

October 2006

Dear Client,

Attached are your First Affirmative generated account reports for the 3rd quarter.

Our environment, social, and governance SRI strategy accounts are earning positive returns overall. However, since SRI portfolios have tended to have a bias towards smaller, cleaner, high-quality, lower risk, and growth-oriented companies and those groups were out of favor in recent financial markets, comparisons have not looked as good as we would like. As is described in the attached Market Commentary, this may be temporary.

In addition, we try to avoid the worst environmentally problematic industries such as mining, oil, gas-guzzlers, military-industrial complex, and greed at any cost governance. Not a single client has expressed remorse about missing out on some short-term recent stock growth in those Bush Administration favorites. But if history and logic are to prevail, our SRI strategies should succeed in the long run because we consider environmental, social, and governance risk factors in the investment process.

Our SRI portfolio managers and other institutional investors are acting decisively to push for improved corporate governance policies and shareholder democracy. For example, initiatives pushing for majority vote to elect directors, performance-based vesting, and disclosure of political contributions were some of the “corporate governance” campaigns this year.

On a related note, nearly 300 environment and social themed shareholder resolutions were filed with major corporations this year. Topics of the resolutions included improved global labor standards, equal employment and non-discrimination, bottler recycling, toxic chemicals, energy efficiency, and of course greenhouse gas emissions reporting. About a third were withdrawn as a result of the target company agreeing to related improvements to their reporting, practices, or policies. See the full report at: www.issproxy.com also see related article “[Support Grows for Social Proposals](#)” on that site.

The attached FAFN Affirmative Thinking newsletter and Market Commentary contains other interesting tidbits. Read about changes to retirement savings rules that might affect you, learn about increased corporate awareness of and action on climate change, and get a fascinating overview about investor psychology.

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

Warmest regards,

