

Affirmative Thinking



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Community Development Financial Institutions: A Responsible Alternative

In 1999, at the SRI in the Rockies Conference, Markin Eakes, CEO of **Self-Help Federal Credit Union** and a director of the **Center for Responsible Lending**, sounded an alert about the devastating impact of predatory lending. The criminal activity at the core of the U.S. credit crisis has been on the radar of SRI industry leaders for almost a decade.

Taxpayers and homeowners are looking at the \$800+ billion financial rescue plan and wondering: What happened? Who is responsible?

“The situation reminds me of *Murder on the Orient Express*,” said Mark Pinsky, President and CEO of **Opportunity Finance Network**, referring to a 1934 Agatha Christie novel. “After his investigation, Poirot concluded that everyone on the train was responsible for the murder.

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SRI Mutual Funds Outperforming Peers

R. Kevin O’Keefe, CIMA®, AIF® | Chief Investment Officer

The first three quarters of 2008 have been difficult for the markets. The good news for socially conscious investors is that responsibly invested portfolios have performed well in comparison to their peers.

SRI index funds provide a useful gauge for measuring the extent to which socially screened portfolios have been fighting against the tide or benefiting from favorable currents. Viewing the performance of these passively managed funds allows us to isolate the effects of environmental, social, and governance (ESG) factors, as compared with unscreened peers and indexes.

Through late September, two social index funds—**Calvert Social Index Fund** and **Green Century Equity Fund**—performed better than 80% and 72% of mutual funds in their respective categories on a year-to-date basis. For the third quarter of 2008 alone, both of these funds were in the top 10% of performers within their categories.

The broader universe of SRI mutual funds (comprised primarily of ac-

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A View from First Affirmative

The enormous market volatility over the past few weeks is wearing on every investor. To gain some perspective, download a [letter from First Affirmative CEO George Gay](#) from our website’s landing page (at www.firstaffirmative.com, see upper right of that page).

George takes a brief look at how the activity on Wall Street relates to the average investor. Bottom line: “Talk to your advisor; your advisor knows your situation best and can help guide you through this situation.”

Investors Achieve Major Company Commitments on Climate Change

The financial risks and opportunities from climate change spurred breakthrough results during the 2008 proxy season. A record 57 climate-related shareholder resolutions were filed with U.S. companies—of which half were withdrawn after the companies agreed to climate-related commitments. Resolutions that went to a vote received record high average voting support of 23.5%, including 39.6% support for a resolution filed with coal company CONSOL Energy, the highest vote ever on a global warming shareholder resolution.

“Growing investor pressure is prompting more companies to see the value of making environmentally sound products,” said Mindy S. Lubber, president of [Ceres](#), a leading coalition of investors and environmental groups that helped coordinate the filings. “By re-thinking their strategies with high energy prices and climate change in mind, these companies will have a distinct competitive advantage in the years ahead.”

“We are encouraged by the steady, progressive steps taken...to address the momentous challenge posed by climate change,” said Connecticut State Treasurer Denise L. Nappier. “Our interest is all about protecting the long-term value of our investment portfolio and the retirement security of millions of American workers. It’s imperative that our companies plot a course for sustaining business profit-

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Energy Efficiency: Impactful and Affordable

Christine A. Renner | Executive Assistant to the CEO

In 2005 and 2006, the U.S. led the world in new wind installations. Wind now accounts for just over 1% of U.S. electrical production. In July 2008, the Department of Energy (DOE) released a report outlining what it would take for the U.S. to achieve **20% Wind Energy by 2030**.

July was also the month **Al Gore challenged** America to produce 100% of our electricity from energy sources with zero carbon emissions within ten years. Renewable energy is an important part of this plan, but the DOE expects a 39% increase in domestic electricity demand between 2005 and 2030, which will make it even more difficult to reach renewable energy targets. One of the most affordable and effective ways to reduce demand can be to maximize energy efficiency.

Efficiency losses abound. According to policy journal [Miller-McCune](#), the most advanced natural-gas-fired power plants in the U.S. operate at only 55% efficiency, and most are only 35% efficient. There are 90% efficient gas-fired home furnaces on the market, but DOE standards require only 80% efficiency. An increase to the efficiency standards for air conditioners that the Clinton Administration considered, but did not implement, would conserve the equivalent of 12 new 400 megawatt power plants.



To recognize the full benefit of renewable energy and energy efficiency technologies, we must implement them. Many automakers with advanced technology are likely to continue to sell less efficient vehicles until either legislation requires greater efficiency or less-efficient vehicles are no longer profitable. The same is true for air conditioners, furnaces, and power plants. As more efficient technology develops, we must look for ways to inject it into the marketplace and motivate consumers and businesses to purchase, install, and utilize it.

Investing in renewable energy is critical. Advancements in wind power are commendable. But a concurrent decrease in demand is necessary if we are to meet what some are calling the greatest challenge of our time.

Socially conscious investors invest in companies that hold themselves to higher standards—companies that maximize the energy efficiency of their production facilities, offices, and vehicle fleets. In our personal lives, we can hold ourselves to similarly high standards by seeking out the most energy-efficient vehicles and appliances available.

SRI Mutual Funds Outperforming Peers

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tively-managed portfolios) have benefited as well. The majority of socially screened domestic stock funds achieved above-average performance within their categories through the first nine months of 2008. The same was true for socially screened balanced, global, and international funds.

