance institution serving low- and moderate-income people in New Hampshire.

NHCLF is most widely known for its work helping residents of manufactured home parks (MHP) form cooperatives and assisting the cooperatives in the purchase of their MHP. NHCLF provides loans and supportive training in affordable housing, services such as childcare, and employment opportunities including job creation and self-employment.

Mission

The mission of NHCLF is to serve as a catalyst, leveraging financial, human, and civic resources to enable traditionally underserved people to participate more fully in New Hampshire's economy.

Programs

NHCLF provides a variety of financing options and opportunities:

- NHCLF's Housing Program assists residents in MHPs to purchase them in cooperative ownership.
- The Meredith Institute advances homeowner-centered strategies in manufactured housing nationally through advocacy, training and system-building.
- Economic Opportunity: includes micro-business lending, workforce development, and enterprise development.

Impact

Since its first loan of $43,000 in 1984, NHCLF has loaned more than $68 million, with a borrower repayment rate of 99.3% and a lender/investor repayment rate of 100%.

In FY2005, NHCLF made 25 micro-enterprise loans and financed three nonprofit facilities and 346 housing units. Seven small businesses were also financed, leading to job creation for 117 individuals.

Impact Story

Families living in the Rambling Woods MHP declared their independence when they bought the Bethlehem property with a $377,000 loan from NHCLF.

"On that day, we got control of our own lives," said 55-year-old Wayland Phillips, the first treasurer of the Rambling Woods Cooperative.

"Finally, we didn't have to worry about having our water or sewer shut off because the owner wasn't paying the bills," said Phillips, who has lived in the park for nearly 25 years.

The residents were afraid to complain about the problems in the park for fear that the landlord would raise the rent. In addition to the water and sewer being shut off occasionally, the roads were filled with potholes and bumps. And the rents kept climbing.

Today, the tidy rural community with newly paved roads bears no hint of the earlier chaos. "In a co-op park, we make decisions together and make the park a better-looking place for all of us," said Julie Phillips.

Investing with NHCLF

NHCLF was one of the first organizations to undergo CARS (CDFI Assessment and Rating System) analysis. In both the initial analysis and the January 2006 follow-up, NHCLF received a AAA Impact Performance Rating, the highest rating available. NHCLF also received a Financial Strength and Performance rating of 2, indicating that it is fundamentally sound and exhibits solid financial strength, performance and risk management practices.

On behalf of our clients, Trillium Asset Management Corporation (TAMC) made its first investment with NHCLF in 1994. TAMC will make investments in NHCLF for our clients of at least $5,000 for a term of not less than two years.

Community Investment Profile™ *

Randy Rice

Geographic Impact:

New Hampshire

Lending Focus:

Housing, Micro-enterprise, Small Business

Financial Indicators

Audited Financials as of 6/30/05

Total Assets	$46,341,437
Total Liabilities	$28,916,245
Total Net Assets	$17,425,192
Total Liabilities & Net Assets	$46,341,437

***Based upon the Community Investment Profiles information service of Calvert Social Investment Foundation (not meant as investment advice).**

Insuring Against Climate Change

Shareholder Activism

Steve Lippman

Ceres has been seeking improved U.S. insurance industry practices on climate change through the Investor Network on Climate Risk, a group of 50 institutional investors that manage nearly $3 trillion in assets.

Insurance executives would seem to have little in common with environmental activists, but some of the earliest and most vocal calls for addressing the risks of climate change have come from the insurance industry. That's actually not surprising, given the massive losses the insurance industry faces from more powerful hurricanes and many of the other disruptions predicted as impacts of climate change. What has been surprising is how far U.S. insurers have lagged behind European and other global insurance companies in sounding the alarm on climate change. Now, facing increasing pressure from a wide range of investors to address the risks of climate change—risks brought home to the U.S. by the terrible wake up call of Hurricane Katrina — there are signs of change among U.S. insurance companies.

Notably, on May 15 insurance giant **American International Group (AIG)** became the first U.S. insurance company to adopt a policy to reduce the risks of climate change. In the policy AIG "recognizes the scientific consensus that climate change is a reality and is likely in large part the result of human activities that have led to increasing concentrations of greenhouse gases in the earth's atmosphere." To address the issue, AIG has established a new Office of Environment and Climate Change, and is working to factor climate change into a wide range of its business activities. It is developing new insurance products to serve renewable energy projects and financial instruments to boost markets for tradable carbon emission credits. It is also boosting its investments in renewable energy and energy efficiency technologies, developing green real estate projects, and providing consulting services to help companies boost energy efficiency and reduce greenhouse gas emissions. AIG has also committed to measure its own energy use and greenhouse gas emissions and boost its energy efficiency to reduce its carbon footprint.

