



Tar Sands Development Stickier Than Anticipated

by Shelley Alpern

In a rational global economy not entirely driven by short-term profit maximization, the collective body politic of all nations would have applied the precautionary principal to the threat of climate change twenty years ago. We'd now be celebrating the fruits of two decades of aggressive efficiency measures, phased down fossil fuel use, and the mass distribution of renewable energy technologies.

Instead, we have the tar sands.

Record oil prices and declining access to the oil and gas resources of nations such as Russia, Saudi Arabia, Sudan and Venezuela has led to a rush to develop Canada's tar sands deposits. CIBC World Markets chief economist Jeffrey Rubin estimates that of the world's oil properties, the Alberta oil sands represent 60% of the resources where energy companies can invest.¹

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Toyota Backpedals on Burma

by Susan Baker Martin

If the Prius left you with a warm and fuzzy feeling for **Toyota**, you're not alone. Noting that Toyota "has been a leader in both developing and promoting hybrid power-trains, the new industry standard, and is well advanced in overall R&D programs for future vehicle types," the corporate responsibility research firm Innovest chose the company as the sole automotive representative in its top 100 most sustainable global companies in August 2007. We're in agreement that Toyota deserves accolades for implementing sustainable business strategies that have led to the successful launch of hybrid fuel technology. But – and you sensed this "but" coming, didn't you? – sustainability reaches beyond environmental practices.

After pledging it would not operate in Burma in 2001, it turns out that Toyota is still involved there.

Last summer, Domini Social Investments uncovered evidence linking Toyota to an auto and truck manufacturer in Burma (also

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From the President

by Joan Bavaria

One of the most amazing days of my professional life was the day more than a decade ago that I spent as keynote speaker for a conference of the people in charge of General Motors' environmental policies and procedures in plants around North America. There were hundreds of them, many of whom had Ph.Ds. They were very interested and supportive when faced with an unedited speaker advocating stronger environmental policies and complete disclosure of results. On another day, a visit with the General Motors' crash test dummies, watching steering wheel columns hurtle into the surrogate humans in car seats at various speeds, became a memorable experience. It was pretty ugly and very sobering. Those of us on the environmental group Ceres dialogue team probably all changed our driving habits that day.

In dealing with General Motors through the environmental group Ceres, the people we met were often second or third-generation GM workers, really terrific, farsighted people who would retire from the company on what used to be generous benefits.

But I have also watched the top management of this giant company veer from one policy to another, clumsily, in an effort to survive the serious global transportation and energy questions that seemed to surprise many of them. Their reactions have often seemed primitive and shortsighted or even, at times, mean-spirited. General Motors is a company of contradictions.

The latest weird, attention-getting gaffe came

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Spotlight on Your Portfolio: Carbon Footprinting Your Investments

by Lisa Leff, CFA

You hear a lot of talk from Wall Street these days about how climate change presents “unprecedented business risks and opportunities.” While investment action doesn’t yet fully match this rhetoric, many major firms are establishing research shops focused on the investment implications of climate change. Some of the early (and quite excellent) work has been focused on the likelihood that the U.S. will pass legislation regulating carbon emissions in the next two years.

It’s been decades since we’ve seen this kind of sweeping environmental regulation in the U.S. Carbon regulation on its own – as well as other climate change impacts such as changing weather patterns and rising sea levels – will present big investment risks and opportunities for industries across the economy.

Carbon regulation will likely involve a “cap and trade” program similar to that now in place for sulfur dioxide emissions under the Clean Air Act. There are different proposed cap and trade models, with varying economic implications, but each would attach a financial cost to carbon emissions where there is none now. Conversely, there will be new financial incentives for reducing carbon emissions and for creating carbon offsets through renewable energy, energy efficiency, and other projects. Globally, cap and trade programs like the European Union’s “European Trading Scheme” have recently started operating as Kyoto Protocol

signatory countries work to meet greenhouse gas reduction targets set for the 2008–2012 period.

U.S. carbon regulation has the potential to materially change the economic landscape. There will be winners and losers, determined in part by what type of legislation is passed. Large investors are increasingly concerned with the impact of carbon regulation on the playing field, and in the interest of reducing uncertainty, are advocating for public policy changes sooner rather than later. The Investor Network on Climate Risk is a coalition of 60 institutional investors (including many state pension plans and Trillium Asset Management Corporation) with a combined \$5 trillion in assets. It has partnered with major corporations to call on Congress to enact federal legislation to curb greenhouse gas emissions, and also asked the Securities and Exchange Commission to oversee corporate disclosure on climate change. This is a rare situation indeed, where both corporations and investors are calling for more government regulation, not less.

Meanwhile, emerging research is indicating that carbon exposure is much more broadly and unevenly distributed than previously thought, both across and within industries. Sustainability-focused research firm Innovest reports, for example, that electric utilities face among the highest carbon-related costs of any industry, as you might expect, while within the industry, the expected cost of carbon regulation varies widely across companies largely according to

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Investing for a Better World®
711 Atlantic Avenue
Boston, MA 02111
617-423-6655
salpern@trilliuminvest.com

Editor
Shelley Alpern

Production Manager
Julie Mackin

Contributors

Shelley Alpern
Joan L. Bavaria
Eric Becker, CFA
Susan Baker Martin
Farnum Brown
Samuel B. Jones, Jr., CFA
Lisa Leff, CFA
Stephanie Leighton, CFA
Steve Lippman
Natasha Martin Lamb
Laura McGonagle, CFA
Randy Rice
Adam Seitchik, CFA
Cheryl Smith, CFA
Blaine Townsend, CIMA

Investing for a Better World® is published by Trillium Asset Management Corporation.

