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SEC Proposals Threaten Shareholder Advocates' Right To File Resolutions

by Shelley Alpern

The cicada is a locust-like insect that emerges from a long hibernation every umpteen years to create an incessant buzzing across the country. Equally annoying in death as in life, when spent, cicadas drop from trees *en masse*, littering once-pleasant lawns and parks with piles of crunchy carcasses.

Ten years ago, the Securities and Exchange Commission (SEC) floated proposals for public comment that, if implemented, would have drastically curtailed shareholder rights. Like a cicada, the critics of the shareholder proposal process have resurfaced with different, but equally dismaying ideas. In 1997, the story had a happy ending. After a barrage of support for the extant system, the SEC shelved its proposals. This time around,

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Corporate Responsibility's Changing Fortunes:
An Interview with Journalist Marc Gunther

by Steve Lippman

Last summer, the cover of *Fortune* magazine blared the provocative question, "Can Wal-Mart Save the World?" (You read right, that's "save the world" not "pave the world.")

The writer behind the magazine's thoughtful examination of **Wal-Mart**'s expanding environmental initiatives was Marc Gunther, a senior writer at *Fortune* who became interested in the field of corporate responsibility in 2001 after writing a cover story about the role of religious faith in the workplace. (Gunther expanded that piece into a 2004 book titled *Faith and Fortune: How Compassionate Capitalism is Transforming Corporate America*.)

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From the President

The Current Sub-prime Tsunami

by Joan Bavaria

I bought my first house for $32,000. My father lent me the money for the 20% down payment, which was $6,400. The financing bank was a local one, and did not sell the mortgage. But that was a long time ago, not just in years but in the evolution of the world of finance and real estate.

Even as we who make our living in financial services struggle to understand the dimensions and impact of the current sub-prime tsunami that has rocked markets around the world, there are thousands of lives that are tragically altered, and their stories do not make headlines dominated by the huge mortgage companies, banks and brokerage firms that created the greed-driven implosion and now whine about their own fate. For many of the hapless homeowners facing much higher payments than they'd bargained for within a disappearing housing market, there is no local bank with which to bargain. Their mortgage might well be "owned" by a large institutional investor as one miniscule part of a bond or other instrument sold by a broker.

One of the stories proved close to home when a friend told me that her mother and sister had received an "acceleration notice" for the mortgage on their suburban house, which is worth around $300,000 and has a mortgage of $130,000 and a home equity loan of $40,000. The 75-year-old mother lives on $500 social security, and the sister was recently laid off from her job – the mortgage

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Fighting Poverty, Protecting Biodiversity in Honduras

by Lisa Leff, CFA

I spent my summer vacation being educated and inspired on an eye-opening trip through the Honduran rainforest as a new board member of the EcoLogic Development Fund.* EcoLogic is a U.S.-based nonprofit dedicated to community-led sustainable development that strengthens the conservation of rural Latin American's unique and threatened biological diversity. (Some readers may recognize the EcoLogic name from the microcredit loan fund they originated, which has since gone independent and is now known as Root Capital.)

EcoLogic's mission is to protect Latin American biodiversity while alleviating rural poverty: lofty goals that aren't always seen as congruent, even within the conservation community. For 14 years, EcoLogic has pushed the envelope towards these goals through its work with local partners to provide direct assistance to more than 5,000 rural poor communities who steward more than six million acres of ecologically significant habitat in Mexico and Central America.

EcoLogic founder and executive director Shaun Paul explains the link between poverty and conservation: "We live in a world of growing inequity. The poor are growing poorer. And in parallel, we are finding the areas of great natural heritage on the planet are continuing to be eroded. If we're going to protect some of these places important for their natural resources and biodiversity, we need to find solutions that respond to the needs of local people." To see these solutions at work, our group headed to Honduras, a country facing myriad problems: widespread and often extreme poverty, a thriving illegal timber trade that has led to large-scale deforestation and watershed degradation, and an ineffective government failing its people in providing basic services like clean water.

The EcoLogic projects we visited are giving rural communities the opportunity to participate in determining the use of their natural resources and the direction of economic development. We met community leaders winning battles to build clean water systems that also protect the local watershed, visited villages proudly promoting cleaner-burning adobe stoves and saw new techniques for "agroforestry" – a land-use method that integrates trees into agriculturally productive landscapes, in this case growing small-scale crops for harvest – as an alternative to slash-and-burn agriculture.

Bosques Pico Bonito, EcoLogic's new and most ambitious initiative, was the highlight of the trip. The project aims to reforest over 6,200 acres of denuded Honduran rainforest by planting 1.2 million trees, which will store 1.4 million tons of carbon and provide sustainable livelihoods in over 20 local villages representing more than

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* Adam Seitchik of Trillium Asset Management Corporation also visited Latin America this summer. You can read about his adventures in Peru on the back page of this issue.

