

November 2009

Dear Client,

By now you should have received and reviewed your quarterly First Affirmative generated reports and newsletter. The market recovery that started in the Spring continued through the quarter ending September 30 with the S&P 500 Index up 15% for the quarter, but still down from its 2007 high. Here are the recent numbers for the FTSE KLD 400 Social Index (one of the benchmarks used for SRI stock portfolios), the S&P 500, and a taxable bond index:

	<u>Q3 2009</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
FTSE KLD 400 Index	16.2%	22.6%	-3.7%	-4.2%	1.1%
S&P 500 Index	15.6%	19.2%	-6.9%	-5.4%	1.0%
Barclays Cap Agg Bond	3.7%	5.7%	10.6%	6.4%	5.1%

Total annualized returns through Sept 30, 2009. FTSE KLD 400 inception May 1990. Source: www.kld.com

Because of the recent “black swan” outside the norm economic and market events, looking back five, even ten years, the stock to bond returns are still flipped upside down relative to what is normally expected. Historically, over a longer time horizon, equities have provided superior total returns, a trend we expect to continue. Risk-assuming owners of equity in good forward-thinking companies should be highly rewarded while owners of bonds should achieve stability and modest returns. Our portfolio managers continue to watch for good solid value and growth investments to buy for us to replace those that they think will be laggards—with an eye on the long-term. According to economic yardsticks, we are now out of the recession. Consensus views call for positive economic growth in 2010 as global economies respond to stimulus measures and pent up demand.

SRI in the Rockies and FAFN Advance Conference 2009

In our last letter, we wrote about our participation in the “SRI BaseCamp Seattle 2009” which is the local lead-up to the national SRI in the Rockies, Social Investment Forum Conference, and First Affirmative member Advance Conference. We just returned from those national conferences, where we really are attending on *your* behalf, for your good. It’s one of the ways that we conduct eye-to-eye due diligence on your portfolio managers, talk with your service providers to help assure smooth operations, network with our colleagues, and get updated on important trends and changes in the SRI landscape. It’s not practical to recount five full days of plenary lectures, focused break-out sessions, and one-on-ones, but here are a few highlights particularly relevant to your accounts and services:

The conference kicked off with a keynote titled “Deploying Capital to Fight Climate Change.” Mindy Lubber, President of Ceres shared how she is telling investment managers that they need to be talking to management of companies we’re invested in and telling them the climate crisis is on everyone’s balance sheet and how it will affect the very future of the company. Mark Fulton, Global Head of Climate Change Research and Strategy, DB Climate Change Advisors (part of the 81,000 employee Deutsche Bank operation), implored to the audience that there is a huge gap between the existing 170+ global climate mandates and the steps we need to take to get down to 350 PPM (the level experts agree we need to return to in order to avert a human-endangering catastrophe). At the UN Climate Change Conference in Copenhagen next month, 180 countries will need to work out carbon abatement and who is going to pay for it. The question of cap and trade came up from the audience. Mindy Lubber’s response: “I think there are better ways, i.e. cap and tax. But the government says politically we can’t pass any more taxes, so it looks like we’ll have the cap and trade approach to contend with.”

Another session focused on how business and non-governmental organizations are collaborating in new and fascinating ways. On this topic we heard from Ray Offenheiser, President of Oxfam America; Cees Talma, a Vice President of Unilever; Mark Way, VP of Swiss Re; Tensie Whelan, President of Rainforest Alliance; and Bennett Freeman, VP of Calvert. Whelan said Rainforest Alliance is now working with 3,000 companies and 5% of Fortune 500 companies use or sell RA Certified products. Lipton (Unilever) who buys 12% of the world’s tea has set up one million acres of sustainably managed tea farms and has helped two million farmers create better conditions. They are also involved in getting India’s tea estates to halt the use of banned agro-chemicals. Talma added that Unilever is applying environment, social, governance (ESG) policies and practices, providing unique competitive advantages. (This tied in perfectly with the just-announced 2009 winning Moskowitz Prize SRI research

paper which found consumer brand companies financially benefit the most by managing better ESG metrics.)

Then Offenheiser and Way delivered an amazing story. While Oxfam was going about its business finding and delivering lasting solutions to the problems of poverty and injustice in the world, they realized that one of the most devastating problems that subsistence farmers face is crop loss or even entire farm loss due to climate and weather related perils. Larger operations in developed economies have used crop insurance for decades to protect themselves from catastrophic loss. Oxfam realized that even, or especially, subsistence farmers could benefit from such risk-spreading insurance programs. Since Oxfam isn't in the insurance business, they partnered with Swiss Re to develop and deliver micro crop insurance policies. Swiss Re is also collaborating with Oxfam to help other poverty-fighting initiatives such as renewable energy development.

Next, the youthful charismatic fire-brand, of whom I have a feeling we're going to hear a lot more from, Phaedra Ellis-Lamkins, CEO of Green For All, talked about how their social-change green jobs organization that used to work for \$10,000 grants is now working with the Obama Administration to deploy an \$8 billion Federal weatherization and efficiency budget. "We have a chance to create real opportunity for people of color and to move people out of poverty by building an inclusive green economy." She recently returned from the UN where she met with a number of presidents and prime ministers. The "social-change" brand is all of a sudden hip! Some of you might recognize the name Green For All—it's the org that Van Jones ran before he was tapped to run a similar office in the Obama Administration. (He had to leave that post recently due to a right-wing radio talk show smear campaign against him and green jobs.)

We've run out of space here but I must mention a just a few of the other worthwhile sessions. James Galbraith, PhD, a University of Texas professor (son of famed author/economist John Galbraith), spoke about the intersection of politics, media, The Federal Reserve, the recent economic crisis, the climate crisis, and how addressing these challenges can help us out of the mess.

Damon Silvers of the AFL-CIO and deputy chair of the Congressional TARP Oversight Panel talked to us about probable improvements to the financial regulatory landscape to protect consumers.

Gil Friend, CEO of Natural Logic added, "When I was a kid we were called *citizens*. Consumption was a disease."

Auden Schendler, Executive Director of Sustainability at Aspen Skiing Company shared his story of how he is making ground in convincing the skiing industry to get on board with fighting global warming, of course. His take away: you have to go to top management to get anything done.

A session titled Fiduciary Duty and ESG: Myths, Aspirations, and Realities is relevant to our services in the private foundation arena. The expert panel featured executives from Watson Wyatt, KLD, Trillium, CalSTERS, and Calvert Group. The new 2009 UN PRI white paper on the topic suggests that investment policies for institutional investors should include long-term ESG factors and strategies, something we've known for a long time. One of the largest pension plans in the country, CalSTERS, is being approached by other pension plans for help in this area.

Oh, one more thing. At their Advance conference, First Affirmative named our office as the top advisory relationship among the national FAFN network of about 120 colleagues. They also asked me to speak to the group telling the story of how I entered the sustainable and responsible investing movement and why I do what I do. The two sentence version of my talk: "What you become is more important than what you accomplish" and "SRI is something we can do to leave this place a little better than we found it."

Your accounts and services

As you review your account reports and consider your financial plans, please contact us with any questions or concerns. We stand by ready to discuss your situation and your ideas. If appropriate we'll make adjustments to your accounts or services. It is our pleasure to serve you and we look forward to hearing from you.

Eric Smith, CFP®, AIF®

Information is based on past performance and is not indicative of future results. Indices are unmanaged and do not reflect management or advisory expenses. Of course, investment decisions should be made *after* careful review of your individual financial situation, risk tolerance, investment objectives, and time horizon.