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Chevron Liability in Ecuador Pollution Case Approaches \$27 Billion

Court Judgment Expected This Year

by Shelley Alpern

Five years ago, I had the privilege of getting a firsthand look at the evidence in one of the most important lawsuits being heard anywhere in the world. The exhibits are a number of oily pits and ponds scattered throughout the state of Sucumbios, Ecuador, right in the middle of the Amazon rainforest. The contamination is allegedly the work of Texaco, the first petroleum company to break ground in Ecuador in the early 1970s. The court case is being heard in Lago Agrio, a sad-looking town whose many ramshackle buildings look far older than their age due to the ever-present rain and humidity. Poverty is everywhere. Contrasted with the lush jungle surrounding it, the whole town stands out like a very sore thumb.

The lawsuit *Aguinda v. Texaco* was first filed in 1993. The defendant is Chevron, which acquired Texaco in 2001. The com-

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Betting on the Farm: Sustainability Reporting Reaches the Agricultural Sector

by Susan Baker Martin

Twenty years after the launch of Ceres catalyzed sustainability reporting in the industrial sector, several efforts are underway to bring sustainability measures and reporting to agriculture and food production, and not a moment too soon. The agricultural industry's industrialized processes are wreaking havoc on our planet and our health. Agriculture accounts for one third of all anthropogenically produced greenhouse gases emitted and it does so inefficiently, to boot: fifty years ago, ten calories of energy produced 23 calories of food; today, the same ten calories produce just one calorie of food sold in supermarkets.

Food reform is a complex task that will require voluntary and

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Dear Reader

by Cheryl Smith,
Ph.D., CFA

The first daffodils of spring just opened beside my house. The sight of these spring flowers always engenders a spirit of newness, of freshness, and of hope after the excessively long New England winter. This year more than ever, I need that sign of hope.

For at least 50 years, as transaction and trading costs have fallen, world financial markets have become increasingly focused on the short term, and the expectations for acceptable quarterly returns have moved ever higher. Profit's share of national income has reached new heights. Over the past 15 years, the determined drive for ever higher returns, aided by increased leverage, produced Long Term Capital Management, ever more esoteric asset backed securities, and a credit default swap market with only a tenuous connection to the underlying bonds. With the hubris of unlimited faith in their elaborate mathematical models, and aided by increased financial market deregulation, Wall Street traders built up an unsustainable structure of interrelated claims and credits, and reaped gargantuan bonuses. Ever-increasing income and executive pay fueled competitive consumption, expressed in bigger houses, bigger boats, and bigger cars.

After 18 long months of stock declines, and the slow realization of the huge systematic risks in credit markets and the financial system as a whole, the U.S. public is battered and just plain weary. Layoffs and unemployment are increasing, consumers have retrenched, and financial and



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Keeping the SRI in ESG

by Lisa Leff

Big changes are underway in the world of socially responsible investing (SRI). In just the past five or so years, mainstream Wall Street has reversed course from its long-standing claim that SRI can only hurt financial returns, to embrace the idea that environmental and social issues can have a direct impact on financial performance.

The Wall Street shops are defining their approach as “sustainability” or “ESG” (environment, social and governance) investing. Goldman Sachs recently launched GS Sustain, as “a unique global equity strategy that brings together ESG criteria, broad industry analysis and return on capital to identify long-term investment opportunities.” Mercer, one of the world’s largest investment consultants, built its global Responsible Investment team to “integrate ESG considerations into investment management processes in the belief that these factors can have an impact on financial performance.” UBS has integrated sustainability themes into both its Wealth Management and Global Research divisions, launching products like the UBS Eco Performance equity fund. The former head of Goldman Sachs joined forces with Al Gore to form Generation Investment Management, a firm founded with “an investment approach based on the idea that sustainability factors – economic, environmental, social and governance criteria – will drive a company’s returns over the long term.” No doubt, the current tumultuous market has presented some bumps in the road for some

of the firms involved, but almost certainly the theme of sustainability investing is here to stay.

This is all very positive news for the investment community at large and indeed the planet. These ideas – that people and the environment matter to profits – are just what we’ve been advocating for years! What’s really exciting is there are now more resources and depth to ESG research than we’ve ever had access to before.

But this mainstreaming of sustainability investing also presents something of a threat to longtime SRI practitioners. The new sustainability shops have worked hard to differentiate themselves from traditional SRI – that is, *us*. The claim is that the new ESG approach improves upon traditional SRI in that it is forward-looking and focused on uncovering investment opportunities in a more sustainable world, without being hampered by negative screening and without taking on controversial shareholder advocacy.

The fact is, forward-looking ESG research is far from new to us. SRI practitioners have been researching and incorporating sustainability concepts into our investment practices for years. For nearly three decades, our research has been focused on the intersections between ESG issues and financial performance – we just didn’t call it that. As we see it, SRI firms have really been providing what could be called “ESG Plus” – adding client-tailored screening, change-making advocacy and high impact community investing on top of our sustainability-focused investment methodology. These

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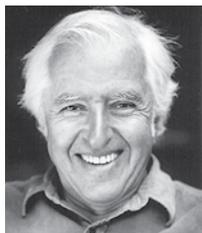


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It Seems to Me by Milton Moskowitz

My stepson worked for 17 years at Bear Stearns before it disappeared last year into the bowels of JPMorgan Chase in the shotgun marriage arranged by the U.S. government. He is doing very well today, taking time off to consider his options. He misses the excitement of deal making. His major deals involved structured financial products collateralized by mortgage-backed securities, the root cause of the current upheaval in the economy. AIG was his top client.

