INVESTING *for* a BETTER WORLD®

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2008 Advocacy Priorities

by Susan Baker Martin

For the 2007-2008 shareholder resolution season (which roughly parallels an academic year), Trillium Asset Management Corporation ("Trillium") has filed 18 shareholder proposals addressing a wide range of environmental and social justice concerns. Thirteen resolutions on which we are acting as lead[1] filer are highlighted in this article. All the proposals we are involved in are posted on our web site at trilliuminvest.com/our-approach-to-sri/advocacy.

Among its Wall Street peers, **Bank of America (BAC)**'s internal greenhouse gas (GHG) reduction goals look good upon a first read: the bank has pledged that emissions from its own offices will decline 7% from 2004 levels by 2008. Yet the bank finances GHG-intensive coal power plants and mountain top removal (MTR) coal mining projects that feed them. MTR destroys rivers, streams and habitats as well as the tops of

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Business and Water Scarcity: The Reports Are In

by Steve Lippman

Benjamin Franklin wrote, "When the well is dry, we learn the worth of water." Residents of cities around the world are learning that lesson right now. Atlanta risks running out of drinking water before the end of the year if a severe drought holds and the city doesn't take dramatic steps to curb consumption or find new water supplies. On the other side of the globe, some Chinese cities must now dig wells 600 feet deep to find clean drinking water in regions where aquifers were eight feet below the surface just a few decades ago. Millions of residents of Mumbai and Delhi – even those who are comfortably middle class – must wake up at 3 a.m. to turn on their taps in order to capture water that's only available for a few hours a day.

If every cloud has a silver lining (though not enough rain-

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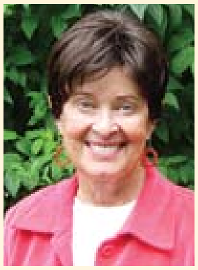
From the President



by Joan Bavaria

I am a battered boss. One of our employees, who will remain nameless, has cajoled, flattered, and even threatened me to write on a certain topic in this quarterly newsletter. [No physical threats were issued. – Ed.] The threatening person in question reports directly to me, so the fact that she gets away with it is a function of something in my childhood I'd rather not examine. To give you a sense of what I've experienced, here's a direct quote:

"If one of us writes about it, it will be in that overly serious, honorific tone that you seem uncomfortable with (although of course, who isn't secretly honored & uplifted by public acclaim?) and that you'll get enough of during the Ceres conference when the award winners are announced. Only YOU can write about this with the perfect mix of humility and gratitude befitting such an honor."

So as directed, I am announcing the first annual *Joan Bavaria Awards for Building Sustainability into the Capital Markets*. The awards will be presented at the Ceres 2008 Conference to be held April 29–30, 2008 in Boston. Failure to covet "honorific tones" does not dim my enthusiasm for these awards, the topics are so important to me. The awards were invented by a group of employees led at Trillium by Blaine Townsend and an equally great group of Ceres staff members.

Two awards may be given each year. The Impact Award will go to an investor, company,

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Oh (Big) Brother

by Michael Connor and Farnum Brown

Comcast, Verizon and **AT&T** need to come clean. These three – and other cable and telephone companies – need to disclose exactly how they make decisions that restrict the freedom of expression of hundreds of millions of Americans, including the limiting of access to the Internet and other information services.

For much of telecom's history, a large body of "common carriage" regulations required companies to be neutral carriers of information. In 2005, however, the rules changed, giving telecom and cable companies much more control over voice, data, audio and video information that passes through the companies' "pipes."

Three recent examples suggest these companies are not yet prepared to handle this new responsibility:

- In August, AT&T censored the webcast of a performance by the rock band Pearl Jam, blocking the audio feed when singer Eddie Vedder ad-libbed some politically pointed lyrics. When confronted, AT&T blamed an overzealous subcontractor but admitted to a "handful" of similar incidents of censorship. The company has since disclosed a new policy that apparently applies only to similar web performances. It isn't saying how its service offerings will apply the First Amendment.

- In September, Verizon Wireless denied a request by Naral Pro-Choice America, the abortion rights group, to use the company's network for a text-messaging program for individuals who had agreed to receive the messages. Verizon said the subject of the text messages was too "controversial." Following a *New York Times* story on the incident, Verizon permitted the campaign, saying its earlier decision had been based on "an incorrect interpretation of a dusty internal policy." Verizon continues to assert its right to decide what text messages are permissible but has yet to disclose on what grounds such decisions will be made.

- In October, the Associated Press reported that its own tests indicate Comcast "actively interferes" with attempts by some high-speed Internet subscribers to share files on peer-to-peer networks. Comcast's interference apparently was both surreptitious and disguised to prevent user detection. Comcast acknowledged that it "delays" some Internet traffic, and customer service representatives were told to say: "We have a responsibility to provide all of our customers with a good experience online and we use the latest technologies to manage our network." Comcast hasn't made public its "network management" policies.

