NATURAL INVESTMENT *news*

SUMMER 2007 ISSUE #53 HAL BRILL CHRISTOPHER PECK MICHAEL KRAMER JACK BRILL SCOTT SECREST

Hal Brill's VIEW FROM PAONIA

Did you ever wonder where all the companies that appear in natural investment portfolios got their start? While many are simply solid companies that embrace environmental, social and governance (ESG) policies, a growing number have been incubated through visionary networks of social venture capitalists. The Investors' Circle has been a leader in this area. Since 1992, over 2400 companies have come through their portal. Several hundred companies have made presentations at their venture capital fairs and 180 of them actually received financing through this network. Ranging from organic/fair trade companies (Equal Exchange) to new media (Air America radio) to underwater turbines (Verdant Power), the fruits of this network are changing the face of capitalism.

Michael Kramer and I attended the Investors' Circle Spring conference in San Francisco. We knew it would be inspiring to meet with entrepreneurs who are building the companies of the future. But more important for us was to discuss the central question of the event: What is the Purpose of Capital? The current system functions well if the purpose is to optimize wealth, but this has caused us to bump up against the finite limits of our planet. We are now dealing with a "bio-constrained" economy. Our challenge is to design an economic system that optimizes sustainability.

This imperative is rippling through the highest echelons of the financial world. Goldman Sachs announced this month that companies with the strongest ESG policies are generating stock performance 25% above their peers. But while individual companies who "get it" are prospering, this is not enough to bring about a gentler prosperity that serves all beings, humans and all other life. For this we will need fundamental shifts in how corporations are structured and how markets are designed. These are the conversations that will guide our boat as we move deeper into uncharted seas.

Michael Kramer's

MAKING A DIFFERENCE

15TH ANNIVERSARY OF THE NIS SOCIAL RATING SM

This year is a watershed for Natural Investment Services. In addition to our ownership change, we are celebrating the 15th anniversary of the NIS Social Rating SM (the Rating) that Jack Brill developed in 1992 while writing *Investing from the Heart*. The nation's only social rating system of SRI mutual funds, it is based on the breadth and depth of social responsibility criteria applied by each fund. The presentation of the Rating, from ♥ to ♥♥♥♥♥, is similar to the star-rating used by Morningstar®, and investors can use this symbol to distinguish funds that address social, environmental, and governance issues comprehensively from those which address only a few items.

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Christopher Peck's

HOLISTIC SOLUTIONS

In this article, written with and inspired by Allan Savory, I focus on the global carbon problem. Allan Savory is the creator of Holistic Management (www.holisticmanagement.org) a process that engenders holistic decision making and dramatically improves the health of landscapes. This is Part I, next issue I'll have the second half, with a proposal for a solution. If you can't wait, email me and I'll send it to you in its entirety. This article was originally published online by the GreenMoney Journal.

There's no denying it, the global environment is in crisis. Some folks have been aware of it for years, some are just realizing it, but awareness of global environmental challenges has gone mainstream, and responsible people everywhere

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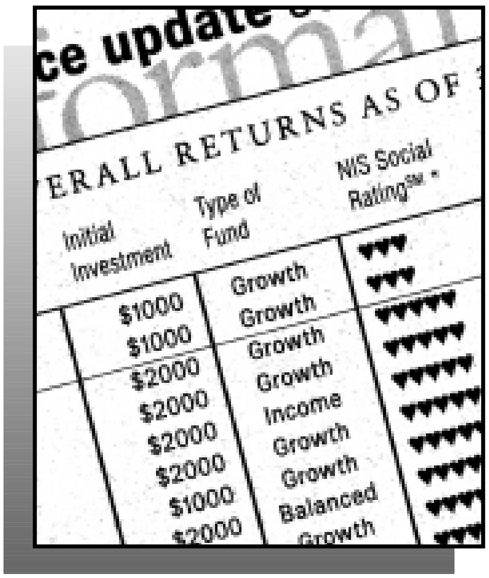
Michael's MAKING A DIFFERENCE *continued from cover*

Another exciting "first" is that Citizens Advisers, Inc. (manager of Citizens Funds) became the first company to license the Rating for use in promotional materials. It will soon appear on their website and in advertising! We intend to license the Rating to many SRI funds, and will continue to publish it in every issue of *Green Money Journal* and the *LOHAS Journal*, and our website.