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If you would like to receive this publication via email, please send a request to jmackin@trilliuminvest.com.



Business Takes the Rap Again in “Michael Clayton” and “There Will Be Blood”

It Seems to Me

by Milton Moskowitz

In the category of advertising known as “institutional,” companies try not to sell products or services but to craft an image of themselves as decent, upright, responsible corporate citizens. You can see these messages on the Op Ed page of the *New York Times* (**ExxonMobil** and **General Motors**), the inside covers of opinion magazines like *Atlantic Monthly* and *Harpers* (**Chevron’s** “We can’t do this alone”) and on public television (**Archer Daniels Midland**). It’s not a new phenomenon. What’s amazing is how ineffective it has been.

The fact is, most people don’t believe these ads. Public opinion polls confirm the low regard in which business is held. Perhaps the most dramatic evidence comes from the portrayal of business in popular media. At this year’s Oscars ceremony, two of the five films nominated for best picture of the year depicted business as loathsome. In *Michael Clayton* a pesticide manufacturer resorts to bribery and murder to silence critics. In *There Will Be Blood*, actor Daniel Day-Lewis won for his portrayal of Daniel Plainview, a rapacious oil wildcatter in the early part of the last century; the film concludes with his beating a minister to death with bowling pins. Lewis is married to the daughter of the late Arthur Miller, whose two early plays, *All My Sons* and *Death of a Salesman*, also presented a less than flattering picture of American business.

These films are just the latest in a long line of movies where business people are villains. And not just petty villains, but monstrous ones, capable of heinous acts of violence and cruelty. I recently rented the 2005 film, *North Country*, a story, accompanied by Bob Dylan lyrics, of women getting harassed unmercifully when they go to work in the taconite mines of Minnesota. The leaders of the mining company are among the most heartless, insensitive characters ever shown on the screen. Another 2005 film, *The Constant Gardener*, based on the novel by John le Carre, features a large drug maker that tests a dangerous tuberculosis drug in Africa and then connives in the murder of an activist. In the afterword of his book, Le Carre says, “By comparison with reality, my story is as tame as a holiday postcard.”

Think about it: how many movies have you seen where the hero is a business person? Two that I can think of are the small town banker Jimmy Stewart in *It’s A Wonderful Life* (1946) and the William Holden character in *Executive*

Suite (1954) who argues that “you can’t make men work for money alone – you starve their souls.” However, these are overwhelmed by so many others: Orson Wells’ *Citizen Kane*, David Mamet’s *Glengarry Glen Ross* (1992), Michael Mann’s, *The Insider* (1999), James Bridges’ *China Syndrome* (1979), Oliver Stone’s *Wall Street* (1987) and my favorite business movie, *Trading Places* (1983) directed by James Landis. And look at Julia Roberts. In 1990 she starred in *Pretty Woman* as the prostitute with a heart of gold who wins the heart of a mover-and-shaker (Richard Gere) who abandons his previous strategy of taking over companies, decimating them and throwing thousands out of work. Ten years later, Roberts won an Academy Award for *Erin Brockovich*, the true story of a lowly law clerk who documented industrial poisoning by **Pacific Gas & Electric**.

Let’s face it, the public laps up entertainment where business guys are the heavies. Why? Because the stories they hear about companies like **Enron**, **Worldcom**, **Tyco** and **Adelphia** carry more weight with them than the preaching done in institutional advertising. Another way to say this is that old cliché: action speaks louder than words.

There are ironies galore in this “business in the movies” litany. Here’s Rupert Murdoch, the Australian-born media tycoon whose life could be the basis for a new *Citizen Kane*. **News Corp.** (which recently acquired the *Wall Street Journal*) bought Twentieth-Century Fox in 1985. Two years later it brought out *Wall Street*, starring Michael Douglas as Gordon Gekko, who screams “greed is good” into a portable telephone at the beach. The upcoming sequel, *Money Never Sleeps*, will once again star Michael Douglas.

Wall Street was not a gigantic seller at the box office but it became a cult hit in the financial world where many players saw Gekko as an admirable figure. In an interview last year in the *New York Times*, Michael Douglas said he wouldn’t mind if he never had “one more drunken Wall Street broker come up to me and say, ‘You’re the man!’”

Milt Moskowitz is a journalist and author who has been writing about corporate social responsibility since 1968. He is co-author of the annual *Fortune Magazine* survey, “The 100 Best Companies to Work for in America,” and the author of *The Executive’s Almanac: A Diverse Portfolio of Eclectic Business Trivia* (Quirk Books, 2006)



Toyota Backpedals on Burma (continued)

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known as Myanmar since the 1988 suppression of the democracy movement by the current military regime led by generals Than Shwe and Ne Win). Toyota Motors is not assembling vehicles in Burma, but its parts supplier, Toyota Tsusho, does so through a joint venture with Suzuki Motor and the military government-controlled Myanmar Auto & Diesel Engine Industries (MADI). Suppliers, often called trading companies, are more important than ever in global auto assembly. The widely admired pillars of Japanese manufacturing, “intelligent automation” and “just in time management,” are dependent on close relationships with suppliers.

It’s no surprise then that Toyota owns the largest chunk of Toyota Tsusho shares, with a 22 percent stake in this trading company responsible for sourcing parts, electronics and metals for auto assembly.

