



NATURAL INVESTMENT *news*

Hal Brill's VIEW FROM PAONIA



"Thou shalt call me Mr. President," was my edict to anyone who joined Natural Investment Services since my father and I founded the company. April Fools! But seriously, for the past several years, NIS has been owned by one guy. It worked – I think I played the benevolent dictator role fairly well, but it was not a model that I wanted to perpetuate for longer than necessary.

So on April 1st (April Fools day in fact), my reign came to an end. As all our clients know (and thank-you for returning those pesky consent forms that the SEC required), NIS Inc. ceased to exist, and NIS LLC was born. We are now equally owned by myself, Michael Kramer and Christopher Peck.

What you may not know is that the three of us were friends back in the early 1990's when we lived in Santa Fe, NM. Our paths took each of us in unique directions, but we've circled back and now have made this commitment that almost feels like getting married. (Actually the LLC documents are much longer than a marriage contract!) We'll be having an owner's retreat in Hawaii in mid-May to map out plans for our new company. Already in the works are a completely revamped website and new technologies that will help us increase our research capacity and streamline our services. But most important is that the heart and soul of Natural Investment Services – the powerful transformative work of using money to create a better world – will grow stronger as we move into the future.



Michael Kramer's MAKING A DIFFERENCE



The shareholder advocacy season is currently in full swing. Once again the hot topic for 2007 is the environment. More than 76 resolutions have been filed concerning environmental issues, a slight increase from last year.

Resolutions addressing corporate political or lobbying activities emerged as the second most active area of shareholder activity. Resolutions on equal employment, global labor standards, sustainability, and animal welfare also continue to be pursued. Topics in the areas of health, finance, tobacco, military contracting, and proposals relating to job losses and globalization have waned in popularity this year.

Another interesting development is that companies are more willing to take concrete steps in exchange for getting shareholder proposals withdrawn. Across a range of issues, proponents withdrew resolutions following substantive agreements with companies. Management at Abbott Labs, Applebees and 3M agreed to address animal welfare issues,

Christopher Peck's HOLISTIC SOLUTIONS



I'm frustrated. Annoyed. Irked. Peeved even. This article will end up as an uplifting paean to the power of human courage, but at the moment I feel like complaining crankily. I'd like to inspire you to new levels of commitment for social change, but I have to blow off some steam first. In the last week, I've had three conversations with people I respect that have been seriously deflating. Apocalyptic visions, severe overwhelm, refusing to participate with "latecomers," they've been no win conversations. Afterwards I have to hit the rah-rah room to get myself pumped up and back to work.

I'm hardly suggesting that there are no problems, far from it. The problems we've been talking about are huge, global in fact, and include the usual litany: climate change, terrorism, declining oil supplies, the rise and/or decline of the American empire, you know the list. The problems are daunting but the reactions among my sustainability

SHILLING FOR STARBUCKS: HOW I LEARNED TO MAKE PEACE WITH COFFEE AND A CORPORATION

By Hal Brill

I brewed myself a cup of coffee today. No big deal, except that until a few weeks ago I had never done that. Coffee occupied a blurry place in my psyche – I liked it but also feared the bean. One too many jittery, heart-racing experiences had taught my body to minimize consumption, and I figured if I didn't know how to make it myself I would only be exposed when I went out to eat.

The blend I had this afternoon was some fresh Starbucks beans that arrived recently via UPS, a gift from the company after our recent tour. It achieved exactly what they hoped, sealing my fate. I've become not only a coffee drinker, but a convert Starbucks fan. YIKES! How can this be? Is there something in the brew that has weakened my innate mistrust of anything corporate?

My tale begins in January, 2007, when my buddy Cliff Feigenbaum of the *GreenMoney Journal* forwarded me an email from Starbucks. He was invited to join a group of journalists in Costa Rica to tour Starbucks sustainable coffee operations. All expenses paid! Fortunately for me, Cliff couldn't clear his schedule so he offered me the job. Allison and I have wanted to visit Costa Rica (who wouldn't?), so it was easy to say yes.

In March we flew to San Jose and were whisked to a modest hotel where we met up with our hosts and fellow journalists. The balmy air was welcome change from the Colorado winter, and after gorging on tropical fruit for breakfast we headed to the Starbucks Farmer Support Center. There we met the agronomists and support staff who work with coffee farmers throughout Latin America. We settled in to labora-

tory-type room and after a short lecture we got to the main event... a "cupping".