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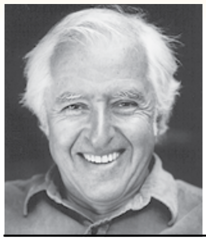

In Memoriam: Anita Roddick

Frizzy-Haired Lady Who Pioneered Social Responsibility in Business

It Seems to Me

by Milton Moskowitz

Anita Roddick, fiery founder of the **Body Shop** cosmetic stores, died last September 11. She was only 64. No one who ever met Anita is likely to forget the passion, energy and dedication that she brought to building the Body Shop into an exemplar of corporate social responsibility. I remember her poking fun at big corporate titans with kindred soul Ben Cohen of **Ben & Jerry's**. They were both more interested in the social missions of their companies than the business mission. They both loved poking fun at big corporate titans.

At her death the Body Shop had 2,000 branches in 53 countries, but it was no longer an independent company. Anita sold the Body Shop to the French cosmetics giant, **L'Oreal**, for $1.3 billion in 2006. Some immediately accused her of selling out. That's about the last thing Anita Roddick would do. She became a consultant to L'Oreal and fashioned herself a "Trojan Horse" who would move the French company in the right direction.

Dame Anita Roddick (as of 2003) made a number of pithy observations about the business world. Most of the following are from her 1991 book, *Body & Soul*:

> *I have no doubt that wealth is corrosive. No matter how sensible I try to be, I think I am corroded by my own wealth.*

> *I hate the beauty business. It is a monster industry selling unattainable dreams. It lies. It cheats. It exploits women. Its major product lines are packaging and garbage.*

> *The trouble is that the business world is too conservative and fearful of change. All this talk about free enterprise, innovation, entrepreneurship, individuality – it's nothing but hot air.*

> *I believe that if companies are in business solely to make money, you can't really trust whatever they do or say.*

> *I am still looking for the modern-day equivalent of those Quakers who ran successful businesses, made money because they offered honest products and treated their people decently, worked hard, spent honestly, saved honestly, gave honest value for money, put back more than they took out and told no lies. This business creed, sadly, seems long forgotten.*

> *Large corporations are trying, bless them. Are they trying hard enough? No, but none of us is because the financial institutions are like fascists and just want a return.*

After some people criticized her for selling Body Shop to L'Oreal, Anita argued on her website that it would probably have been more valid to accuse her of selling out when she and her husband, Gordon Roddick, took the company public in 1984. Anita explained:

> *We then became 'owned' by people who were happy to downgrade our stock at the merest whiff of community trade, who believed that pioneering an end to animal testing in cosmetics was a threat to our share price….That was, I now realize, selling out. To people for whom a brave, idiosyncratic, maverick, fighting for human rights or social justice in business was a threat to everything they stood for.*

Anita Roddick was, in effect, the anti-corporate business leader. She recognized that a lot of people saw the Body Shop "as a flaky organization led by a madwoman with frizzy hair." She did go her own way. She hated meeting with security analysts. She once spoke at a meeting organized by the ad agency J. Walter Thompson – her theme was "Why I would never use an advertising agency." When the Body Shop invaded the U.S. in 1988, the Wall Street Journal quoted a Harvard Business School professor who said the company would need, "at minimum," a major launch advertising campaign. Anita's response was: "I'll never hire anybody from Harvard Business School." And she didn't. And the Body Shop never advertised.

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)

Business and Water Scarcity: The Reports Are In *(continued)*

Water scarcity is an increasingly global issue; it threatens wells like this in the Ivory Coast, as well as major cities such as Atlanta and Mumbai.

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drops), the growing crisis of global water scarcity is finally raising awareness of the need for every sector of society to do more to address the issue. A few years ago, Trillium Asset Management Corporation ("Trillium") commissioned leading experts on global water trends at the Pacific Institute to develop one of the first studies to look specifically at how water scarcity threatens business and what companies should do to alleviate the crisis. Now there's a growing body of additional studies and research focusing on corporate activity in this area.

Drops of Awareness, but a Drought of Action

Increasingly, warnings about the global water crisis are coming not just from environmental groups and community advocates, but from traditional business organizations. Giant insurance broker **Marsh Inc.** has created a new think tank called the Marsh Center for Risk Insights, which found in a September 2007 survey of executives at 100 of the Fortune 1000 companies: "Nearly half (47%) of the executives interviewed say access to water is critical or very important to the day-to-day operations of their company. Forty-one percent say if they were faced with a severe water shortage it would cause a complete or partial shutdown of their business. Amazingly, only 17% have taken any steps to prepare for reduced access to water." (Note that word "amazingly." The Marsh report puts these results under the heading "Water Denial." That's unusually strong language from an organization of staid insurance executives and risk experts.) Neal McGarity, Senior Vice President Corporate Communications for Marsh, told SocialFunds.com: "The global demand for water is increasing. The point is that companies need to plan now for the impact of water shortages on their business operations."