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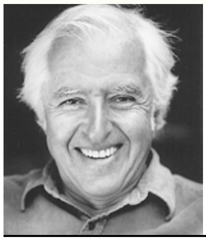

Now You Can Hire an Advertising Agency to Spread Your Social Responsibility Messages

It Seems to Me

by Milt Moskowitz

I have been a journalist for virtually all my working life, except when I took up residence at the J. Walter Thompson Company from 1963 through 1967, then the largest and one of the oldest advertising agencies in the land. I didn't write any ads. I put out a weekly internal newsletter and represented the agency to the press.

I had the run of the place, and it was a fun job. Every time a new account came in, there was a big celebration. Once, during a blackout in New York City, an art director yelled out: "Uh oh, I guess we lost the Ford account."

Thompson was obsessed at the time with trying to keep up with the cultural and social trends of the 1960s. A conservative, stodgy institution (for example, the agency refused to handle any wine or liquor accounts), JWT was uncomfortable with the new art scenes, sexual mores and the civil rights movement.

One of the reasons I was there was to help move the company into the modern world, and it occurred to me that it might be smart for JWT to get clients to start social responsibility programs or at least adopt a social responsibility stance in their ads so that they would be more in sync with the activists demanding social changes. That idea had the impact of a feather on a steel girder. JWT, I was informed, had enough to do introducing the new Ford Mustang, getting people to take pictures using Kodak film and burnishing the image of Pan American World Airways without fooling around with la-di-da concepts like social responsibility.

So I resigned from the agency and began publishing a newsletter, *Business & Society*. Maybe those guys knew what they were talking about. My newsletter's circulation peaked at 750, and I shut it down in 1974.

You can imagine how intrigued I was this summer to learn about JWT's unit, Ethos JWT, which develops social responsibility campaigns for clients. Of course many things have changed since 1967. JWT no longer wants to be called J. Walter Thompson – it's just JWT now. And it is now part of the London-based media conglomerate, the **WPP Group**.

When Ethos JWT was set up four years ago, its clients came from the nonprofit sector. But now it has tapped into a much richer vein: designing and shaping social responsibility campaigns for corporations. Among its clients are the big British bank **HSBC**, the giant pharmaceutical house **Merck** and the Canadian restaurant chain, **Tim Hortons**. Business has been brisk. In the first half of 2007 billings at Ethos JWT were up 40% over 2006.

Ethos JWT does more than craft ads. *The Wall Street Journal* noted that it reviews the operations of a client and figures out how social responsibility programs can be integrated into its business. One of its assignments for Tim Hortons is to develop a program to educate farmers in Colombia, Brazil and Guatemala on how to take better care of their lands. The goal is to leverage social responsibility as a marketing advantage, distinguishing companies from their competitors.

It's not exactly new for companies to portray themselves as paragons of virtue. This tactic has been particularly deployed to expunge a malodorous reputation. **Dow Chemical** is currently engaged in such a crusade. The company still known for the production of napalm and Agent Orange (even though it hasn't made those products for more than 25 years) is running big color spreads in magazines to trumpet its new philosophy, called the Human Element. By looking at life through the eyes of the Human Element, the Dow ads say, "You see things, for the first time, quite clearly.… You see the potential for solving human problems. New thinking and new solutions for health, housing, food and water."

I don't have any doubt, from what I have seen and heard, that Dow is a far better company today, with a heightened sense of environmental sensitivity, but its previous record lingers. And that's the issue in ads touting social responsibility. How much is rhetoric and how much substance?

I still believe that there's nothing wrong in urging companies to take a stand for social responsibility in its public pronouncements. But they had better have something to back it up. Unlike those earlier times, today we have a research infrastructure to authenticate claims and hold companies accountable.

Good luck, Ethos JWT.

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)

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we cannot take another success for granted because the stakes are too high. If successful, advocates for change will eliminate the federal government's role in protecting the rights of investors to file shareholder resolutions and allow companies to create their own weak, or even nonexistent, mechanisms to govern the process. Investors will not be able to file resolutions to change company bylaws to permit director nominations. Accordingly, the socially responsible investment community is mobilizing vigorously to fight any rollback of investor rights.

Heads I Win, Tails You Lose

In August, the SEC floated two proposals for public comment.[1] Both deal with proxy access very differently, reflecting deep division among the five commissioners.[2] The Republican-supported proposal would disallow any resolutions regarding the election of corporate board directors (or "proxy access" resolutions). The alternative, reluctantly supported by the Democratic commissioners, would allow shareholders to nominate directors, but only if they collectively represent at least 5% of a company's stock. In an unusual move, Chairman Chris Cox voted in favor of both to prompt public debate on a range of options, while also indicating that he supported some form of proxy access.

