# Investing for a Better World

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INSIDE



## Investing With A Mission:
### *A Guide for Foundations and Nonprofits on Mission Related Investing*

**By Steve Lippman**

Over the past decade, the profile, size, and scope of the philanthropic sector in the U.S. has skyrocketed to a degree not seen since the birth of the modern foundation in the time of John D. Rockefeller, Andrew Carnegie, and Andrew Mellon. In 2006, the 68,000 private foundations in the U.S. made grants totaling $32 billion. That's a tiny fraction of their endowed assets. The Foundation Center, a research firm and clearinghouse on philanthropy, lists 50 private foundations with more than a billion dollars in assets. Many new giants have emerged on the stage, notably the $30 billion Bill and Melinda Gates Foundation (soon to double its assets with a huge donation from Warren Buffet).

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## Drug Companies Can Do More To Guard Against Lab Animal Abuse

**By Susan Baker Martin**

Like sweatshop labor activists, animal welfare proponents are demanding vendor accountability.

The animal welfare screen we use at Trillium Asset Management Corporation (TAMC) focuses largely on ensuring the humane treatment of animals. Since the early 1990s, we've been involved in investor-relevant activism opportunities, from working with the pioneering advocate Henry Spira and Animal Rights International to persuade **McDonalds** to adopt policies for the humane treatment of farm animals, to protesting **Pepsi** and **Coca Cola's** advertising sponsorship of bullfights and rodeos.

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## *Dear Reader*

Joan Bavaria

The sky is falling in on the current political administration, but it's not sitting still. Quite. George W. Bush and company are now attempting to take leadership on issues that they have been fighting against or ignoring for years – issues like global climate change and executive compensation. The trouble is, "leadership" in this case means acknowledging an issue previously denied and then reframing the solution to fit a particular agenda.

It's important that the various solutions to both climate change and executive compensation are fully debated in the public and that the long-term ramifications are completely understood, lest we shoot off on yet another trajectory that we will find ourselves cleaning up years hence. Using food for fuel is NOT the only answer to our energy problem, for instance.

On the issue of executive compensation, the Bush administration now advocates (rather loudly) that the time has come for executives to be compensated for "performance." I shudder at that word, which in modern times has produced everything from Viagra to ergogenic supplements to insider trading. But assume for a minute that there is no substitute for the word – let's just define "performance" in a way that is "sustainable." Too often, "performance" for a Chief Executive is synonymous with positive stock

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# Spotlight On Your Portfolio: Planning For "Enough"

**By Lisa Leff, CFA**

Fred & Flo Dogooder (fictional clients) recently retired with a $2 million investment portfolio. Healthy and 65, they've been living comfortably on roughly $100,000 per year. Excited but a bit apprehensive about plans for a long and active retirement, they feel fortunate to have a significant portfolio, but concerned about spending the assets they worked to accumulate. Also generous, they want to make significant gifts to family and philanthropy, ideally seeing the benefits of those gifts during their lifetimes.

They want to know: How much will they *really* need to live comfortably during retirement? How much can they prudently allocate for gifting, now and in the future? What's the appropriate investment mix to meet family and philanthropic goals while maintaining ample assets for retirement?

I frequently have conversations with clients like the Dogooders about long term financial plans for retirement and other life events. Although most clients begin their relationship with us already having significant wealth, questions about having "enough" over the long term are still critical. The answers are based on a combination of these factors:

- Time horizons dictate how long assets must work to meet expenses. At 65, Fred has a 50% chance of living to 85 or older; Flo, to 88 or older. Planning for a 20-30 year retirement is reasonable.
- Spending rates can make the biggest difference between having enough and not. Many people believe they'll spend less after retirement, but often the opposite is true.
- Taxes & inflation diminish asset values over time.
- Asset allocation across stocks, bonds and cash is the biggest determinant of returns. Stocks historically have provided greater growth and opportunity to outpace taxes and inflation, but with greater risk. Bonds help protect principal and provide a steady income stream, with less opportunity for growth. A mix of stocks, bonds, and other assets can be designed to balance principal preservation, income generation, and moderate growth.

So back to the Dogooders. At 65, with a $2 million portfolio, they have an estimated time horizon of 25 years and project they can reduce annual spending to $80,000 in today's terms. Their portfolio has a 60% stock/40% bond allocation, and for simplicity we'll assume no taxes or portfolio transaction costs. With these assumptions, simulations based on a range of market returns and inflation scenarios show the portfolio has a 98% probability of surviving 25 years, with an average ending value of $5 million.

Now, if their annual spending *increases* during retirement to $120,000, the portfolio survival probability drops to 80%. If either Fred or Flo lives to 95 or beyond – increasing the time horizon to 30-plus years – the portfolio survival probability drops to 70%. This highlights the impact spending rate and time horizon can have.

