INVESTING *for* a BETTER WORLD®

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Of Bubbles, BRICs and Benchmarks

Rethinking Risk in a Global Portfolio

by Farnum Brown, Ph.D.

The Global Savings Glut

In our digital age, the speed of communication and of capital has "flattened" the globe, heightened competition, increased economic interdependence and driven up volatility in markets around the world. Welcome to the global village.

In this new global economy emerging markets such as Brazil, Russia, India and China (the "BRICs") are shouldering aside developed nations as rapid industrialization and natural resource exploitation fire the afterburners on their economies. Indeed, emerging economies now account for more total global commerce than the United States.

A byproduct of this explosive growth is what Federal Reserve Chairman Ben Bernanke calls a "global savings glut." Emerging

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No Surprises, Please

How an Outdated Regulation Shields the True Extent of Corporate Liabilities

by Jonas Kron

Four years ago, **Merck's** blockbuster anti-anflammatory drug Vioxx came under intense scrutiny. The highly profitable medication was discovered to be closely linked to increased risk of heart attack and stroke, and a flood of litigation followed. The rise and fall of the product was of historic proportions, not only for the company, but for the drug market as well. When it was pulled from pharmacies in September of that year, it was one of the most widely used drugs ever to be withdrawn in the United States.

On November 1, 2007, during the height of the litigation, Merck filed its 2007 third quarter 10-Q with the Securities and Exchange Commission (SEC), declaring "the Company is unable to predict the outcome of these [Vioxx] matters, and at this

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From the President

by Joan Bavaria

This has been quite a year so far for the global economy. The collapse of the mortgage and loan markets has spread around the world. Energy prices have soared. Food prices have skyrocketed. Those of us who make a living advising others on sound, sustainable investing have the sensation of riding a class 5 rapid.

People are, for a lot of good reasons, afraid that their life's savings will be destroyed, that their son or daughter will not find the money to own a home, afraid that the shortages around the world will result in violence, and afraid that if there is a sure way out of the rapids, it's not that obvious.

There is no question that lurking behind much of the mortgage crisis is runaway competition in the private sector. This is nothing new. One of my first investing mentors bought me a book about the tulip mania in Holland. Harold said that if I learned nothing else, I should learn about avoiding bubbles and greed. Having worked through bubbles and greed for almost 40 years, I admit that both are really hard to avoid. Your fear is that you will be left behind. In fact, in 1999 I was fired as advisor by two clients angry that I had not purchased enough tech stocks in their portfolios. It can be a very thin line between prudent diversification and being left behind.

Sustainable, socially responsible investing uses lenses sensitive to a complete social and ecological picture. I was brought up in rural New England by parents very invested in a "waste not, want not" culture. Waste was almost as large a sin as sex or swearing.

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(Very Big) Business As Usual at the Beijing Olympics

by Natasha Lamb

The Chinese made a grand entrance on the Olympic world stage – intense, controlled, intimidating (if you find 2,008 men beating drums with seamless precision intimidating). Yet the awe-inspiring opening ceremony was perfectly balanced with peaceful displays of song, calligraphy, and dance. As fairies began to fly through the Olympic rings, my biases surrounding the "genocide Olympics" were quickly swept under the 100-yard LCD rug.

China has dualism down to an art, and an Olympic sport for that matter. Dualism – the contrast between power and peace, light and dark, yin and yang — has long been recognized in eastern traditions, where the coexistence and balance of opposites is revered. These Olympic Games have embodied contradictory behavior but have been far from harmonious. The Chinese government's fervent desire for a fresh image has only reinforced existing stereotypes, despite an effort to achieve nothing less than perfection. The problem with perfection is that it is balanced out by imperfections, and the overarching control of an authoritarian government has created more than a few: the arrest of human rights activists and journalists; the revocation of 2006 Olympic sprinter Joey Cheek's visa to prevent him from attending the games (Cheek is the co-founder of Team Darfur, a coalition of Olympic athletes raising awareness about the Darfur genocide); the exploitation of the workers who built the stadium; allegations of underage gymnasts winning gold; and Lin Miaoke, the lip-syncing, adorable Chinese girl who replaced an 'inferior' looking 7 year-old in the Olympic ceremony limelight.

But it is not just China who is caught up in a sea of contradictions, unable to maintain a perfect façade. The sponsorship of the "genocide Olympics" has put many a Corporate Social Responsibility policy under examination, as companies have failed to live up to idealistic mission statements. Despite the seeming position of economic power corporations hold in the Beijing games, the sponsors have dodged appeals to advocate for human rights in Sudan and Tibet. Money still trumps values, even in the age of "enlightened" corporations who espouse social and environmental ethics.