AVOIDANCE AND AFFIRMATIVE SCREENING

Fund social analysis involves a fund's prospectus and verification with the fund managers on how they apply the screens. The evaluation includes a questionnaire and interviews. Recently, given the changes in the industry and the social priorities of investors, we revamped the Rating criteria.

The Rating includes eight categories of social screens. The original "sin" industries - alcohol, firearms, gambling and tobacco - form one category. Other industries addressed by the Rating include military contractors and nuclear power.

The remaining avoidance screen categories address practices across industries:

- *Environmental criteria:* EPA violations, major contributors to global warming (most fossil fuels), and toxic releases and spills;
- *Unnecessary animal testing:*
- *Employment issues:* EEO and International Labor Organization, including working conditions and child labor;
- *Product safety:* unsafe or hazardous products, deceptive marketing and consumer fraud, and offensive images in labeling and marketing;
- *Human rights issues:* operations in repressive countries and relocation to avoid U.S. laws; and
- *Corporate governance issues:* Board independence and diversity, company disclosure, including political contributions, accounting independence, options expensing policy, regulatory violations or other forms of bribery, fraud, or corruption, and excessive CEO or executive compensation.

NIS weights certain Affirmative Screening practices more heavily in the Rating because these are companies which are creating a more sustainable society. Criteria include:

- *Environmental issues:* pollution prevention systems, environmentally-friendly products, renewable energy, sustainability reporting, and cleaner public transportation;
- *Healthy lifestyle products:* organics, natural fibers, and holistic medicine and wellness;
- *Employment practices:* workplace diversity (gender, culture, and sexual preference), organized labor relations, employee health and safety, and family benefits policies;
- *Products and services which enhance a sustainable quality of life;*
- *Human rights:* community relations, codes of conduct to address abuses and injustices, signing the CERES principles, and the impact of company activity on the lands and rights of and benefits to indigenous peoples worldwide; and
- *Responsiveness to shareholder concerns.*

The combination of Avoidance and Affirmative Screening criteria represents nearly 60% of the total NIS Social Rating℠.

SHAREHOLDER ACTIVISM

The power of owning shares of a company comes when shareholders choose to use direct action to bringing about changes in corporate behavior and policy with regards to the environment, employment practices and corporate governance. When compiling the NIS Social Rating℠ we evaluate each fund's participation in dialoguing with companies, drafting and supporting shareholder resolutions, and publishing a proxy voting guide and results. The shareholder activism score represents nearly 18% of the total NIS Social Rating℠, which is more than double its percentage in the previous version.

COMMUNITY INVESTING

Investments in certified community development financial institutions (CDFIs) are included in the Rating. For equity funds, this may reflect only the nature of the cash position, and extra weighting is given to funds that support:

- *Community banks, credit unions, loan funds;* and
- *Pooled products*, including international microfinance programs.

Points are awarded to a lesser degree if funds invest in:

- *Pooled CRA products, municipal bonds or projects* in low-income communities,
- *Federal agency securities or municipal* bonds in moderate-income communities;
- *Agency bonds and Sallie Mae and SBA loans;*
- *Conventional loans, collateralized mortgage obligations, and corporate bonds.*

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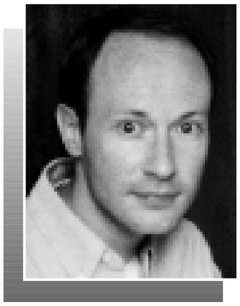
What's Up on Wall Street?



By Scott Secrest AAMS®
NIS Director of Investment Research

Over the past year, stocks have climbed higher than nearly anyone could have forecast. A relatively comfortable balance between economic strength both in the US and globally and an acceptable level of inflation have combined to fuel the market's rise.

Large company stocks as measured by the S&P 500 Index rose 6.2% during the quarter. The socially responsible Domini 400 Index added 5.6%, and international stocks were up a similar 6.4% making it a profitable quarter all around.

With oil prices on the rise again, clean energy stocks showed impressive gains with the Wilderhill Clean Energy Index up nearly 10% for the quarter. Venture capital money is now chasing these companies with clean tech trailing only biotech and software in investment dollars. Toyota announced the sale of its millionth hybrid vehicle. The positive news just seems to keep rolling from this sector.