Toyota Tsusho profits from a joint venture that builds Japanese motorcycles, light trucks and cars. With Myanmar ranking among the 20 poorest countries in the world (most people live on less than \$200 a year), these vehicles are destined for the elite and those connected to the military. The Burmese military enjoys close ties with and influence over auto manufacturing. In fact, the Burmese general behind the gruesome attack on the convoy carrying the nation’s democratically elected leader, Aung San Suu Kyi, was seen as an invited guest at a Suzuki Motor-sponsored party marking the opening of an auto plant.

Acting on behalf of clients who are shareholders in Toyota, Trillium Asset Management Corporation (“Trillium”), the General Board of Pension & Health Benefits of the United Methodist Church and Winslow Management Company sent a strong letter of concern to Toyota Chairman Fujio Cho before last September’s “saffron revolt” when monks and ordinary citizens peacefully demonstrated against the regime. We requested information about the company’s ties to the joint venture and its role in providing autos and vehicle parts to the repressive regime.

Toyota wrote a short letter in response stating “Toyota shares [our] concerns about the human rights situation in Myanmar

and we are carefully monitoring its ongoing status...Toyota’s global Guiding Principles [are] to honor the language and spirit of the law of every nation... Toyota has no partnership or contractual relationship with the Burmese government.”

As we evaluated this unsatisfactory response, media reports poured in about the stunning and brutal suppression of dissent. Reports estimate between 31 and 200 people, including a Japanese journalist, were killed in the September crackdown, while hundreds more were dragged from their homes.

Trillium and Domini wrote back to management, this time conveying our message to Toyota through a different entry point. As chance would have it, in November, the Japan Society in New York City invited Toyota’s Chairman Cho and several senior executives to celebrate the Society’s 100th anniversary. Before Chairman Cho delivered a lecture on the importance of local interaction to global success, Domini’s Asia analyst Shin Furuya and I hand-delivered our letter to a colleague of the Chairman.

In our letter we reminded Chairman Cho that Toyota set a precedent among Japanese companies in 2001 by publicly announcing it could not operate in Burma as originally believed. The company was among dozens recognizing the economic and political

risks of doing business with a backward regime short on transparency and long on committing gross human rights violations. Companies left “not only because the Burmese junta violates human rights, but also because the junta violates (its own!) investment laws.”¹ At the time, Toyota heeded Aung San Suu Kyi’s statement that “investment merely strengthens dictatorship” as well as the International Labor Organization’s call in June 2000 for governments to cease any relations with Burma. Some corporations publicly denounced the business climate. The CEO of Reebok said outright in 2005, “It’s impossible to conduct business in Burma without supporting this regime.”

Toyota dismissed its ties to Toyota Tsusho in an earlier correspondence, so our second letter detailed the relationship between the two companies. While Toyota claims no contrac-

Toyota set a precedent among Japanese companies in 2001 by publicly announcing it could not operate in Burma as originally believed.



Toyota Backpedals on Burma (*continued*)

tual relationship with the Burmese government, financial documents filed with Japanese regulators indicate Toyota exercises significant influence over Toyota Tsusho.


Toyota Motor owns 22 percent of Toyota Tsusho, and another 11 percent of Tsusho is held by Toyota Industries, one of the member companies of the Toyota Motor Group. Companies in the Toyota Motor Group are linked by complex cross-holdings, very strong supplier/customer relationships and a shared leadership group. As a result, the various companies operate in close cooperation. The fact that Toyota Motor owns more than one-fifth, and the companies of the Toyota Motor Group collectively own more than one-third of Toyota Tsusho, suggest to us that Toyota Motor bears some responsibility for Toyota Tsusho's actions.

"Clearly, any link to providing vehicles to aid the military government's brutal suppression in this impoverished state calls into question our company's respect for the Principles of the United Nations Universal Declaration of Human Rights," our letter stated. "Any link has a detrimental effect on the value of our investment in Toyota Motor Corporation."

In a stroke of irony, in Burma, the "Toyota" name is linked to a ceremonial bureaucracy devised by the military. The military wanted to include an element of moral authority in their rule, so they created an elite order comprising 47 monks subservient to the military. To recognize their faithful service to

the state, the junta awards these monks with dozens of prestigious ceremonial titles. The most well known title, Bhaddanta, is given to old monks loyal to the regime. The Burmese people mockingly nickname these prelates Bhaddanta Toyota or Bhaddanta Toshiba in reference to the lavish gifts of cars, TVs and big houses they receive in exchange for giving speeches of obedience and holding silent on issues of repression. Cars manufactured by the Suzuki/Toyota Tsusho/Myanmar joint venture may not display the Toyota brand but it's readily on display in the nickname for the select monks known for aiding the grip of dictatorship.

As the owner of the largest block of Toyota Tsusho shares, Toyota must send a strong signal to the regime that responsible corporations in Burma cannot remain silent in the face of widespread abuses of human rights. Just before we went to press, Toyota wrote back that "Toyota has carefully considered the current environment in Burma, has conveyed to Toyota Tsusho Corporation its concerns about that environment, and has asked Toyota Tsusho to reconsider its business activities in the country."

Toyota says its shares our concerns about the human rights situation in Myanmar. We believe they do. We look forward to learning of the results of Toyota's letter, and what further options it is willing to employ if Toyota Tsusho's response disappoints. 


1. *Legal Issues on Burma Journal*, August 2001, No. 9.