China's role as a leading oil extractor and arms provider in Sudan continues to enable a mass genocide of the Darfuri people. Does this not warrant action? At least a strong word from sponsors (whose Olympic expenditures averaged $73 million a piece)? Not, apparently, if it falls beyond a company's "sphere of responsibility." In an effort to gain traction on the issue, Trillium Asset Management ("Trillium") wrote to Olympic sponsors last September, reiterating the reputational risks associated with sponsorship and asking sponsors to leverage their access to the Chinese government to affect positive change. Few responded, and those that did said it was a problem for diplomats, not cor-

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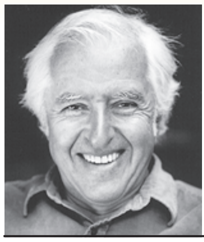

Predicting the Weather Is Easier Than Predicting Financial Markets – and Muckrackers Are No Longer in Fashion

It Seems to Me

by Milton Moskowitz

Reflecting on the carnage we are seeing today in the economy, I marvel that hardly anyone saw it coming, unless it was that bearded philosopher, the late Karl Marx, who warned that financial crises are endemic to capitalism and that eventually "the bourgeoisie produces its own gravediggers." A few doomsday predictors have been found – *Fortune* magazine put Oppenheimer security analyst Meredith Whitney on its cover, and the *New York Times Magazine* saluted economics professor Nouriel Roubini – but this list is a short one. It certainly doesn't include Alan Greenspan, the long-time chairman of the Federal Reserve Board, an Ayn Rand acolyte. And where were Jim Cramer or Suze Orman when we needed them? And for that matter, where was someone in the SRI community who addressed the excesses in the financial markets? It appears that there are no short sellers in the SRI ranks.

James Grant, editor of *Grant's Interest Rate Observer*, asked out loud in the July 19 *Wall Street Journal* why there has been such little public outrage "at Wall Street's damaging recklessness," as there had been in previous crises. I looked back myself at some of this outrage:

- In 1896, 36 year-old William Jennings Bryan delivered what has been called "the most effective speech in the history of American party politics" at the Democratic convention that nominated him for President. Railing against the gold standard and for the income tax, Bryan said: "There are two ideas of government. There are those who believe that, if you will only legislate to make the well-to-do prosperous, their prosperity will leak through on those below. The Democratic idea, however, has been that if you legislate to make the masses prosperous, their prosperity will find its way up through every class which rests upon them." And to those who press for the gold standard, Bryan replied: "You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold."
- In 1915, prior to his Supreme Court appointment, Boston lawyer Louis Brandeis testified before Congress on the size of corporations and the role of trade unions. He said: "I think all of our human experience shows that no one with absolute power can be trusted to give it up, even in part. That has been the experience with political absolutism; it must prove the same with industrial absolutism. Industrial democracy will not come by gift. It has got to be won by those who desire it. And if the situation is such that a voluntary organization like a labor union is powerless to bring about democratization of a business, I think we have in this fact some proof that the employing organization is larger than is consistent with the public interest. … And the State must in some way come to the aid of the workingmen if democratization is to be secured."
- In his first inaugural address, Franklin D. Roosevelt declared: "Only a foolish optimist can deny the dark realities of the moment… Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failures, and have abdicated… The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary gain."

There is very little of that outrage around today. Dennis Kucinich, perhaps. Maybe Ralph Nader. But you are not going to hear it from ex-Goldman Sachs CEO Henry Paulson, now Secretary of the Treasury, or Robert Rubin, another ex-Goldman CEO, former Treasury Secretary and now senior counselor at Citigroup, a company heaped with hosannas not too long ago. And you're probably not going to hear much of it from the two presidential candidates.

To me, the epitome of the current financial crisis was the rioting that occurred in July at the Karachi Stock Exchange in Pakistan. Like stock markets all over the world, the Karachi exchange has taken a beating this year. It is down more than one-third since reaching a record high on April 21. Investors there became so agitated by this decline that they organized protest marches resulting in the breaking of the Exchange's windows. Some demanded that the Exchange close its doors. The *Financial Times* interviewed a few protestors. "I am upset because I am constantly losing money," said one. Another said: "For me, this is just murder for my economic future."

These guys apparently never realized that a stock market sometimes goes down.

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)

Of Bubbles, BRICs, and Benchmarks *(continued)*

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economies are generating vastly more revenues than their budding domestic consumer classes can spend. Simply by default, their savings rates are sky high. The net result is a staggering level of surplus savings throughout the developing world.

The Global Asset Shortage

The flip side of the global savings glut is what economist Ricardo Caballero refers to as a "global asset shortage."* Emerging economies, particularly China and India, are engaged in a modernization project whose first phase is the building of an industrial infrastructure. The excess revenues from that industrialization in time will foster both a Western-style consuming class and a financial infrastructure that creates adequate stores of value for their wealth. The key phrase here, however, is "in time." At present, emerging economies, including the oil-rich OPEC nations, have a shortage of domestic assets in which to store their wealth.

This is why an Indian industrialist is building a 27-story, 400,000 square foot "home" at a cost of $2 billion. It's why a Russian oligarch recently paid $200 million for a "super-yacht" to sail to Norway, where he planned to stop and pick up three Monets recently bought at auction. These are cases of literally having more money than you know what to do with.

The Resulting Bubbles

As a result of this global savings glut in tandem with a global asset shortage, asset bubbles have become a distinctive feature of the global financial system. They result from the simplest intersection of supply and demand curves. Globally we have more money (demand) than we have ways to store it (supply). Hence, excess money chases after the limited supply of investment vehicles, driving up their prices in the process.