AIG's policy comes after increasing pressure from investors to address the risks of climate change. Trillium Asset Management joined other investors in filing a resolution last year asking AIG to report on the risks of climate change, and this year we filed a resolution asking the company to report on its overall environmental and social policies. We withdrew that resolution after AIG agreed to start disclosing information on these issues. The company released the new climate policy as part of this new reporting.

Ceres, a national coalition of investors and environmental groups, has worked to focus attention on risks the insurance industry faces from climate change. Ceres president Mindy Lubber commended AIG for being the first U.S. insurance company to address climate risk and said, "This is an important step that signals to the market and policy makers that climate change is a critical insurance issue." Ceres has been seeking improved U.S. insurance industry practices on climate change through the Investor Network on Climate Risk, a group of 50 institutional investors that manage nearly $3 trillion in assets. Working with Ceres and the INCR, in December 2005 twenty leading U.S. investors with combined assets of more than $800 billion sent a letter to 30 of the largest publicly-held insurance companies in North America urging them to disclose their financial exposure from climate change and steps they are taking to reduce those financial impacts. Also as part of INCR, Connecticut State Treasurer Denise Nappier co-hosted an insurance industry and climate change summit in October 2005.

Insurance regulators and brokers have also expressed concern about climate risk. Earlier this year, the National Association of Insurance Commissioners announced a new task force designed to examine the impacts of climate change and possible measures that insurers and regulators can take to reduce risk. In April 2006 Marsh, the largest insurance broker in the U.S., released a risk alert on climate change.

We Call it Propaganda

"Carbon dioxide. They call it pollution. We call it life."

— Competitive Enterprise Institute TV ad, May-June 2006

If you've ever wondered, "just how dumb do they think we are?" proceed directly to http://streams.cei.org/ where you can view several ads attacking global warming "alarmists" sponsored by the Competitive Enterprise Institute (CEI). The ads are a desperate attempt to mitigate the persuasiveness of former veep Al Gore's documentary on global warming, *An Inconvenient Truth*, possibly the first Power Point presentation in history to hit the big screen. If you haven't been sojourning abroad, you may have noticed Mr. Gore's face on the cover of just about every magazine short of *Teen Beat*. Sorry, CEI, you lost this round.

CEI is a self-described advocate for "free enterprise and limited government regulation" and "leader in the fight against the global warming scare."

As beaches, farms and pre-teen soccer daughters in minivans fill the screen, an unthreatening female narrator intones, "There's something in these pictures you can't see…It comes from animal life, the oceans, the Earth and the fuels we find in it. It's called carbon dioxide. The fuels that produce CO_2 have freed us from a world of back-breaking labor…enabling us to produce the things we need and move the people we love." But horrors. "Some politicians" are trying to "label CO_2 a pollutant. What would our lives be like then? *Imagine if they succeed*."

Now I like carbon dioxide as much as any other mammal. But moderation is everything, as the hangover sufferer once said. Just about everyone *but* the folks at CEI now agree that rising greenhouse gas levels are responsible for the current warming trend. The current level of 380 parts per million (ppm) will likely reach 550 ppm by the mid-century and possibly up to 1,000 by century's end unless we embrace alternative fuel sources and conservation *now*. Even if it means some economic "disruption," the word favored by folks who stubbornly refuse to find economic opportunity in the many transitions that will be necessary to create a post fossil fuel-dependent economy.

News articles have reported that the CEI is supported by **General Motors, Ford, ExxonMobil** (one of its most generous funders), **Arch Coal, Time Warner, Pfizer** and industry associations such as the Pharmaceutical Research and Manufacturers of America, the American Petroleum Institute, the American Plastics Council, and the Chlorine Chemistry Council.

Ford and GM issued statements distancing themselves from the ads. Ford's desire to position itself as Detroit's climate change leader (see our column in the Spring 2006 issue of *IFBW*) did not spare it harsh criticism from *Salon.com*'s Andrew Leonard:

> *There should be a price to pay for getting in bed with the likes of CEI: Public shaming and humiliation is a good place to start. … Global warming has been a CEI hobbyhorse for years. To try to split the difference and say, "We support them on some things, but not on this issue," just doesn't fly.*

We agree, but why limit it to Ford? All of CEI's supporters should be shamed, the way supporters of the Global Climate Coalition, another anti-"alarmist" group, were exposed, leading to the coalition's eventual demise. Alas, this is where bad public policies on corporate political donations collide with bad climate policy. Neither the CEI nor its corporate sponsors are required to disclose their associations with each other or any funding relationships. Fortunately, a shareholder campaign to force disclosure of corporate trade association memberships and dues has been gaining ground this spring. That'll have to wait for another column.

