INVESTING *for* a BETTER WORLD®

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The "Cleaner" Fossil Fuel?
Not Quite Yet

by Larisa Ruoff

Natural gas is widely recognized as the least environmentally damaging fossil fuel, one that will play a key role in bridging our transition to a greener energy future. Although reserves of conventional natural gas have been steadily decreasing in recent years, recent advances in the unconventional drilling technique known as hydraulic fracturing (or "hydrofraccing") are unlocking vast reserves of previously unavailable natural gas. According to the Energy Information Administration of the Department of Energy, onshore unconventional production, which often requires hydrofraccing, has surpassed onshore conventional production and is expected to increase exponentially in the next two decades. But the process entails very serious risks.

Hydrofraccing is the process of injecting huge quantities of water, chemicals and sand into the ground under very high pressure to create fractures through which natural gas can then flow and be collected. The process was developed by **Halliburton**

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Financial Reform Hits the Skids

by Jonas Kron

In March of last year, in the depths of the market sell-off, Treasury Secretary Timothy F. Geithner appeared before the House Financial Services Committee to discuss the need to fix the nation's financial regulatory system. Geithner told the committee "Our system failed in fundamental ways," and to "address this will require comprehensive reform. Not modest repairs at the margin, but new rules of the game." This conclusion was echoed by Representative Barney Frank (D-MA), chairman of the committee. "The days of light-touch regulation are over," he said.

The implications of the crisis went even further. As *New York Times* columnist Andrew Ross Sorkin wrote in his new book *Too Big To Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System – and Themselves*, "The calamity would definitively shatter some of the most cherished principles of capitalism."

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Dear Reader

by Cheryl Smith, Ph.D., CFA

For investors who seek out sustainability, cycles of birth, death, and rebirth are everywhere. The darkness of this season calls to mind the Greek goddess Demeter and her daughter Persephone; Demeter's sorrow at the loss of her daughter led to winter for the earth. However deep and dark and endless the winter seems, eventually Persephone's return from Hades each year brings spring and renewal.

We are accustomed to economic and market cycles, but the October 2007–March 2009 stock market decline was the most wrenching in decades. Many people began to anticipate a frightening future following in the wake of a total financial and economic collapse. And yet, we are finally seeing signs of recovery – housing sales very slowly starting to recover and consumers venturing out of their houses into markets. The stock market's activity since March has preceded it, and we're happy to see it.

At Trillium Asset Management Corporation ("Trillium"), we are seeing our own cycle of renewal and growth. In October, we were extremely pleased to welcome our new CEO, Matthew Patsky. While in one sense Matt is new to Trillium, in another sense his own career harvests the seeds that Joan Bavaria planted. Matt was an early subscriber to *Investing for a Better World*, in its previous incarnation as *Franklin's Insight*. Joan co-created and co-founded the Social Investment Forum and Ceres, two organizations that harrowed the ground and fertilized the soil for social and environmental investors. I was an early employee of Trillium, and I remember our concern

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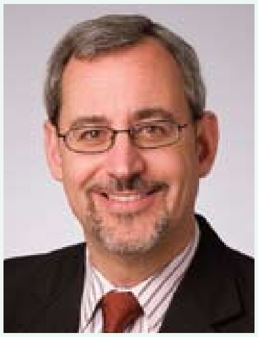

Q&A With New CEO Matt Patsky

Your investment career started in 1984 at Lehman Brothers. How did you find your way into SRI?

My first experience with socially responsible investing (SRI) came a bit early in life. Growing up I had a keen interest in the stock market and actually made my first investment in a mutual fund at age eleven. With only $500 saved from shoveling driveways, mowing and raking lawns, I decided a mutual fund was the best way to start investing. The fund I selected was Dreyfus Third Century Fund, which was one of the earliest SRI mutual funds. It made intuitive sense to me even back then that investing should include looking at the sustainability of the business practices of the companies you are investing in.

After graduating from Rensselaer Polytechnic Institute, I was recruited to work as part of the technology equity research team at Lehman Brothers in 1984. While working at Lehman, I began to explore incorporating environmental, social, and governance (ESG) factors into the research I was doing. In 1989, as I shifted into the consumer growth space, I began to incorporate these factors into my research.

What was attractive to you about Trillium?

Trillium is one of the iconic brands in the SRI world that I first interacted with as a client. While looking at incorporating ESG factors in my research at Lehman, I met Joan Bavaria of Franklin Research, as it was known then, and was an early subscriber to their newsletter *Franklin's Insight*. Joan, along with a number of the early visionaries in the field, had encouraged my thoughts of building a franchise within the sell-side that incorporated these broader issues.

I had long admired the work of both Joan Bavaria and Trillium and was quite humbled to have received a call asking if I would consider the role of CEO of the company.

Trillium's been a pioneer in SRI research and advocacy since 1982. The field has grown exponentially since then in assets under management, the range of investment products offered and in many other ways. How do you see Trillium evolving in this more competitive environment?