Finally, the Dogooders are considering making $100,000 gifts to each of their 4 children and endowing a local environmental group with $100,000, for a $500,000 total portfolio withdrawal this year. Then, the remaining $1.5 million portfolio, with annual spending of $80,000, will have a 90% probability of surviving 25 years and 82% for 30 years. If annual spending is actually $120,000, those probabilities drop to 48% and 32%.

These probabilities are just that – statistical likelihoods based on historical data and today's assumptions, which may change over the next 20-30 years. Regardless, this type of analysis can help investors like the Dogooders assess the future impacts of today's decisions, and how they can best plan for "enough."

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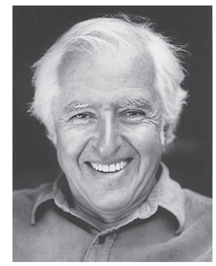
# Keep Things Small, Stop Buying All That Stuff At Costco

## *It Seems To Me*

**Milt Moskowitz**



Bill McKibben's new book, *Deep Economy*, may be a landmark publication like Rachel Carson's *Silent Spring*, published in 1962. Carson's revelation of the lethal effects of the pesticide DDT ignited public concerns about degradation of the environment at the hands of a mindless industrial economy. Carson died, tragically, of breast cancer in 1964 but her work raised public consciousness about man-made dangers to natural systems and led to the establishment of the Environmental Protection Agency.

A writer who lives in the Adirondacks in upstate New York, McKibben doesn't dabble in palliative efforts by companies to curb pollution and/or commit to sustainability. His argument comes down to a frontal assault on how companies are organized and how the consumer economy functions. He's not looking for a quick fix. He's looking for a radical transformation that would end the notions that growth is good and that the more you have the better off you are. He advocates small farming, strong local communities and individual responsibility. "If we're so rich," he asks, "how come we're so damn miserable?"

And he warns that the consequences of continuing along the path we're traveling are dire. McKibben's views are the polar opposite of those put forth by *New York Times* columnist Thomas Friedman, whose book, *The World Is Flat*, has been on the best-seller list for nearly 100 weeks now. Friedman believes that technology, free trade and globalization will deliver unparalleled prosperity to all corners of the world. Here is McKibben's take on what that means:

> *Given current rates of growth in the Chinese economy, the 1.3 billion residents of that nation will, by 2031, be about as rich as we are. If they then eat meat, milk, and eggs at the rate we do, they will consume 1,352 million tons of grain each year, equal to two-thirds of the world's entire 2004 grain harvest. They will use more steel than all the West combined, double the world's production of paper, and drive 1.1 billion cars – 1.5 times as many as the current world total. And that's just China; by then, India will have a bigger population, and its economy is growing almost as fast. And then there's the rest of the world.*

McKibben maintains that "trying to meet that kind of demand will stress the earth past its breaking point." Noting that average temperatures are expected to rise four or five degrees in this century, he points out that this will make the globe "warmer than it's been before primates appeared. We might as well stop calling it earth and have a contest to pick some new name, because it will be a different planet. Humans have never done anything more profound, not even when we invented nuclear weapons."

I can imagine a possible rejoinder from developing countries:

"So, you guys in the U.S. developed this dynamic economy that is the envy of the world. Americans are the richest people on the earth. They have more cars, bigger houses, more computers and TV sets, greater varieties of food and drink than anyone else in the world. Your form of capitalism triumphed over socialism and communism. And your cultural exports, through films, music and literature, have become models for the rest of the world. And now when we try to reproduce that system in our countries, you tell us: Hold up, we have discovered that the side effects of this prosperity are damaging to the health of the world. You can't build your own steel mills, consolidate small farms into vast agricultural conglomerates, put up shopping malls and pave over roads so that millions of cars can traverse them to reach pizza joints and Starbucks cafes. The game is over. Besides, we know now that those are not the kinds of things that bring happiness to your lives. Trust us, we know best."

We will need a lot of Bill McKibbens to drive home that message.

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)

# Investing With A Mission (con't)

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The sheer size and prominence of these endowments and other nonprofit entities has raised new questions about how best to deploy private wealth to serve the public good. Over the past decade, a small but committed number of private, nonprofit institutions have pioneered new approaches to leverage the power of all their assets in support of their mission, rather than just their operational and grant-making budget. The issue burst into public prominence early in 2007 when the *Los Angeles Times* ran two investigative pieces alleging contradictions between the Gates Foundation's investments and its mission. As one example, the Foundation has given grants to fight diseases like asthma in the Niger Delta that may be linked to pollution from oil companies operating in the area that the foundation holds in its endowment. Those articles spurred the Gates Foundation to clarify its investment criteria, though not to make major changes in its investment strategies at this time. But the articles also sparked a much broader debate among the foundation world and in the press that has led to yet more interest in Mission Related Investing (MRI).