The Marsh study found that companies' water-related costs are climbing, as manufacturers increasingly have to treat their output water as well as the water they use as inputs to their production processes. Nor is this an issue limited to companies in industries with particularly high water consumption. Marsh found that "Even non-water-intensive businesses are being affected as suppliers pass on their own water-related costs."

Another report released this summer fleshes out how companies are reporting on water risks. With financial support from foundations and a small contribution from Trillium and the Interfaith Center on Corporate Responsibility, researchers at the Pacific Institute analyzed coverage of water issues in the corporate social responsibility reports of 139 of the largest companies across 11 water-intensive industry sectors. It identified some areas of progress, finding "The vast majority of companies in water-intensive industries now report water information as standard practice. The few companies not reporting in these sectors are the exception, not the norm." However, they also found many gaps in information they'd hoped to find in the reports they read. Among the elements they identified as missing:

- **Information on companies' water-related risks is not widely reported.** Only one in five mentioned water risks and challenges or describes programs to assess water risks.

- **Quantitative water-related targets are not commonly published.** Only 30 percent of the reports provided quantitative targets, and even these often did not cover all the indicators reported by the company.

- **Supply chain issues are often overlooked.** Only 10 percent of reports mentioned supply chain considerations involving water management. None reported on the actual water use or wastewater data of their suppliers.

Business and Water Scarcity: The Reports Are In *(continued)*

A Wellspring of Solutions

The Pacific Institute and others aren't just criticizing companies for not doing more. They are offering tools and frameworks to help them better manage water risks. The Pacific Institute partnered with Business for Social Responsibility (BSR) to issue a joint report recommending ways companies can begin to think strategically about decreasing their own water use and impacts, and about partnering with others to protect and restore wetlands and other ecosystems that safeguard water resources and biological diversity. (The report, titled *At the Crest of a Wave: A Proactive Approach to Corporate Water Strategy*, is available online at www.pacinst.org/reports/crest_of_a_wave/crest_of_a_wave.pdf.) The study warns that given current global freshwater trends, "The challenge for businesses will be ensuring access to needed water within more competitive contexts while coordinating with, rather than being in conflict with, local community water priorities." The report notes there aren't simple ways to achieve this, but recommends businesses adopt a "multifaceted approach that combines efficiency and conservation measures, innovation at the process and product level, and investments in natural systems that replenish and purify water long into the future."

Trillium reached out to a dozen or so companies in our holdings that we think could contribute the most to a more sustainable water future to better understand what they are doing to manage their impacts and to share these findings with them.

While the Pacific Institute-BSR report lays out a framework for companies to develop a comprehensive water sustainability strategy, the Global Environmental Management Initiative (GEMI) recently released a tool intended to help individual factory and facility managers translate their company's water strategies into action on the ground. *Connecting the Drops Towards Creative Water Strategies: A Water Sustainability Planner* (www.gemi.org/waterplanner/index.htm) contains three modules that help site managers conduct water risk assessments that look at: (1) their facility's specific water needs in comparison to the availability of water in the region, (2) operational impact on available water resources, and, (3) case studies on reducing water use and impacts.

Another tool that seems to offer great promise at bridging both a corporate-wide global perspective and a facility-specific component is the World Business Council for Sustainable Development's new *Global Water Tool* (www.wbcsd.org/web/watertool.htm). The WBCSD launched the tool this summer amid the hydro-hoopla of World Water Week in Stockholm, an annual Mardi Gras of sorts for hydrologists and water policymakers. The Global Water Tool allows companies to plot the location of each of their facilities, offices, and even key sourcing areas onto a global computer map overlaid with water scarcity data. That map can then help companies identify and prioritize areas of current water risk and future risk based on projected water scarcity trends. The tool also provides a framework to compile facilities' water use and discharges to help companies monitor their water consumption and efficiency rates at both a facility and corporate level. The tool was developed by the giant environmental and engineering firm CH2M HILL with input from more than 20 companies across industry sectors. Significant corporate water users like PepsiCo have already begun to use it.

Eager to see these reports translate into positive change in the corporate sector rather than just sitting on the shelf, Trillium has organized a series of conference calls to share their findings with socially responsible investment firms and shareholder advocates. We've also reached out to a dozen or so companies in our holdings that we think could contribute the most to a more sustainable water future to better understand what they are doing to manage their impacts and to share these findings with them. We expect these efforts and others like them are the front end of a wave that will continue to crest in the years ahead.