I was pleased to find in my due diligence of Trillium that not only did the company have a brand with authenticity in the area of SRI research and advocacy, but a solid 10-year track record of investment out performance. This is a competitive advantage that I do not believe is well known in the marketplace. Trillium has a long and well-established leadership role in shareholder advocacy. This commitment will remain as strong under my leadership and is a distinct differentiator versus our competition. The firm also was an early pioneer in the field of community investing. This is also a key competitive advantage.

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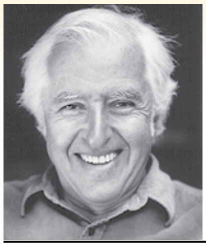

Business's Enduring Image: Venality!

It Seems to Me

by Milton Moskowitz

I recently saw *The Informant*, starring Matt Damon as Mark Whitacre, the Archer Daniels Midland whistleblower who exposed his company's blatant conspiracy to fix the price of lysine, an additive given to feedlot cattle and other livestock. I remember reading the book of the same name by *New York Times* reporter Kurt Eichenwald, and how amazed I was at the details of this conspiracy. Whitacre and other ADM executives met with their peers at competing companies in hotel rooms across the world where they fixed lysine prices and apportioned the market shares each of the companies would get.

If that wasn't enough, Whitacre, who had been diagnosed as bipolar, was stealing money from ADM – $9 million, in fact, stashed in a secret Swiss bank account. His loopy behavior is caught so well in the movie that it provokes peals of laughter from the audience.

I have long been interested in writing a book on the portrayal of business in novels, plays, films and television. It has always struck me as ironic that in a culture that celebrates its business acumen, this esteem does not show up in literature or the dramatic arts. On the contrary, business people have been generally derided or despised in popular media, long before the current scandals delivered a host of new examples of perfidy in the executive suites.

So *The Informant* joins the library of artworks and popular culture wherein the villain you love to hate is the businessman or business woman (see below). It's quite a legacy.

The events of the last two years will no doubt inspire new works that illuminate the seamy side of capitalism. Writers will have a rich lode of material to work with: Bernie Madoff, Bernard Ebbers, Richard Scrushy, AIG, Fannie Mae, Freddy Mac, Countrywide, Chrysler, Siemens....

Siemens strikes me as an especially good candidate. With 420,000 employees, the German company is the 13th largest private employer in the world. It has gone through a gut-wrenching shakeup that saw two CEOs ousted because of a bribery scandal.

When I first started to write about social responsibility in business forty years ago, bribery was a prominent issue. American companies argued that they were disadvantaged in global markets because competitors engaged in bribery. In 1978 Congress prohibited U.S. companies from paying bribes, ostensibly putting the issue to rest. Not so.

In 2005, prosecutors in Germany and the Securities and Exchange Commission began uncovering a well-organized, massive and routine system of bribery deployed by Siemens. Different units maintained kitties to dole out these bribes all over the world. The telecommunications unit had an annual bribery budget of $40 to $50 million. The bribes were usually five to six percent of a contract's value but in especially corrupt countries it could go as high as 40 percent.

All told, Siemens spent $1.4 billion on bribes from 2001 to 2007. Five million went to the son of the Bangladeshi prime minister to win a mobile phone contract. In Argentina, Siemens put up $40 million in bribes to secure a contract to produce national identity cards. In Israel, $20 million went to government officials for a contract to build power plants. And so on.

Siemens did not deny the charges. In fact, it cooperated with the prosecutors. In the end, it paid $1.6 billion in penalties, the largest fine ever levied on a corporation for bribery, and $1 billion for internal investigations and reforms. How could it add up to so much? Siemen's law firm assigned 300 people to the case – lawyers, forensic analysts and staff members. The lawyers and an outside auditor racked up *1.5 million* billable hours.

Lucky Siemens has deep pockets, with $123 billion in revenues in 2008.

And what a good movie it would make.

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).

There Will Be Blood
Michael Clayton
The Constant Gardener
Wall Street
Glengarry Glen Ross
Erin Brockovich
The Insider
All My Sons
Pretty Woman
The Hucksters
Mad Men
Black Gold
Babbitt
Sister Carrie
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Gain
Underworld
The Axe
American Pastoral
Moral Hazard
The Man in the Gray Flannel Suit
Microserfs
The Spiked Heel
A Civil Action
Citizen Kane
Silkwood
Boiler Room
The Hudsucker Proxy
Robocop
The Financier
The Octopus
Something Happened
The Jungle
Modern Times
The Power and the Glory
Sabrina
Rollover
Putney Swope
Rising Sun
Jurassic Park
Bodies Electric
Ragtime
JR
Cash McCall
Red Harvest
Other People's Money
The Tin Men
My Cousin Vinny
Trading Places

Financial Reform Hits the Skids *(continued)*

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Indeed there has been widespread agreement that the financial system is flawed in many important ways. The list of ills is long and varied – greed, overconfidence, stupidity, lack of accountability, excessive compensation, under-resourced regulators, uncoordinated regulation, conflicts of interest, and too many financial intermediaries.

It has been persuasively argued that reform efforts are necessary because under our current regulatory system and government guarantees, large financial companies are excessively insulated from the risk of failure. Many features of our system promote excessive risk-taking and while such risks may (or may not) meet the narrow interests of particular financial institutions or their managers, they may not meet the interests of society and the larger economy. This factor is of particular interest to investors who have an eye on long-term and sustainable performance. We need a system that aligns the interests of financial company executives with socially beneficial and sustainable long-term performance.