Of course investors, being human, also exhibit classic herd behavior, rushing into (and out of) the same assets at the same time. Whichever asset they rush into gets priced beyond its ability to preserve value. When this becomes evident, the herd rushes out, that asset bubble bursts, and a new asset class begins inflating. And so it goes.

This is at least part of the reason we had a bubble in technology stocks in the '90s, in real estate in the early '00s, and in oil most recently. These rolling asset bubbles have become part of the process by which our cash-rich and asset-poor global financial system seeks price equilibrium, however shifting and dynamic.

Behavioral Finance

So how are investors to cope with this new bubble-prone global financial system? The most obvious answer is: Don't chase bubbles. Don't plow your entire portfolio into tech stocks in 1999. Don't buy condos in Miami in 2007. And don't load up on oil futures in July at $147 a barrel.

Of course, if everyone followed this advice, bubbles would never happen. The defining principle of a financial bubble is that rising price begets rising price. That is, bubbles are created by investors who buy an asset simply because its price has gone up a lot. Bubbles are made by people chasing them.

> *The defining principle of a financial bubble is that rising price begets rising price. That is, bubbles are created by investors who buy an asset simply because its price has gone up a lot.*

While this seems an easy enough lesson to learn, generally speaking, people don't. More primal drivers of human behavior tend to override these lessons just when it's time to heed them. Greed combined with herd behavior is one of the most powerful human motivations, second only, perhaps, to fear combined with herd behavior. You get both of these potent cocktails served in every bubble (one going up, the other going down). And with a global savings glut/asset shortage creating serial bubbles, the bar is always open.

Spreading Your Bets

The most obvious way to protect against bubbles is to diversify. For stock portfolios, modeling them on a broad index benchmark, like the S&P 500, provides a mechanical check on

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* "On the Macroeconomics of Asset Shortages," proceedings of the 4th ECB Central Banking Conference on "The Role of Money: Money and Monetary Policy in the Twenty-first Century," Frankfurt, November 2006.

Of Bubbles, BRICs, and Benchmarks *(continued)*

greed. In 1999 keeping your stock exposure weighted in line with the ten industry sectors of the S&P 500 would have kept you from plowing all your money into technology shares.

From the peak of the tech stock bubble in early 2000 to its trough in late 2002, the S&P 500 index as a whole fell 48%. The S&P tech sector alone, however, fell 82%. This is the difference between living to fight another day and not. Six years later the S&P 500 had fully recovered to a new all-time high above its peak in 2000. The tech sector is still down 62%.

Modeling your sector exposure on a broad market index can save you from putting all your eggs into one basket, but it won't fully immunize your portfolio against the distortions of bubbles.

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Is There a Bubble in Your Benchmark?

Most broad, stock market indices are "cap-weighted," meaning each stock's relative weight in the index reflects its market capitalization. So, for example, **ExxonMobil** stock has 166 times the weight in the S&P 500 of **Whole Foods Market** because Exxon's market cap is $415 billion while Whole Foods' is $2.5 billion.

Cap-weighting also means the relative size of the industry sectors in the S&P 500 reflects the aggregate market cap of the stocks in each sector. So if the prices of technology stocks go up more than prices in other sectors, so does the relative size of the tech sector in the S&P 500.

When the tech stock bubble began gathering steam in 1996, technology shares made up 12% of the S&P 500. At the peak of the bubble, tech accounted for 35% of the index. So even had you weighted your portfolio according to the industry sectors of the S&P 500, you still would have been "chasing the bubble." That is, as the tech sector grew larger and larger from 1996 through 2000, you would have put more and more of your portfolio into that sector as its share of the overall index increased.

This illustrates the chief criticism of "indexing" strategies in general. When you buy Vanguard's S&P 500 Index Fund you do get the benefits of sector diversification – that is, you won't put all your eggs into one sector basket. You will also, however, put more of your money into those shares and sectors that have risen most and less into shares and sectors that have risen least, simply by dint of cap-weighting. In this way, indexing is a "buy-high" strategy. And buying high is what bubbles are made of.

If bubbles are created by people chasing them, then indexers are often a large if unwitting part of the herd. Investors in today's global financial system must be alert to the risks – both direct and indirect – that asset bubbles pose. They're likely to be with us for a while. Avoiding them and the herd may mean consciously straying from your index. This may cost you some relative performance over the short-term, but charting a less crowded course can be highly rewarding to your long-term financial health.

(Very Big) Business As Usual at the Beijing Olympics *(continued)*

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porations.

That would be true in a perfect world where regional actors or the United Nations stepped in to solve problems with unlimited resources and trustworthy intentions. In reality, the ongoing massacres of hundreds of thousands should trouble the conscience of any and all actors with potential influence. The Olympics are an outstanding testament to the human potential to balance the head and the heart. Perhaps the next evolution in corporate potential will prove the coexistence of making money and doing good.