2008 Advocacy Priorities *(continued)*

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mountains. We are asking BAC to observe a moratorium on all financing of MTR coal mining and the construction of new coal-burning power plants that emit carbon dioxide.

Trillium and Green Century Capital Management[2] are pioneering the first oil sands resolutions at **ConocoPhillips** and **Chevron**, respectively. The oil sands lay beneath Canada's dense boreal forests and are estimated to contain over a trillion barrels of crude oil. The extraction process requires volumes greater water and energy than ordinary oil drilling, endangering the region's ecology and preventing Canada from meeting its Kyoto Protocol commitments. Our resolutions press the two companies to report on the extensive environmental damage that will result from their expanding oil sands operations, and the ensuing impacts on greenhouse gas (GHG) emissions, water resources, biodiversity and indigenous populations.

In the utility sector, we are pressing **Alliant Energy** to adopt incentives that will enable it to profit by reducing greenhouse gas emissions by improving its customers' energy efficiency. Alliant is set to build a new 630-megawatt coal-fired power plant that will emit several million tons of carbon dioxide per year.

For the fifth consecutive year, we are continuing to press **Chevron** on its pollution legacy in the Ecuadorian rainforest and elsewhere. This year, the New York City pension funds became the lead filer of the resolution we filed last year that asks Chevron's Board to report on the policies that guide how the company assesses host country laws and regulations, and their ability to adequately protect human health and the environment.

On the topic of environmental health, we are again asking **Dow Chemical** to establish an independent scientific panel to research and report on the links between Dow pesticides and asthma, in collaboration with the Pesticide Action Network North America.

Working with a shareholder-NGO coalition that formed in response to the massacres in Darfur, Trillium has filed resolutions at **JPMorgan Chase**, **Morgan Stanley** and **Merrill Lynch**, which are among the largest shareholders in foreign oil companies whose business with Sudan finances the government's mass atrocities in Darfur. We've also been in discussion with **Citigroup**. We're asking these Wall Street firms to press the foreign oil companies to persuade the Sudanese government to stop obstructing the deployment of UN peacekeeping forces in accordance with UN Resolution 1769. We are also in dialogue with **Schlumberger**, an oil services firm with operations in Sudan.

Closer to home, Trillium is leading a large coalition of shareholders in a long-running effort to get **Home Depot** to disclose its Equal Employment Opportunity data (a detail of workforce composition by race, sex and rank). This data disclosure is viewed as an effective incentive to spur companies to develop programs to break glass-ceiling barriers.

Since 1995, Trillium has been a leader in promoting corporate sexual orientation nondiscrimination policies. We have filed resolutions at **Expeditors International** and **Pentair**, the only two transportation stocks in our universe who lack such policies, to amend their written equal employment opportunity statement to explicitly prohibit discrimination based on sexual orientation. We are also joining the New York City pension funds in re-filing a sexual orientation policy resolution at **ExxonMobil** – for the 11th year, but who's counting? – that asks the company to adopt nondiscrimination protections for "gender identity" as well.[3]

Shareholders campaigns over the past three years have spurred corporations to adopt a critical piece of governance reform in the form of detailed disclosure of political donations. Relying on publicly available data does not provide a complete picture of political expenditures. Shareholders need complete disclosure to be able to fully evaluate the political use of corporate assets. **Ford Motor** and **General Motors** have yet to improve their transparency, prompting our shareholder resolutions asking each company to disclose its political contributions and payments to trade associations and other tax-exempt organizations (We are the lead filer at Ford and are co-filing with Catholic Healthcare West at GM). We are also in dialogue with **Dominion Resources** and several other companies in this area.

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[1] We often file in coalition with other social investors, and as the word implies, the "lead" filer takes on the organizing role.

[2] Trillium is the sub-advisor for Green Century Capital Management's Balanced Fund

[3] Statutes usually define gender identity as "having or being perceived as having a gender related identity or expression whether or not stereotypically associated with a person's assigned sex at birth." Persons in need of such protections often include (but are not limited to) those who are physically transitioning to, or choose to present themselves as, the opposite of their sex at birth.

