

January 2006

Dear Client:

In addition to your quarterly reports here, First Affirmative will prepare and send under separate cover, a 2005 Realized Gains and Losses report for each managed *taxable* (non-retirement) account that had realized gains or losses for the year. *Please provide those to your tax preparer along with the 1099s from the account custodians.* Doing so may save you time and reduce tax return preparation fees.

If applicable, we also recommend you have a discussion with your tax advisor regarding your eligibility and limits for IRA and/or other retirement account contributions.

2005 was a rather modest year, looking back, for most financial investments—unless you were in certain emerging stock markets, war contractors, and select commodities including petrochemicals. On the other hand, it was truly a banner year across the board for socially responsible investment movement campaigns. You wouldn't know it from the mainstream press, but we recently saw some amazing milestones and significant accomplishments.

SRI went mainstream in 2005. Goldman Sachs, UBS, and Citigroup each initiated research and other projects looking into how corporate social responsibility (CSR) and SRI approaches might help their businesses. One of the world's largest investment consulting firms, Mercer, launched a research service providing environment, social, and governance (ESG) performance metrics on investment managers.

A higher-level and more complex item last year was the [report](#) issued by mainstream, international law firm, Freshfields Bruckhaus Deringer. The study and report was commissioned by the United Nations Environment Programme Finance Initiative. It established that fiduciary duty not only allows ESG considerations, but also sometimes requires them. This will support the ESG integration work that is being done at some of the largest institutionally managed accounts such as pensions and trusts. (See the related article in this quarter's FAFN Affirmative Thinking newsletter.)

Numerous major corporations, responding to shareholder and NGO activities, are beginning to integrate CSR and ESG language in their shareholder reporting. A couple of surprising examples of this were [GE](#) and [Wal-Mart](#)—although of course, we'll have to monitor their actual performance in these areas before considering investment.

The United Nations offered recognition of the importance of community development financial institutions and proclaimed 2005 the “[Year of Microcredit](#).”

Social investment industry players such as CERES, ICCR, and many of our portfolio managers [had success with](#) the shareholder resolution process in convincing large oil companies to put climate change and global warming on their active agendas. Companies such as Anadarko, Chevron, Tesoro, and Unocal are now compelled to disclose to us how they are going to minimize their environmental footprints.

And finally, a number of screened exchange traded funds were launched in 2005 giving social investors another way to diversify portfolios. Already, we are seeing some of our managers include these funds in client portfolios.

Why is all this so important? Because it does more to keep corporate behavior in check and encourages their managers and directors to be better people. And what is important about that? Because it means a better world for us (including our plant and animal friends) and those who come after us.

Obviously, our work in these endeavors is far from complete. We have to keep up our vigilance. We have to continue to think and act creatively. We have to work together, cooperatively and strategically. Thank you for participating with us.

If you have any questions, comments, or any changes to report that might affect how your finances are managed, or almost anything else, please give me a call. Otherwise, I look forward to talking with you at your next scheduled financial review.

Warmest regards,

A handwritten signature in black ink that reads "Eric A. Smith". The signature is written in a cursive, slightly slanted style.

Paper or plastic?

If you are reading this on your computer (opted in for FAFN electronic delivery), you can click on the blue Internet hyperlinks to follow those stories. If you are receiving this mailed on paper and wish to switch to electronic delivery, just let me know and I'll send you the one-page form to sign up. I personally find it convenient. Either way you prefer is fine.