Carbon Footprinting Your Investments (*continued*)

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their level of dependence on coal. The pharmaceutical industry, on the other hand, as a whole registers relatively low carbon-related costs. But again we see wide differences within an industry. Some of the carbon laggards among pharmaceuticals are actually projected to be more negatively affected by carbon regulation than some of the better-positioned electric utilities. This level of differentiation appears to exist across economic sectors, heightening the risks and opportunities for investors in the face of coming carbon regulation.

Some investors, including ourselves, are working to take an early start positioning investment portfolios for the changes

U.S. carbon regulation might bring. We're digging into industry-level carbon exposures, assessing company-specific commitments to reducing carbon emissions and looking for investment opportunities in renewable energy, efficiency enhancements and new technologies – in short, measuring and managing the carbon footprint of our portfolios. If carbon regulation legislation passes as predicted in 2009-2010, it will trigger economic impacts over the next decade, and the carbon footprint of investments will become an important new indicator of both financial and environmental sustainability. 



Tar Sands Development (continued)

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Every major Western oil and gas producer is either in the game already or is making plans to be – **Chevron, ConocoPhillips, Imperial Oil** (ExxonMobil's Canadian subsidiary), **Suncor, Shell, BP, Statoil, Marathon, Devon, Murphy Oil, TotalFina,** and **PetroCanada.**

Tar sands are just what the moniker evokes (which is probably why the industry prefers the less gooey-sounding “oil sands”) – an oil known as bitumen embedded in earth and sand, most of it deeply buried. As one might imagine, it takes a lot of resources to squeeze out and refine bitumen into usable product. Bitumen from oil sands is “one of the most environmentally costly sources of transport fuel in the world”² – as the mining, upgrading, and refining process requires the draining of wetlands, diversion of rivers, and the removal of trees and vegetation. Tailing ponds from mining operations cover almost 20 square miles of forest and bogs, and their pollutants are acutely toxic to aquatic life and known to contaminate the groundwater, surrounding soil, and surface water. Extracting one barrel of bitumen requires up to five barrels of fresh water, most of which is drawn from Alberta's Athabasca River. Less than 10% of the water is returned to the river, which is threatening the long term survival of numerous fish, songbird, and waterfowl species. Oil sands development consumes twice the water used annually by the population of Calgary.

Bad enough? There's more. Refining bitumen emits 3–4 times more greenhouse gas emissions (GHGs) than refining conventional oil, and the finished product releases more GHG per barrel when burned. Ironically, oil and gas companies are using less GHG-intensive natural gas to power the extraction of the GHG-heavy tar sands. Even nuclear power developers see an opportunity; the Canadian company Bruce Power (a partnership that includes **Cameco** and **TransCanada**) recently announced a plan to build four nuclear power plants in Alberta to respond to the surge in demand created by the oil sands industry.

Tar sands extraction was recently deemed “the most destructive project on Earth” in a February 2008 report of the same name.³ The tar sands are also the world's largest industrial project, with the amount of oil reserves second only to Saudi Arabia's. Companies plan to spend as much as \$125 billion to expand operations threefold over the next 10 to 15 years, and a

typical oil sands project has a lifespan of over 50 years.”

Nearly all oil from the tar sands is exported to the United States and turned into transportation fuel. Canada currently exports over 2 million barrels per day (bpd) to the US, which it plans to increase to 3 million bpd by 2015.

Houston-based **ConocoPhillips** is hitching its ride to that vision. The company's worldwide production totals 2.3 million bpd today, and over the next 20 years, it aims to pump out an eventual one million bpd from the tar sands. In February, ConocoPhillips Canada said that if other companies were successful in using nuclear energy to power Canadian oil-sands operations, the company would be a “fast follower.”⁴

ConocoPhillips announced its first investment in renewables, a relatively paltry \$150 million, just last spring. Our doubts about ConocoPhillips's strategic direction led Trillium Asset Management Corporation (“Trillium”) to file the first shareholder resolution addressing tar sands at the company. Our proposal asks for a report on the environmental damage that would result from the company's expanding oil sands operations, including the implications of discontinuing its expansion plans. Shareholders will vote on the proposal in April.

Our doubts about ConocoPhillips's strategic direction led Trillium Asset Management Corp. to file the first shareholder resolution addressing tar sands at the company.

You Never Write

The intent behind the proposal is to obtain information on how ConocoPhillips is anticipating the massive environmental risks associated with tar sands development and planning to mitigate them. Other companies heavily invested in the oil sands are starting to report publicly about their impacts, including Suncor, Shell, Encana, PetroCanada, and Imperial Oil. We believe investors are owed a better understanding of how ConocoPhillips is managing its risks in the tar sands.

The company's latest sustainability report contained just one vague paragraph about its environmental responsibility in the tar sands. It discloses virtually nothing about one of the company's main tar sands projects (known as Surmont), or about the implications of its \$11 billion FCCL Oil Sands Partnership with EnCana, or its \$5 billion pipeline partnership with TransCanada Corp. Syncrude, the tar sands joint venture in which ConocoPhillips holds a 9 percent interest, has issued a report, but the project's environmental profile is disheartening. Canada's Pembina Institute told Trillium that Syncrude



Tar Sands Development (continued)

lacks accredited management systems such as ISO 14001, and has yet to set voluntary GHG targets or participate in the Alberta Biodiversity Monitoring Initiative. It also has the weakest compliance record of all the operating mines. Syncrude received the lowest score (18 percent) of ten projects studied in Pembina's *Oil Sands Report Card* published last year, and it was the only project that refused to provide information for the survey. (Syncrude's competitors are not exactly standouts – the highest score was 56 percent.) The *Report Card* observed that overall, "Information about the actual and proposed environmental performance of individual oil sands operations is not easily accessible.... There is little comparative information about the actual and proposed environmental performance of individual oil sands operations and far too little discussion of best practices available to oil sands developers."