Trillium Asset Management Corporation has helped several foundations among our clients implement pieces of an MRI strategy and we have relationships with some of the foundations that are pioneers in the field, including the F.B. Heron Foundation, the Nathan Cummings Foundation, and the Jessie Smith Noyes Foundation. To help support and disseminate information about the wave of innovation underway, we will soon release *Mission-Related Investing for Non-Profit Organizations: Practical Tools for Mission/Investment Integration.*[1] The rest of this article provides a sneak preview of a few of the issues covered in more depth in that report.

*A momentous shift in the understanding of fiduciary duty is now underway as increasing numbers of investors recognize that sustainability issues, such as social and environmental concerns, impact long term shareholder value and thus should be considered in investment decisions.*

**Resources**

For more information on mission/investment integration, or to speak to a representative from TAMC, please contact: Lisa MacKinnon, 617-423-6655, lmackinnon@trilliuminvest.com

## Why Pursue Mission Related Investing?

A nonprofit's mission is its heart, its core, its reason for being. In business terms, the mission defines the organization's "value proposition," or the value that it seeks to create. A nonprofit's value is at best indirectly related to financial return. It lies instead in the creation of environmental and social value. This raises the question: how can a nonprofit organization achieve the greatest environmental, social *and* financial value from its philanthropic resources? As the trustees of the F.B. Heron Foundation asked themselves a decade ago (and answered affirmatively): "Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?"

For a small but growing number of foundations and other nonprofits, Mission Related Investing provides the answer to these important questions. MRI strategies allow foundations and nonprofits to leverage more of their assets in support of their mission, not just the portion they grant or spend to fulfill their mission. Think of it this way: a grant is an investment with a -100% direct financial return (total financial loss) in order to generate a high return in the form of positive social or environmental change. MRI can also create social returns, but with much higher (and often market-competitive) financial returns. Over time, MRI exposure can dwarf the grantmaking budget, thus multiplying the organization's positive impact on its mission.

Ethical and fiduciary responsibilities also offer compelling arguments in favor of Mission Related Investing. As *all* assets donated are generally tax-deductible, along with most of the earnings on those assets, there is a duty to manage *all* the funds in such a way as to provide the

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# Investing With A Mission (con't)

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greatest benefit to society – the ultimate beneficiary of the trust. MRI provides the means to do this. Evolving understanding of the fiduciary responsibility of foundation and nonprofit trustees also support Mission Related Investing. In the 1800s, common stock, real estate, gold, venture capital, futures, and options were considered too speculative to be held by trusts. In 1830, the Massachusetts Supreme Judicial Court coined the term "prudent man" when they ruled that trustees must invest the assets in their care in the manner in which a prudent man would invest his own assets. Key to this decision was freeing the definition of fiduciary responsibility to evolve with the times – as new investment practices evolved, so too did the prudent man's behavior. Consequently, trusts are now allowed to hold assets such as common stock, which were once considered too speculative. The guiding definition of prudence is subjective and based upon the goals of the individual investor – the "prudent man" (and as a majority women-owned firm, we're Living proof that plenty of prudent women are now fiduciaries as well).

A momentous shift in the understanding of fiduciary duty is now underway as increasing numbers of investors recognize that sustainability issues, such as social and environmental concerns, impact long term shareholder value and thus should be considered in investment decisions. Indeed, in a report commissioned by the United Nation's Environment Program, the world's third largest law firm Freshfields Bruckhaus Deringer recognized this shift and declared that "integrating environmental, social, and governance (ESG) considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions." Indeed, Paul Watchman, a Freshfields partner and senior iauthor of the study noted, "Institutional Investors have more freedom to integrate ESG issues into their decision-making than they think. Whilst normally we find ourselves encouraging our clients to be more cautious, in this case we can instead say 'be more imaginative'."[2]

### Mission Related Investing Tools

There are several other reasons to pursue Mission Related Investing identified in our report, but we wanted to leave room for at least a short discussion of the tools and strategies available to pursue MRI. Many of these tools are similar to those in socially responsible investing and will be familiar to most readers of *Investing for a Better World*: negative screens to exclude companies that conflict with an organization's mission, positive screens to seek out investments in companies that support their mission, engagement tools to influence the performance of companies in the portfolio, and high impact investing in community investments, social ventures, and other program-related investments. (Given their direct and tangible social benefits, it is not surprising that community investments and program related investments are the fastest growing asset class in MRI.) What distinguishes Mission Related Investing from Socially Responsible Investing is the effort to tailor these strategies to the organization's specific mission. So for instance, a foundation focused on alleviating poverty has chosen to apply negative and positive screens to invest a portion of its endowment in companies that play a key role in reducing poverty, rather than a more general social responsibility screen.