Bear Stearns was not a company that made it into the portfolios of social investment companies, despite having one of the most innovative philanthropic programs in the business world. Every senior manager at Bear was required to prove, every year, that she or he had donated at least 4% of their income to charities of their choosing. Charities such as the United Way and United Jewish Appeal are said to be devastated by Bear's collapse.

The culture of Bear always fascinated me, and it is artfully delineated in William Cohan's book, *House of Cards: A Tale of Hubris and Wretched Excess on Wall Street*. Cohan traces the last days of the firm in rich detail, distilled from interviews he conducted with 16 former employees, and many who chose anonymity. He tells it so well that even though you know how it turns out, you are swept along with the suspense as all-night deliberations rattle on.

It's not clear that Bear Stearns had to die. The firm fought to the end to maintain its franchise. But when you are leveraged 30 to 1 and rumors start to circulate that other banks do not want to lend to you, it doesn't take long for the curtain to fall. In fact, it took only two days in the second week of March 2008 for Bear Stearns to see that, after 85 years, it had no future.

Some of the adjectives often used to describe Bear Stearns were: scrappy, aggressive, quirky, independent, cut-throat, street brawler. Went their own way. Didn't pay a lot of attention to the niceties. The top echelon was studded with champion bridge players.

One insider interviewed by Cohan contrasted Bear Stearns with Goldman Sachs. At Bear, if they just did a deal with a customer, a trader might say: "I just ripped that f---er's head off."

Bear Stearns Remembered: New Book Captures the Culture of a Wall Street High-Flier

At Goldman, they would say about the same deal: "That was a very attractive and commercial price [we] purchased those securities at and I think we will have a very interesting economic opportunity in the near future."

Cohan's book is full of interesting tidbits like that. Jimmy Cayne stepped down as CEO in January 2008 but stayed on as chairman. In March, Cayne decided not to wait for the formal sale to JPMorgan and opted to sell his 5.6 million shares for \$61 million. Although he had worked at Bear for 39 years, Cayne, at that point, was no longer technically an employee. Ace Greenberg, who had hired him and was Bear's CEO for 15 years before Cayne deposed him in 1993, was still working for the firm – and he charged Cayne the non-employee commission of \$77,000 for that sale; an employee would have to pay only \$2,500. And so it goes.

Was Bear's free-wheeling culture the reason for the firm's demise? That's hard to say. Every other investment banking firm was behaving in the same manner. The final verdict in Cohan's book goes to Alan Schwartz, the last CEO of Bear. He said: "I'm sure we will figure out how to prevent something like this from happening in the future. Wall Street is always good at fighting the last war. But these things happen and they're big, and when they happen everybody tries to look at what happened in the previous six months to find someone or something to blame it on. But, in truth, it was a team effort. We all f---ed up. Government. Rating agencies, Wall Street. Commercial banks. Regulators. Investors. Everybody." (Of course it's somewhat self-serving to blame others when the finger is pointing at you.)

My stepson puts it more succinctly: "Wall Street is all about greed. It was that way in the past. It still is. And it probably will be in the future." 

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)



Betting on the Farm (continued)

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regulatory action along the entire food supply chain. Change, which has been a long time coming, seems to be in the air – members of Congress have been spotted with Michael Pollan's *The Omnivore's Dilemma* in their hallowed corridors, and who can guess how many organic gardens Michelle Obama's White House efforts will inspire?

This article examines a few of the newest initiatives to establish consistent metrics for measuring the sustainability impacts of agriculture, measurability being the prerequisite for setting goals and evaluating progress toward them.

The Stewardship Index for Specialty Crops

In 2007, the Natural Resource Defense Council (NRDC) began to explore ways to build a sustainability model for the food industry that could garner broad support. Tapping into existing certification programs looked desirable, but was rejected upon closer examination because their uptake rates were unremarkable. Instead, thirty environmental and public interest groups, growers, trade associations and buyers including **Heinz, Sysco, and Wal Mart** bought into a metric-based sustainability model and formed a coordinating council to develop the Stewardship Index for Specialty Crops (SISC). The coordinating council identified 15 areas that are material to fruit, vegetable, nut and horticulture farming and processing, including pesticide use, GHG emissions, water quality, worker health and safety, and fair pricing. SISC has recruited 180 organizations (including Trillium Asset Management Corporation) to sit on 'metric review committees' charged with recommending sustainability measures for each category. It's an ambitious undertaking, but many growers who joined the process are motivated to make this inclusive stakeholder initiative productive. Some have remarked that current reporting systems burden growers with an array of redundant and often conflicting requirements. If industry can solve the problems and demonstrate improved performance using its own verifiable measures, the thinking goes, then growers can avert increased regulatory pressures.