No slam dunk

While it's indisputable that demand for fossil fuels is currently as strong as ever, the days when oil companies can escape payment for the carbon emissions of their operations and product are increasingly numbered. Existing and impending regulations at the international, federal, and provincial level are placing a price on GHG emissions. The Kyoto Protocol obliges industrialized countries to reduce national GHG emissions below 1990 levels by 2012, and the December 2007 follow up meeting in Bali reaffirmed its cap-and-trade approach as the path going forward. Most of the 15 countries in which ConocoPhillips produces or explores for oil and natural gas have ratified Kyoto.


All too aware that the tar sands are preventing them from meeting their Kyoto obligations, in March the Canadian federal government released a GHG reduction plan that would force new oil sands projects and coal-fired electricity plants to capture and store the bulk of their greenhouse gases. The plan imposes industry-wide 18 percent intensity reductions, followed by 2 percent reductions every year after until 2020 (although the regime would be reviewed in 2012). Companies that fail to meet their targets would face prosecution under the Criminal Code. Oil sands projects yet to be built would have to capture and store their emissions.



The Syncrude oil sands mine north of Fort McMurray, Alberta

In a spring 2007 survey commissioned by the Pembina Institute, 71 percent of Albertans agreed that the Alberta provincial government should suspend new oil sands approvals until infrastructure and environmental management issues are addressed, and 70 percent favored total over intensity-based GHG reduction targets, "even if it costs industry more." Oil companies are also facing lawsuits from Canada's indigenous tribes and environmental groups that threaten to delay projects.

Even pressure from the U.S. is growing. A provision in last year's energy bill bars government contracts for unconventional petroleum sources whose lifecycle GHG emissions exceed those of equivalent conventional fuels.

We could go on and on – and we do, in a letter to institutional investors soliciting their support for the ConocoPhillips resolution that you can find on our web site at www.trilliuminvest.com. Last year, a ConocoPhillips official admitted the industry has an image problem, noting that the oil industry ranks last in surveys – "last in credibility even behind tobacco."⁵ Is it any wonder why? With so much cash on hand, it's time for the oil and gas companies to begin the transition into energy companies that recognize that if we're to have a future at all, it will need to be powered by renewable sources. 

1. "Oil Sands Key Target for Global Energy Players," *Globe & Mail*, December 11, 2006.

2. *The Oil Sands Report Card* (2007), Pembina Institute and World Wildlife Canada, p. vii.

3. Environmental Defence, *Canada's Toxic Tar Sands: The Most Destructive Project on Earth*, February 2008, available at <http://www.environmentaldefence.ca/reports/tarsands.htm>.

4. <http://www.heavyyoilinfo.com/newsitems/conocophillips-seeks-oil-sands-cost-cutting>.

5. "Experts Outline Energy of Future," *Topeka Capital Journal*, October 5, 2007.



Chipotle Mexican Grill, Inc.

1543 Wazee Street
Suite 200
Denver, CO 80202-1442
Phone: 303-595-4000
www.chipotle.com

by **Eric Becker, CFA**
& **Natasha Martin Lamb, MBA**

Chipotle Mexican Grill (NYSE – CMG) operates fast, casual, fresh Mexican food restaurants serving burritos, tacos and salads. Through its vision of "Food with Integrity," Chipotle is seeking better food that is sustainably grown and naturally raised with respect for animals, the land and farmers. The Company has about 700 restaurants in 33 states, almost all of which are company-owned.

Chipotle is a well-executed concept and great growth-stock story. The company has consistently beaten consensus earnings estimates since going public and over the last five years revenues have grown between 30 and 55 percent. Strong growth across all of Chipotle's markets is driven by expansion and increasing same store sales in what is considered a very challenging economic backdrop for restaurants.

Chipotle is a sustainability leader in the restaurant industry. The company serves more naturally raised meat per year than any other restaurant in the United States. All of Chipotle's restaurants serve naturally raised pork, 85 percent serve naturally raised chicken, and over 50 percent serve naturally raised beef. No meat is purchased from factory farms and farms are visited to ensure high quality. Today 25 percent of beans are organic and the company is increasing that percentage as greater supply becomes available. The company donates money to the Land Institute, which conducts sustainable agriculture research. The sour cream and cheese contain no synthetic growth hormone.

Chipotle also uses many elements of sustainable architecture in its restaurants including recycled content in 60 to 90 percent of their interiors, low VOC paints, tank-less water heaters, low-E windows and energy efficient lighting. Chipotle is currently testing a recycling system in 25 stores, which will be rolled out to all stores once the design is satisfactory.



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Applied Materials

3050 Bowers Avenue
PO Box 58039
Santa Clara, CA 95052-8039
Phone: 408-727-5555
www.appliedmaterials.com

by **Samuel B. Jones, Jr., CFA**
& **Eric Becker, CFA**

Applied Materials (Nasdaq – AMAT) is the leading provider of semiconductor capital goods equipment in the world. Only about a quarter of Applied's business volume comes from North America and Europe combined. The vast majority comes from Japan, South Korea and the Asia-Pacific zone. Applied has four business segments: 65 percent of revenues come from the Silicon segment (equipment for chip fabrication and particle deposition processes); 23 percent from wafer Fab Solutions (clean room and robotics equipment); 10 percent from Display (equipment used for TV flat panel displays, computer displays, etc.); and the balance from Energy and Environmental Solutions, including photovoltaic solar cells and energy-efficient glass.