These tools are described in much greater detail in our upcoming report, which includes examples of how foundations and nonprofits are putting these tools into practice. To receive a copy when it's released in April, e-mail a request to Lisa MacKinnon at lmackinnon@trilliuminvest.com.

**Footnotes**

[1] This article is drawn in part from this report. TAMC would like to thank Elise Lufkin for her substantial contributions to the report.

[2] *A Legal Framework For the Integration of Environmental, Social and Governance Issues Into Institutional Investment.* available at www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf

# Drug Companies Can Do More To Guard Against Lab Animal Abuse

*Continued from page 1*

This year, TAMC is facilitating a shareholder resolution at drug giant **Eli Lilly** asking the company to strengthen its animal welfare policies. People for the Ethical Treatment of Animals (PETA) drafted the resolution as part of a campaign to extend corporate animal welfare policies to include outside contracted suppliers. The campaign also asks companies to address important enrichment measures such as providing animals with basic nesting materials, hiding places, opportunities to forage and exercise in a group rather than in isolated housing. Previous resolutions have addressed animal testing practices. This resolution is focused solely on animal well-being.

*Like sweatshop labor activists, animal right proponents are demanding vendor accountability.*

PETA has its share of ardent supporters and detractors. There's no doubt that PETA can alienate with their often uncompromising tactics to promote a radical animal rights agenda. Nonetheless, the organization has earned respect in some corporate corners. One toxicologist at a major consumer products company told research analysts on a recent conference call that PETA's work to develop alternative skin irritation testing methods was "impressive" and "useable." As a shareholder activist, PETA has steadily racked up successes in advancing agendas for greater disclosure on animal welfare policies.

Who can argue with the need for greater compassion toward animals? Certainly, Gandhi's reflection that "The greatness of a nation and its moral progress can be judged by the way its animals are treated" has infiltrated many human psyches. Further, there is a growing body of research on animal psychology[1] showing how barren conditions lead to stress, loneliness and frustration in animals.

Yet "pharmaceutical companies by and large have been absent from the debate around animal issues," reports Andrew Rowan, senior vice president of research, education and international issues at the Humane Society of the U.S. Through scientific research and political activism, a handful of consumer and healthcare product giants such as **Johnson & Johnson** and **Procter & Gamble** are demonstrating a willingness to improve the way they handle animals. In particular, Johnson & Johnson's website has detailed information about their animal welfare policies, including a set of vendor standards. Consumer product companies including **Colgate, Unilever**, and **L'Oreal** are also taking serious steps to address animal welfare issues. **Charles River Labs**, an animal testing laboratory, promotes a strong commitment to animal welfare issues, according to Dr. Rowan. But, where are the big pharmaceutical companies?

The resolution at Eli Lilly asks management to extend animal care and use policies so as to ensure regular oversight of all in-house and contracted laboratory facilities; and to ensure behavioral enrichment measures are in place.

The resolution resulted from a Spring 2005 report by PETA that uncovered egregious and systemic abuses of monkeys at a U.K. facility owned by **Covance**. Covance is a worldwide contract research organization headquartered in New Jersey used by a number of pharmaceutical companies. Among the confirmed abuses were workers seen slapping and choking monkeys and hitting them with hard objects.[2] When Covance learned of PETA's report, they took legal action to stop PETA from publicizing the abuses. In the court findings, a U.K. judge ruled in PETA's favor. The judge was disturbed by a videotape depicting "the

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# Drug Companies Can Do More To Guard Against Lab Animal Abuse

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rough manner in which the animals are handled and the bleakness of the surroundings in which they are kept….," concluding that "[e]ven to a viewer with no particular interest in animal welfare, [they] at least cry out for explanation."[3]

Why these abuses were allowed to happen calls into question the efficacy of regulatory and corporate oversight.

In the life sciences industry there are a variety of regulatory layers. Non-government run laboratories that house and test animals other than domestic rats and mice are regulated by the U.S. Department of Agriculture. The Animal Welfare Act (AWA) stipulates standards for the care and use of animals, excluding rats, mice and birds. Many animal advocate groups, including the Animal Protection Institute, regard these standards as very minimal. Further, although the USDA has the enforcement authority; it lacks people power; at last count, PETA's legal counsel found 101 USDA inspectors for a total of 9,600 licensees that represent 12,965 sites. Inspection reports are available from the USDA's Freedom of Information Act Office to determine if a research laboratory is compliant with the AWA. However obtaining a report can take up to two years, in which time additional abuses can go unchecked.