One practical contribution of SISC is an interactive tool that gives growers access to a desktop score card of pesticide-related risk to animals, workers and human health; multiple scenarios using different pesticides; soil properties and weather condi-

tions. An apple farmer considering various pest management options, for example, could use the tool to choose the best options for reducing or eliminating pesticides. A long-term goal for SISC is to allow growers, processors and buyers who use the SISC sustainability model the ability to market their efforts and outcomes to consumers.

Field to Market

Field to Market, a project of the Keystone Alliance for Sustainable Agriculture, began in 2006, and like SISC brought a diverse group of stakeholders to help define and encourage the use of sustainable processes in their crop sector. Field to Market's goals are to (1) identify criteria for sustainable agriculture that are open to a diversity of technologies, and (2) support the processes that will lead to broad performance improvements against these criteria. Participants include **Cargill, General Mills, Kellogg Company, National Corn**

Growers Association, The Nature Conservancy, University of Arkansas, University of Wisconsin-Madison, World Resources Institute and the World Wildlife Fund.

Again, the issue is getting the metrics right. For example, water use for crops and livestock may need multiple metrics, to account for irrigated and non-irrigated systems and other variables that affect the amount of water used per unit. Otherwise, a single metric for water could muddy the factors behind the enormous variability in water embedded in the entire lifecycle of a crop.

Field to Market is measuring the environmental impact of growing corn, cotton, wheat and soybeans – 'king' crops that cover nearly three-quarters of all U.S. cropland. Each crop's impact on land use, soil loss, water use, energy use and climate impact is measured. The program has released preliminary data that gives insight, albeit limited, into the environmental footprint of agriculture. For example, according to its metrics, the overall impact of growing corn, cotton and soybeans has shrunk by meaningful levels over this period. Interestingly, however, while wheat's impact on soil, land, energy and water held steady for the most part over the last 20 years, the climate impact increased noticeably. This can be attributed to increased use of nitrogen-based fertilizers, and indicates that much more attention is needed to reduce the carbon footprint of wheat.

A long-term goal for SISC is to allow growers, processors and buyers who use the SISC sustainability model the ability to market their efforts and outcomes to consumers.



Betting on the Farm (continued)

GRI Food Sector Supplement

The Global Reporting Initiative (GRI) operates with a vision that economic, social and environmental reporting should be as routine as a company's financial reporting. More than 1,500 companies are now organizing their sustainability reports using the GRI framework. The forthcoming *Food Sector Supplement*, developed with twenty stakeholders ranging from **Archer Daniels Midland** and **Bunge** to the World Fair Trade Organization and the Union for Conservation in Nature, will

provide companies with another tool for addressing the environmental and social impacts of food processing.

As these efforts reveal, we are just at the beginning of creating something reasonably close to a sustainable agricultural system that can affordably feed our growing population without destroying soil fertility, depleting water resources, exposing workers to dangerous chemicals, and polluting waterways. How much of a contribution these initiatives can make remains to be seen. 

The Carrot Project

Investors interested in making an immediate and direct impact on organic and sustainable agriculture need look no further than the newly launched "Strolling of the Heifer Fund for New England Farmers." This loan fund is the brainchild of the non-profit Carrot Project. The project's focus is to support small- and mid-sized family farms by joining together community-based lenders, investors, nonprofits and farmers to create alternative financing programs that keep farmers in business. Investors accept lower rates of interest, thereby creating pooled capital that can back loans to qualifying farmers.

This spring, the Carrot Project partnered with The Strolling of the Heifers and Chittenden Bank, both based in Vermont, to build a \$150,000 pool of investor funds, including investment clients of Trillium Asset Management Corporation. Initial loans of \$1,000 to \$10,000 will go to Vermont and Western Massachusetts farmers and over time expand throughout New England.

Farmers in the Northeast are often denied financing because of inadequate credit history, collateral or cash flow. Other small farmers have difficulty finding lenders because banks avoid making small loans due to their higher administrative costs. This is the entry point for The Strolling of the Heifers. Fund administrators provide technical support and financing options. In a nutshell, lenders get to know the borrower, as it used to be, thereby creating a lower risk environment for investors.

The loan fund supports farms that use (or aspire to use) sustainable or organic methods, market some portion of their products to local markets, have 250 or fewer acres in active production, and earn annual gross revenues no greater than \$250,000.

This investment vehicle gets to the heart of rebuilding a U.S. agricultural system that offers stability to local farms and communities, provides healthful food, and reduces environmental impact.

~ Eric Becker, CFA

Keeping the SRI in ESG (continued)

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"plus factors" are essential to our approach, and for the long-term, we remain committed to keeping the SRI in ESG.

But as the world of financial services restructures, it may be the opportune time for traditional SRI firms to collaborate with Wall Street's new sustainability initiatives on the ESG mission we have in common. Our experience, dedication and long-term perspective on issues like climate change, water scarcity, poverty, and executive pay, combined with the larger firms' deep research capabilities and resources could be a powerful force. Indeed, at what may turn out to be a critical inflection point in history, by working together the investment community could play a critical role in defining the path to sustainability. 