Applied Materials has made a long-term strategic decision to become a force in solar power equipment, and has used acquisitions to penetrate the business. Most recently, Applied paid approximately \$475 million to purchase HCT Shaping, a privately held Swiss manufacturer of wire saws used to slice silicon wafers. Applied's efforts were rewarded in March when it won a multi-year \$1.9 billion contract to supply equipment for multiple solar panel factories overseas.

Applied has a strong environmental management system and comprehensive reporting. It has detailed disclosure of greenhouse gas emissions, having reduced emissions 50 percent normalized to revenues from 2002 to 2004. AMAT is developing an Environmental Value Systems Analysis with the University of California, Berkeley to assess the environmental costs of owning and operating semiconductor fabrication tools with the goal of establishing market value for cost-saving eco-efficient product design and operation. Between 2002 and 2004, it cut hazardous waste by 43 percent and increased recycling of non-hazardous waste by 25 percent. A variety of products are used to significantly reduce greenhouse gases for clients including Remote Clean, a Plasma Exhaust Gas Abatement System, and a vacuum pump that reduces energy usage by 75 percent.



Mercy Loan Fund/Mercy Housing Inc.

by Randy Rice

Vision / Mission

Mercy Loan Fund (MLF), along with its parent organization Mercy Housing, Inc. (MHI), works to create a more humane world where poverty is alleviated, communities are healthy and all people can develop their full potential.

MLF provides capital to community-based affordable housing developers with financing needs that are unmet through traditional financial institutions. MLF's loans are used to develop, finance and operate affordable, program-enriched housing for families, seniors and people with special needs who lack the economic resources to access quality, safe, housing opportunities.

History

In 1981, the Sisters of Mercy of Omaha found that a lack of adequate housing was the root cause of many of the health and education problems they saw in their community. With an initial investment of \$500,000, they founded MHI in Nebraska.

The Sisters began by acquiring rental properties that were at risk of being sold at market rate. They renovated the properties and leased them to low-income people. The Sisters realized that they wanted to provide services and programs that would help residents stabilize their lives and thrive in the community.

MLF was founded in 1985 to provide financing for non-profit organizations, enabling them to develop affordable housing in their communities. MLF finances the development of single- and multi-family homes for rental and homeownership.

Programs / Impact

MHI, with support from MLF, has developed more than 19,100 affordable homes, both multifamily rental and single family, serving more than 58,000 people in 31 states. An additional 8,153 homes are in the pre-development, construction or concept phase.

MHI employs over 1,160 people nationwide providing property management and on-site resident programs including computer centers, arts programs, health classes, financial education programs, employment initiatives and homeownership seminars that are funded through grants and donations.

MLF loans have ranged from \$25,000 to \$2.1 million, with an average term of 3.5 years. Some examples include:

FINANCIAL INDICATORS (Fiscal Year Ended 2006)

Total Capital Under Management.....	\$25,907,198
Operating Expenses	\$1,329,973
Total Assets	\$26,118,685
Total Liabilities	\$22,944,878
Net Assets	\$3,173,807
Loan Loss Reserves / Total Loans Outstanding	4.6%

- Lines of credit to affordable homeownership programs, used to purchase and rehabilitate single-family homes for sale;
- A predevelopment loan to assist with acquisition and rehabilitation of a single-room occupancy apartment building for people who are single, disabled or living with HIV/AIDS;
- A gap loan to a residents' cooperative to purchase a 150-space mobile home park for seniors; and,
- A loan to help a tenants' association purchase and convert a 15-unit rental property into a cooperative.


Client Population

The median annual income of families at MHI is \$18,892. The median annual income of seniors is \$12,106; and the median income of special needs residents is \$9,167. All residents have household incomes below 80 percent area median income.

Seventy-eight percent of residents are families, 14 percent are seniors, 8 percent are people with special needs, including people with HIV/AIDS, formerly homeless, and people with physical and mental impairments. Currently, 58 percent of those served by MLF's loans are ethnic minorities and 61 percent are female

Investing with MLF

On behalf of our clients, Trillium Asset Management Corporation ("Trillium") made its first investment with MLF in 1990. Trillium, at a client's request, will make investments in MLF of at least \$5,000 for a term of not less than two years.

MLF is a registered with the Treasury Department as a Community Development Financial Institution and is a member of Opportunity Finance Network. 



Turn Down the Heat – It’s Getting Warmer

by Lauren McLean

With all the talk out there about energy efficiency and reduced use, I can’t help but think of my mom, telling us kids to put on a sweater, the heat would not go up. I laugh at the person I’ve become, as I tell my own kids the same thing, adding the environmental commentary that it’s one little thing we can do and if we don’t, climate change will turn up the heat more than we’d like – before we know it.

So what’s a shareholder to do, in this day and age of climate change, when a company in your portfolio is arguing to a utilities commission that their predicted power demand requires them to build a coal-fired power plant to meet it? Since a request to turn down the heat in an Iowa winter probably wouldn’t go very far, we took a more productive approach: we filed a shareholder resolution asking Alliant Energy to report on their efforts to curb future demand through incentives to increase energy efficiency for their customers.