Facilities can raise their profiles by becoming accredited by the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC). Accreditation requires an application process, fee and agreed-upon site visits. AAALAC boasts of its independence, yet critics question its effectiveness. They contend that the ten year old guide used by AAALAC is insufficiently stringent and complain about the infrequency (once every three years) of site visits. Animal lab researchers are given ample notice of the visit, which can be used to obscure evidence of abuse or neglect on the premises.

Despite the myriad layers of regulations abuse still happens. As a result, incidents such as those that occurred at Cocance argue for greater corporate involvement. Vendor standards and corporate attention help stem labor abuses in the apparel, electronic and mining industries. Similarly, drug companies that adopt strong vendor standards for animal welfare policies can curb industry abuses that may not be adequately monitored by federal regulations.

The Eli Lilly resolution asks that the Board "issue a report to shareholders on the feasibility of amending the Company's *Animal Care and Use Policy* to ensure that: 1) it extends to all contract laboratories and is reviewed with such outside laboratories on a regular basis, and 2) it addresses animals' social and behavioral needs. Further, the shareholders request 3) that the report include information on the extent to which in-house and contract laboratories are adhering to the Policy, including the implementation of enrichment measures." The resolution concludes that "Shareholders cannot monitor what goes on behind the closed doors of the animal laboratories so the company must."

It's time pharmaceutical companies played an active role in strengthening their animal welfare policies. Companies with explicit animal care and use policies send a message to their outside contractors that they will measure and report on policies that meet and exceed minimal federal guidelines. As basketball legend Red Auerbach noted, "An acre of performance is worth a whole world of promise."

**Footnotes**

[1] "What Your Pet Is Thinking," *Wall Street Journal,* October 27, 2006.

[2] PETA's letter to Senator Rick Santorum, dated May 17, 2005. Available online at www.peta.org.

[3] *Covance Laboratories Limited v. Peta Europe Limited* was filed in the High Court of Justice, Chancery Division, Leeds District Registry, Claim No 5C-00295. In addition to ruling in PETA's favor, the Court orderd Covance to pay PETA £50,000 in costs and fees.

# Color Kinetics

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Color Kinetics (CLRK – NASDAQ) is a rapidly growing LED lighting company. The company is poised to benefit from the migration of LED lighting from specialty color applications such as entertainment, TV production and exhibit displays to mainstream white lighting for commercial and residential uses. LED white light technology has the potential for much greater energy efficiency than existing lighting technologies.

Color Kinetics designs, markets and licenses intelligent solid-state lighting systems. Its systems use semiconductor devices known as light emitting diodes (LEDs) as the light source. LED lamps produce light without any filament, gas or moving parts. And they have much longer lives (about 25,000 plus hours versus 1,000 for incandescent bulbs and 20,000 for fluorescent tubes).

The commercial market for white light LEDs is just emerging, as the efficiency of LEDs has grown dramatically in recent years and prices have declined. The potential market is enormous, estimated at $102 billion worldwide. Prices for white light LEDs remain prohibitive for the mass market at present, but technological advances should increase the cost efficiency of white LEDs in the next couple of years. Still, due to the higher cost of LEDs, the "cost of light" over the lifetime of a lamp (measured in dollars per million lumen hours) on which big purchasers make decisions remains higher than fluorescents, but is converging quickly.

According to a 2004 U.S. Department of Energy report, if solid-state lighting achieves projected price and performance targets: 3.5 quadrillion BTUs of primary energy could be saved by 2025; solid-state lighting could decrease national energy consumption for lighting by 29 percent; and more than forty 1000 megawatt power plants could be deferred, contributing to a cleaner environment and a more reliable electrical transmission and distribution system.

**— Eric Becker, CFA**

# SunPower

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SunPower (SPWR – NASDAQ) is a leading player in the solar photovoltaic (PV) cell and module industries. Its recently announced acquisition of PowerLight will make it a leading solar systems installer as well.

SunPower designs and manufactures high-efficiency silicon solar cells and solar panels. PowerLight is a leading global provider of large-scale solar power systems to commercial, public sector and residential customers. PowerLight designs, deploys and operates the largest solar power systems in the world.

Our research into the alternative energy space has led us to the conclusion that solar energy is going to be a big part of any solution to climate change. According to data from the Argonne National Laboratory, the world faces an energy gap of 14-17 terawatts (TW) annually by 2050 (1 TW = 1,000 gigawatts = 1,000,000 megawatts). When one evaluates the zero-carbon alternatives to close that gap, solar is by far the biggest opportunity. Due to their limitations, wind, geothermal, ocean, biomass and hydro simply cannot meet the need, although they will all play an important role. The solar industry has already been growing at a 35% plus rate in recent years, and it is likely to at least match that going forward.