We need a system that aligns the interests of financial company executives with socially beneficial and sustainable long-term performance.

The impact of the near-collapse of the financial system has been felt far and wide, with the greatest burden falling on the poor and underprivileged. Unemployment hovers at ten percent. The "hidden" unemployment rate, which includes discouraged and underemployed workers, is estimated at 17%. Many economists fear that without further action, the recovery will be a jobless one. Foreclosures continue to stalk communities as the dream of being more prosperous than the previous generation seems farther away.

The Obama administration's first tangible response to this crisis was its June 2009 plan, *Financial Regulatory Reform: A New Foundation*, which outlined five goals: (1) promote robust supervision and regulation of financial firms, (2) establish comprehensive supervision of financial markets, (3) protect consumers and investors from financial abuse, (4) provide the government with the tools it needs to manage financial crises, and (5) raise international regulatory standards and improve international cooperation.

These goals are similar, but also different in very important ways, to those of the Social Investment Forum, which called for improved corporate governance, disclosure on environmental, social and governance factors, regulation and oversight of all investment products, 'resourcing' the regulators, creation of a systemic risk regulator, better consumer protection, and improving the rating agencies. (Cheryl Smith of Trillium Asset Management Corporation serves as the Social Investment Forum's board chair.)

But for all intents and purposes, nothing has been done thus far. For all of the talk of crisis and opportunity – of a real need to change business as usual – there has been surprisingly little done since the eight days in September 2008 when Lehman Brothers went into bankruptcy and Merrill Lynch was absorbed into Bank of America. "I think the real danger here is almost nothing done to prevent another financial crisis from coming down the pike," said Jeffrey Garten, former dean of the Yale University business school and a top international economic adviser to former President Bill Clinton. Former Clinton labor secretary Robert Reich observed "Congress is struggling to produce the tiniest shards of regulation that would at least give the appearance of doing something to rein in the Street," for which he lays most of the blame on political donations. In fact, lobbying by the financial services industry even prompted President Obama and several administration officials to call on Wall Street to stop lobbying against the proposed regulations.

Where do we go from here, as citizens, voters, and investors?

One avenue is through Americans For Financial Reform (AFR), a large umbrella organization of many familiar organizations from the SRI, union and consumer advocacy communities. AFR is pressing the administration and congress to move quickly to "to repair our nation's broken financial system, establish integrity in the financial markets, and facilitate productive economic activity that benefits all segments of our communities." AFR provides position papers, action alerts, and legislative updates.

We can also support legislation such as the Shareholder Bill of Rights or the Consumer Financial Protection Agency Act. The Social Investment Forum has been coordinating lobbying in support of these bills and Trillium has been an active participant in those actions.

These efforts, aimed at generating a government response to the crisis, are the most popular and obvious ways to address systemic financial reform. To focus exclusively on them, however, as some have, is to miss the role that other change agents like shareholders can play. Shareholders have a critical role to

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Financial Reform Hits the Skids *(continued)*

play in fostering socially desirable outcomes. While many apologists for corporate management have blamed shareholders for the crisis, their arguments fail to take into account the fact that many shareholders do not exercise direct influence over management and are in fact distanced from corporate executives by layers of brokers, mutual fund managers and investment firms. As Judge Leo Strine, Jr. of the Delaware Chancery Court recently put it:

> *The difficulty is compounded when those who directly influence public corporations are not primarily end user investors focused on the long term and keenly worried about excessive risk – think workers who must invest in mutual funds for retirement – but far more likely to be financial intermediaries whose investment horizons are often less than a year.**

Shareholders need to surmount these barriers and exercise their unique rights to advocate for meaningful reform. In recent years we have seen growing support for shareholder proposals that call for advisory votes on executive pay packages, independent board chair, and political contribution disclosure. These votes, in some cases majority votes, indicate that many shareholders are ready to take a more active role in corporate governance – an important step towards meaningful corporate social responsibility.

At Trillium we are at the nexus of those interests and for years have taken this opportunity as a shareholder to hold financial companies accountable and to push them to conduct themselves in a socially beneficial manner. We have filed and co-filed shareholder proposals for the last seven years at companies like **AIG**, **JP Morgan**, **Bank of America**, **Wells Fargo**, **Citigroup**, **Countrywide**, and **Goldman Sachs** on issues such as social impact reporting; predatory lending, and executive compensation. This year, we have submitted shareholder proposals to Goldman Sachs on executive compensation and **State Street Bank** on political contributions. These proposals make it clear that as far as we are concerned, the days of business as usual are over.

We are extremely concerned at the lack of meaningful financial reform in the last 18 months and firmly believe we must continue to apply pressure on the financial services industry to reform. As Chief of Staff Rahm Emmanuel is famous for saying, "never let a serious crisis go to waste." We heartily agree and will remain strong advocates for socially responsible behavior at the financial services companies in our portfolios.

* "Risk-Taking by Boards and the Financial Crisis", October 7, 2009 at http://www.directorship.com/author/leo-strine-jr/. In the previous *Investing For A Better World*, we wrote about efforts to empower shareholders to exercise their influence directly rather than through intermediaries such as brokers, mutual fund managers and investment firms.