Unbeknownst to me, coffee drinking is more than gulping down rocket fuel... much more. The closest thing I could compare to cupping is wine tasting. We were taught to bring the cup close to our noses to detect hidden scents, then to take a spoon and slurp vigorously so that coffee droplets spray evenly throughout the mouth. A few rolls around the tongue, then a graceful exit into generous spittoons (even hard core cuppers don't want to swallow these extra-strength samples).



This gave us an experiential lesson about why Starbucks has made such a major commitment to sustainability. We always work with

environmental, social and economic sustainability, but Starbucks has an overarching requirement that impacts all of these: Quality. These folks relentlessly comb the tropics for coffee beans that satisfy their refined palettes. Only a small fraction of the world's coffee could ever end up in a Starbucks restaurant. Combined with the fact that Starbucks is growing at a torrential pace (more on that later) it becomes clear that their entire business model is dependent on helping farmers achieve financial, social and environmental sustainability by growing some of the world's best coffee.

From our 2-day immersion it certainly seems that Starbucks is making a positive impact in the lives of their suppliers. One farm, La Candelilla, we met with some of the 9 siblings who manage the family enterprise. They were very proud of the "Black Apron" award that Starbucks had awarded them; a soccer ball signed by the Starbucks staff was displayed on the altar next to a photo of their grandfather who started the farm. The award included a cash gift of \$15,000 that helped the family purchase computers for their children and send some of them to college.

Growing coffee brings up many complex environmental issues. Of course Allison and I are big fans of organic agriculture, and although Starbucks does purchase a large amount of organic coffee, we wanted to know why this is still only a fraction of their total coffee purchases. Their agronomists told us that converting to organic is a dicey proposition for the farmer. Unfortunately, yields generally decrease on organic coffee farms, and there is a several year lag-period before a farm can be certified. During this time the farmer cannot receive the premium that organic beans earn, so the prospect of lower earnings is a real hindrance. In addition, there are pests and diseases that can take a toll on coffee trees. While supporting organic growers, Starbucks primarily helps farmers utilize "integrated pest management". These methods are mostly organic except when there is a severe infestation.

Fair trade is another hot button for coffee activists. Despite the fact that Starbucks is the largest purchaser of Fair Trade Certified™ coffee in North America, they have been criticized for not doing more. What we didn't know is that the fair trade system certifies only cooperatives of small-scale, family-owned coffee farms. Currently, the fair trade system includes approximately three percent of the world's coffee farmers.

One thing I came away with was the fact that "organic" is strictly limited to environmental concerns, while "fair trade" focuses on economic justice. Starbucks could not possibly buy all the coffee they need with these two labels, so in 2001, in conjunction with Conservation International, Starbucks developed socially responsible coffee buying guidelines called C.A.F.E. Practices (Coffee and Farmer Equity Practices). These guidelines are designed to promote equitable relationships with farmers, workers and communities, as well as protect the environment. The guidelines contain

MUTUAL FUND PROFILE – FLEX TOTAL RETURN UTILITIES FUND

The last 3 years have been rewarding for investors in domestic utility stocks. When appropriate for the particular investor, we at NIS have recommended the Flex Total Return Utilities Fund.

We like the fund because they seek out environmental leaders and do not invest in nuclear utilities. We feel that there are still many unresolved problems with nukes and that they pose a danger to public safety and the environment. We believe that these screens help the fund avoid utility companies that are exposed to fines from governmental regulation, costly nuclear plant construction and maintenance, legal liabilities, public relations issues and discounted earnings potential due to these and other risks.

The utility industry used to be a sleepy one. There was significant government

regulation and companies tended to provide stable and reliable income in the form of dividends, but less in the way of growing share values. But, things have changed. Some utility companies are now much more dynamic in the scope of their operations and income sources. There is less government regulation and more risk for investors. So, it's important to have an experienced and steady fund manager.

Over the last three years the fund has provided an average annual total return of 18.82* per cent to investors. One of the criteria the fund managers have used in selecting their investments is to focus on companies which have steadily increased their dividend payments to shareholders. Research has shown that when companies increase dividends over time, their stock prices tend to rise along with them. This provides two "engines" for creating investment returns.