The performance of SRI bond funds has been astonishingly good—not only this year, but for several years running. How good? As a group, they have delivered top-quintile performance for the third quarter, year-to-date, one-year, three-year, and five-year time periods.

There is a widespread myth that responsibly invested portfolios must necessarily lag in performance (that doing something good with money requires sacrifice). Of course, there are periods in which SRI funds underperform—such as when oil stocks, weapons manufacturers, tobacco, and mining companies are doing better than most other industries. But there are also times in which the investment climate favors technology, medical equipment, and other industries of the future.

Since its May 1, 1990 inception through August 31, 2008, the Domini Social Index has achieved an average annualized return of 10.52%, versus the S&P 500's 9.95%. 2008 is shaping up to be another nail in the performance myth coffin. RIP.

Indexes are unmanaged groups of securities and are not directly available for investment. Index funds are designed to track unmanaged indexes and are available for investment. Past performance is no guarantee of future results.

"Scary" Stuff: CO2 Emissions Climbing

Scientists thought an economic downturn would slow energy use, but global carbon dioxide emissions climbed 3% from 2006 to 2007, according to the [latest research](#) from the Global Carbon Project.

The 2007 pollution leader was China, followed by the U.S. where emission rose nearly 2% after declining the previous year. China passed the United States as the No. 1 carbon dioxide polluter in 2006. Large increases in China, India, and other developing countries spurred the growth of carbon dioxide pollution to a record high of 9.34 billion tons. China's added emissions accounted for more than half of the worldwide increase.

What is "kind of scary" is that the worldwide emissions growth is beyond the highest growth predicted just two years ago by the [Intergovernmental Panel on Climate Change](#), said Ben Santer, an atmospheric scientist at the Lawrence Livermore National Lab.

Source: [Associated Press](#)

Sustainable City Initiatives Gaining Momentum

In an era where more than half of the world's population is living in urban areas ([UN State of World Population 2007](#)), it is clear that, for sustainable development to take root globally, cities will play a crucial role.

Thirty cities in the U.S. [have agreed](#) to measure their carbon footprints under the [Carbon Disclosure Project](#) (CDP), which is partnering with the [ICLEI \(Local Governments for Sustainability\)](#), an international association of local governments working on environmental issues.

In an effort to find ways to curb emissions blamed for climate change, cities including New York, Las Vegas, Denver, West Palm Beach, St. Paul, and New Orleans have agreed to disclose their carbon emissions. Urban traffic, buildings, and manufacturers emit 70% of the world's greenhouse gases.

Globally, "sustainable city" initiatives have led to improved recycling capabilities, slowed suburban sprawl, establishment of local greenhouse gas emissions reductions, and education and employment initiatives with measurable targets. Among other creative solutions, some cities have increased affordable or social housing, provided free internet access, and improved infrastructure for pedestrians, public transport, and bicycles.

Source: Global Reporting Initiative; Carbon Disclosure Project



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**First
Affirmative
Financial
Network, LLC**

*Transformative Investing for
Socially Conscious Investors*

5475 Mark Dabling Boulevard, Suite 108
Colorado Springs, Colorado 80918
800.422.7284 • fax: 719.636.1943
www.firstaffirmative.com

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CDFIs: A Responsible Alternative

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Everyone from lenders to government regulators played their part in this crisis.”

But, Pinsky adds, “The system-wide failure was brought about by bad lending, not bad borrowing.” He contrasts the high rates of delinquency and default on loans originated by predatory lenders with the success of the lending practices of community development financial institutions (CDFIs), which provide credit to underserved, low-income markets.

CDFIs succeed by developing relationships with their customers and the communities in which they do business. CDFIs spend time on individualized service and programs tailored to the needs of underserved markets and low income borrowers.

The collective experience of CDFIs is at the heart of a recent publication from Opportunity Finance Network, **The NEXT American Opportunity: Good Policies for a Great America**. The book chronicles the years of success and “offers more than 200 concrete, specific recommendations for federal policy.”

In 2006, CDFIs wrote off 0.45% of their mortgage loans—comparable to the 0.39% write-offs of conventional lenders. Fast forward to 2008. It’s estimated that about one in five families that received a subprime loan through conventional lenders have lost or will lose their homes to foreclosure. The result: billions lost in homeowner equity and devastating impacts on many local neighborhoods. By contrast, CDFIs are not expecting a significant uptick in their default rates.

The federal rescue of the tottering mortgage giants and Wall Street presents an opportunity to increase the visibility of CDFIs and showcase them as alternatives to the lenders whose activities precipitated the current crisis. Currently, over 1% of First Affirmative client portfolios are in community investments, including many CDFIs around the country.

Source: Quotations excerpted from SocialFunds.com, September 26, 2008.

Major Company Commitments on Climate Change

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ability and investment success in a carbon-constrained society.”

“Companies in all sectors need to get ready now to prosper in a world of higher energy costs and carbon constraints. The crisis in the auto industry has shown how quickly business models can become obsolete,” said Leslie Lowe, director of the Energy and Environment Program at the Interfaith Center on Corporate Responsibility (ICCR), an association of 300 faith-based institutional investors.

Source: Ceres; ICCR