The "Cleaner" Fossil Fuel? *(continued)*

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Company in the middle of last century. By some estimates, hydraulic fracturing is used in over 90 percent of natural gas wells in the country.[1]

The use of hydrofraccing has opened up a drilling and exploration boom across the country including the Rocky Mountain west, Texas, Louisiana and the mid-Atlantic region. Development of the Marcellus shale (which runs underneath West Virginia, Ohio, Pennsylvania and New York), according to the US Geological Survey, could supply the natural gas needs of the US for 15 years.[2]

As the use of hydrofraccing skyrockets, communities, regulators and investors are growing increasingly concerned about the environmental impacts of this process. Hydrofraccing requires significant land use modification, including the clearing of up to five acres per drilling site, disruptive new roads and the transport of toxic chemicals through established communities.[3] Furthermore, it is incredibly water intensive, with each well requiring three to nine million gallons of water – a high level concern considering that much of the nation's gas drilling takes place in drought-prone Texas and the western Rocky Mountains. What is receiving the most attention, however, is that while toxic chemicals make up only a tiny fraction of the fracturing fluid, given the significant quantities of water used and produced, the quantities of toxics present is very

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1. Senator Robert Casey, Jr. ,"Statement for the Record, Introduction of the Fracturing Responsibility and Awareness of Chemicals (FRAC) Act," June 9, 2009.

2. Daniel J. Soeder and William M. Kappel, "Water Resouces and Natural Gas production from the Marcellus Shale", US Geological Survey, May 2009.

3. Polly Howells, Don't Frack With Our Water," *In These Times*, October 4, 2009.

The "Cleaner" Fossil Fuel? *(continued)*

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significant. For example, an average fracturing operation using three million gallons of water produces wastewater containing 15,000 gallons of chemicals that are then often stored in open-air pits.[4]

These toxic fluids have the potential to contaminate groundwater and the surrounding environment. According to independent tests done in Colorado in 2008, at least 65 chemicals used by natural gas companies were defined as hazardous under the major federal statutes designed to protect against toxic contamination. If these chemicals were released from an industrial facility, reporting to the Environmental Protection Agency (EPA) would be required, and specific clean-up protocols prescribed. But thanks to what has become known as the "Halliburton loophole," natural gas drilling has escaped rigorous regulation.

The EPA regulates chemicals used in underground injection under the Safe Drinking Water Act. The 2005 Energy Policy Act, shepherded through Congress by former Vice President Dick Cheney, a former CEO of Halliburton, stripped the EPA of its authority to monitor hydraulic fracturing — resulting in natural gas being the only industry to benefit from such an exemption.[5] Environment America, Earthjustice, the Natural Resources Defense Council, the Oil and Gas Accountability Project and the Western Organization of Resource Councils are some of the organizations calling on Congress to close the Halliburton loophole. In June of this year, legislation was introduced in Congress to reinstate the EPA's authority to regulate hydraulic fracturing under the Safe Drinking Water Act.[6] According to one of its sponsors, Representative Jared Polis (D-CO), "It is irresponsible to stand by while innocent people are getting sick because of an industry exemption that Dick Cheney snuck in to our nation's energy policy. Many new sources of energy, including natural gas, will play an important role in our nation's transition to cleaner fuels, but we must make sure this isn't at the expense of public health. The problem is not natural gas or even hydraulic fracturing itself. The problem is that dangerous chemicals are being injected into the earth, polluting our water sources, without any oversight whatsoever."[7] But with this year's packed legislative agenda, the bill has yet to significantly move forward.

"It is irresponsible to stand by while innocent people are getting sick because of an industry exemption that Dick Cheney snuck in to our nation's energy policy…"

Investor activity

Green Century Capital Management, in partnership with the Investor Environmental Health Network, is playing a leading role in mobilizing investors concerned about hydrofraccing. As environmentally responsible investors, we are highly cognizant of both the potential environmental and financial impacts of hydrofraccing. For companies using hydraulic fracturing, the increased costs and financial risks include accidents and explosions, regulatory action and media attention. In Colorado, New Mexico, Alabama, Ohio and Pennsylvania, one thousand cases of contamination attributable to fracturing have been documented by the courts and state and local governments. For example, in Pennsylvania, Cabot Oil and Gas was forced to shut down its fracturing operations and pay thousands of dollars in fines after failing to adequately protect the environment.

In another highly publicized case, a Colorado woman developed a very rare tumor that had been linked to chemicals used in fracturing operations. While initially denying the use of the chemical in the wells surrounding her house, **Encana Corporation** eventually disclosed its usage and paid out a reportedly multi-million dollar settlement.[8] In other cases, companies have been forced to truck in water to individuals alleging damage to

Continues next page

4. See Footnote 2.

5. Abrahm Lustgarten, "Democrats Call for Studies as Industry Assails Proposals to Regulate Hydraulic Fracturing," ProPublica.org, July 13, 2009.

6. Senator Robert Casey, Jr., "Statement for the Record, Introduction of the Fracturing Responsibility and Awareness of Chemicals (FRAC) Act," June 9, 2009.