If successful, our adversaries will eliminate the federal government's role in protecting the rights of investors.

Neither alternative is acceptable. Democratic Commissioner Ann Nazareth called the second a "non-access" proposal because of the practical impossibility – for reasons too lengthy to discuss here – of organizing a coalition representing 5% to file a shareholder resolution. Both would stymie for good the growing support among shareholders for proxy access proposals, which received over 40% on the ballots of **HP** and **UnitedHealth Group** last spring.

The second proposal also requests comment on whether companies should be able to opt out entirely from receiving *any* non-binding resolutions – posing a potentially devastating threat to socially concerned investors.

Non-binding resolutions constitute 95% of all resolutions filed, according to the Investor Responsibility Research Center – and 100% of the resolutions filed by Trillium Asset Management Corporation ("Trillium") and our peers in the socially responsible investment field. Without them, we wouldn't have had the high-impact campaigns of South Africa, sustainability reporting, diversity, political contributions and hundreds of lesser known resolutions that spurred corporate change, many of which we have written about in these pages. Unsurprisingly, many on the other side of the table would like to be rid of them once and for all. SEC Commissioner Paul Atkins said advisory resolutions detract from primary business operations and that their proponents' "represent the tyranny of the minority...[using their] economic interest to hijack the agenda of all investors."

Lowlights of the SEC's Proposals

The opt-out option. The SEC is seeking comment on whether a company should be allowed, with shareholder approval, to opt out of the resolution process, or even, if their state of incorporation allows it, to have the board vote to opt out (and most state corporation laws do permit directors to alter their bylaws without a shareholder vote). In theory, this would create two universes of companies for investors – those respectful of shareholder input, and those with better things to do than listen to their owners. In reality, the latter would surely dwarf the former, forcing investors to turn to more confrontational methods to raise their issues.

The chat room proposal. The Commission puts out for comment the idea that the inclusion of shareholder resolutions on proxy ballots could be replaced by companies with an "electronic petition model." Everything is wrong with this suggestion. To start, companies would not have to respond to the proposal, so voting shareholders would have no clues as to the company's view on a particular issue, and neither management nor board is obligated to give it the slightest bit of attention. Second, ex-

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1. In 2006, the American Federation of State, County, and Municipal Employees (AFSCME) sued American International Group (AIG), the insurance giant, for access to the proxy ballot after AIG omitted its resolution seeking a bylaw change to allow proxy access to nominate directors. The court ruled in favor of AFSCME, and challenged the SEC to either start allowing such resolutions or provide a rationale for omitting them.

2. By statute, three commissioners are appointed from the majority party, and two from the minority.

Resolutions In Jeopardy *(continued)*

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cept for the requirement that the web resolutions contain no "false or misleading" material, any subject could be addressed, guaranteeing a flood of resolutions that investors would find impossible to wade through, thus depressing voter turnout. Third, voter turnout is likely to be low anyway; who besides John Mackey[3] frequents company chat rooms?

Chat rooms are a non-starter unless they become an addition to the current mechanism, not a substitute.

Resubmission thresholds. Also up for grabs: raising resolution resubmission thresholds from 3% in the first year, 6% in the second year, and 10% every succeeding year to 10, 15 and 20% respectively. These higher thresholds would have squelched numerous resolutions that took time to gain support because shareholders needed time to study them. For example, climate change resolutions garnered only single-digit support when introduced ten years ago, but now receive 20–30% routinely.

If the resolution process is gutted, management and directors are likely to turn a deaf ear to all but their biggest shareholders. Of the 1,400 resolutions filed each year, one-quarter to one-third are withdrawn, mostly due to successful agreements between investors and management. These agreements range from strong substantive commitments that produce real changes in policy or practices, the disclosure of previously hidden information, commitments to further dialogue, and sometimes simply agreement to disagree. In any of these circumstances, much is learned by both sides. In our twenty-odd years of shareholder advocacy, the staff at Trillium can personally testify to dozens of positive relationships with companies that were jumpstarted by shareholder resolutions. Shareholder resolutions are responsible for the Ceres memberships of **General Electric**, **Sunoco**, **Baxter**, and **Bank of America**, to name a few. They have produced enhanced nondiscrimination policies at over fifty companies. These are commitments that corporations routinely boast about in their public relations material. Yet it remains a sad reflection of some corporations' insularity that it too often requires a resolution to get in the door.

The SEC needs to hear from all of us who have ever filed, voted in favor of, or benefited from a shareholder resolution. We must vociferously object to these proposals and insist that no rule changes be voted upon until the seat vacated this summer by Democratic Commissioner Roel Campos is filled.

For model letters to the SEC and Congress, visit www.SaveShareholderRights.org. To view comments already submitted to the SEC, visit http://sec.gov/comments/s7-16-07/s71607.shtml.