Trillium Asset Management Corporation's 2008 Shareholder Resolutions

Climate Change & Environmental Justice	**Bank of America**	Adopt a moratorium on coal financing
Utilities	**Alliant Energy**	Report on impacts of climate change and carbon emission regulations
Climate Change & Biodiversity	**Conoco Phillips**	Report on impacts of oil sands operations
Global standards	**Chevron**	Report on standards for applying corporate environmental policies to overseas operations
Climate change	ExxonMobil	Report on setting GHG emission reduction goals
Toxic chemicals	**Dow Chemical**	Report on links between pesticides and asthma
Animal Welfare	**Lowe's Companies**	Discontinue the sale of inhumane trapping devices
Human Rights – Sudan	**JPMorgan Chase, Merrill Lynch, Morgan Stanley**	Report on establishing guidelines for addressing human rights violations in corporate investment policy
Human Rights – Brazil	Nucor	Adopt policy upholding fundamental human rights with attention to forced and slave labor
Equal Employment Opportunity	**Home Depot**	Disclose EEO-1 data (workforce composition by race, sex and rank)
Equal Employment Opportunity	**Expeditor, Pentair**, ExxonMobil	Implement sexual orientation nondiscrimination policy
Political Contributions	**Ford, General Motors**	Disclose all political contributions
Executive compensation	Citigroup	Give shareholders a "say on pay"
Responsible Lending	**Countrywide Financial**	Develop safeguards against predatory lending

Oh (Big) Brother *(continued)*

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In each of these cases a company with control over large portions of our communications infrastructure actively restricted the freedom of expression of its customers, even though it had no reason to believe those customers were breaking any law or regulation.

As consumers, we have a right to know in advance when and if a service we pay for may be intentionally disrupted by our provider. As investors, we want to know if a telecom company's "brand" is at risk. Does AT&T, for example, have policies and procedures in place to avoid similar PR nightmares? Could it be good for AT&T's stock price that Pearl Jam fans, who number in the tens of millions, now think of AT&T as the company that wants to Reach Out and Hush Someone?

Finally, as citizens of a democracy whose most cherished freedom is that of expression, we should be outraged whenever anyone is silenced without very good and clearly stated reasons.

We're seeking an open, candid and public discussion of the reasons for such actions. Our hope is that such a discussion will lead us to a future where media, information and communication companies profit most by amplifying rather than restricting our freedom of expression.

Michael Connor is Executive Director of Open MIC: the Open Media and Information Companies Initiative (www.openmic.org), a non-profit organization working to promote a diverse media environment through market-based solutions. Farnum Brown is a Vice President of Trillium Asset and Chairman of the Board of Open MIC. A longer version of this article originally appeared in the *Seattle Times*.

Fresenius Medical Care (FMS)

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www.fmc-ag.com

by Natasha Martin Lamb

Fresenius Medical Care (FMS – NYSE) is the world's largest kidney dialysis company, offering both dialysis products and services. It provides dialysis treatment (75 percent of 2006 revenues) at its own dialysis clinics and supplies these clinics with dialysis products (25 percent of revenues). The company also sells dialysis products to other service providers. At year-end 2006, FMS had provided dialysis treatment to approximately 163,500 patients in 2,108 clinics located in over 25 countries.

In a $70 billion global dialysis market, FMS has a leading 30 percent market share in the product market and a 10 percent share in the dialysis service business. In 2006, the company experienced record revenues (26 percent growth) and operating earnings (40 percent growth).

There is a favorable regulatory outlook for the dialysis industry. A possible introduction of bundled reimbursement rates for US dialysis treatments is being explored by the Centers for Medicare and Medicaid services. This policy would result in lower doses of erythropoisis-stimulating agents (ESAs) and higher quality care. Currently, dialysis providers are paid separately for services and drug delivery. Providers are reimbursed based on the amount of high margin ESA administered, which can result in overuse. A bundled rate would incentivize providers to use the lowest dose possible. Additionally, positive reimbursement changes have recently been made in seven European countries.

FMS' products serve a growing population of people with chronic renal failure. Two million people worldwide suffer from this condition and that number is increasing 5–7 percent per year due to greater life expectancy and the prevalence of diabetes and high blood pressure. The company's new generation of dialysis machines have eco-efficient features that reduce the water and electricity required for operation by 30 percent. FMS has an eco-ranking system that measures the resource cost per dialysis treatment so as to improve performance.

Hologic (HOLX)

35 Crosby Drive
Bedford, MA 01730
www.hologic.com

by Natasha Martin Lamb & Benjamin Black

Hologic (HOLX – NASDAQ) is a developer, manufacturer and supplier of diagnostic and medical imaging systems that primarily serve women's healthcare needs through three segments: mammography and breast care (75 percent of fiscal 2006 revenues), osteoporosis assessment (15 percent of revenues), and other (10 percent of revenues). The company recently acquired Cytyc, which dominates the cervical cancer testing market.

Hologic holds a leading market position in breast cancer and osteoporosis detection in the US and stands to benefit from the acquisition of Cytyc, which has 70 percent share of the cervical cancer testing market. This deal will grant Hologic leadership in the women's health care segment and add revenue stability and predictability.

Sales of the company's Selenia digital mammography system units grew 154 percent last year, reflecting an industry trend of conversion from analog to digital systems. Over the past year, industry-wide digital mammography unit sales have grown 91 percent, yet only 21 percent of analog systems have been converted. To further capitalize on this shift, Hologic's pipeline tomosynthesis product will provide 3-D mammography capabilities and represents a significant opportunity for long-run market expansion.