Chevron Ecuador Pollution Case (continued)

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pany is charged with polluting hundreds of sites from Texaco's operations in the 1970s and 1980s. Texaco spent \$40 million in the 1990s to clean up contaminated sites per an agreement with the Ecuadorian government, and the two parties declared the site remediated in 1998. But an international team of lawyers is representing thousands of indigenous residents and settlers in a civil suit, claiming that the pollution is responsible for the region's rising rates of cancer and other serious illnesses, and that the cleanup was sloppy, inadequate and fraudulent.

"This is an epic case," Sean Hecht, the director of the University of California at Los Angeles's Environmental Law Center, told the *Wall Street Journal* in April. "The sheer size of the money involved also explains why a company like Chevron will continue to fight this as long as possible."

No one disputes the existence of the contaminated sites, but virtually everything else in this case is in dispute – who is responsible for creating them (Chevron blames its former partner Petroecuador), how unclean the sites are, and whether they bear the blame for the health problems in the area. The vitriol between the two sides has played out in the courts, media, and through intense lobbying of non-judicial branches of government.

Advantage Plaintiffs

Chevron has unquestionably greater resources than the defendants, but its deep pockets have thus far failed to secure it any advantage in winning this case. Indeed, *Aguinda v. Texaco* can only feel like a minor headache that exploded into a migraine.

- **Lossing bid for arbitration.** In October 2008, Chevron was denied by the U.S. Court of Appeals for the Second Circuit in its motion to force Ecuador out of court and into binding arbitration. Any judgment against Chevron in Ecuador will be enforced in the United States, per the ruling of the U.S. court that decided the venue in 2002.
- **Damages Estimate Increased to \$27 Billion.** It's hard to believe that five years ago, when a consultant hired by the plaintiffs estimated that the cost to finish cleaning up the contaminated sites could go as high as \$6 billion, the amount seemed shockingly large. The Ecuadorian court's appointed expert now assesses damages at \$27 billion and estimates that the number of cancer deaths from oil contamination to be greater than 1,400.
- **Fraud charge.** In September 2008, two Chevron lawyers were indicted in Ecuador for alleged fraud in the remediation effort. The indictment argues that this remediation

was not conducted adequately. Chevron maintains that the indictments are politically motivated. Chevron also asserts that it cannot get a fair trial in Ecuador, a point not without merit, given Ecuadorian President Rafael Correa's open support for the plaintiffs.

A final judgment is expected in 2009. The losing party will have the right to appeal to an intermediate court and then to Ecuador's Supreme Court. Chevron has pledged to appeal should it lose in this round. However, its refusal to consider settling the case has only backfired in the court of public opinion.

David v. Goliath

Aguinda v. Texaco has taken a sustained toll on Chevron's reputation. As played out in the media, the case might as well be named David v. Goliath. Hundreds of articles have covered the story worldwide, with long features sympathetic to the plaintiffs in venues as diverse as *Vanity Fair* and *Outside* maga-



Photo: Shelley Alpern

The underground spring that feeds this tub is the only source of clean water for this Cofan village

zine. A documentary about the case, *Crude*, premiered at the Sundance Film Festival earlier this year, and *60 Minutes* featured a segment in May 2009. In large part due to its perceived refusal to take responsibility for Texaco's misdeeds in Ecuador, professional corporate reputation watchers have found Chevron to be one of the most mistrusted companies in the world. In December, Chevron ranked fourth among five North American companies singled out by the research and consulting firm ECO:FACT for the year 2008.



Chevron Ecuador Pollution Case (continued)

Chevron has fought back with its own PR offensive, and is aggressively exerting pressure on the U.S. to revoke Ecuador trade privileges. But it has an uphill political battle to fight with the change in administrations. In 2006, then-Senator Obama and colleague Senator Patrick Leahy wrote to the U.S. Trade Representative:

... seek[ing] your assurances that the U.S. Trade Representative will not allow negotiations over the Andean Free Trade Agreement to interfere with a case involving Chevron.... While we are not prejudging the outcome of the case, we do believe the 30,000 indigenous residents of Ecuador deserve their day in court.

For what it's worth, the lead American attorney for the plaintiffs played basketball with the president at Harvard Law School. Chevron remains undeterred. One of the company's lobbyists told *Newsweek*, "We can't allow little countries to screw around with big companies like this."*

Showdown in San Ramon, Part V

This April, for the fifth year, shareholders will have a chance to weigh in on Chevron's handling of *Aguinda v. Texaco* by voting on a shareholder resolution sponsored by the New York City Pension Funds, Trillium Asset Management Corporation, the Pennsylvania Treasurer's office, the New York State Comptroller and Amnesty International USA. Collectively, the proponents held 14.4 million shares of Chevron stock at the time they filed the proposal. The proposal calls upon the company to prepare a report "on the policies and procedures that guide Chevron's assessment of host country laws and regulations with respect to their adequacy to protect human health, the environment and our company's reputation." In prior years, this proposal has received about 9% of the vote.