Last May, a Standard & Poors report indicated that energy efficiency is likely to emerge as a major part of the solution to climate change, and warned that “utilities may be affected, if revenues and profits decline with consumption,” unless policies are changed to provide incentives for utilities to reduce consumption of electricity. “Decoupling” revenues and profits from consumption (making a utility volume-insensitive) has emerged as one of the more effective ways to reduce carbon emissions, and as more states consider the option, we wanted to be sure that a company whose returns make a difference to our clients was working on the same issue where they do business.


Our concern included the impact upon shareholder value that could be brought about from the reputation risks associated with their proposal to build a 630 megawatt coal-fired power plant in Iowa that would emit several million tons of carbon dioxide a year. No one across the political spectrum doubts

that carbon trading and other kinds of carbon constraints are increasingly imminent, meaning that cost estimates for a plant like this can easily rise as carbon starts to trade (see page 2). We hoped to see the company make a serious commitment to efficiency as a solution to reducing demand, and thereby reducing carbon linked risks. Through negotiations around our resolution, we think we’ve gotten closer.

Working with the environmental group Ceres, we were pleased to agree to withdraw our shareholder resolution when

Alliant agreed to publish a report on their energy efficiency efforts. They were willing to talk with us at some length, and made available many of their experts on policy, efficiency and demand projections to answer our questions. Alliant management was clear that they’d rather work with us than against our resolution, and agreed to honor our request to publish a report to shed some light on their plans to mitigate demand as a method to build shareholder value.

Of course, it’s too soon to conclude, “problem solved.” Citizens in Iowa dispute Alliant’s demand projections, which the company has agreed to explain in this report. We’re starting to see coal-fired plants cancelled

in places like Kansas, Nevada and even the fossil-fuel loving Idaho because of the mounting carbon costs and concerted citizen efforts to stop them. We’d like to see Alliant and other utilities take more proactive steps to curb their demand in the near term, and to propose more renewable energy projects for the demand that just won’t go away. Because let’s face it – not every mom wants to wear hats and sweaters at home in the winter just to keep the thermostat hovering at 60 degrees. 

Alliant management was clear that they’d rather work with us than against our resolution, and agreed to honor our request to publish a report to shed some light on their plans

Lauren McLean is an assistant portfolio manager in our Boise office who has been an environmental and political activist in Idaho for nearly a decade.



Big Coal Losing Momentum in the U.S.

by Shelley Alpern

Poor coal. For so long, it has gotten away with being the largest contributor (41 percent) to global CO₂ emissions from energy use, a widespread public health hazard by virtue of lead, mercury and other pollutants, the source of black lung disease, and now we can add deforestation to its achievements. “Coal will be coal,” they said. “Isn’t it great that it’s cheap and abundant?” Coal claims that it’s now clean and has offered to change its ways by burying its carbon instead of spewing it all over the atmosphere, but its persecutors have obtained restraining orders and are bent on keeping it out of the house.

According to Coal Moratorium Now! and the Rainforest Action Network (RAN), fifty-nine coal plants (of more than 150 proposed between 2000 and 2006) were cancelled or shelved in 2007. Carbon emissions played a role in at least 15 cancellations, and coal plants disappeared entirely from some utilities’ long-range plans due to increasing regulatory scrutiny of long-range integrated resource plans. In some states, regulators are starting to favor utility-scale renewables over coal. Interestingly, more plants have been abandoned by their sponsors than rejected outright by regulators, courts or local authorities. Rising construction costs, insufficient financing or lack of subsidies and even lower demand estimates were contributing factors along with climate change.

At Trillium Asset Management Corporation, we’ve always avoided investments in mining companies, and we try to avoid holding electric power companies that favor coal over cleaner sources of energy. But fortunately our hands are not tied when it comes to advocacy. As my colleague Lauren McLean writes about in this issue (see p. 10), we’ve used our voice at **Alliant Energy** to promote greater development of energy efficiency incentives. We’re also on **Bank of America’s** case. The Ceres member has received a lot of praise for being the first bank to adopt an “intensity” (reduction per unit) GHG target for its energy and utility lending portfolio; its goal is to realize a 7 percent decrease by 2008 from a 2004 benchmark. It is on its way to meeting that goal. So what’s wrong with this picture? It’s simple. Reductions per unit are all well and good, unless overall

(“absolute”) emissions are going up – as they did at Bank of America by 11 percent between 2005 and 2007.

The company has refused to answer shareholders’ questions as to why this is. Could it have something to do with RAN’s research identifying the Bank as one of the top financiers of coal power plants? We’re starting to wonder if the kudos Bank of America is getting for its intensity reduction goals isn’t a little like patting a dieter on the back for reducing calories per meal even as he eats so many meals that he’s put on 11 percent more pounds since 2005.

This metaphorical epiphany was one of the motives behind our shareholder resolution calling on the Bank to embrace a moratorium on financing coal-fired power plants and coal mining by means of mountain top removal (MTR). A moratorium on building new coal plants is a radical idea that’s increasingly supported by non-radicals, such as the U.S. public. Seventy-five percent of American adults would support a five-year moratorium on new coal plants if funding for renewable alternatives was increased and efficiency standards were tightened.¹

Mountain top removal is a double whammy on the climate front. The method clear-cuts forests and blasts away mountain tops to extract coal. The rubble is dumped in the valleys below, filling streams and destroying water resources. Between 1992 and 2012, the US Environmental Protection Agency estimates that MTR will have destroyed approximately 7 percent of Appalachian forests in coal mining regions studied.