3. John Mackey is the CEO of Whole Foods, who made headlines this summer when his online alter-ego was exposed making highly questionable statements in a Yahoo! chat room.

Fighting Poverty, Protecting Biodiversity in Honduras *(continued)*

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1,000 people. The Kyoto Protocol's Clean Development Mechanism approved Bosques Pico Bonito's methodology for the accurate measurement of carbon sequestered by tree-planting, making it the fourth forestry-based project worldwide whose methodology was approved.

Bosques Pico Bonito and similar projects may come at a fortuitous time, as the markets are placing new and explicit monetary value on "ecosystem services" like carbon sequestration and clean water. With Bosques Pico Bonito, EcoLogic has tapped into the emerging carbon offset markets, taking advantage of new financial incentives for rural communities to benefit from conservation initiatives. EcoLogic has also applied the ecosystem services concept to water, initiating a project in Mexico whereby resorts in Acapulco will pay indigenous people living upstream for watershed protection – a win-win for the environment and local communities.

I left Honduras with a new awareness of the intense challenges for the Honduran people and their rich but endangered natural resources. I also brought home new hope from seeing EcoLogic projects on the ground, and how innovative solutions for battling poverty while protecting natural resources really can work.

An Interview with Journalist Marc Gunther *(continued)*

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For the last year, Marc has carved out a full time beat writing about the impact of business on society for *Fortune* and in a weekly column for *CNNMoney.com*. For my money, Marc is one of the very best journalists writing about the world of corporate social responsibility, but don't take my word for it, judge his work for yourself at http://www.marcgunther.com.

A longtime friendly observer of the field of socially responsible investing, Marc agreed to answer questions and share some of his perspectives for this issue of *Investing for a Better World*.

IFBW: The tagline on your website/blog is "Corporate America: Making the World a Better Place... Or Not." On balance, do you think corporate America is making the world a better place?

I think we are in the middle of a remarkable moment when it comes to what society expects of business and how business is changing to meet those expectations. Business is fundamentally a responsive institution and is responding to customer pressures, employee desires, and new regulation as the social expectations of business are rising.

It's not that today's CEOs are in any way nicer or kinder people than the CEOs of 20 or 30 years ago. The changes are occurring because you can't be successful as a company in the U.S. today if you are perceived as being out of step with where the country is going. If you are Wal-Mart and if you are perceived as not helping solve social and environmental problems, it's going hurt your business. That's encouraging to me because it suggests that the whole movement to reform business in its many forms is a very powerful movement and even a company as big as Wal-Mart can't resist. I give a lot of credit to NGOs and social investors who work to push business in a more progressive direction.

The whole movement to reform business in its many forms is a very powerful movement and even a company as big as Wal-Mart can't resist.

Whether you look at environmental issues, social issues like labor rights down the supply chain, workplace issues like the treatment of gay and lesbian employees, in all these areas we really have seen quite dramatic changes in corporate America in the last five to ten years. I'd argue that business is way out ahead of the political establishment in terms of dealing with the big global issues that we all worry about, like global warming, poverty and healthcare. Washington seems paralyzed and polarized, while business actually seems able to make decisions.

However, particularly on the environmental side, the question is whether business is changing fast enough to deal with the scale of the problem. I think the answer is no. To deal with our environmental problems, we certainly have to consume differently and it's my sense that we probably have to consume less, and yet business is all about selling us more.

IFBW: You write for mainstream business publications primarily: *Fortune* and *CNN Money*. How do your editors and readers typically respond to the stories you write? What aspects of the CSR agenda do they find most persuasive and about what do they seem most skeptical?

It's interesting because when you write about corporate responsibility, it's hard for people to put you into an ideological pigeon hole. Sometimes I get e-mails from liberals telling me I'm much too trusting of business and on the same column I'll get e-mails from conservatives telling me it's not **Dell**'s problem to worry about electronic waste and asking why I am holding them accountable for that. I position myself politically as a pro-business progressive, though I don't know if that's an oxymoron or not.

Among the business press in general, I think there's a lot of skepticism about CSR, though I don't think a lot of it is well thought out. Often you'll hear people say, "Why is that corporate responsibility? They're just doing it to make money," as if those two things were somehow in conflict.

Partly it's a problem of language. I happen to think it is cor-

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An Interview with Journalist Marc Gunther *(continued)*

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porate responsibility for **GE** to sell water desalinization equipment even if they make money doing it. I think perhaps we should move from the language of corporate responsibility to the language of "sustainability."

Sustainability is living your life or running your company in a way that leaves the world better off when you are done than when you started. More specifically it means protecting the resources we have for future generations and also encompasses issues of social fairness and social justice. To be truly sustainable, a person, company, or economy can't exist in a highly volatile or unstable world, so sustainability means figuring out how to deal with issues as far reaching as global poverty and AIDS.