Bonds posted modest losses for the quarter with the Lehman Aggregate Bond Index down 0.5% in reaction to diminishing hopes for an interest rate cut by the Federal Reserve Board (the Fed) which would have spawned a rally in bond prices. Long term interest rates have edged higher.

Many analysts still believe in the "soft-landing" scenario for the US economy, meaning our economic growth slows with without a jarring halt, and inflation remains within acceptable ranges. Corporate profits have kept rising, although no longer at double-digit rates that have been fairly common in recent years.

However, some market pundits shake a worried head at the inflationary risks they see in the economy. If inflation were to become overheated, the Fed may see fit to raise interest rates which would throw cold water on stocks and possibly spark a market sell off.

There is an important factor we call "market breadth." As we've seen the stock market flirting with record levels, the advances have been notably lead by a relatively small group of stocks. In the healthiest markets, advances are broad-based, meaning we have a "broad market" advance or "good market breadth." We'd rather see a flock of birds flying high, than just a few.

We continue to see considerable activity in corporations buying back their own shares, and companies newly issuing stock through initial and subsequent

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BENCHMARKS: Total Returns as of 6.30.07

	2nd Quarter	1 Year	3 Year
S&P 500 Index	**6.2%**	**20.6%**	**11.6%**
Domini Social Index	**5.6%**	**19.2%**	**9.1%**
Russell 2000 - Small Cap	**4.4%**	**16.4%**	**13.5%**
Lehman Aggregate Bond	**-0.5%**	**6.1%**	**4.0%**
MSCI (International)	**4.1%**	**20.2%**	**19.8%**

Michael's Making a Difference *continued from page 2*

The community investing score represents nearly 18% of the total NIS Social Rating℠, more than double the previous version, so it is difficult for a SRI fund to receive ♥♥♥♥♥ without engaging in community investing in a significant way.

Social Research Capacity

A new Rating category addresses how the funds conduct social research. We look at how funds maintain and implement a written social research policy and whether or not they use dedicated internal resources to analyze a company's social, environmental, and governance performance. The size of the social research staff and the depth and frequency of their social impact analysis of company holdings comprises the score, and this category represents 6% of the total Rating.

Total Score

The NIS Social Rating℠ includes 55 qualifying practices. Each item is scored and the results fall into performance quintiles, with those in the lowest percentile group (0-20%) awarded ♥ and those in the highest percentile group (81-100%) ♥♥♥♥♥. The Rating does not consider financial performance and is not therefore a recommendation to purchase funds. Investors are urged to consult fund literature to review a fund's performance and specific holdings.

Mutual Fund Profile – Neuberger Berman Socially Responsive Fund

The Neuberger Berman Socially Responsive fund is an important component to many Natural Investor portfolios. This fund invests most of its assets in the stocks of large US companies, with a smaller portion going into mid-sized and foreign companies.

The fund does a good job with its social and environmental screening, earning a 4 heart NIS Social Rating SM. Morningstar, a widely followed mutual fund rating service, has awarded the fund its highest 5 star rating in an evaluation of its risk adjusted performance.

And this is no surprise – the fund has posted impressive returns. Through June 30 of this year, the fund was up 25.62 per cent for one year, and an average of 13.74 per cent *over the last five years. Both of these returns were well ahead of the fund's category.

The fund is co-managed by Arthur Moretti and Ingrid Doytt with help from associate manager Sajjad Ladiwala. "We see a high correlation between companies with good management that make strong efforts to be good corporate citizens and companies whose stocks perform well over time," says Ms. Dyott. "Today, we have substantial information about the community, environmental, health and safety risks that companies face – much more than we had even five years ago. Wall Street too often dismisses this data as secondary at best."

NBSRX

The managers favor well-positioned companies that have suffered temporary setbacks and are available at reasonable valuations, but they will only invest in them if they feel that the downside risk of doing so seems limited, and a realistic turnaround scenario is unfolding.

A "focused" approach is used in this fund meaning that they will generally invest in a limited group of 30 to 40 different companies. Many funds of this size may have a hundred or more companies. This focused approach allows the managers to make investments in only what they feel to be the very most promising opportunities.

The fund has very good governance with an experienced board of 14 trustees, 12 of whom are independent. The board has taken an appropriate long-term view of this fund, sticking with good managers who went through periods of under-performance. It is important to acknowledge that no fund manager will be at the very top of the heap year in and year out without exception. Competitive and consistent performance over time is the test of a successful manager.