No Surprises, Please *(continued)*

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time cannot reasonably estimate the possible loss or range of loss with respect to the Vioxx Lawsuits. The Company has not established any reserves for any potential liability relating to the Vioxx Lawsuits or the Vioxx Investigations."

Eight days later, the company announced a global Vioxx agreement totaling $4.85 billion.

In just a week, Merck went from shrugging its shoulders to providing investors with a very specific and definitive number. Any observer could infer that settlement negotiations occurred in the week leading up to November 9. But the settlement announcement reflected no change in the underlying facts of the case; what frustrated investors ability to appreciate the magnitude of risk on November 1 were the existing accounting rules. Merck was complying with them, and therefore under no obligation to disclose even a general range of the aggregate product liability confronting it.

We, like many long-term investors, found this situation disquieting.

One of Many

The Vioxx case is one of many that point an accusing finger at existing disclosure requirements. Consider the litigation embroiling **Chevron** in Ecuador, where 30,000 residents of the Amazon rainforest are suing the company for pollution caused by Texaco decades before its 2001 acquisition by Chevron. The case has been brewing for well over a decade, but was never mentioned in Chevron (or Texaco's) SEC filings until last spring, when Chevron could no longer put off telling investors that damages could go as high as $16 billion. Both cases beg the question, what and when should company tell investors about "loss contingencies" such as potential damages or government fines?

In 1975, the Financial Accounting Standards Board ("FASB") answered this question with guidelines that have not been amended since. Under this rule (formally called FASB Statement No. 5 or FAS 5), companies have hidden or obfuscated their true loss contingency situations. Strangely enough, demands for disclosure have been minimal.

As socially responsible investors, we are interested in loss contingencies because lawsuits and government enforcement processes provide valuable information. Large loss contingencies can function as early warning signs that indicate weak social or environmental performance and as such, point to areas for potential improvement.

We are interested in loss contingencies because lawsuits and government enforcement processes provide valuable information. Large loss contingencies can function as early warning signs that indicate weak social or environmental performance and as such, point to areas for potential improvement.

For example, if we were to learn that employment discrimination claims have been increasing against a nationwide retailer, that would be valuable information for us as investors who believe these issues are important for financial and social reasons. If we discovered that a body care products manufacturer was attracting product liability or consumer fraud suits targeting toxic chemicals in cosmetics, we would, similarly, find that information useful.

Many kinds of important loss contingencies can be obscured by companies: human rights violations surfacing in Alien Tort Claims Act suits; violations of the Clean Air and Water Acts; forestry and timber cutting violations; dam mismanagement resulting in fish kills; and Superfund site remediation. Civil rights claims at the local, state and federal level can be of great use in assessing social performance.

To take another example, we are concerned about the growing unregulated use of carbon nanotubes – impossibly small carbon fibers used in a variety of consumer products. A number of studies have pointed to the similarities between nanotubes and asbestos. As the long line of bankrupt companies attests, asbestos damage and litigation takes a heavy toll on life and company finances.

We also know that disclosure serves as a powerful motivation to put systems in place to avoid these anti-social and environmentally harmful actions. Companies often prefer to bury the bad news and if they are required to shed some more light on the risks they face, they may be more inclined to stop harmful behavior.

Opportunity for Improvement

Fortunately, FASB has recently acknowledged that FAS 5 is outdated and woefully inadequate. In doing so it affirms our belief that companies should be compelled to disclose more and disclose it sooner. It has also concluded that companies need to be more transparent.

As long term investors with an understanding of the impact of social and environmental issues on performance, transpar-

No Surprises, Please *(continued)*

ency is key. Transparency also supports market efficiency and as long term investors we rely on the market being as efficient as possible. Better disclosure supports long term interests and helps to level sharp swings in the market.

Fortunately, FASB has proposed a new rule that would enhance disclosures about loss contingencies by expanding the population of potential liabilities that must be disclosed, requiring more specific information about those potential liabilities, and mandating clear and transparent disclosure formats. Trillium Asset Management Corporation ("Trillium") has come out in support of these changes, which we believe will improve the overall quality of disclosures. We have also taken a leadership position in encouraging other members of the sustainable/socially responsible investing community, including the Social Investment Forum and Ceres, to speak out in support. (Our letter to FASB is available at www.trilliuminvest.com.)

While we are cautiously optimistic that these changes will be adopted, we are also suggesting to FASB that it go further to maximize the usefulness of the information and to close a potential loophole in the proposal.