The fund will invest in both US and

foreign companies which gives the manager latitude to direct investments where the opportunities seem the most promising. The utility sector includes telecom and telephone companies. Last year, for example, the fund was invested significantly in the telecom sector both in the US and abroad. Those companies performed well and contributed to the fund's strong performance.

In addition to telecom companies, the fund has recently concentrated its investments in companies in the pipeline, natural gas and electric utility industries. Recent legislation has created incentives for electric utilities to invest in our country's aging electrical transmission infrastructure. New technologies should enable these utility companies to increase efficiency and lower costs.

* 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.

SHILLING FOR STARBUCKS *continued from page 2*

28 specific indicators that fall under four focus areas: product quality, economic accountability (transparency), social responsibility, and environmental leadership. Independent verification is the key to making this a reputable standard that socially responsible investors can have confidence in.

In between farms we had time to learn a lot more about Starbucks. I knew that they regularly rank high on *Fortune's* "Best Companies to Work for" list, but wasn't aware that they offered full benefits – including health and dental care and vacation time – to part-time employees who work at least 20 hours a week. This generous program benefits the company through lower employee turnover. Although Starbucks restaurants are not locally owned, their stock option plan (Bean Stock) helps employees earn an ownership position in the company. They are developing paper cups with recycled content that will hold hot beverages (which required a lot of r&d),

and are on their way to implementing a ban on milk products from cows that are contaminated with the rBGH growth hormone.

As I delved into research following the trip, it's interesting to see how a company like Starbucks will always garner a certain amount of controversy. Lately they've been in the news with questions about their actions in Ethiopia and some complaints from labor activists in New York. Clearly it is impossible in this imperfect world for a corporation to comply with everyone's wish list. But the sense I came away with is a company that does not profess to be perfect, but one that does solicit feedback and is thoughtful about its impact.

Finally, one can't discuss Starbucks without pondering a question asked in a recent *Wall Street Journal* article: "Why did Starbucks cross the street? Answer: To get the customers on the other side." Although it seems absurd to open 2 or 3 Starbucks at a single inter-

section, the company's research showed that customers will not walk more than a few minutes to get a cup of coffee. Having restaurants on opposite sides of the street brings in people coming from different directions. In the next four years, the company plans to open 10 thousand(!) stores around the world – almost 7 per day. Still, the company says the demand for premium coffee can not possibly be met by them and all their competitors combined.

There's much more to say but the coffee is wearing off. There's tons of information about many other SRI issues – from their use of green power to international grants and microfinance – at the starbuck.com website in their Corporate Responsibility section.

Hal Brill is a Managing Partner of Natural Investment Services LLC, an investment adviser registered with the SEC. The firm may recommend Starbucks stock to clients. The author does not own stock in Starbucks. Promotional expenses were paid by Starbucks and this presents a potential conflict of interest.



WHAT'S UP ON WALL STREET? – FIRST QUARTER, 2007

By Scott Secrest
NIS Director of
Investment
Research

The first quarter of 2007 reminded investors that volatility is a natural and expected fact of life for stock market investors. In this environment, calm heads (and well-balanced portfolios) will prevail.

The stock market downdraft we experienced in February was a typical event. It was not unexpected given the strength of the market over the last three years. Our domestic economy and the earnings growth for companies – the primary, long term driver of higher stock prices – has slowed in recent months, adding to investor jitteriness that contributed to February's sell-off.

There are signs that earnings growth may be sluggish in an economic environment weighed by a weak housing market and rising energy prices. However, there continues to be significant global "liquidity." This means that there is money out there to be invested, and that helps to support the markets.

As energy prices have headed north again, we've seen renewed interests in the alternative energy sector. Following a tepid second half of 2006, the Wilderhill Clean Energy Index gained 8.4% during the first quarter of 2007. There was significant price volatility in these stocks during the quarter, which is not unusual for these smaller companies.

We would like to see mainstream investors develop a long-term perspective and understanding of the value of alternative energy companies. Then investors could abandon the shorter term, simplistic view that says, "buy alternative energy stocks when oil prices are going up, and sell them when oil prices are going down."

While renewable energy has garnered much fanfare, a recent study shows that

the humble recycling industry is performing quite well. The wise folks over at Winslow Management (managers of the Winslow Green Growth Fund) have recently devised an index of 15 US-based recycling companies. Over the last five years the index has increased over 200% compared with 23% for the S&P 500.