In all, we believe that this fund is a strong addition to our line up. As part of a diversified portfolio, this fund has been a positive contributor both in terms of performance and in depth social screening.

** Past performance is no guarantee of future results. This performance includes all mutual fund expenses but does not include any NIS management fees. This is not a recommendation to buy this mutual fund. Please speak with your advisor to see whether this investment is appropriate for you.*

Help Stop The Genocide in Darfur

By Jack Brill, Senior Financial Advisor

The statistics are mind-boggling: 200,000 dead, 2.5 million refugees and the holocaust in Darfur continues.

Investments in oil companies in Sudan are supplying the money that supports this genocide. 70-80% of Sudan's oil revenue is being funneled into its military. Oil ventures in Sudan are an undeniable enabler of Khartoum's genocidal policy in Darfur.

There is a growing economic force currently going on to stop the violence. The Sudanese Divestment Task Force (SDTF) www.sundandivestment.org instituted a targeted divestment program last year. The goal is to target the worst offending companies in Sudan – mainly oil companies - either to pressure the ruling Bashir regime to stop the violence or to have the companies stop doing business in the country.

The campaign is gaining support. 17 states, 51 universities, 8 cities and 8 International and Religious organizations have adopted Sudan Divestment Policies for their investment portfolios. The campaign is making itself felt. Cummins and Rolls Royce have ceased doing business in Sudan and have been removed from this list. Fidelity Investments has announced a 90% divestment of their PetroChina stock.

In past year's international divestment strategies have been successful. Many of us recall the Divestment campaign of the 1980's that brought about the downfall of Apartheid in South Africa. Let us all now join the campaign to end genocide in Darfur.

We at NIS fully support the work of SDTF. We have never made investments in companies or mutual funds that are Sudan–complicit. We urge all our investors to review any investments not under NIS management and divest. Call us and we'll help you do this. Spread the word to your family and friends.

NIS LLC Suffers Through First Corporate Retreat:

New Owners Gripe About Awful Setting

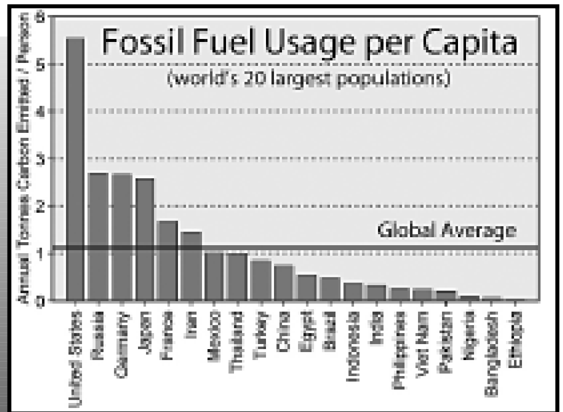
As noted in last quarter's newsletter, our company recently completed the change of ownership from a Brill family company into an LLC owned equally by Michael, Christopher and Hal. To mark the occasion we wanted to do something special. But since Michael and Angela recently had a new baby, they insisted that we hold our event in Hawaii. This caused untold disruptions, such as having to interrupt our meeting to watch Spinner Dolphins cavorting off the shore and enduring primitive island food such as gooey mangoes and raw fish wrapped in seaweed.

From left, Genevieve and Christopher; Allison and Hal; Angela and Michael with future financial advisor Zakai.

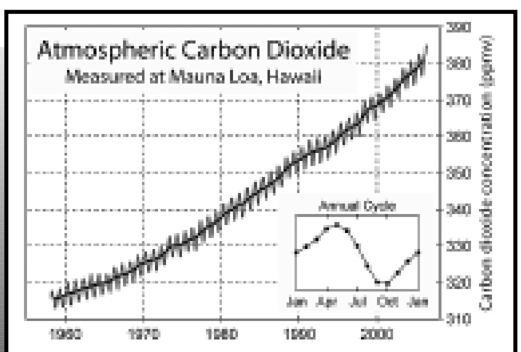
Despite the harsh circumstances our brave team endured 3 days of meetings and came away with a clear road map for NIS. Over the coming months you can expect to see a new look, new website and new technology with enhanced research tools. But the heart and soul of NIS remains the same: our commitment to providing high quality service for our clients and helping mobilize capital to create a sustainable future.