Chevron's annual stockholder meeting in San Ramon, California, routinely draws protestors and celebrities (Bianca Jagger, Darryl Hannah) eager to draw attention to the company's unresolved environmental and human rights issues all over the globe where it operates. Last year's meeting drew 75 protestors in hazmat (hazardous material) garb, equipped with brooms to "clean up" Chevron's pollution in Ecuador and its nearby refinery in Richmond, CA. The company's gatekeepers will look for every technical loophole possible to keep unhappy shareholders out of the meeting. Once inside the meeting, CEO Bill Reilly will ruthlessly enforce the two-minute limit for share-

A handful of children crouched at the water's edge, shyly anticipating our arrival, as our investor delegation pulled up in canoes at the small rainforest village of 350. From Lago Agrio, it had taken us 45 minutes by van and another hour by canoe to reach this village, with its two dozen thatched huts – plain except for the shaman's, painted with red and white stripes.

Some 500 years ago, the Cofan numbered 16,000. Today 1,500 are left. This village is one of five remaining, as oil drilling, deforestation, and disease have taken the rest. The Cofan are one of the parties suing Chevron.

The entire village had turned out for our arrival. A woman in a yellow and red peasant blouse and a blue and green sequined skirt told us Texaco came in 1969. Before, the Cofan territory spanned both sides of the river, but now their land was a "little ball," she said. "We feel we are being squashed; we are contaminated and sick."

Now, they told us, the fish smells like oil, and they can't eat the monkeys because they have skin rashes and disease. They eat food from cans now, a fact that was jarring, obscene, amid the lushness of the jungle. The village's only unpolluted water source is a large blue bucket fed by a pipe rigged from an underground spring. People used to collect rainwater in barrels, the woman said, but the rain turned black. They petitioned the government and oil companies about the polluted water sources but were ignored.

An older woman sang to us in her language: "It's sad to even think about how much we've lost. Sad to think how my ancestors used to live. The forest is everything to us, and Texaco has taken away everything we have."

holders' questions and comments – but if past is precedent, the meeting will drag on for hours anyway as the long queue at the microphones gets to have its say. Afterwards, the press will report the resolution as having been 'resoundingly' defeated, even though the supportive shares represent multiple billions under management by some of the country's most prestigious institutions. And we will be left to wonder once more, how many multiples of \$27 billion will it take before a critical mass of shareholders becomes concerned?

* "Chevron Hires Lobbyists to Squeeze Ecuador in Toxic-Dumping Case. What an Obama Win Could Mean," *Newsweek*, 26 July 2008.



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by Alison Haight

Founded in 1897, **Becton Dickinson** (NYSE – BDX) pioneered the hypodermic needle. Today, BDX is a medical device company best known as a producer of needle-free safety products, safe-needle devices, and other surgical tools. BDX also manufactures a wide variety of laboratory research tools and clinical diagnostic tools. The company has four strategic areas of interest: reduction in the spread of infection, advancement of global health, improvement of therapeutic capacity, and progress toward disease management, particularly infectious diseases, cancer, and diabetes. With 28,000 employees working in 212 locations in nearly 50 countries, BDX is a truly global company. In fiscal year 2007, geographic sales were split almost evenly between domestic (48 percent) and international (52 percent) markets. Customers include hospitals, healthcare institutions, life sciences laboratories, clinical labs, biotech companies, and individual users.

Largely attributed to the company's strong management team, BDX is a historically stable company with consistent earnings growth and dividend yields. BDX's strong balance sheet and diverse product mix place the company in a good position during the economic downturn, as medical devices and supplies are often resilient during times of economic uncertainty.

BDX has an annual Citizenship Report and participates in the Carbon Disclosure Project. The research firm Innovest, a division of RiskMetrics, describes BDX as having "one of the most proactive environment programs in the sector." Performance is measured by internal audits at 45 facilities worldwide. The company rewards managers and executives for achieving certain environmental objectives.

In November 2007, BDX and the Foundation for Innovative New Diagnostics (FIND) negotiated a price agreement with 39 low income countries, which lowered the price of tuberculosis diagnostic tests by approximately 50 percent. This partnership is especially important because of the emergence of extensively drug-resistant tuberculosis and because tuberculosis is the most common cause of death in AIDS patients in sub-Saharan Africa.



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by Natasha Lamb, MBA

With all of the turmoil in the financial sector over the past year, one major bank has managed to avoid any bombshells to date – **Royal Bank of Canada** (NYSE – RBC). It happens to be one of the world's best managed banks with respect to sustainability issues, and its stock has held up remarkably well. It is down about half as much as the S&P 500 financial sector over the past year (-27 percent versus -56 percent).

Royal Bank of Canada is a diversified financial services company. It is Canada's largest bank by assets and market capitalization and the largest mutual fund provider. Canada accounts for about 66 percent of revenues, the US 22 percent, and international 12 percent. RBC's strategy includes expansion in the U.S. market and building critical mass in key businesses. RBC is also focused on growing its new Wealth Management segment. It is well positioned to take advantage of a fragmented global wealth management industry.