Hologic's revenue growth will be enhanced further by cross-selling initiatives through Cytyc's sales channels, which will greatly expand the company's international presence. Margin expansion is also expected as Hologic's 43 percent gross margins are boosted by Cytyc's 78 percent margins. The consensus long-term earnings growth rate projection is 35 percent.

Breast cancer is the second leading cause of cancer-related death in women in the US. Death rates have declined since 1990 due to earlier detection and treatment. Hologic's digital mammography products provide more accurate detection for some women.

The Vermont Community Loan Fund

by Randy Rice

Vision / Mission

The Vermont Community Loan Fund (VCLF) is a Community Development Financial Institution that provides loans, technical assistance and support for the development of affordable housing, community facilities, local businesses, childcare programs and other projects that benefit low- and moderate-income Vermonters. Their mission is to strengthen Vermont by providing equitable access to capital for affordable housing, community facilities and small businesses.

History

VCLF was formed in 1987 to address the lack of affordable housing in central Vermont. VCLF's first loan, just over $5,000, was made to the Brattleboro Area Community Land Trust in 1988. In 1991, VCLF began lending to nonprofits and in 1995, it began to lend to small businesses.

In 2000, VCLF launched its childcare lending program, an agritourism loan fund and a down payment program for mobile home ownership. In 2003, VCLF began providing direct technical assistance services to childcare providers.

Impact

Since its founding in 1987, VCLF has provided over $45 million through 539 loans, creating or retaining 1,059 jobs, 2,294 affordable housing units, and 1,379 childcare slots in Vermont. Currently, VCLF has over $21 million under management. It expects to lend $7.9 million in 2008.

VCLF's lending programs include:

Child Care Lending

The need for childcare in Vermont currently outpaces its availability by nearly 50 percent. Now in its seventh year of childcare lending, VCLF recognizes the unique challenges in financing the startup or improvement of childcare programs. VCLF provides financing and technical assistance to both home- and center-based childcare providers. Loans are used by providers to achieve professional standards, meet state regulatory and ADA-accessibility requirements, increase staffing or capacity for service, and purchase necessary equipment.

FINANCIAL INDICATORS *(as of December 31, 2006)*

Geographic Impact	Vermont
Total Assets	$19,773,831
Total Liabilities	$14,807,315
Net Assets	$4,966,516
Loan Loss Reserves	$797,169

Nonprofit Lending

VCLF has a long history of working with community nonprofits to help them finance essential facilities. Borrowers include health, community and educational centers, eldercare facilities, and libraries. VCLF has made loans for real estate acquisition, construction, rehabilitation, bridge financing, lines of credit and equipment purchase.

Small Business Lending

VCLF strives to create (and save) livable-wage jobs through business development. They finance local businesses, ranging from production agriculture and agritourism to manufacturing facilities, retail stores and restaurants. This lending provides a benefit to lower-income Vermonters through improved employment opportunities and healthier working communities.

Affordable Housing

VCLF offers financing for single- and multi-family housing and mobile home parks. VCLF can also provide financing for the purchase of mobile homes in nonprofit-owned parks and to private landlords for the safe rehabilitation of affordable rental properties.

Investing with VCLF

On behalf of our clients, Trillium Asset Management Corporation ("Trillium") made its first investment with VCLF in 1997. Currently, our clients have $300,000 invested in VCLF promissory notes. On our client's behalf, Trillium will make investments in VCLF of at least $5,000 for a minimum term of two years.

Uncovering Slavery in Steel

How far up a supply chain should a company be held accountable?

by Susan Baker Martin

In Carajas in Brazil's eastern Amazon region, work is scarce and poverty and lawlessness are widespread. Opportunistic hacienda owners lure the desperate and unemployed to distant charcoal camps with promises of work, wages and shelter. Once at the camp, the owners levy illegal charges on the workers for transportation, equipment, lodging and food. Mario Osava, reporting for Inter Press Service last July described the debt as "pretext to keep laborers on the camp under threat and often under armed guard." Deep in debt, workers succumb to involuntary servitude, a form of modern day slavery.

Charcoal is the cheapest fuel around to feed pig iron plants. Pig iron is gold to steel manufactures, as it gives mills using scrap higher iron content and durability. Over 1,400 charcoal camps dot the Amazon. Laborers collect hardwood and pile it into kilns. They shovel cured charcoal, through smoke and heat, and load it for travel to pig iron plants. The Carajas region alone exports six million tons of pig iron every year, sending nearly all to the thirsty U.S. iron and steel industry.

Bloomberg found unpaid laborers at a work camp making charcoal for Cosipar, a supplier to Nucor.