Special thanks to Genevieve Taylor who's expert facilitation skills kept us on track!

are struggling for solutions. The magnitude of the problems seem overwhelming, and political institutions are doing little. This won't work, nor will relying on expensive technological quick-fixes applied piecemeal without consideration of broader ramifications. A healthy, profitable and sustainable world is possible, but the work is large and requires immediate attention. We propose that the further, extensive adoption of Holistic Management in the years ahead can address the challenges, build a sustainable world, and do so profitably and quickly.



Global warming is getting all the press these days, but there are other equally pressing global environmental problems that are not currently getting attention, and will need dedicated work in the years ahead. We'll quickly discuss four problem areas and then demonstrate how Holistic Management decision making and tools can address these problems.



THE CHALLENGE OF LEGACY CARBON

There is considerable focus on how a new or improved technology can solve the global warming crisis, from increased use of wind generators, photovoltaic panels, ethanol and biofuels, and remedial tools for reducing energy use such as substituting compact fluorescent lights. We will grant that mitigating the ongoing emissions of carbon necessitates a technological fix. A concentrated reduction in consumption through innovative technology is also required, though many of these changes could happen with simple behavioral changes (turn off the lights already!).

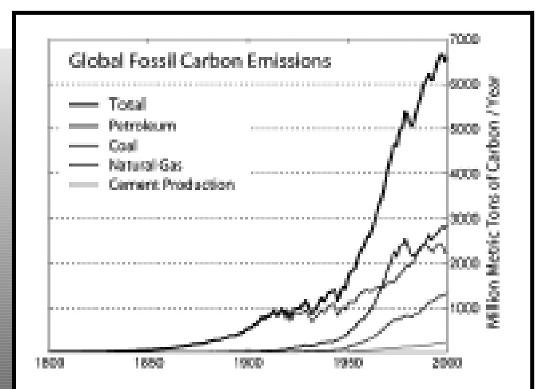
But relying on technology to save us is an expensive and insecure solution for the many decades of carbon that have built up in the atmosphere. This "legacy carbon" is where our biggest challenge lies, the atmosphere contains at present approximately 750 gigatons of carbon (GtC). In pre-industrial times it contained only about 570 GtC, representing excess of 180 GtC, that's what we need to work on, no small feat!

The currently proposed high-tech solutions are astronomical in cost, and appear doomed to failure. One such proposal, injecting CO 2 into saline aquifers deep underground, is estimated to cost many billions of dollars and is certain to experience catastrophic failure in the event of an earthquake or simply from leakage at various old well points. Other proposals include genetically modifying various organisms to improve their ability to sequester carbon. That won't be cheap and certainly risks a host of unintended consequences.

Even among the technologically inclined, terrestrial sequestration is widely viewed as one of the most cost effective means of pulling carbon from the atmosphere. And storing it in the soil is exactly where it should be. But doing this on the scale necessary, and at what cost, is it possible?

BIOMASS GETS BURNED

Another area that requires attention in the coming years, immediately really, is the burning of biomass, the burning off of grasses in savannas in Africa, the clearing of agricultural wastes in crop lands and the slash-and-burn clearing of tropical forests. Burning creates a huge release of carbon dioxide, carbon monoxide, methane, nitric oxide and other global warming gases into the atmosphere, as well as the release of other gases such as methyl chlorine and methyl bromine, which pose a serious threat to the ozone layer. It is true that some of the carbon is reabsorbed as the savanna regenerates, however the total amount of carbon stored is less over time and biodiversity decreases with fewer species each year. Research has also shown that the release of excess nitric oxide and nitrous oxide, both potent greenhouse gases, continues to



Graphs provided by Global Warming Art
http://www.globalwarmingart.com/wiki/Images

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public offerings which have been received well by the markets. Both of these things are positive signs showing confidence of companies with the former, and a healthy appetite for new investment opportunities with the later.

We have been encouraged by a new and significant interest in energy conservation, alternative energy use and carbon emission control among US and global corporations. Citigroup has announced that it will invest $50 billion 10 years in projects to reduce the company's carbon emissions. The move from lip-service to hard dollar investment in clean operations is a material and a major shift from prior practice.