SunPower's solar cells have a rated efficiency of 20% to 21.5%, about 50% higher than other mass-produced solar cells. This means less space is necessary per watt produced. SunPower earns a premium price for its solar cells and modules due to these efficiency advantages.

SunPower plans to aggressively cut production costs for its solar cells so that its products reach cost parity with the electric grid by 2012. To do so it expects a 50% cost reduction over that time frame.

**— Eric Becker, CFA**

# Shared Interest

### History/Overview

Shared Interest was established in 1994 by the Fund for a Free South Africa (FREESA), an organization established by black South Africans living in exile in the U.S. The goal was to supply credit to the communities marginalized by apartheid by forging productive new relationships between South African banks, CDFIs and low-income borrowers.

In 1996, Shared Interest co-founded the Thembani International Guarantee Fund (Thembani) in South Africa. Today, Shared Interest raises funds that are used to partially guarantee loans issued by South African financial institutions to low-income South Africans.

### Impact

A guarantee fund is a pool of money that is used to secure a loan. For example, a bank in South Africa might not be willing to lend money to low-income people of color who are HIV-positive, have never had a job, live in a rural area, or do not have collateral, because they pose a big risk from the bank's perspective. However, the bank will lend money to these people if the risk is reduced by a guarantee.

The guarantee and the loans are facilitated by Thembani, Shared Interest's sister organization in South Africa. Thembani "guarantees" that South African banks will reduce their risk, by commiting to cover part of any losses should borrowers default on their loans. The money raised by Shared Interest to secure these loans is invested in the U.S. and used as security for South African bank loans. These loans are made to South African organizations advancing community development and individual self-sufficiency. The staff of Thembani is comprised of South Africans, who structure the guarantees and provide technical support to both low-income communities and banks.

The Shared Interest guarantees have facilitated loans that have created 50,000 small businesses; 65,000 safe, affordable homes; and 160,000 jobs – benefiting more than 975,000 South Africans of color – 75% of them women.

### Loans

One of the most interesting and successful collaborations has been a loan to The Bee Foundation, which is a private business in a northern province of South Africa that is producing honey. Two thousand rural borrowers (75% women) have joined the beekeeping business. Each new beekeeper receives fifty hives stocked with African bees. They also receive training and equipment to harvest honey and an above market price for their honey from the Bee Foundation.

With the participation of the University of Pretoria, the project is also helping to advance the protection of African bees. The bees receive a medicine required to protect them from a threatening mite through the water supply in their specially adapted hive. And the University is expanding and sharing its research on other medicinal and cosmetic byproducts made from honey.

### TAMC's History with Shared Interest

On behalf of our clients, TAMC made its first investment with Shared Interest in 1995. In 2003, Linnie McLean, TAMC's Director of Finance and Administration joined Shared Interest's Board. In the past four years she has met with many of Thembani's borrowers in South Africa. On behalf of our clients, TAMC will make loans of at least $5,000 to Shared Interest for a term of not less than three years. Currently, thirty TAMC clients have investments with Shared Interest.



Randy Rice

**Georgraphical Impact**

South African communities

**Lending Focus**

Community development and Small business

**Financial Indicators**

Audited Financials as of 12/31/05

| | |
|---|---|
| Total Current Assets | $9,853,726 |
| Total Liabilities | $8,725,507 |
| Total Net Assets | $1,128,219 |
| Total Liabilities & Net Assets | $9,853,726 |

# Tearing Down the Great (Fire) Wall

## Shareholder Activism

**Steve Lippman**

*While high tech companies have long praised the internet's capacity to promote freedom and democracy, many have been complicit in efforts by repressive regimes to restrict internet freedom.*

In this space in December, I wrote about potential threats to internet freedom in the U.S. Those pale in comparison to dramatic abuses of internet freedom currently occurring in China and other parts of the globe. While high tech companies have long praised the internet's capacity to promote freedom and democracy, many have been complicit in efforts by repressive regimes to restrict internet freedom.

For example, in China alone:

- Secret police demanded **Yahoo** help them identify political dissidents who sent some high profile emails critical of the government through their Yahoo accounts. After Yahoo complied, some of the dissidents were arrested and are now serving up to 10 years in prison.
- **Microsoft** has taken down blogs in which Chinese democracy activists criticized their government.
- **Google** has voluntarily self-censored a Chinese version of its search engine, Google.cn, filtering out results for searches on terms such as democracy and human rights, in order to keep Chinese authorities from blocking access to the site.
- **Cisco** faces criticism for supplying China with equipment used to censor and monitor internet use and for marketing equipment to Chinese law enforcement agencies.