Royal Bank of Canada is the North American sector leader in sustainability according to Innovest. The company was ranked first in Newsweek's "Global 100 Greenest Companies." Environmental and social factors are integrated throughout the company's business lines, allowing the company to mitigate risk and identify strategic profit opportunities. The company has had an environmental policy in place for more than 15 years, has a Climate Risk Program to monitor risks in its portfolio, is a signatory to the Equator Principles, and uses an intranet tool, Climate Change Central, to allow employees to examine the environmental impacts of their actions.

The company has invested in more than two dozen wind projects, and invests directly in the Global Environment Fund Clean Tech Fund, a private equity fund that finances technologies to reduce the environmental impact of traditional industrial companies.

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by Randy Rice

Cooperative Fund of New England

Overview

A cooperative (co-op) is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Co-ops are also values-based businesses, rooted in self-help, responsibility, democracy, equality, equity, and solidarity.

The Cooperative Fund of New England Inc. (CFNE), founded in 1975, is a bridge between social investors and co-operatives, providing loans and technical assistance to co-ops, worker-owned or democratically managed companies, and nonprofit organizations that meet a defined community need. The organization gives preference to organizations serving low income communities.

CFNE serves the six New England states and the eastern edge of New York State, with outreach coordinators located in various communities across the region. These representatives are the equivalent of business development or loan officers for the Fund.

History

Despite their social impact and contribution to the economy, co-ops often face challenges in obtaining the resources they need to grow and serve their communities better. It was for this reason that a group of co-op activists and social investors founded the CFNE. While the Fund started by lending primarily to food co-ops, its lending market has since expanded to other sectors including worker, farmer, artisan, education and housing co-ops, as well as land trusts and community-based nonprofits serving basic human needs. CFNE gives priority in its lending to cooperatives and other borrowers that serve low income communities and may have difficulty accessing financial resources.

	Loans made as of 12/31/08	
	2008	Since Inception
Loans made	32	443
Dollars disbursed	\$2,059,233	\$16,783,296
Loan loss	0	1.2%
Loans repaid	\$1,233,747	98.8%
Average loan	\$63,726	\$37,856
Smallest loan	\$2,000	\$400
Largest loan	\$400,000	\$400,000

Loan and Investment Products

CFNE provides term loans and lines of credit to finance the purchase of real estate, business assets, inventory and materials, leasehold improvements and working capital. Borrowers must be incorporated entities that match the mission of the Fund and are located within its service area.

CFNE is in the final stages of launching the Cooperative Capital Fund of New England (CCF), a separate but affiliated organization. CCF is an investment fund that invests in cooperative businesses in the form of "patient capital" or equity-like financing. CCF helps cooperative enterprise to grow and flourish by providing capital that acts like equity without requiring co-ops to give up control over their own management and destiny, as traditional venture capital might.

Impact

From inception in 1975 through December 31, 2008, CFNE had made 443 loans totaling \$16.7 million. Eighty-five percent (by dollar volume) of the Fund's loan portfolio has been devoted to cooperatively owned and managed enterprises. Over the last five years, CFNE's financing has assisted in the creation or preservation of 1,258 cooperative housing units and 1,424 jobs in cooperatives and nonprofits. CFNE has had a positive change in unrestricted net assets in each of the last five fiscal years.

Investing in CFNE

On behalf of our clients, Trillium Asset Management Corporation ("Trillium") made its first investment with CFNE in 1999. Trillium will facilitate client investments in CFNE of at least \$5,000 for a term of not less than two years. CFNE is a member of the Opportunity Finance Network and participates in the CARS Rating System.

Portfolio Profiles are not recommendations for any investment action. They are intended expressly to provide social, environmental and business information on companies that may appear in Trillium Asset Management Corporation ("Trillium") client portfolios. Clients and/or employees of Trillium may own this stock.



The Importance of Being Google's Sustainability Report

by Jonas Kron

Google is a company that we often point to when asked to name companies that address environmental and social issues constructively. The company's RE<C (Renewable Energy Cheaper Than Coal) is a groundbreaking initiative that will help change the power landscape, creating opportunities to advance solar thermal power, wind power technologies, and enhanced geothermal systems. We also are pleased to recognize Google's efforts to cut or offset all of its greenhouse gas emissions at company data centers. Google is on the vanguard of efforts to maximize the efficiency of computers and minimize the environmental impact of the Internet infrastructure we have come to depend on.

Google's taken progressive positions on social issues, such as the unusual step of publicly opposing California's Proposition 8, which eliminated the right of same-sex couples to marry. The company has also taken an important step towards addressing human rights issues in a transparent fashion, by taking a leadership position in the Global Network Initiative. The GNI requires significant new commitments from participating companies, including: establishing greater transparency; assessing human rights risk; training employees; challenging human rights violations; and providing whistleblowing mechanisms through which violations of its 5 principles can be reported (freedom of expression; privacy; responsible company decision making; multi-stakeholder collaboration; and governance, accountability and transparency).

Of course, no company is perfect. Google's new server farm on the banks of the Columbia River in The Dalles, Oregon has entwined the company in the very high profile issue of salmon recovery in the Columbia and Snake River Basin. The attempt to save long-dwindling wild salmon populations in the Northwest is an issue critical to Native American tribes, Northwest citizens, and the region's ecosystem. Salmon restoration science has linked the decline in this once abundant population of fish to the existence of the four Lower Snake River dams – dams whose power could be replaced with more sustainable and less damaging alternatives. We believe the issue around the four Lower Snake River dams presents substantial reputational and financial risks to the company. Thus far, the company has not taken any tangible or meaningful steps to address these issues and position the company to be an active part of a solution.