Over 110 U.S. coal-fired electrical generating plants and syn-fuels plants are currently under construction or in the planning process. In addition to bearing their share of ethical responsibility for the disaster that is coal, those that finance it assume additional financial risk due to rising construction costs for coal plants and the eventual attachment of a price tag for emitting carbon (which Bank of America recently estimated at \$20–\$40 a ton under future federal regulation).

Coal enthusiasts insist that capturing and storing carbon underground will solve the GHG problem, but as a new report from the Interfaith Center on Corporate Responsibility observes, these technologies are untested at actual plant-scale sizes.²

Bank of America successfully petitioned the Securities and Exchange Commission to exclude our proposal from the proxy ballot. However, Citigroup’s shareholders will vote on a similar resolution filed by Boston Common Asset Management. Vote Yes on Proposal 9. Coal is a bad investment. ☺

1. “A Post Fossil-Fuel America: Are Americans Ready to Make the Shift?” opinion survey conducted by Opinion Research Corporation, October 18, 2007.

2. ICCR and Synapse Energy Economics, Inc., *The Risks Of Investing In New Coal-Fired Generating Facilities*, p. 29.

Strategic View: How High Are Sustainable Financial Returns?

by Adam Seitchik, CFA


The investment ecosystem has reached a tipping point and the interest in responsible, sustainable investing is surging. Asset owners with over \$10 trillion have signed up to the UN Principles for Responsible Investment. The Investor Network on Climate Risk now has over \$5 trillion behind it. The leading investment consultant to Foundations will now provide Mission Related Investing services. More corporations are institutionalizing sustainability concepts into their organizations, and business education is inching away from the blinkered study of money making toward imagining socially positive enterprises with multiple bottom lines. A recent online survey by Cone Inc. found that 79 percent of full-time workers under the age of 25 want to work for a company that cares about how it affects or contributes to society.

As the new players under this growing sustainability tent get to work, they will eventually pose the most fundamental of questions: what is the objective of investing? By custom, and at times by regulation, the answer has been: maximize risk-adjusted financial returns. With this narrow, short-term view, environmental and social considerations have been deemed in conflict with maximizing wealth. Yet, can we really thrive while ignoring the explicit bottom lines of environmental sustainability and social justice?

The easy-to-grab, low-hanging fruit in sustainable investing is being harvested with a single-bottom-line approach. Activities that reduce the use of fossil fuels enhance the financial bottom line. With \$100 oil, the obvious win-win activity is energy efficiency. Wal-Mart has gone all-in for a definition of sustainability

focused primarily on reducing energy use by the company, its suppliers and its customers. This is a wonderful development, but only the first of many toward a truly sustainable economy and financial system.

Here at Trillium Asset Management Corporation we are improving our own sustainability performance through an inspiring grassroots effort initiated by our newly formed Green Team. The Greens recently sat us down, vegetarian pizza in hand, as we watched the clever, concise and internet-delivered *Story of Stuff* (www.storyofstuff.com). In 20 minutes the narrator, Annie Leonard, illustrates the social and environmental damage our current straight-line production system generates, from extraction to production, distribution to consumption and, finally, disposal to landfill. She ends with a vision of an alternative production system that is circular as opposed to linear, that recycles as opposed to exploits and that is cognizant at every juncture of the human impact of the material economy.

This kind of deep sustainability thinking prompts a recasting of the most fundamental investment questions. As investors and capitalists, we embrace investing for financial return. The evolved fiduciary question becomes: what is the best risk-adjusted, long-term financial return we can generate that is sustainable and restorative from both a human and planetary perspective? Going down this essential path means acknowledging that many legal investments are neither moral nor sustainable, damaging the soul as well as the environment and risky in the long run. Truly sustainable investing expands the definition of wealth generation, risk and return, illuminating the complex tradeoffs we all face as individuals and institutions. 

From the President

Continued from page 1

from one Robert Lutz, Vice Chairman of Global Product Development, who recently called climate change a "crock of shit." He has had a reputation of ignoring environmental concerns; years ago, at the 2004 Detroit Auto Show, Lutz had said that the hybrid did not "make environmental or economic sense." In the past few days, the company has attempted to paper over these statements through an aggressive campaign claiming that Lutz's opinion about climate change "doesn't count" and, from his own blog, "my goal is to take the automotive industry out of the debate entirely. GM is working on just that – and we're going to keep working on it – via E85, hybrids, hydrogen, and fuel cells, and the electrification of the automobile."

But piling right on this annoying verbosity from Lutz was the announcement that GM is rearranging the duties of the three top managers in part to give CEO Rick Wagoner more time for "environmental lobbying," which would include defeating clean air legislation. Wagoner was quoted in the *Wall Street Journal* recently as saying there's more "advocacy work" to be done with regard to California's attempt to implement its own tough tailpipe emissions rules.

GM lost their place as the number one automobile manufacturer in the world to Toyota in 2007. Toyota is no angel company (see Susan Baker Martin's cover story), with a fleet that includes some huge cars, but they scored with the Prius and helped move the public to accept hybrid cars on the road. I have no idea, after years of working around General Motors, what makes them tick – or not tick! I know one thing, though. I hope the smart women and men with imagination and foresight at GM prevail because I don't want to see this company disappear.

Joan Bavaria, President
Trillium Asset Management Corporation