7. Representative Jared Polis, June 9, 2009 press release.

8. Abrahm Lustgarten, "Drilling Process Cause Water Supply Alarm," *The Denver Post*, November 17, 2008.

The "Cleaner" Fossil Fuel? *(continued)*

their water supplies. Situations such as these are motivating our investor group to encourage companies to eliminate the most harmful toxic components of hydrofraccing fluids, switch to safer alternatives, and increase transparency around both the chemicals used and the risks associated with this process.

The desire of companies to drill in close proximity to the New York City watershed is generating serious backlash. Community groups and regulators are concerned that even one accident could devastate the drinking water supply for nine million people.

New York State is currently revising its regulations governing natural gas drilling, including in the watershed area. An encouraging trend is the recent willingness of some companies to take action even before these guidelines are completed. In late October, **Chesapeake Energy**, the only company to hold leases within the watershed, announced it would voluntarily refrain from drilling within the boundary. In announcing its decision, Chesapeake's CEO said, "How could any one well be so profitable that it would be worth damaging the New York City water system?"[9] Beyond this admission, companies are beginning to support calls by the investor and environmental communities for increased transparency and disclosure. Earlier in October, Chesapeake's CEO called on the industry to "disclose the chemicals that we are using and search for alternatives…."[10] Days before, **Schlumberger**, second only to Halliburton in providing fracturing services to natural gas companies, said it is pushing its suppliers to increase disclosure. A **Southwestern Energy** board director was quoted saying, "Let's just put it out there, we're better off."[11]

Investors have contacted more than 20 companies, including Chesapeake, **Williams**, and Halliburton, to gather more information about their employment of this technique, any steps they are taking to minimize the use of toxic fluids, and their willingness to disclose the chemicals being used. Trillium Asset Management Corporation has written to Halliburton, a leader in developing hydrofraccing technology that plays a particularly important role in the proliferation of this technology, and will also be reaching out to **Anadarko** and **Southwestern Energy**.

As more and more companies are drilling exploratory wells and determining the viability of their lease holdings, it is imperative to ensure that hydrofraccing unlocks natural gas in a way that does not endanger our drinking water and other natural resources.

Larisa Ruoff directs the Shareholder Advocacy program at Green Century Capital Management. Trillium Asset Management Corporation provides portfolio management services to Green Century's Balanced Fund. To learn more about Green Century Capital Management and its work to advocate that corporations be more environmentally responsible, visit www.greencentury.com.

9. Jad Mouawad and Clifford Krauss, "Gas Company Won't drill in New York Watershed," *The New York Times*, October 28, 2009.
10. Katie Howell, "Spills, Looming Regulations Spur Natural Gas Industry Toward Disclosure," *The New York Times*, October 1, 2009.
11. David Wethe, "Schlumberger Presses for Shale-Gas Openness as Regulation Looms", Bloomberg.com, September 29, 2009.
12. See "Betting on the Farm" from the Spring 2009 issue of *Investing For A Better World*.
13. *American Journal of Epidemiology*, April 15, 2009.

Q&A With New CEO Matt Patsky

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What do you envision for the future of Trillium?

Trillium is one of the oldest and strongest franchises in the SRI industry. We have been incorporating environmental, social and governance factors since 1982. As the broader investment universe is beginning to look at these factors as a meaningful long-term contributor to alpha generation, I believe we are in a very enviable position. We, in the SRI community, have long been waiting for institutional investors, particularly the endowment, foundation and retirement plan market, to recognize the benefit of incorporating non-financial metrics into the investment process. That day is finally arriving and Trillium stands to be a major beneficiary of this trend. I believe we will look back five years from now and still stand as the largest independent, employee owned firm in the SRI industry.

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by Natasha Lamb, MBA

Glass is a true cradle-to-cradle material. Unlike plastics, glass does not degrade in the remanufacturing process, enabling a continuous cycle of use and reuse. Owens-Illinois, Inc. (NYSE – OI) is the largest global player in glass containers, with the technology to use 90% recycled glass in its manufacturing. OI is also the largest user of recycled glass containers in the US, recycling approximately one million tons per year. Although virgin glass forming is an energy-intensive process, with energy costs contributing 15–20 percent of total container cost, recycled inputs lower the cost substantially. Further, the company has developed a process to reduce the amount of glass in a typical bottle by 10–20 percent, resulting in increased strength and lower material and transportation costs.

On the consumer safety front, glass containers are considered the safest packaging material; they do not leach toxins into food and liquids as do plastics that contain toxins such as bisphenol A. OI's business has fundamental strengths given the sustainability profile of its products, and although the company's environmental, social, and governance (ESG) strategy is nascent, it is well positioned to become an ESG leader if it engages in sustainability reporting and target setting.

OI is also poised to benefit from a cyclical upturn in glass demand as the broader economy recovers. Glass demand bottomed in the first half of 2008, as global volumes fell 12–15 percent, but is showing signs of improvement. In the second quarter of 2009, OI's volumes increased 14 percent on a sequential basis, boosting operating profit. OI is also actively working to improve margins through price increases and cost reductions. The company's current operating margin is now greater than its peers and the strongest it has been in the last 15 years.