In foreign markets, returns were boosted by weakness in the US Dollar. When the value of the US Dollar declines in comparison to foreign currencies, investments which are denominated in foreign currencies will benefit by that decline. Accordingly, we have seen strong performance in NIS portfolios from our international funds such as Portfolio 21, the Calvert World Values Fund, the Domini European Social Equity Fund and the American Century International Bond Fund.

In the broader US economy, we agree with economists who believe that, though the economy is slowing, we will avoid a recession. There certainly are risks to the economy including the weak housing sector and trouble in the "sub-prime" mortgage market. As home

On the bright side, a recent improvement in initial jobless claims data, which is a good leading indicator for the employment market, is helping to keep the economic debate lively.

Returns on bond investments in the first quarter were modest with the Lehman Aggregate Bond Index showing 1.5% to the positive. As interest rates edged upward, bond values have trended lower, and interest rates have inched higher.

There is wide uncertainty about the direction of interest rates through the balance of the year. Should the economy show cracks due to any of the potential problems out there, the Federal Reserve may hold rates steady, or even cut rates. They have indicated that excessive inflation is their primary concern at the moment. Should it become more pronounced, a rate hike is possible. Fed watchers differ on the likely outcome of this, but dramatic moves are unlikely in either case.

We remain optimistic about the long term prospects for socially responsible investors in the markets. Volatility is an expectation that investors live with in

BENCHMARKS: TOTAL RETURNS AS OF 3.30.07			
	1st Quarter	1 Year	3 Year
S&P 500 Index	0.7%	11.8%	10.0%
Domini Social Index	-0.2%	9.2%	8.0%
Russell 2000 - Small Cap	2.0%	5.9%	12.6%
Lehman Aggregate Bond	1.5%	6.6%	3.3%
MSCI (International)	4.1%	20.2%	19.8%
WilderHill Clean Energy Index	8.4%	-13.1%	7.2%

prices soared over the last seven years, many people were enticed into homes that they couldn't afford with adjustable rate mortgages from sub-prime lenders. Now many struggle to make payments in a rising interest rate environment, leading to increased defaults and financial peril for companies in this sub-prime mortgage business.

order to reap the long term benefits of investing. We expect to see this continue through the balance of 2007. None of the risks we see to the markets are reasons for natural investors to deviate from the well-balanced, broadly diversified investment strategies designed by their advisor.

Michael's **MAKING A DIFFERENCE** *continued from cover*

Black & Decker, AIG, and Chevron agreed to produce sustainability reports, while Citigroup, Coca-Cola and Eli Lilly & Co agreed to disclose political contributions.

Dozens of proposals related to climate change and environmental impact reporting, emissions reduction, energy efficiency, renewable energy, and the labeling of genetically engineered food products are being introduced at such companies as Safeway, Exxon Mobil, Wendy's, PepsiCo, GM, and Wells Fargo. Shareowners have stepped up demands on companies to seek alternatives to toxic materials in their products. A shareholder resolution at Apple calls on the company to set an accelerated timetable for ending the use of certain toxic materials. At DuPont, shareholders are continuing their quest for the company to end the use of the so-called Teflon chemical.

There is strong interest in targeting companies that did not respond to last year's carbon disclosure initiative, requiring oil and gas companies to adopt quantitative goals for reducing greenhouse gases, and to also demand that businesses which have been publicly skeptical about global warming must disclose their political contributions.

In the corporate governance area, over 70 proposals have already been filed through five major initiatives: (1) requiring that a shareholder majority vote on Board members; (2) separating the positions of Chairman of the Board and the CEO, a practice currently adopted by only one-third of the S&P 500 companies; (3) giving shareholders the right to have a say regarding executive compensation; (4) general disclosure of political giving and lobbying, including payments made to trade associations; and (5) increasing Board diversity, in particular regarding women and minorities.

The primary workplace issue this season is adding sexual orientation to company EEO policies. Twenty such resolutions have been filed thus far targeting the 15% of S&P 500 companies that don't yet have such policies. One aspect of this year's efforts is the broadening of equality principles to "gender identity".