I think it's a very powerful word because it will hold companies and individuals to very high standards in terms of how they go forward, but it's also a word that is becoming acceptable in the business world. It takes into account profits as well as preserving the environment and doing good for the world.

If sustainability is a goal for corporations, I think that leads the conversation to interesting places, because I don't know of any corporation of any scale that is today conducting its business in a sustainable way. Virtually all of them are consuming resources and fossil fuels that are in limited supply, virtually all of them are creating waste. So if you talk about sustainability, you are pushing business in what I think is a radical but also a useful direction.

> *Washington seems paralyzed and polarized, while business actually seems able to make decisions.*

IFBW: A year ago you wrote a story about both the promises and limitations of Wal-Mart's green initiatives. What's your latest thinking about how people who care about sustainability should think about Wal-Mart? How seriously is the company moving down the path towards sustainability?

A year after writing that story I feel as strongly as I did about their good intentions but I have some doubts about their capacity to get things done as quickly and effectively as they would like to. My impression is that they have not put the resources behind their environmental initiatives to get where they want to go.

More generally, I think Wal-Mart is struggling to find a balance as they try to do the right thing for their customers, employees and the rest of us. Low prices is their DNA and I think that's what got them out of whack, because I think they squeezed their employees and suppliers to deliver low prices. The challenge for them is seeing if you can change your DNA to have a more balanced approach to the business.

IFBW: So far, 2007 has seen a surge of interest in climate change in particular, but broader sustainability issues as well. Are we in a green bubble likely to pop or a permanent shift in how mainstream society expects businesses to operate?

You ask if we are in a green bubble likely to pop or a permanent shift in the way society expects businesses to operate, and I think the answer is yes, both. There was an internet bubble in terms of media attention and investment dollars from 1999 to early 2001, then the bubble popped, the froth went away, but we're still obviously in a world where the internet matters more than ever. I think we're going to see the same thing around environmental and sustainability issues. I'm sure there will be startups that fail, I'm sure there will be people that lose money investing in ethanol, but I also think once you start going down the road, you can't really turn back. Once you've taken environmental issues seriously and really looked at what's going on, it's hard not to stay concerned.

PowerShares Global Clean Energy Portfolio (PBD)

www.powershares.com

by Eric Becker, CFA

The PowerShares Global Clean Energy Portfolio (PBD – AMEX) is a global clean energy exchange traded fund (ETF) that was launched in June. It is significantly more diversified than the PowerShares WilderHill Clean Energy Portfolio (PBW), which was launched in early 2005. That makes it the best single security for investors to gain exposure to the booming market for clean energy. The underlying index (the WilderHill New Energy Global Innovation Index – NEX) contains 87 stocks versus 43 in PBW. Because it is able to own shares of foreign companies that don't trade on U.S. exchanges, PBD offers a much more comprehensive picture of the clean energy marketplace. Germany and Japan have been major players in clean energy development, with Spain rapidly joining the top ranks.

PBD includes companies focused on the generation and use of cleaner energy, conservation, and efficiency. WilderHill divides the sector into the following categories: demand side energy savings (8% of sales), generation efficiency and smart distribution (6%), hydrogen and fuel cells (4%), power storage (2%), solar (23%), wind (27%), biofuels, biomass and waste-to-energy (12%), renewables–other (11%), and services and suppliers (7%).

Keep in mind that the clean energy space remains volatile, responding to overall energy prices, public policy, and the movement of global equity markets. So PBD is likely to see its share of sharp ups and downs.

PHILIPS

Royal Philips Electronics

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by Laura McGonagle, CFA

Royal Philips Electronics (PHG – NYSE) is a European conglomerate based in the Netherlands and is one of the world's largest electronics companies with sales of €27.0 billion in 2006. The company holds over 80,000 registered patents, illustrating its innovative nature. Philips' main operating divisions are medical imaging (25% of sales), lighting (20%), domestic appliances and personal care (9%) and consumer electronics (39%).

Philips is using the cash from the divestment of non-core businesses on (1) a large share repurchase program, (2) raising its dividend 30%+ at the end of 2006 and (3) acquisitions that strengthen its four core divisions. Acquisitions over the past two years include three companies on Trillium Asset Management Corporation's approved list – Color Kinetics (LED lighting), Intermagnetics General (MRI magnet systems and superconducting technology), and Lifeline Systems (elderly alert systems) – all good little companies we are sorry to see gobbled up. But the fact that Philips bought them indicates the company's focus on emerging growth businesses.