Over the past decade, government inspectors have worked to eradicate slave labor with moderate success. Local NGOs complain resources are scarce, inspections are sporadic, and fines and orders to pay back wages are minimally effective penalties. Last year, Bloomberg News investigated reports of slave labor and with the help of government inspectors mapped the life cycle of slave made coal (*The Secret World of Modern Slavery December 2006*). Bloomberg found unpaid laborers at a work camp making charcoal for Cosipar, a major pig iron exporter. Cosipar exports to **Nucor**, the second largest U.S. steel company, and to National Material Trading ('NMTC') and Intermet, two U.S. brokers who contract with **Ford, GM, Toyota, Nissan, and Whirlpool.** "Brazilian pig iron is part of almost any product in the U.S. that uses steel," says a NMTC spokesperson.

As Nucor shareholders, we and investor partners contacted the company to learn how it would prevent future incidents of slave and forced labor in their supply chain. The discovery of slave labor was not new to Nucor. The issue came up a few years ago and CEO Daniel DiMicco told Bloomberg "we were hopeful the government would have remedied this situation." Nucor told me this summer they were talking with Brazilian officials again, using 'certified' suppliers, and asking the Brazil government to keep an accurate list of tainted and untainted charcoal camps. When we and investor partners pressed Nucor on specifics of their certification process and policies the company surprised us by declining to talk further.

If a company has the means to prevent egregious violations in its supply chain, we believe that it has the obligation to do so. Companies should build policies, investigate their supply chains, and use their influence to effect government reforms. Those that source from low cost countries often find themselves operating in environments with weakly enforced local laws. If policies are not adequately set and enforced in their supply chains, companies are ultimately exposed to reputational, financial, and legal risks that can erode shareholder value. Supply chain policies should be transparent and available to investors.

Trillium Asset Management Corporation is co-filing a shareholder resolution with a coalition of investors at Nucor led by Domini Social Investments. We are asking the company to review its human rights policy as it relates to supply chain standards. We are requesting a report on the current system and assurances that the company and its suppliers are implementing human rights policies, monitoring them effectively, and engaging local authorities. With the quest for human dignity at stake, Nucor must set and meet higher standards.

The Thanksgiving Column

by Shelley Alpern

Thanks (presumably) to 34,000 emails vehemently opposing the repeal of shareholders' right to file non-binding ballot proposals, social investors dodged a bullet this fall. On November 28, the Securities and Exchange Commission failed to follow through on its earlier hints that the rules governing shareholder proposals might be significantly tightened, even to the point of where they might succumb to the fate of the dodo.

Therefore, a hearty cheer and very grateful thank-you to those readers who responded to our action alert last fall! You know who you are, and we are very grateful for the time you took to contact the Commission.

As a little bonus, the SEC also adopted amendments to facilitate the use of electronic shareholder forums ("chat rooms" in the common tongue), where shareholders can exchange information exempt from the usual rules governing inter-shareholder communication. This will allow advocates an interactive forum to press the cases behind the 500-word proposals we submit. Let's hope these chat rooms are visited by serious investors.

But, even as the Commission gaveth, it tooketh away – and how. The big SEC story on November 28 was not about the bullet dodged by social investors, but about the blow to all shareholders by a 3-1 vote by the Commissioners denying us access to the proxy to nominate our own board directors. As expected, despite calls from Congress and other fair-minded people, the highly partisan vote (three Republicans vs. one Democrat) went ahead despite the fact that the Commission has been missing one Democrat since the resignation of Roel Campos late last summer. Hence, the vote described by former SEC Chairman Arthur Levitt as "probably the most important [one] the commission has taken in nearly 15 years" was procedurally flawed and politically suspect.

The majority justified its ruling on the grounds of instilling predictability into this governance arena, but certainty is anything but certain and the story will not end here. Although Chairman Cox made good on his determination to have a rule in place for the 2008 proxy season, he has stated that he hopes the SEC will revisit the issue in 2008 and craft a rule to permit some access proposals. (To that, Ann Yerger of the Council of Institutional Investors, a strong supporter of proxy access, stated: "It makes no sense for the commission to do the wrong thing now but promise to try to do the right thing next year. This is a sad day for shareholders.") Investors are not waiting passively to see what compromise the SEC will offer in '08. AFSCME, joined by the state treasurer's office of North Carolina and the New Jersey Division of Investments, filed proxy access resolutions at **JP Morgan Chase** and **Bear Stearns** on the very day of the ruling, with AFSCME declaring its willingness to go to court.