Over 30 proposals have been introduced regarding international issues addressing global labor practices, human rights and animal testing in foreign laboratories. This year's concerns include companies operating in Sudan, as a strong divestment movement is underway. Other popular reso-

lutions would require companies to adopt policies consistent with the International Labor Organization's code of conduct and consent to independent monitoring in this area. Citizen Internet access in repressive countries and ensuring that products made by Yahoo, Google, and Cisco are not used for the purpose of censorship is another issue being highlighted this year. The animal testing issue seeks to extend animal welfare policies at companies including Eli Lilly and Pfizer to its contracted labs outside the United States, where such standards tend to be lower. Finally, resolutions at major defense contractors would require that they report on their foreign military sales.

The breadth of these resolutions, and the increasing support of them year after year, continues to embolden SRI funds and other advocacy groups to continue to press for policy changes in these companies. The fact that more and more companies are willing to modify their policies rather than face shareholder resolutions reflects an increased level of responsiveness to investor concerns. As always, NIS clients are represented by the work that leading SRI funds put into these shareholder campaigns.



**NATURAL
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Christopher's **HOLISTIC SOLUTIONS** *continued from cover*

colleagues which have me so worried are three, and I have names for them (parodied for effect): Pass the Bottle, The Ostrich, and Too Cool for You.

You can probably guess what each means. "Pass the Bottle" is the person who's been fighting for sustainability for years, and is burnt out, tired of helping people overcome their stupidity and self-centeredness. All they want to do now is move to Central America, sit by the pool, and drink margaritas. "The Ostrich" is that person who can't read the news or watch television or be exposed to anything but the most soothing content, for fear of being overwhelmed. They know about the problems but want to focus on their small center of influence, no interference or new ideas please! The "Too Cool for You" person reminds me of hipsters in college, you know, they were into U2 before they "sold out" and got popular. Sustainability is like your latest breakout band, it once could only get an audience in the smallest venues, with some seriously sketchy characters, but now it's filling stadiums and making sales (it won a freakin' Oscar for god's sake). This person doesn't want to be a part of anything as compromised as mainstream sustainability. Hey, who gave these people permission to throw in the towel?

I can handle some of this, but with three occurrences compressed into one week, I start to lose my cool (obviously). I ask self-righteous questions like, what

has happened to American courage? When I get myself worked up like this sometimes I remember my Zen Buddhist training, I sit down, take a breath, and a poem comes to mind that my teacher often quotes by a Japanese haiku poet: "The world of dew – is but the world of dew – and yet – and yet." The "world of dew" is poetic shorthand for the transience of everything we see around us, the impermanence of life. We are born, we live our lives, and then we die, as quick as the dew drying on a leaf at sunrise. Present, doing nothing, being here now, the world is perfect, we accept the suffering and death, the minor imperfections and the genocides, our death and the death of loved ones. We're sorrowful but we also are at peace: this is the world, this is my life, just as it is, perfect, the world of dew is but the world of dew. And yet, and yet, and yet we agitate for change, we're committed to lessening suffering, we don't want the world to go up in flames, we believe love and sustainability are possible. This poem contains the vital edge of life and practice, of the challenge those of us committed to spiritual insight, sustainability, and social change face: the challenge of being in the world and striving for change and at the same time accepting life and the world just as it is, without any need to change it. A compelling contradiction if I've ever heard one.

Does this make any sense? How is this a holistic solution? Well, I could exhort

you to meditate, to take time to find your own inner peace, but that feels cliché, you're adults and we all make our own path and navigate as best we can. But I do want to challenge you to not give up, to continue the good fight, to persevere through tough times. We need the creative energy of all of us to step up and contribute and continue trying to figure out how we can turn the corner on all of the various crisis that face us. I believe a better world is possible, in many ways I feel like I'm living in it. I've been working in sustainability since 1991, and finally, at last, it feels like we're getting somewhere, solutions seem feasible, we have the attention of the mainstream. However you find courage to persevere, I think now is a great time to bring it forth.

In my effort to keep things moving, in a couple weeks at the Sustainable Enterprise Conference here in Sonoma County I'm organizing a working group called "Meeting the Challenge: Finding Highly Leveraged Ways to Reduce our Carbon Footprint." I'm planning to facilitate a brainstorming session to see if we can come up with some small-effort, high-output ways to continue decreasing Sonoma County's ecological footprint. Any ideas? Please send them along, I'm eager to hear what you think (about this and anything else). Next newsletter, I promise a more practical essay, featuring the Carbon Mitigation Initiative. If you can't wait, email me.



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