Philips has a strong sustainability profile. The company is the world's largest lighting manufacturer and promoting energy efficient lighting is among its top priorities. This spring the CEO of Philips' lighting division supported the Dutch government's effort to phase out incandescent light bulbs. Philips is a leading producer of compact fluorescent bulbs and with its acquisition of Color Kinetics is now the leader in even more efficient LED lighting systems. According to KLD, Philips emphasizes energy efficiency as a fundamental consideration for non-lighting products as well as internal operations. In 1994, the company launched its EcoDesign program to minimize product weight, reduce packaging, increase recyclability and lifespan, and optimize energy efficiency. Products that meet these criteria are part of the Green Flagship line, which accounted 6.6% of 2005 revenues. Product examples include cadmium/lead and mercury-free phones, flat screen TVs that use 39% less energy and residential solar systems.

Self-Help

by Randy Rice

FINANCIAL INDICATORS

Financial Indicators for Self-Help Credit Union

FY 2005		FY 2006	
Total Assets	$241,746,331	*Total Assets*	$274,564,184
Total Liabilities	$211,685,433	*Total Liabilities*	$238,374,820
Net Assets	$30,060,898	*Net Assets*	$36,189,364
Loan Portfolio	$169,895,985	*Loan Portfolio*	$206,958,359
Loan Loss Reserves	$2,283,366	*Loan Loss Reserves*	$2,430,239

History/Overview

Self-Help Credit Union (SHCU) is a federally insured, state-chartered credit union located in Durham, North Carolina. Since its founding in 1984, SHCU's mission has been to help build assets, creating opportunities for families and their communities. As a federally recognized community development financial institution, SHCU uses interest-bearing deposits, such as Certificates of Deposit (CDs), to make home and commercial loans to help those that cannot obtain financing from conventional lenders. SHCU programs have assisted minorities, women, rural residents, and low-wealth families to buy homes, to build businesses, and to strengthen communities.

For loans closed in 2006, 29% of SHCU's borrowers were women and 80% of borrowers were people of color. Seventy-four percent of borrowers had a household income at or below 80% of the area median income.

Programs

SHCU's deposit products include savings, money market, CD, and IRA accounts. ATM cards connected to money market accounts provide nationwide ATM access, and can be used without fee at select ATM machines in NC. SHCU recently merged with three full-service retail credit unions in Wilson, Laurinburg, and Wilmington NC.

SHCU has multiple loan programs that include real estate development, secondary market mortgage financing, home mortgage lending, small business lending and community facilities lending.

Through its secondary market program, Self-Help (The umbrella organization that includes SHCU, Center for Responsible Lending, Self-Help Ventures Fund, and the recently merged credit unions) works to increase the flow of money available for fair mortgages in the sub-prime mortgage market by partnering with **Fannie Mae**, the Ford Foundation, and mainstream lenders.

Policy & Advocacy Work

Self-Help uses its experience in lending and community development to inform its positions on public policy issues, and is a strong advocate in the national community development and credit union fields. Self-Help continues to fight predatory lending practices that strip wealth from low-income families. The affiliated Center for Responsible Lending uses Self-Help's lending experience to recommend practical solutions to predatory lending abuses in legislative and regulatory arenas.

Self-Help has lead the effort to expose the dangers of sub prime "exploding" adjustable rate mortgages to Congress and regulators and authored widely cited reports on sub-prime mortgage foreclosures, overdraft loans, and payday lending.

Impact

Since its founding, Self-Help has financed $5 billion in loans to 55,000 homeowners, small business owners, and nonprofits in North Carolina and around the country. In 2006, Self-Help provided $500 million in financing to 4,262 individuals and organizations nationwide. Self-Help helped 4,000 families finance the purchase of their homes. Self-Help's small business and nonprofit borrowers created or maintained more than 2,430 jobs and 2,685 childcare and public charter school spaces in North Carolina and the U.S.

Investing with SHCU

Trillium Asset Management Corporation ("Trillium") purchased its first CD, on our client's behalf, with SHCU in 1991. Over forty Trillium clients are currently invested in SHCU CDs. Many of our clients invest in specialized CDs to support targeted lending in childcare services and environmentally responsible organizations and projects. Child care and environmental CDs pay the same, market competitive, interest rates as SHCU's standard CDs.

On behalf of our clients, Trillium will purchase SHCU CDs of at least $5,000 for a term of not less than two years. There is a $25.00 fee to join SHCU.

Reach Out and Hush Someone

by Steve Lippman

AT&T's *Blue Room* entertainment site provided a webcast of the Lollapalooza music festival in Chicago in early August. Well, it aired most of the festival. Fans noted that the audio went silent for several anti-Bush lines sung by Pearl Jam front man Eddie Vedder. AT&T apologized, calling the incident a one-time mistake that violated its policies against political censorship, but then had to retract that statement when dedicated fans reported that AT&T had also muted numerous other artists' political comments in Blue Room concert webcasts. *Wired News* reported that a crew member on the August 5th Lollapalooza Blue Room broadcast said, "I can definitively say that at a previous event where AT&T was covering the show, the instructions were to shut it down if there was any swearing or if anybody starts getting political." (Tellingly, perhaps, the monitors seem to have done a better job with the political part of those instructions than the swearing part. The Future of Music Coalition found 20 instances of the F-word that weren't muted in the Lollapalooza webcast.)