On the social side, too often Google has been a laggard in efforts to improve privacy protections for its users. Compared to its

peers, Microsoft and Yahoo!, Google retains user data for a much longer time and does not, we believe, take the steps necessary to secure that data from misuse. Google has also resisted calls for it to adopt an "opt-in" versus and "opt-out" model for collecting user data. This puts users in the default position of making more information about their online activities available than they realize or wish.

In light of this history we have raised the issue of corporate responsibility reporting and disclosures with the company in a group letter sent to Google's CEO and co-founders. Surprisingly, Google is out of step with best practices by not publishing a sustainability or corporate responsibility report. Investors increasingly seek disclosure of companies' social and environmental practices in the belief that they impact shareholder value. Many investors believe companies that are good employers, environmental stewards, and corporate citizens are more likely to generate stronger financial returns, better respond to emerging issues, and enjoy long-term business success. A growing number of sell-side research houses and other mainstream investment institutions increasingly concur with this view and seek out environmental, social, and governance information from publicly traded companies (see page 2).

Globally over 2,600 companies issued reports on sustainability issues in 2007 (www.corporateregister.com). Eighty percent of the Global Fortune 250 release corporate responsibility data, up from 64% in 2005, and 73% of the 100 top U.S. companies produce sustainability reports. Microsoft has been providing a sustainability report since 2004, IBM for at least five years, and Time Warner and AT&T since 2006.

A corporate responsibility report would provide an important – and obvious – venue for Google to share many of its successes. It would also demonstrate a level of transparency and engagement with stakeholders that is indicative of a healthy corporate culture. The best reports are honest assessments of where companies stand on important social and environmental issues confronting the company.

We sincerely hope Google takes our letter seriously and begins publishing a meaningful corporate responsibility report. Trillium Asset Management Corporation plans to follow up with Google and work hard to keep the issue high on the company's list of priorities.

Sources: www.corporateregister.com, KPMG International Survey of Corporate Responsibility Reporting 2008.



I'll Have the Soufflé

by Shelley Alpern

In March, nervous that the Employee Free Choice Act being introduced before Congress would depress Wal Mart's earning potential, Citigroup's research division lowered Wal Mart from a buy to a hold recommendation. The bill, also known as EFCA, would make it easier for employees to form unions, and is supported by the Obama Administration.

On page 2, columnist Lisa Leff describes the efforts of some major Wall Street firms to incorporate environmental, social and governance (ESG) factors into their investment decision making. For a while, Citigroup also issued research advice from an ESG perspective, but that office was one of the first to go when Citi's fortunes took a dive last year. Which is too bad, because I can't help but think that Citi's erstwhile ESG analysts would have understood how thoroughly the lowered Wal Mart rating embodies the one-sided and shortsighted thinking that ESG analysis is supposed to steer us all away from. Sure, Wal Mart and some other large retailers' costs will rise if their employees unionize. Would EFCA be a net liability for Wal Mart in the long run if the buying power of workers is strengthened throughout the country?

If studies that link higher unionization rates with a larger, more stable middle class are correct, the answer is no. According to the Economic Policy Institute, declining union density largely explains the stagnation of average wages since the 1970s, despite a rise in productivity. More than half of the decline in the average wage of workers with no more than a high school education is attributed to the decline in union density.* Well before the current crisis, income inequality had been rising steadily for decades and is now greater, by many measures, than it has been since the 1920s, according to the *New York Times*. Citing an analysis by economists Emmanuel Saez and Thomas Piketty, the Grey Lady notes that the top 1 percent of earners in the U.S. made 19 percent of all income in 2005, up from 8 percent in 1975.

Never mind the bank bailouts – it should be obvious that our economy cannot fully recover until we revive the purchasing power of American working families. Consumer activity accounts for roughly 70 percent of the U.S. economy – and 100% of any retailer's revenues.

It seems odd to me that a smart, even visionary man like Bernie Marcus doesn't see how all of this fits together. Marcus, a co-founder of The Home Depot, moderated a controversial conference call about EFCA last fall, whose transcripts became public and revealed the panic in which the Masters of the Universe view the prospects of a resurgence in union membership. It was imperative, Marcus implored, that the business community donate hundreds of thousands, if not millions, to anti-EFCA forces to prevent America from turning "into France." Such hysterical Francophobia brings to mind a scene from Woody Allen's classic comedy *Love and Death* in which a Russian sergeant rallies his troops against Napoleon's army:

Sergeant: *Imagine your loved ones conquered by Napoleon and forced to live under French rule. Do you want them to eat that rich food and those heavy sauces?*

Soldiers: *No...!!*

Sergeant: *Do you want them to have soufflé every meal and croissant?*

I suspect the average Home Depot worker would decline neither the soufflé nor the benefits EFCA would provide. The Act's main provision would allow workers to choose to either hold a secret ballot election (the method currently provided by the National Labor Relations Board) to determine whether to unionize, or to have their union recognized if a majority signs authorization cards ("card check"). EFCA would redress the strategic advantages that employers enjoy as a result of the secret ballot election process (such as the ability to delay unionization for years), and stiffen the lax penalties for those who violate labor laws.