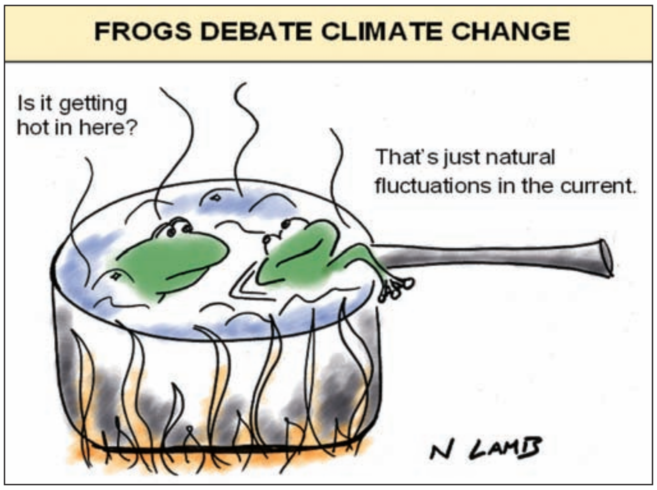
Corporate lawyers are pulling out all the stops to prevent this proposed rule from going into effect. Letters from the American Bar Association and the Association of Corporate Counsel predict that the sun will fall from the sky if the rule is adopted. Specifically, they contend that the proposed rule would force companies to disclose confidential and prejudicial information – thereby waiving attorney-client privilege. Such disclosures, they argue, would also cause large shifts in stock prices and disadvantage the company in court.

We believe that these concerns are not warranted. First, disclosures of legal and administrative proceedings can be based on public documents such as complaints and court filings which are not under seal. Furthermore, the proposed rule provides for companies to characterize their own view of the merits of the claims.

The argument that such disclosures might lower the value of stock literally turns efficient market theory on its head. As one commentator pointed out, once the market understands the new rule, it will incorporate this information, as with all other information, into pricing decisions. While a short term stock price drop could ensue, full and transparent disclosure such as this represents the honest path to efficient market valuations for long-term investors. These concerns are nonstarters; the reality is that this proposal is a balanced and reasonable effort to bring an outdated rule into the 21st Century.

Finally, the FASB process offers us an opportunity to get at the heart of SEC reporting – the Management Discussion and Analysis ("MD&A") found in companies' annual 10-K filings. The MD&A is supposed to describe trends and uncertainties with material implications for a company's future. It is a narrative discussion which is required to identify and analyze trends, demands, commitments, events and uncertainties that in the judgment of management are reasonably likely to materially impact a company's liquidity, financial condition or operating results.

In a related development, the Investor Network on Climate Risk ("INCR"), of which Trillium is a founding member, has petitioned the SEC to address the obligations of publicly-traded companies to assess and fully disclose the material economic opportunities and risks from climate change. INCR's message is that climate-related opportunities and risks are material to shareholder investment decisions and must be disclosed under existing law. Furthermore, INCR stressed that climate related disclosures are critical for investors to make informed decisions and fundamental to the SEC's core mission: "to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation." Truthful disclosures, however shocking they may seem at first, would go a long way toward fulfilling that promise.



We are witnessing in the FASB proposal and the INCR petition an opportunity to move the state of corporate disclosures of the truth a few steps forward. Accounting rules are a rather dry affair, but it is truly an exciting time ripe with the chance to improve the social and environmental performance of companies.

Adobe Systems

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by Samuel B. Jones, Jr., CFA

Adobe Systems (Nasdaq: ADBE) Having completed the acquisition of Macromedia in 2005, Adobe is one of the most diversified software providers in terms of breadth of products as well as customer base. Best known for its venerable Flash® (dynamic digital content), Illustrator® (graphic artwork), Photoshop® (photo editing), Dreamweaver® (web development) and Acrobat® (document creation and distribution) product lines, Adobe sells to retail consumers, graphics professionals, and enterprise software users. It has operations in the Americas, Europe, Middle East and Africa, and Asia.

Adobe has perhaps one of the best growth prospects of the major large-cap software stocks over the foreseeable future, with estimated 3-to-5 year earnings growth of over 16 percent. The company is extremely well positioned to benefit from the growth of digital publishing and increased use of the Internet.

Adobe's primary offices and headquarters illustrate an internal commitment to social and environmental policy. The company became the first in the world to have three LEED-Platinum certified buildings (the highest rating from the U.S. Green Building Council) by retrofitting its office buildings that opened in 1998 and 2003. This is particularly notable since most high-profile green buildings are new construction. Adobe's Silicon Valley headquarters recycles 90 percent of all waste.

Adobe's core business has minimal emissions and waste impact and the management has solid social policies in place. However, the company has yet to articulate a sustainability strategy or policy to address supply chain concerns.

ProLogis

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by Natasha L. Lamb, MBA
& Eric Becker, CFA

Prologis (NYSE: PLD) is a real estate investment trust (REIT) that owns and operates the world's largest portfolio of warehouses and distribution centers. The company has a notably strong environmental profile, with an emphasis on energy efficiency and green building. PLD owns almost 2,700 properties in 20 countries in North America (73 percent), Europe (19 percent) and Asia (8 percent). In November 2007, PLD announced its first development in the Middle East (Dubai). Almost 80 percent of organic growth is outside of the U.S., and 80 percent of planned development spending is in international markets.

PLD's global network of distribution centers allows the company to quickly respond to tenant needs resulting in a customer retention rate of 79 percent. The company's international exposure insulates it from large swings in the domestic market and customers regularly request ProLogis enter new countries to meet their logistics needs.

Through its acquisition of Catellus (2005), PLD has gained an expertise in developing mixed-use projects on land requiring ecological cleanup. ProLogis develops urban infill, brownfield sites, old military bases, and industrial sites. It focuses on sustainable design features, open space, access to transportation, and LEED certification.