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by Natasha Lamb, MBA

Lighting consumes 22 percent of the electricity generated in the US and CREE, Inc. (NYSE – CREE), the leader in LED technology, is tackling this inefficiency head on. In fact, the Department of Energy estimates that LED adoption could lead to power savings equivalent to 27 one-gigawatt coal-fired power plants.

LEDs are a game changer and the only real innovation in lighting in over 100 years. Their environmental and cost saving profile includes inherent advantages over incandescent and compact fluorescent bulbs, including enhanced efficiency, lifespan, and more ecologically sound materials. LEDs are 90 percent more efficient than incandescents, last 20 times longer, and do not contain mercury, a hazard present using and recycling CFLs. The short 1–2 year payback justifies higher their upfront cost.

With only 1 percent penetration in the $40 billion worldwide lighting industry, demand for LED technology is growing and Cree's high quality LEDs are steadily gaining share. In 2008, demand for LED lighting applications grew 39 percent, fueled by government support, the replacement market, and legislation banning incandescent bulbs. The US Energy Independence and Security Act of 2007 has phased out incandescent bulbs in Federal buildings, while Australia has restricted imports of inefficient bulbs. The Chinese government intends to install four million LED streetlights in the next two years, for which Cree is a supplier.

LED backlight applications are also driving Cree's growth. LED notebooks and TVs are more energy efficient, thinner, and boast better performance. LED TV penetration is expected to increase from three to 39 percent in the next five years.

Cree is expected to grow earnings 19 percent on a long-term annual basis, while earnings are forecasted to increase 80 percent in 2009 thanks to production efficiencies. Cree's strong cash position, at $4/share, and lack of debt will boost growth further as the company makes strategic acquisitions.

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

Community Investment News

by Randy Rice

Opportunity Finance Network

Overview

Opportunity Finance Network (OFN), formerly the National Community Development Loan Fund, is the leading network of private financial intermediaries identifying and investing in opportunities to benefit low income and low wealth people in the U.S. OFN members include community loan funds, community development financial institutions (CDFIs), community banks and credit unions.

OFN's vision is "a world where all people experience social, economic, and political justice and so have the opportunity to act in the best interests of their communities, themselves, and future generations. Our mission is to lead the opportunity finance system to scale through capital formation, policy, and capacity development."

Programs

To transform community development finance into a high-volume financing system, OFN finances CDFIs directly with an eye toward identifying and financing the systems that alter how the CDFI industry works. This enables scale and productivity involving hundreds of CDFIs. Within the OFN Financing Fund, the Manufactured Housing Communities (MHC) Fund is designed to preserve and expand the supply of affordable housing options available to low-income households. The MHC Fund makes financing available to CDFIs for manufactured housing communities that are converting from investor-ownership to resident-controlled ownership. As of September 30, 2009, OFN's Financing Fund had $53.8 million in loans and investments outstanding and an additional $2.9 million in financing commitments. OFN's investors, who have provided the resources for the Financing Fund, include banks, foundations and religious institutions.

As part of its core business model, OFN acts as an information and networking conduit between community investment stakeholders in the US. OFN hosts an annual community investment industry conference, which Trillium Asset Management Corporation ("Trillium") regularly attends. The 2009 conference's core curriculum on stabilization and growth featured more than 30 sessions designed to help CDFIs and investors navigate in these "best of times, worst of times," and emerge from today's challenging market prepared to seize opportunities in "the new normal." OFN collects industry data and publishes a quarterly "Market Conditions Survey." The organization also hosts conference calls and regional meetings.

The CDFI Assessment and Ratings System (CARS™), the only rating system of its kind for CDFI investors, is a program started by OFN. CARS™ is a comprehensive, third party analysis of community development financial institutions that aids investors and donors in their investment decision making. Trillium was one of an inaugural group of sixteen CDFI investors, including banks, socially responsible investors, and foundations, to use CARS™ in our due diligence process. As of September 30, 2009, CARS™ had completed 65 ratings on 50 CDFIs (15 of those were re-ratings) with 11 additional reviews in process. Twenty-one CDFIs are scheduled for review in 2010, with nine more pending and 44 more in the pipeline for 2010 or 2011.

OFN's policy division is actively engaged in the core issues and programs that advance economic development resources for CDFIs at the federal level. Overall, OFN members received almost two-thirds of the total funds available to CDFIs in both the American Recovery and Reinvestment Act of 2009 and its supplemental funding rounds. OFN recently worked on appropriations legislation for FY2010 in which President Obama proposed to double last year's appropriation for the CDFI Fund.

Impact

OFN has 173 members at work in low wealth urban, rural, and Native communities in all 50 states. With more than $20 billion invested through FY 2008, these funds have financed approximately 43,000 businesses, 578,000 housing units, and 9,600 community facility projects – generating or maintaining over 191,000 jobs.

Trillium's History with OFN

Trillium is proud of our long association with OFN, which traces back to the organization's inception as the National Community Development Loan Fund. Trillium clients were early investors in the Fund. For more than two decades Trillium has partnered with OFN and many of its member organizations, investing our client's assets for a high social and environmental impact with a modest financial return.