There are new software applications developed by Live Data Systems, Inc. which link a building's maintenance systems for efficient operation and track its greenhouse gas emissions. This kind of technology combined with solar photovoltaic panels installed atop business facilities can now dramatically reduce the environmental impact of operating these facilities. This illustrates the real power and impact of SRI and sustainable investment strategies. By raising awareness and directing capital to companies leading the way with products and services like these, new clean tech products are brought to the market. Our communities benefit from the reduced energy usage and carbon emissions, and the investors benefit as the market recognizes the value of these companies, and stock prices rise.

And, US consumers are now demanding that companies offer environmentally sensitive products and conduct business in socially responsible ways. According to the latest Cause Evolution Survey, more than two-thirds of Americans say they take a company's business practices into account when considering buying. Business practices have become a purchasing influence for US consumers. This is a positive, and not unexpected development for socially responsible investors.

In the broader market, as long as company profits keep up and inflation and interest rates don't climb dramatically, and we avoid any acute geopolitical crises, global economic strength should hold any market downdrafts to manageable scale and duration. As long-term investors, we know that the ebbs and flows of market returns are part of the game.

Performance data represents past performance and does not guarantee future results. Investing involves risk, including loss of principal. Passive benchmarks are unmanaged groups of securities and are not directly available for investment.

NATURAL INVESTMENT SERVICES, LLC.

For consultation or more information on social investing, contact:
Jack A. Brill, Hal Brill, Michael Kramer, Christopher Peck, or Scott Secrest.

be emitted even months after the fire, at levels greater than during the burning.

The amount of carbon associated with biomass burning is staggering. Based on research by Andreae (1991 & 1995) the amount of carbon released just by burning savannas is estimated at 1.6 Giga tons of carbon per year (GtC/yr). If we include the amount from burning agricultural residues the total rises to 2.5 GtC/yr. Compare this with the 5.5 GtC/yr from fossil fuel burning, and you can see the enormity of the impact of this unnecessary waste of resources.

ORGANIC AGRICULTURE IS NOT ENOUGH

"Organic agriculture is not enough" is a provocative statement. Many people pin their hopes on the continued growth of organic agriculture, here and abroad. The stunning 20% annual growth rate over the last ten years is encouraging, and the reduction in toxic material use and the increase in organic matter retention in soils is impressive, but much more is needed. The book *Collapse* by Jared Diamond clearly makes the case that many previous civilizations have over extended their reach, degraded their ecosystems and died out, and each one of them had what we would consider organic agriculture (no pesticides, no artificial fertilizers, etc). We need to go beyond organic, and we need to think beyond the borders of the farm. If a disaster destroyed significant watersheds, and insufficient fresh water was available for human use in drinking, irrigation, and industry, we would be clamoring for a solution. But even with organic agriculture we are losing watersheds, and the loss of the watershed has been convincingly related to the demise of several human civilizations over the past 5,000 years *(Ponting, 1991)*.

It is estimated today that our crop and range lands lose 4 tons of soil every year for every person alive! That's 21 gigatons of soil lost to the sea, lost to productive use on land, only making it harder to meet food and carbon sequestration needs. (*New Scientist*, December 2006) If global society is going to meet the needs of an estimated 9 billion people, most living in cities, by 2050, an agriculture that stores carbon, eliminates soil losses, and is close to the people is urgently needed.

SINGLE PROBLEM DECISION MAKING

As global warming garners the majority of the world's attention at the moment, well-meaning people propose solutions, touting the possible savings in carbon emissions. Nuclear power is often cited as an example of an energy source that does not emit carbon. That's like petting a stuffed crocodile and thinking crocodiles don't bite! If you look at the whole picture of the living entity, well, it's an entirely different story. It takes an enormous amount of energy to construct and maintain a safe nuclear reactor, and that energy will come from fossil fuel, emitting huge amounts of carbon. This is not to mention the 250,000-year baby sitting period for the radioactive wastes, or the insurance and financing problems related to disaster liability.

If we look at one isolated factor, and try to solve for that isolated factor, the usefulness of our decisions is certain to be isolated. The quality of the solution will be limited, and, once in the real world, will bear the weight of catastrophic unintended consequences. A similar critique can be made about current proposals for biofuels. If they are to actually contribute to a reduction in carbon emissions, than all phases of their production will need to be included in the calculations. Additionally, as mentioned in the previous section, an industrial agriculture approach to biofuel production will need to be similarly "beyond organic."

OK, that's a (fairly) concise framing of the issue. Next issue I'll give you the big solution you've all been waiting for. Email me with thoughts and questions.

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