As AT&T shareholders, we sent a strong letter of concern calling on the company to fully review and publicly report on incidents of Blue Room censorship to help shareholders, consumers, regulators and legislators understand why this incident occurred, and to ensure the company can prevent similar incidents in the future. AT&T has promised us a formal response to this request, which we're still awaiting as we go to press. We also shared our concerns about the issue with the Open Media and Information Companies Initiative (OPEN MIC), a media research and advocacy group that Trillium Asset Management Corporation incubated for two years and which has now spun off as an independent project of the Tides Foundation. OPEN MIC issued a press release on the issue that gained traction across the blogosphere.

All this would be troubling enough, but AT&T has taken a lead role lobbying Congress and regulators to ensure it has greater powers as a gatekeeper of information flows across the internet. In a political compromise, the Federal Communications Condition imposed "net neutrality" restrictions on **SBC** and AT&T when they merged, temporarily preventing the new telecom giant from restricting or discriminating against content delivered by its networks. The FCC has also adopted general net neutrality principles that have been used to prevent phone companies offering internet service to block their customers from access to competing online phone services like **Skype**.

AT&T has lobbied fiercely against net neutrality protections, arguing that it should have the right to charge big content providers a premium for their use of AT&T's networks. In making this argument, they've always assured policymakers and the public that they would never interfere with content passing through its pipes. But AT&T censorship of Pearl Jam and other artists' Blue Room webcasts raises troubling doubts about how AT&T might misuse its gatekeeping power.

Censorship of Pearl Jam and other artists' Blue Room webcasts raises troubling doubts about how AT&T might misuse its gatekeeping power

AT&T is not the only company that bears watching. The major Canadian telecom company **Telus** blocked its customers from seeing a union website and other sites supporting its workers involved in a labor dispute. **AOL** blocked all emails that mentioned a website fighting the company's proposed pay-per-email pricing plan. In both cases these blockages were brief, and the companies claimed they were mistakes, just as AT&T claimed its Pearl Jam censorship was a mistake. But as the internet plays an increasingly central role in our daily lives, the real mistake seems to be trusting companies as gatekeepers with the power to determine what we can read and see on the internet.

Putting China On the Spot for Sudan

by Shelley Alpern

Trillium Asset Management Corporation ("Trillium") will be working with two nonprofit organizations this fall to keep up the economic pressure on the Government of Sudan (GoS).

The "selective divestment" model – developed by the Sudan Divestment Task Force adopted by Trillium – focuses on companies in strategic sectors, whose tax payments or royalties provide major revenue for the GoS. The sectors include oil and gas, electric power, or telecommunications. The model involves engagement with companies before determining whether to divest, depending on whether the investor believes that on balance, the economic and social benefit they provide to all Sudan's citizens outweighs the pernicious uses to which the government may put their taxes.

To date, direct governmental sanctions and diplomatic pressure have failed to result in real security for Darfur. Many observers believe nothing will change until China is forced to abandon its role as the Sudanese government's enabler. Two Chinese companies, **Sinopec** and **CNPC** play a major role in Sudan's oil industry (CNPC is 100% owned by the Chinese government and is the controlling shareholder in **PetroChina**, which does business in Sudan). China also furnishes arms to the GoS.

Shareholder activists are using two strategies to bring corporate pressure on China.

The first is to encourage the largest investors in Chinese oil companies (and the two other dominant foreign oil companies, **Petronas** of Malaysia and **ONGC** of India) to review their relationships with these companies as direct investors or through other financial transactions. We are encouraging them to engage with these companies (as well as any others in critical sectors that they have relationships with) and urge them to thoroughly respond to situation in Darfur. In short, we're asking them to do as we are.

In May, Berkshire Hathaway's annual meeting turned into a forum for debate on whether the firm should divest from PetroChina.

We're also asking corporate sponsors of the Beijing Olympics to pressure the Chinese government to exert its influence on Sudan, lest the 2008 games go down in history as the "genocide Olympics" the way that the 1936 games are remembered as a showcase for Nazi Germany. Staff from the non-profit Dream for Darfur have met with Chinese government officials twice this summer, who shrugged off any responsibility for Darfur. "We presume that's what the Chinese officials will tell Olympic sponsors as well," said Ellen Freudenheim, the campaign's corporate sponsor outreach coordinator. "But there are actions that the Chinese government could, indeed must, take – and we hope corporate sponsors, instead of being pacified, will push for concrete steps leading toward peace." Dream for Darfur is asking corporate sponsors to put pressure on the Chinese government and the International Olympics committee.