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

Shareholder Activists Win Important Victory at SEC

Proposals on Vital Topics Less Likely to be Excluded from Shareholder Scrutiny

by Jonas Kron

What a difference a change in Administration makes. Champagne corks popped in the offices of socially concerned shareholders all throughout the land in October, when, with a few strokes of the pen, the Security and Exchange Commission (SEC) restored a necessary dose of common sense to the shareholder resolution process lacking in the Bush years.

To appreciate the change, a little background is necessary. When filers of shareholder resolutions send off a resolution to a company, said company will typically scrutinize it to see if it conforms to rules governing such proposals, rules that are enforced by the SEC. If it believes that it does not conform to those rules, it can appeal to the SEC for permission to exclude the resolution from its proxy statement (the annual ballot sent to shareholders that allows them to vote on both shareholder and management resolutions). The SEC then weighs the company's and the shareholders' arguments and makes a decision in advance of the annual stockholder meeting.

You don't need a law degree to see that everything depends on how the SEC interprets the rules. It may come as no surprise that under the previous administration, the agency took a sweeping view that the risks associated with such topics as climate change, subprime lending, toxic chemicals, rising healthcare costs and other pressing issues were not a suitable subject for shareholder proposals.

This so-called "risk evaluation exclusion" severely cramped the ability of shareholders to hold corporations fully accountable for the financial, environmental and social implications of their policies in these high profile issue areas. Socially concerned shareholders universally saw it as a major impediment to meaningful activism.

For example, two years ago the SEC gave Lehman Brothers and Washington Mutual permission to exclude proposals that asked for "a report discussing the company's potential financial exposure as a result of the mortgage securities crisis," because they did not raise a "significant public policy issue." This was just months before Washington Mutual went into receivership and Lehman had to file for bankruptcy because of their mortgage related risk exposure.

A year later, the SEC gave the thumbs-down to proposals filed with several coal companies that requested reports on greenhouse gas emissions. All three proposals were excluded because they focused on the "day-to-day affairs" of the company. However, identical proposals went to a vote at a couple of other companies that declined to challenge them, where they received over 40% of the vote. Clearly in the opinion of the shareholders, the issue of greenhouse gas emissions was anything but a "day-to-day affair" for coal companies. It should also have been abundantly clear to the SEC that climate change was a significant policy issue, given the legislation before Congress and vigorous public debate on how best to reduce greenhouse gases.

The SEC explained that these proposals were inappropriate for shareholder consideration because they sought an "evaluation of risk." This was the reasoning formalized in an SEC legal bulletin in 2005 that laid the foundation for what became an ever expanding barrier to effective shareholder engagement with management, directors and fellow shareholders.

Shareholder advocates like ourselves found that explanation untenable. Understanding risk is a critical component to any investment strategy. So prohibiting questions about risk, at best, seemed inconsistent with the SEC's mandate to protect investors, and at worst lacked in common sense. The timing of these new policies also smelled of politics, emerging after the 2004 Presidential election and the further entrenchment of Bush era staff appointments.

Following years of organizing to push the SEC and Congress to address our concerns, Trillium took a leadership role to fix the situation. In November 2008, Trillium helped draft a letter from 60 prominent shareholders to then president-elect Obama calling for the retraction of the 2005 legal bulletin. With pressure growing on the SEC, in September 2009, the agency held an invitational meeting at the Commission's headquarters to discuss these issues. At the meeting, I argued vigorously for a rational approach that respected shareholders' legitimate concerns about both the economic, social and environmental performance of companies and how these issues impact portfolio company performance.

Hence our profound relief and gratification when the SEC quickly responded and reversed the previous policy just in time for the 2010 shareholder season. This change is compel-

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Shareholder Advocacy

What's On Your Plate? Pressing Chipotle on Pesticides

by Susan Baker

Trillium Asset Management Corporation ("Trillium") has been pressing restaurant chains to reduce the use of pesticides in their supply chains, continuing our research and advocacy on sustainable food and agriculture.[1]

Reducing pesticides is a logical step toward protecting the health of farm workers and consumers and minimizing soil and water contamination. The introduction of GMO seed has actually resulted an increase in pesticide use. Yet the restaurant industry has by and large failed to exercise its influence for good in this area. We think it is important for restaurants to get active to reduce pesticide use for a couple of reasons.

First, new research is providing stronger evidence of the link between pesticides and serious conditions such as cancer and other chronic diseases. For example, scientists have known for some time that two pesticides commonly used on tomatoes and other vegetables, maneb and paraquat, trigger a neuro-degenerative process that leads to Parkinson's disease in animals. In April 2009, two UCLA researchers produced the first study linking the two to high rates of Parkinson's disease in humans as well. Residents of California's largely agricultural Central Valley exposed to maneb and paraquat showed a 75 percent increased risk of developing Parkinson's disease over a 25-year span. The risk of disease increased with earlier exposure in life.[2]

Second, as attested to in the growth of organic food purchases, consumers are paying more critical attention to the origins of their food. Although organics still represent a very small slice of overall food sales, their sales tripled from $393 million in 2002 to $1.7 billion in 2007. Consumers' access to good information about pesticides is improving. The Pesticide Action Network (PAN) recently launched a "What's On My Food" website and iPhone app. The app pairs US Department of Agriculture pesticide residue and toxicity data with common fruits and vegetables for easy lookup in the producer aisle.