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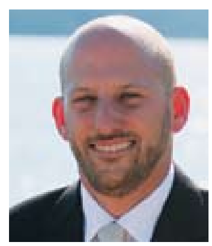
More thanks are due to our (sob) outgoing senior analyst and all-around wonderful human being Steve Lippman, who gave us nearly six years' service before succumbing to the powerful pull of Microsoft, which has tapped him to be its new Director of Environmental Engagement. Congratulations, Microsoft – you bagged an incredibly thoughtful, smart, insightful, strategic, hardworking and diplomatic guy. "Steve's Greatest Hits" include a long, successful string of negotiations with companies, resulting in a raft of sustainability reports that never would have seen the light of day otherwise, commitments by big banks and financial service firms to strengthen their environmental policies, helping to get the new non-profit media watchdog Open Mic off the ground, co-founding SIRAN, a professional network of social investment research analysts, and organizing the social investment community around the problem of global water scarcity. We'll miss him for his great contributions, warm presence and dry-yet-wacky sense of humor.



Strategic View: Do Markets Need Government?

by Adam Seitchik, CFA

When I studied and taught economics 25 years ago, the basic model of efficient markets was straightforward. Investors and businesses maximize profit, consumers seek value for money, workers search for lucrative jobs. Competitive market forces were central, although market failures were acknowledged: the maldistribution of income and "externalities" such as pollution and crime that are not reflected in market prices. The role of government was to efficiently remediate these failures, to regulate, tax or otherwise "get the prices right."

What happens, however, when self-interested capitalists understand that social inequities and externalities like pollution and nuclear proliferation do long term financial damage to their portfolios? Short term profit-driven activities (e.g., extracting oil) may turn out to be terrible long-term investments (rising sea levels threatening major cities and markets). What if markets begin to demand, either for altruistic or self-interested reasons, better performance from corporations on multiple bottom lines? In such a system, does the role of government diminish?

It is tempting to say yes. Institutions with long term horizons, such as foundations and public pension funds, are teaming up with social investors to address "extra-financial" market risks, taking action through the Investor Network on Climate Risk (or INCR, representing $4 trillion in assets), signing the UN Principles for Responsible Investment (more than $10 trillion in assets), and insisting that companies report on extra-financial performance through the Global Reporting Initiative. These massive investor networks own large chunks of the global corporate sector. If they demand that corporations act responsibly, externalities should diminish, reducing the need for regulation.

In fact, these market forces are extremely useful and leading to meaningful change as companies respond accordingly. Carpet manufacturer **Interface's** vision is "to be the first company that, by its deeds, shows the entire industrial world what sustainability is in all its dimensions: people, process, product, place and profits – by 2020 – and in doing so …become restorative through the power of influence." But not every company embraces such a deep vision, and systemic performance on social and environmental issues is simply not improving fast enough. Government remains the only actor that can ensure a price on externalities (through taxes and regulation), while requiring full disclosure of extra-financial information.

When government is needed most, it is too often seduced by lobbyists and beholden to corporate interests. This is an old problem, identified a century ago by Woodrow Wilson, who warned that "the government, which was designed for the people, has got into the hands of the bosses and their employers, the special interests. An invisible empire has been set up above the forms of democracy." But wise investors and corporations understand government's crucial role. That's why members of INCR have been calling for the Securities and Exchange Commission to mandate environmental reporting, and employer coalitions are requesting that the government regulate carbon sooner rather than later.

Rational design of a power plant with a 30-50 year useful life is impossible when the cost of the emissions wafting from the smoke stack is so uncertain. Depending on unregulated markets to solve social problems is a pipe dream. Government continues to serve a critical role for citizens, investors, and even corporations when it gets the prices right.

From the President

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or nonprofit group that has contributed a specific achievement resulting in lasting movement of the capital markets from a system focused on short-term profits toward one that balances financial prosperity with social and environmental health. The Innovation Award will go to an investor, company, or nonprofit group whose recent work has the distinct potential to be a catalyst for long-term change of the same kind.

The point is to encourage people to think about how to make our economic system more sustainable. Many awards focus on corporate or individual specific achievements. In contrast, these awards will be given to those visionaries have examined how capital markets are working and found a way to change expectations, outcomes, rules or customs beyond their own company or organization that encourage collaboration, far-sighted planning, compassion and fairness. The panel of judges is brilliant, thoughtful and dedicated.

This year we have watched yet another "bubble" burst on Wall Street. When the dust has settled, we will again know that much of the bubble was driven by greed – greed that awards the accumulation of money with no thought about the impact the process is having on ordinary people, the larger system long term, or even their own organizations. Smart people are afraid to jump off the train until everyone crashes at once.

Yet there are some great things happening, too, and it's on the great things that the awards are designed to focus. You can find out all about them at www.ceres.org/bavaria_awards, or on Trillium's web site at trilliuminvest.com. And, of course, if you have someone you would like to nominate, the instructions are on the web sites.

Joan Bavaria, President
Trillium Asset Management Corporation

Joan Bavaria