Also in March, **Whole Foods**, **Costco** and **Starbucks** floated a "compromise" proposal that would maintain management's right to demand a secret-ballot election over card check and would leave out binding arbitration, offering instead a fixed period in which an election must be held, and stricter penalties for management and union violations. Labor and Big Business both rejected the proposal, but it found some sympathy from the middle ground-seeking Senator Arlen Specter (D-PA), whose recent defection to the Democratic Party should give EFCA some legs. 

To read more about the Employee Free Choice Act, visit AmericanRightsAtWork.org

* "Are Unions Still a Threat? Wages and the Decline of Unions, 1973–2001," Working Paper by Henry Farber, Princeton University, 2002.

Strategic View: Should We Wish for High or Low Gas Prices?

by Adam Seitchik, CFA

While it's easy to blame paltry U.S. gas taxes on auto executives and the craven politicians who work for them, in fact low gas prices are wildly popular in the United States, particularly among the poorer half of the income distribution. What we environmentalists often have missed in the debate over policy is the pressure felt by struggling U.S. families teetering over a frayed social safety net. Gas taxes are extremely regressive, meaning the poorer you are, the higher the percentage of your income that is affected. Energy costs eat up 15 percent of the poorest households' income, compared to only 3 percent for average households. So the obvious coalition to lobby against higher fossil fuel taxes is an unholy alliance of big oil, auto companies, and poor people.

For environmentalists, it's obvious: we should wish for very high gas prices. The benefits of higher prices at the pump were also clear to the National Surface Transportation and Revenue Study Commission, whose report to Congress last year called for raising the federal gas tax five to eight cents a year for several years and then indexing it to inflation. The U.S. Transportation Secretary immediately renounced the findings, but that was long ago in pre-Obama 2008.

The European enthusiasm for high gas taxes has led to more efficient cars and greater use of mass transit. Yet US federal gas taxes are stuck at 18.4¢ per gallon. Add that to the weak state excise taxes, averaging 20–30¢ per gallon, and the U.S. has some of the cheapest petrol this side of Venezuela.

Clever greens are figuring out ways to recast the politics of pollution taxes. Green for All and the Apollo Alliance are forming

diverse networks that connect improved environmental policy to economic justice and opportunity. Better energy policy may require finding other regressive taxes to cut, offsetting higher taxes on polluting fossil fuels. The most promising choice is the payroll tax funding social security. Unlike income taxes, which poorer people don't generally pay, the payroll tax is 12.4% (split between employer and worker) starting on the first dollar of wage income – but only for the first \$106,800 of earnings. And those rich enough to be living a life of leisure don't pay a penny of this tax. It's very regressive.

Exempting the first, say, \$10,000 of low-income workers' wages from social security taxes would be the equivalent of a \$620 tax cut. A \$1 per gallon federal gas tax (funding social security) would soak up \$620 from someone driving 12,400 miles per year at 20 miles per gallon.* With a payroll tax cut and a gas price increase, a low-income worker could simply keep doing what they are doing, having no net impact on their pocketbook or the funding of social security. However, these higher relative prices for gas would immediately create incentives for all drivers to consider more energy-efficient vehicles, and less costly alternatives such as biking, carpooling, trip combining, walking and mass transit.

So yes, higher gas taxes are still a great idea, and they can make life better for struggling working people, not worse. 

* Maybe less. If gas prices don't rise by the full \$1, the \$620 tax burden is split between the driver and the station owner.

Dear Reader

Continued from page 1

industrial businesses see little prospect for attractive investment. Fear has the upper hand over greed in the markets.

And yet these seismic shifts in economic life are shaking up attitudes of resignation and denial, causing citizens to rethink basic assumptions. In place of a headlong drive to grab ever more while the getting is good, we now have an enforced pause, a time to reflect. The public has begun to understand all that went wrong on Wall Street, and to reject the ideology that led to the crisis. We now have an opportunity to create a more vibrant, just, ecologically beneficial society and economy. We have the opportunity to reframe our expectations and to redefine our measures of success.

We can choose to patch up and repair our existing economic system, and to continue to believe in the myth of the free market. Or we can recognize that sensible and appropriate regulation creates well-functioning markets. Markets, whether for goods, for services, or for assets have always been social constructions. We can institute norms of market behavior and greater transparency, shaping markets to serve human needs rather than shaping ourselves to fit them. It is time to reconsider the paradigm of unrestrained, unregulated growth and think about a more sustainable economy – sustainable levels of growth and development, supported by less inequality in the distribution of income. It is time to shake off resignation and to become engaged in civic and economic life.

We've been working for over 25 years on investing for a better world; one with more equity, a sustainable economy, and a sustainable environment, all leading to living more lightly on the planet. Let those daffodils bloom!



Cheryl Smith, Ph.D., CFA, President
Trillium Asset Management Corporation