In recent months we've approached **Chipotle Mexican Grill** about pesticides. Chipotle offers fast food diners burritos, tacos and salads made with fresh ingredients. Using the slogan "Food with Integrity," the company sells hormone and antibiotic-free sour cream, chicken and pork. Customers who never before gave much thought to where restaurant meat came from can learn about Chipotle's meat suppliers on its website.

In dialogue and letters to the company over the past year, we've been pushing Chipotle to take their good intentions further, into produce as well as dairy and meat. We've asked the company to disclose what steps they are taking to promote sustainable produce farming. Chipotle told our shareholder group that it is gathering data on water and pesticide management from its avocado suppliers. The company's web site discusses its sourcing of organic beans (35 percent of total bean purchases). However, the water and avocado efforts are not reported publicly.

In collaboration with members of the Investor Environmental Health Network, Trillium is filing a proposal asking Chipotle to publish a comprehensive report to shareholders discussing how the company is addressing pesticide use reduction in its supply chain.

Chipotle can bolster the credibility of "Food with Integrity" by prioritizing pesticide use reduction, beginning with high-residue crops such as green peppers, tomatoes and lettuce.

Chipotle's forays into sustainable purchasing lead us to believe the company can undertake this work more holistically and more transparently. Doing so will be certainly be a factor in the company's successful entrée into the UK next year, where consumer awareness and expectations about supply chain issues is higher.

1. See "Betting the Farm" from the Spring 2009 of *Investing for a Better World*.

2. *American Journal of Epidemiology*, April 15, 2009.

Shareholder Activists Win Important Victory at SEC *(continued)*

ling confirmation that the SEC is taking positive steps to bring its actions in line with its mission to protect investors and serve the public good. Over the next year we will continue our advocacy at the SEC so that it facilitates meaningful shareholder engagement on the important social and environmental issues confronting companies.

Trillium Asset Management Corporation's 2010 Shareholder Resolutions

Note: This list includes "lead filings," where Trillium Asset Management Corporation heads up a coalition of shareholder advocates, and "co-filings," in which we participate in filings led by others. In the table below, ***our lead filings are indicated in bold.***

Issue	Company	Action
Coal Ash	FirstEnergy[2]	Report on efforts to manage coal combustion waste
In-person shareholder meetings	Intel[1, 2]	Drop plans to conduct shareholder meetings exclusively online
Environmental Health	Coca Cola	Report on Alternatives to Bisphenol-A
Environmental Justice	Chevron	Add environmental expert to board of directors
	PPG	Disclose environmental impacts at community level
Equal Employment Opportunity	**Home Depot**	Disclose workplace demographic data
Executive Pay	Goldman Sachs[1], **Plum Creek**	Allow shareholder vote to approve executive pay packages
	JPMorgan[1]	Report upon and justify disparity between highest- and lowest-paid workers
Inclusive LGBT Workplace Policies	**Questar**, Gardner Denver, Lincoln Electric[2]	Ensure nondiscrimination policies cover lesbian, gay, bisexual and transgendered workers
Media Responsibility	**AT&T**, **Google**, Comcast, Verizon	Implement "net neutrality" principles (free and open Internet)
Mountaintop Coal Removal	Bank of America	Report on implementation of policy to avoid financing mountaintop coal removal
Tar Sands	ConocoPhillips, Exxon-Mobil, BP	Report on environmental and social impacts of tar sands oil extraction
Pesticide Use Reduction	**Chipotle**	Report on company policies to reduce pesticides in the supply chain
Political Contributions	**Ford**, **State Street Bank**, **Halliburton**	Provide comprehensive disclosure of all contributions used for political purposes
Separate Chair and CEO Positions	Whole Foods[2]	Require board chair to be an independent director
Sustainability Report	Costco	Issue a sustainability report

1. Collaboration between client and Responsible Wealth, a project of United For A Fair Economy.

2. Successfully withdrawn this autumn.

Dear Reader

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that Joan expended so much of her time and energy outside of the company – didn't she know that we needed her at Trillium? Yet Joan continued to give her time and her effort to the world at large – encouraging investors, encouraging research analysts, gently (and not so gently) prodding companies to create a better, cleaner, greener, and more just world. Matt is one of the many people Joan encouraged along the way. He comes to Trillium eager to extend and grow Trillium's expertise in research, advocacy and community investment. He is a member of the Social Venture Network, and an active board member for Root Capital, which provides financing to sustainable businesses in the developing world.

So we at Trillium are now reaping Joan's harvest. Her generosity to others has built the overall field, and we benefit from her efforts so many years ago. Matt brings a wealth of experience as an analyst, as a portfolio manager, and as a colleague. We've added to our research staff, and are busy developing our advocacy plans for the spring proxy season. At Trillium, we are all invigorated, enthusiastic and very glad to have Matt leading us as we work together to build a better and more just world. We hope that you will join us in this next cycle of renewal!

Cheryl L Smith

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