In December of 2007, PLD was named the UK's "Best Overall Green Business of the Year," actively reducing the impact of its business operations on the environment. PLD was also the first real estate company to join the Chicago Climate Exchange in 2007 and is a member of the US Green Building Council. PLD was honored as the "#1 Most Admired Real Estate Company" by *Fortune* in 2007. In early 2008, ProLogis was accepted as a partner in the U.S. Environmental Protection Agency's Energy Star program. PLD has pledged its corporate operations will be carbon neutral for 2006 through 2010.

Community Investment News

Boston Community Capital / Boston Community Loan Fund

by Randy Rice

Overview

Boston Community Loan Fund (BCLF) was established in 1985 by socially responsible investors with a focus on lending to nonprofits to expand affordable housing in Boston.

In 1994, BCLF established Boston Community Capital (BCC), a nonprofit holding company, to respond to new credit and capital needs in low-income communities. BCLF became an affiliate of BCC. They also established two new nonprofit affiliates: Boston Community Venture Fund and Boston Community Managed Assets. Their mission is to build healthy communities where low-income people live and work.

BCLF connects low-income people and communities to the mainstream economy, providing a range of existing financial vehicles, products and services. It also acts as an investment banker for low-income communities.

Client Population

While the majority of BCLF's lending is in Massachusetts, the Loan Fund has recently made loans in Connecticut, New Jersey and Washington, DC. Eighty-two percent of its borrowers' clients having household incomes below 80% of the area median income, 60% of its borrowers' clients are minorities, and a significant portion are female-headed households.

Impact

BCLF currently has more than $100 million in assets under management. It provides a wide range of debt products to nonprofit and community organizations and for-profit developers who serve similar populations. BCLF's financing has provided more than $116 million in equity for first-time homeowners and helped save low-income families nearly $600 million in cumulative rent. BCLF's financing has expanded to include commercial real estate, organizational working capital, and social and community services, such as day care facilities and community arts programs. Since 1985, the Loan Fund has lent more than $240 million – more than three quarters of that lending has occurred in the last five years.

BCC has made more than 400 loans and investments totaling more than $370 million, helping to:

- Build or preserve affordable homes for 8,500 families and individuals
- Strengthen more than 300 community organizations
- Support child care facilities and youth programs serving 7,000 children
- Renovate 530,000 square feet of commercial real estate in distressed communities, and
- Create more than 1,400 jobs in low-income communities.

BCLF SUMMARY OF LENDING, 1985–2007

Housing Loans	% of Total	Amount
Affordable Homeownership	36%	$97,492,926
Low Income Rental	31%	$68,495,549
Supportive Housing and Shelters	11%	$23,126,070
Subtotal Housing	**78%**	**$189,114,545**
Child Care, Schools and Youth Programs	13%	$32,245,617
Community Facilities and Commercial Real Estate	9%	$20,013,535
Subtotal Non-Housing	**22%**	**$52,259,152**
Total	**100%**	**$241,373,697**

Programs

In 2007, BCC launched Aura Mortgage Advisors, a mortgage brokerage business dedicated to helping people understand the mortgage process and own a home they can afford. Aura works to educate future hopeful homeowners on the perils of predatory lending practices, teaching them how to pick the right mortgage options, and helping them make well-informed decisions throughout the process.

BCC Solar Energy Advantage (BCC SEA) works to stabilize and reduce energy and utility costs of existing affordable housing by improving their energy efficiency, conservation and renewable energy use. BCC SEA also administers the Green Building Production Network, a private-sector consortium of financing, technical assistance and advocacy organizations dedicated to providing Community Development Corporations with financing and tools to design and build "greener" and healthier homes for low-income residents.

Investing with BCLF

On behalf of our clients, Trillium Asset Management Corporation ("Trillium") made its first investment with BCLF in 1986. Trillium's Director of Finance and Administration, Linnie McLean, has been a member of BCLF's Loan Committee since 1997. Trillium will make investments in BCLF of at least $5,000 for a minimum term of two years.

Boundaries of Responsibility

by Susan Baker Martin

You've heard about conflict diamonds. Now get ready for "conflict coltan." Coltan is an ore mined in several countries including the war-torn Democratic Republic of Congo (DRC). Processed coltan yields valuable tantalum, a component in electric capacitors found in cell phones, laptops, DVD players and game consoles.

But tantalum doesn't come cheap. The U.N. Security Council has published a series of reports since 2001 on the illegal exploitation of natural resources in the DRC, singling out the coltan trade as subject to "highly organized and systemic exploitation." All parties in the ongoing civil war, which has claimed four million lives, have benefited from the mining and sale of coltan. Compounding the devastating humanitarian crisis is the equally miserable toll on the Congo's national parks, home of the endangered mountain gorilla.