Shareholder Activism

Shelley Alpern

This is where bad public policies on corporate political donations collide with bad climate policy. Neither the Competitive Enterprise Institute nor its corporate sponsors are required to disclose their associations with each other or any funding relationships.

For more information about Trillium Asset Management's shareholder advocacy on global warming and political contributions, visit www.trilliuminvest.com.

Strategic View: Why Lower Drug Prices are Good for Investors

By Adam Seitchik, CFA

Prescription medicines represent the fastest-growing segment of healthcare costs in the United States. We at Trillium have taken notice, as have other investors. For example, last year 11% of shareholders voted for **Pfizer** to report on measures it is taking to contain the price increases of its most-prescribed drugs.

Still, most investors do not perceive such resolutions to be in their narrow financial interest. Case in point was one of the nation's largest mutual fund groups defending their hundreds of votes against social and environmental resolutions: "our mutual funds are managed with one overriding goal: to provide the greatest possible return for our shareholders."

But are they? The vast majority of individuals and institutions are diversified *universal investors*, whose fortunes rise and fall with the overall prospects for the markets, not for any one sector or stock. The key to their long-term financial gain is the overall health and profitability of the economic system. So our investment manager duty is to ask whether overpriced medicines support profitable economic growth *in the aggregate*.

Falling drug prices might squeeze suppliers, but all of the *buyers* of prescription drugs benefit, including corporate purchasers. Cost savings on health care should mean higher profits and stock prices in a broad range of industries. Pfizer's loss becomes a gain for virtually every other non-pharmaceutical stock in the portfolio that funds prescription drug benefits for employees and retirees.

Beyond shifting cost and profits around, there are powerful dynamic impacts of lower drug prices. It is estimated that the lost economic output resulting from the combination of not working, sick days, and inferior productivity on the job totaled $260 billion in 2003 – roughly 2.4 percent of GDP. Lowering the price of pharmaceuticals provides consumers and employers an opportunity to allocate more resources towards health, while at the same time diverting resources to other goods and services. For investors, this translates into higher overall levels of productivity, profitability and return.

A standard argument against drug price cuts is the potential impact on research and development. However, economists have long noted the extraordinary levels of pharma sector profitability, suggestive of the pricing power that comes from less-competitive industries. This indicates ample room for price cuts before profits fall to levels that impinge on research. One simulation study found that modest price cuts would likely have negligible R&D impact.

During the long horizons appropriate to most investors, some of the largest risks to portfolio returns result from macro trends, including issues such as access to healthcare, environmental sustainability and even nuclear proliferation. Today, most investors see such issues as beyond their purview, although the risks of climate change have gained attention and action from a growing number of institutional investors. The bird's eye view of the universal investor may require rising above the trees in order to nurture and protect the forest in unconventional ways, such as supporting increased access to healthcare.

[1] This article is based on a working paper I have written with my colleague Steve Lippman and Dan Rosan of the Interfaith Center on Corporate Responsibility.

Dear Reader (continued)

the account did too. No favors were ever requested and the account was managed in a manner that must have seemed boring to my thrill-seeking CEO, who was never indicted for any actual crime. Maybe he was a wannabe.

Ken Lay, the CEO of Enron, and Jeff Skilling, his sidekick, are now heading up the river. I had been in their headquarters as part of an ill-fated CERES dialogue, wisely scuttled by the CERES Board. The sense of self-importance in that building was gigantic and overwhelming – the company had spent big money in Houston on historical renovations and open space. Rising above all that largesse was the modern steel structure in which big and little deals were done, seemingly with no moral compass. Long limousines threaded their way about the building as the current saviors of the universe went about their business over cocktails, coffee and who knows what else. Our conversations with some of the direct reporters to Ken Lay were strange – but one thing was crystal clear. They were certainly no smarter than any of us and probably not as smart as some of us, even in their expensive clothes.

Skilling faces a maximum of 185 years in prison. For Lay, the fraud and conspiracy convictions carry a combined maximum punishment of 45 years. The bank fraud case adds 120 years, 30 years on each of the four counts. Maybe the aggressive public prosecution of these people will serve as a deterrent. But we need to take a much deeper look at our system from the investor through the corporate manager – past the worship of wealth and power to ethics and honor.

Sincerely,

Joan L. Bavaria, President
Trillium Asset Management Corporation