According to the *Financial Times*, just last month the Chinese Communist Party's ruling politburo held a special session on the internet, where President Hu Jintao said the party must act to "purify the internet environment" and "extend the battlefront of propaganda and ideological work" to the internet. At the meeting, President Hu advocated the creation of a new branch of authorities to address internet challenges. Hu told the gathering that "Whether or not we can actively use and effectively manage the internet...will affect national cultural information security and the long-term stability of the state."

In light of these challenges, some companies have chosen to limit their operations in China to avoid partnering with the government's internet crackdown. In one notable example, AOL turned down a major deal with a Chinese computer maker because executives were unwilling to comply with authorities' requests to censor searches and gather personal data on Chinese AOL users. Despite launching Google.cn, Google has chosen not to offer its Gmail email service in China to avoid requests from authorities for personal information on its users.

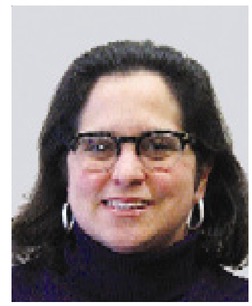
Companies that have tried to accommodate China's requests have faced strong criticism, and not just from human rights groups. Last year, executives from Cisco, Google, Yahoo, Microsoft, were excoriated by House members at a Congressional hearing on their activities in China. The actions have also upset company employees and customers, and prompted Google co-founder Sergey Brin to recently note, "On a business level, that decision to censor [Google.cn]...was a net negative."

Trillium Asset Management has joined a collaborative effort of businesses, human rights groups, academics, and others seeking to create principles to "guide company behavior when faced with laws, regulations and policies that interfere with the achievement of human rights." The process, facilitated by Business for Social Responsibility and the Center for Democracy and Technology, includes other socially responsible investment firms, human rights groups, researchers, and company participants Google, Yahoo, Microsoft and U.K. cell phone company Vodafone. The goal is to work together through 2007 to create a code of conduct that will help the participating companies (and hopefully others) to better protect human rights, freedom of expression, and user privacy on the internet. Whether Chinese bloggers will be able to write about our efforts anytime soon remains to be seen.

# "The Swiss Bank Accounts of American Politics"

## Shareholder Activism

**Shelley Alpern**



*It's 2002 and the head of government relations at Behemoth Corporation wakes up in a cold sweat. In a terrifying nightmare, Behemoth's CEO, perversely shape-shifted into the form of a cartoon ferret, is screaming for a strategic plan to circumvent the newly passed Bipartisan Campaign Reform Act, which prohibits corporations from making unlimited contributions to national political parties and candidates for federal office. "What about the bill you drafted for Congressman Luke de Utherweigh!?" the ferret demands.*

*His heart pounding, our lobbyist gradually calms down, recalling that gifts to state and local candidates are still possible. And 527 committees. And state-level parties, thank heavens for them. And the trade associations. It's not like these donations even have to be disclosed; the recipients do that, and what a mess that paper trail is.*

Flash forward five years. In February 2007, The *Washington Post* reports that the U.S. Chamber of Commerce and its affiliated Institute for Legal Reform, which fights trial lawyers, "have broken their own record for expenditures on lobbying" the legislative and executive branches, spending close to $73 million in 2006. In the May 2006 report *Hidden Rivers*, the Center for Political Accountability found that trade associations helped companies conceal and spend over $100 million in 2004. This spending, the report noted, poses serious risks to company economic interests and reputations and to shareholder value. *Hidden Rivers* dubbed trade associations "the Swiss bank accounts of American politics."

But things are also starting to change. In the last three years, shareholders have done some lobbying of their own, pressing nearly twenty major companies to increase their transparency and improve their accountability on their political contributions. These include high profile players such as **McDonalds, Morgan Stanley, Eli Lilly, Verizon, Home Depot, General Dynamics,** and Trillium Asset Management Corporation's successful engagements with- **General Electric, Hewlett-Packard** and at **American Electric Power,** where we joined Green Century Capital Management in filing resolutions.

All of the companies agreed to board oversight of their political spending. In a first, General Dynamics agreed to report and have its board oversee those payments to trade associations that are used for political purposes, setting a precedent followed by GE, HP and American Electric Power. Previously, company disclosure and board-level oversight was limited to soft money contributions to candidates and parties, stopping short of trade associations and 527s.

Why the progress? As Andrew Shalit, Director of Shareholder Advocacy at Green Century Capital Management, remarked, "Full disclosure and oversight of political contributions is a basic good business practice. It costs very little to implement, it increases public confidence, and it reduces the risk of abuse."

Companies also recognize a groundswell when they see one. The political disclosure resolution was one of the top three vote-getters last year. Support averaged 22% at 29 companies where the proposal came to a vote. This year, twenty-four institutional investors working with the Center for Political Accountability filed shareholder resolutions with 44 companies for the 2007 proxy season. This year's resolutions focus more on trade association spending. Seven companies have reached agreements with shareholders already, and a dozen more companies are in dialogue.