At the turn of this century, a spike in demand for coltan for electronics strained supply, sending coltan prices skyrocketing. Opportunistic farmers and gold miners turned to coltan mining. In what's been best described as a Klondike-style rush, forced laborers and prisoners were sent to national parks. There they cleared protected parkland and feasted on gorilla 'bushmeat,' wreaking havoc on an already fragile population of mountain gorillas. According to the U.K.-based Fauna & Flora International, gorilla hunters decimated the eastern lowland gorilla in the Lahuzi-Biega National Park, a World Heritage site and biodiversity sanctuary in eastern Congo. Coltan became the currency of choice in the bloody conflicts in the Congo and neighboring Rwanda and Uganda. According to the International Rescue Committee, the resulting chaos claims 1,500 lives every day in a crisis barely reported by the Western media.

Metal production has shifted from developed to developing countries, bringing greater risks due to weaker social and environmental conditions for metals manufacturers, end users and investors. Electronic manufacturers are beginning to feel the pressure to account for their supply chains. The *makeIT-Fair* campaign coordinated by Netherlands-based Center for Research of Multinational Corporations and supporting initiatives launched by the Electronics Industry Citizenship Coalition (EICC) & The Global e-Sustainability Initiative (GeSI), are pressing electronics companies to understand the risks in their supply chain and take action to extend supplier standards deeper in their operations.

In July, makeITfair released the results of a 23-company survey that confirmed an important shift in in tech companies' attitudes. In survey responses, most companies expressed concern about poor conditions and a willingness to explore collaborative relationships with stakeholder groups. (**Hewlett Packard** stood out for having studied its own metals supply chain.) The EICC/GeSI report also released this summer made recommendations on how member organizations can effectively influence the social and environmental impacts of mining in their supply chain.

U.S. Senator Sam Brownback has called on the U.S. to do its part to end the conflict in Congo. Brownback wants to require certification of the origin of coltan for all U.S.-based companies that use tantalum in manufacturing.

Concerned investors can complement the ethical arguments advanced by these efforts by using our position as investors to remind companies that supply chain issues can materially impact share price as well. To that end, Trillium Asset Management Corporation will be writing several electronic companies, including **Nokia**, **AT&T**, **Intel**, **Apple**, **Dell** and **Logitech**, asking them to report on plans to implement the EICC/ GeSI recommendations. The recommendations press companies to work with stakeholders, and partner with other IT companies, to strengthen efforts and reduce proliferation of overlapping initiatives to end labor, human rights and environmental violations. A second major recommendation asks companies to better identify the metal content in cellphones, laptops and other electronics to facilitate better tracking of materials, and higher recycling rates.

RESOURCES

"Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo," United Nations
www.un.org/News/dh/latest/drcongo.htm

Fauna & Flora International
www.fauna-flora.org

MakeITfair
makeitfair.org

2008 Advocacy Review

by Shelley Alpern

For our 2008 advocacy efforts, we're pleased to report a fair amount of progress – never as much as we'd like (we'd like superhero powers), but enough to confirm that shareholder activism remains a potent tool for change.

Climate change Our shareholder resolution at **ConocoPhillips** requesting a report on the environmental and social impacts of tar sands drilling won almost 28% of the vote, impressive for this arena. Our resolution at **Bank of America** addressing its financing of coal-fired power plants and mountaintop coal removal was deemed inadmissible by the Securities and Exchange Commission (SEC), but we eventually sat down with bank officials to express our displeasure in a more intimate setting. **Alliant Energy** agreed to our request to report publicly on its efforts to incent customers to reduce their energy use, leading us to withdraw a resolution.

Human Rights We co-filed a resolution led by our friends at Domini Social Investments at **Nucor** after media reports linked the company's supply chain to forced labor. Nucor agreed to implement a formal policy and code of conduct expressing opposition to forced labor, and to dialogue with us on how to best report to shareholders on this issue, leading us to withdraw. We also spent time in conversation with **Talbots**, **Target**, **Liz Claiborne**, **Nike**, **Gap** and **Jones Apparel** on how their purchasing practices put pressure on their suppliers that can lead to a higher risk of labor violations.

Experts on the genocide in Darfur have declared that if anyone has any influence over the Sudanese government that is perpetrating the atrocities, it would be China. China sells arms to the government, and two Chinese oil companies operating in Sudan provide major revenues to the Sudanese government. Since we don't own shares in any of the Chinese or other foreign firms in Sudan (and US firms are prohibited by sanctions), we're talking to their investment bankers and investors on Wall Street. This last year we filed resolutions with **Morgan Stanley**, **Merrill Lynch**, and **JP Morgan Chase**. We withdrew at Morgan Stanley and Merrill after constructive dialogues on diminishing the risks they incur from these relationships. Our resolution at JP Morgan received 9.5%, enough for us to proceed with a re-filing should it prove necessary.

Political contributions transparency How much corporate trade association money is being diverted to ads and groups that are shaping the election this year? No one knows for sure, but it could run to the hundreds of millions, according to the Center for Political Accountability. In 2008, our resolution at **Procter & Gamble** prompted the company to commit to greater transparency, while **Ford Motor** and **General Motors** remained resistant despite resolutions.