In May, **Berkshire Hathaway**'s annual meeting turned into a forum for debate on whether the firm should divest from PetroChina. Chairman Warren Buffett argued that divestment would do no good because "subsidiaries have no ability to control the policies of their parent... Are **Freddie Mac** and **Fannie Mae** responsible for the activities of the U.S. government?" Surely not. But would the U.S. government pay attention if foreign investors started giving Fannie and Freddie a hard time? I think so – maybe even the current administration. In any event, three months later, Berkshire sold off nearly 17 million shares in PetroChina. Buffett insisted it was just for the money, and perhaps it was. But days later, the UN passed a Chinese-brokered resolution authorizing a UN force of 26,000 to police Darfur. It's enough to give you hope – which Darfurians need, because the implementation of that resolution is already going badly awry.

Strategic View:
What Fair Trade means for Alejandro and Élida Maldonado

by Adam Seitchik, CFA

This summer I had the honor and the privilege to live for several days with Alejandro and Élida Maldonado, who own a small coffee farm in northern Peru. I saw first hand how fair trade is improving their lives, and those of 25 other families in the tiny village of Santa Rosa.

We climbed through the desert up to Santa Rosa on potholed dirt roads in a rickety van sponsored by Equal Exchange, the fair trade import cooperative. (Here, finally, was a place that could use SUVs, and of course they have none.) The farmers and their families greeted us like brothers and sisters and spoke from the heart about their difficulties and their dreams for their children. They apologized for the simplicity of their hospitality, while we, embarrassed, spoke of the richness of their lives well spent, and what we have lost in Western consumer culture. One of the dignified farmers inexplicably broke down and cried, overwhelmed by the magnitude of this visit from the Norte Americanos who bought and financed his coffee crop. It was a powerful emotional experience for all involved. More than anything, we wanted to show the farmers our respect for their work, and our commitment to them as human beings connected to us through a long and complex global food chain.

Élida and Alejandro Maldonado with Adam Seitchek in Peru.

We awoke in their dirt-floor house at six to a cacophony of donkeys, dogs and roosters. I hiked up with Alejandro to his small plot. The steep, shaded terrain and high altitude necessary for quality coffee precludes mass production. In Peru alone there are 150,000 coffee farming families with an average plot size of only five acres. Woven bags slung over our shoulders, we searched for coffee plants with ripe "cherries." After a morning of picking we shelled and washed the raw beans, setting them out to dry and cure in the warm sun.

Just a dozen years ago Alejandro and his colleagues were selling their raw beans into the local market at low and volatile prices. Representatives from the newly formed export cooperative Cepicafe convinced the farmers of Santa Rosa to join them, and since then their quality of life has progressed significantly. Cepicafe sells 70% of its coffee into the fair trade market, and *commercio justo* ("just commerce") has made all the difference. Cepicafe provides higher, more stable revenues, since fair trade prices don't fluctuate with the underlying coffee market. It also provides access to credit, so farmers are not forced to sell at rock-bottom prices to generate income, and has been crucial in providing agronomists and other technical support to the farmers of Santa Rosa.

Beyond pricing and productivity, the greatest impact of Cepicafe and fair trade has been on social development. A small percentage of fair trade revenue is captured as a "social premium," which the farmers invest as they see fit. Higher prices and the social premium have financed better health care and education. Alejandro and Élida's oldest son works as a chef, their daughter is studying technology and another son is exploring opportunities in tourism.

There is plenty of additional potential supply for fair trade. If we simply create the demand, one day all trade can be *commercio justo*.

From the President

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and home equity loan together cost $1,662. They have missed two mortgage payments, and now they are told they owe the entire mortgage amount – payable immediately. They are lucky – their house is worth more than they owe, and they've put it on the market, but there are no buyers, because few banks are willing to lend. It's likely that the house will be auctioned for the amount of the mortgage, leaving my friend's mother and sister with none of their equity in the house. The combination of unscrupulous brokers and too-easy money created real victims.

Ours, however, is an age of stark contrast and an income gap that is as wide as it's ever been in this country. *The New York Times* reported in April that "in 2006 the top 25 hedge fund managers earned $14 billion – enough to pay New York City's 80,000 public school teachers for nearly three years... unlike the dot-com billionaires who saw their fortunes collapse with the tech bubble, the gains on hedge funds... are huge cash payouts that most managers then reinvest in their funds." Even as the crisis continues to unfold and people are fighting to hold onto their precious homes, these same hedge fund managers are fighting to hold onto tax breaks that allow them to bring home billions of dollars a year.

Although, undoubtedly the latest greed-driven crisis will run its course in the gargantuan global financial system, the greed itself remains. The challenge for those who believe in sustainable, responsible investing is ever greater.

Joan Bavaria, President
Trillium Asset Management Corporation