Corporate involvement in the public policymaking process isn't something that we or the other resolution proponents oppose on principle. Corporations have sometimes taken very public stands that we agree with (for example, championing affirmative action, and calling for federal regulations imposing greenhouse gas caps). But when they're spending shareholder money, they ought not be hiding behind their trade associations when taking policy stands. That's what makes *us* break out in a cold sweat.

*"Full disclosure and oversight of political contributions is a basic good business practice. It costs very little to implement, it increases public confidence, and it reduces the risk of abuse."*

- Andrew Shalit, Green Century Capital Management

# Strategic View: The Transformational Power of Sustainability

**By Adam Seitchik, CFA**

That business activity is conditioned by social norms has been recognized by the strongest promoters of the free market system, from Adam Smith to Milton Friedman. Over 35 years ago, Friedman stated that a corporate executive has direct responsibility to the owners of the business, "while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom." And over time, ethical customs change. It wasn't that long ago that companies operated with virtually no oversight or expectations regarding fair hiring practices, sourcing of labor and goods, the treatment of animals, or the environmental consequences of their products and processes.

Societal norms about appropriate business behavior continue to evolve. The post-war period of strong unions and paternalistic corporations gave way in the 1980s to radical restructuring, and in the 1990s to a narrow obsession with maximizing shareholder value. The emerging paradigm of sustainability is a welcome shift in norms about acceptable corporate practice.

At the deepest level, adopting the ethos of sustainability is an opportunity for both personal and social transformation. Sustainable capitalism embraces the individual pursuit of happiness within the context of strong preferences for social justice and environmental health. Indeed, sustainability ties personal human wellbeing not only to material wealth but also to the vibrancy of our planet's social and ecological systems.

It is heartening to see companies that have been so narrowly focused on short-term profits embrace sustainability as a new organizing principle. At a recent conference on social investing, I heard a plenary address from a Wal-Mart Director of Corporate Strategy and Business Sustainability. Wal-Mart has set admirable environmental goals for itself: "to be supplied 100 percent by renewable energy; to create zero waste; and to sell products that sustain our resources and our environment."

No doubt, this is really good news. However, long-term sustainability requires a paradigm shift, a rethinking of Wal-Mart's basic business model of maintaining high profit margins by squeezing suppliers and workers. The speaker left scant time for dialogue, but there are a number of pressing issues. Take, for example, the company's big push into organic food and clothing. As Wal-Mart ramps up its commitment, will it cut corners or pursue truly sustainable commerce? Trillium Asset Management Corporation has taken the lead on an investor letter to Wal-Mart asking for written responses to specific questions regarding 1) the "food miles" generated by its organic imports, 2) steps to promote the vitality and sustainability of small organic farms, 3) incentives to convert its non-organic food and fiber suppliers, 4) standards for the treatment of animals, 5) commitments to strengthen the USDA's organic oversight program, 6) questionable organic standards for products sourced in China, and 7) Wal-Mart's commitment to public reporting around its organic program.

The ladder rising up from destructive growth to transformational sustainability has many rungs, both social and environmental. We at Trillium Asset Management Corporation cheer the initial steps companies like Wal-Mart are taking and say: keep climbing!

***Dear Reader** (continued)*

price action, no matter the reason. This is not just an incomplete measure, it's dangerous.

As I write this, Carl Icahn is attempting to gain a seat on Motorola's board of directors. Icahn made his billionaire fortune in large part because of Michael Milken's junk bonds. If you were in the industry in the eighties you might remember him – hardly a hero. Now, with his money intact (not being one of those who actually went up the river in the eighties) he owns casino properties, pieces of big things everywhere, and at one point tried to take over Marvel Comics. Icahn's goal with Motorola is to use all their cash (that's *all* their cash) to buy back shares to make the stock go up, since weak earnings have driven it in the other direction. As of year end that looks like around $6.5 billion, some of which might be better used to develop and market a hot new cell phone. By the strict, conventional "shareholder value" yardstick, massive share repurchase alone might make possible windfall compensation for Motorola CEO Ed Zander (who earned a relatively modest salary and bonus of $3.5 million in 2005, plus stock awards) in a time when Motorola is suffering from lack of competitive product in a highly fickle market.

But I digress. My point is that in awarding executive compensation, if companies measured sustainability of the corporation (defined by its role in protecting its own community and the Earth on which it resides in addition to financial success), the word "performance" would take on a new and long term brilliance.

Sincerely,

Joan L. Bavaria

Joan L. Bavaria, President
Trillium Asset Management Corporation