Employment nondiscrimination We withdrew a resolution at **Pentair** after the company agreed to add sexual orientation to its nondiscrimination policy. Our resolution at **Expeditors International** on the same issue drew 52% in support – and a strange silence from company management and the Board of Directors. Perhaps they're waiting for a super-majority, or just like flouting the will of their shareholders. We'll re-file and let you know. ExxonMobil remained steadfast in refusing to update its policies, despite nearly a decade's worth of resolutions that we have sponsored or co-filed since the beginning.

Environmental Justice **Chevron** shareholders defeated our resolution addressing the strength of the company's global environmental standards in light of controversies in Ecuador, Nigeria and elsewhere. Chevron is under increasing pressure since a court-appointed expert in its Ecuadorian pollution trial recommended fining the company up to $16 billion for the lax cleanup of hundreds of oil spills in the rainforest.

After persistent nudging, **Toyota Motor Corporation** is starting to take seriously the contradiction between its supposed boycott of Burma, and the Burmese involvement of the independent company Toyota Tsusho that has a distributorship in that country. As this progresses, as the saying goes, you'll read it hear first.

Institutionalizing the For Benefit Corporation

by Adam Seitchik, CFA

Creating new business models that integrate people, planet and profit is a creative challenge. State and federal laws differentiate between for-profit and nonprofit entities, but what about the mission-driven, for-profit corporation? Or the risk-taking nonprofit social enterprise? Neither fish nor foul, progressive corporations can create significant social value, but often without the tax breaks or fundraising benefits that accrue to nonprofit entities. Truly for-benefit institutions also struggle to differentiate themselves in the marketplace. For every real innovator, there are a plethora of opportunistic "greenwashing" companies papering over their business-as-usual practices with clever marketing campaigns.

Enter the B Corporation™, "setting the new corporate standard for social and environmental performance."* The vision of "B Corp." is to institutionalize and scale the for-benefit corporation. The goal is to take responsible businesses to the next level of organization and performance through three strategies: 1) Meeting comprehensive and transparent social and environmental performance standards, 2) Institutionalizing stakeholder interests, and 3) Building collective voice through the power of a unifying brand.

At Trillium Asset Management Corporation ("Trillium"), we decided to take the plunge and become a B Corp. The first step was filling out a detailed survey on our approach to products, practices and profits. Given our longstanding mission-driven business model, we figured we'd ace this test. And in fact, we did score well enough to easily qualify as a B Corp. But like the large corporations we engage with to increase transparency, the process of filling out the survey was instructive. It shined a light on areas in which we can improve our practices ranging from involvement in local communities, efforts to reach out to underserved populations and supplier diversity.

Certified B Corporation™ bcorporation.net

We have also committed over the next year to review our company's bylaws. B Corps "redefine the best interests of the corporation to include the consideration of employees, consumers, the community and the environment." This shouldn't be much of a stretch for us. Our longstanding mission statement, on the back of every employee business card, explicitly embraces multiple bottom lines and broad stakeholder constituencies. These include clients, concerned investors, employees, and other persons and organizations working to build a just society and a better world.

B Corp's third initiative is to build a powerful brand image similar to trusted labels such as Fair Trade Certified™ and Energy Star. B Corp is using member licensing fees to pursue co-branding, media/web relations and marketing partnerships. Branding may have more impact for consumer products B Corps like BetterWorld Books or King Arthur Flour than for professional services companies like Trillium. In fact, many of the better-known founding B Corps are progressive consumer brands such as Numi Tea, Indigenous Designs, Dansko and method.

We at Trillium are pleased to join the expanding community of responsible companies at B Corp. We look forward to the day when for-benefit corporations are codified in state and federal law as strongly supported business models. We encourage large, publicly traded companies to become B Corps as the next step toward institutionalizing greenwash-free, mainstream, responsible business.

* For more information: www.bcorporation.net

From the President

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In Trillium Asset Management Corporation we have often " imagined" a more sustainable world and occasionally discussed "sufficiency," a controversial concept that presumes that there is a way to judge what is "enough." Caught in a competitive, Darwinian economy, people lose sight of basic needs or fairness and simply compete. But how many shoes or cars do we need? Who will be brave enough to jump off the treadmill with pride, not fear? It has been considered trite to count your blessings since the Reagan era, but it is something we need to re-learn.

Socially responsible investors have worked hard to instill humane and fair practices within companies around the world. This deliberate, patient work has reaped positive results that our readers have witnessed over our 25 years. The current economy threatens to undermine these values as fear of losing everything permeates the media and corners are cut to save money.

And yet I believe that we may have begun to turn the corner. Out of the darkness often comes the light. If we are listening, we might hear the truth about the planet's limitations. If we swallow our fears and look around us with clear eyes, we might realize that we are destroying the very thing that made this country as successful as it was in the twentieth century – the middle class – and have blinded ourselves to the incredible wealth that we enjoy relative to the rest of the world. If we hold to our basic values and stand proud and tall, I believe we can and shall overcome the rapids. I also believe we will remain adequately housed and fed.

Joan Bavaria

Joan Bavaria, President
Trillium Asset Management Corporation