

## Fighting for Shareowner Powered Financial Reform

**N**EXT UP IN Washington now that the health care reform bill is signed is financial reform. The financial meltdown we are still struggling with spurred Congress to propose the most significant reconstruction of the U.S. financial regulatory system since the Great Depression. According to Paul Krugman, the financial reform fight revolves around three basic factions: (1) those that don't wish any meaningful changes at all, which would include bankers, most of Wall Street and the politicians that support them; (2) those reformers such as Paul Volcker who want to concentrate on breaking up banks so that no institution is deemed "too big to

fail" without economic catastrophe; and (3) those reformers who would rather put the emphasis on what commercial and investment banks do, rather than how big they are.<sup>1</sup> Krugman places himself in the latter category. As a result, most of the buzz surrounding financial reform centers around what the nature of the new watchdog agency might be, how powerful it would be to regulate bank behavior and whether it would be an agency independent of the Federal Reserve Board.

The House of Representatives approved a wide ranging reform bill in December led by Finance Committee Chair Barney Frank. On March 22 the Senate passed the

Restoring American Financial Stability Act of 2010. Now attention turns to the final step - reconciling the differences between the two bills in conference committee. Through this process proposals will be dropped or strengthened in a high stakes political dance funded by huge lobbying dollars by the financial industry.

Several proposals put forth by the Social Investment Forum (SIF) to reform Wall Street survived the final Senate bill. Many of these proposals may have far reaching effects not fully recognized by the media. Whatever the overall merits of the final compromise legislation may be, if these propos-

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## Perspective Socially Responsible Investing in Santa Rosa, CA

by Thomas Ray

**O**UR VALUED CLIENTS want to grow their portfolios and/or generate sufficient income. But after all that we've been through over the last few years, most folks are understandably feeling uneasy. Stock market predictions are all over the map and interest rates remain abysmally low. Meanwhile, there has been little, if any, needed reform in the political world and financial markets. How can so many Wall Street and government pundits be so optimistic and expect us to 'buy-it' - yet again?? How can advisors in the PAM Network make a big difference in such uncertain times?

Our core job as SRI-focused advisors is to help our clients make rational choices that support both their long-term goals while managing the risks in these turbulent times. Equally important, we do this while promoting a just society, clean environment, higher corporate standards and sustainable economic growth. 'Sounds too good to be true, doesn't it?

Wall Street and the media have done a great job of playing down or 'green-washing' the value of SRI. Yet numerous professional and academic



*Thomas Ray, Andy Schexnaydre, and Fred Ptucha in Santa Rosa, CA*

studies indicate that investing in accordance with these deeply shared values improves the likelihood that our clients can grow their money and mitigate the risks of irresponsible environmental, societal and corporate policies - *all of which harm the global economy*. This approach is far from a warm-fuzzy approach to investing. It actually helps us advisors to fulfill our fiduciary duties to our clients and promote a better world. It feels great to do well by doing good!

Dating back to the early 1980's, I have been exposed to the markets as a degreed student of finance, a Wall Street intern turned stock-broker and, best of all, as an SRI-focused advisor. It has only served to galvanize my heartfelt convictions about how I help people. Knowing what really matters on all levels to my clients often engenders a close, trusting and productive relationship - which, I'm told, is even more important than the returns.

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# Massey Energy: One Reason Why We Do What We Do

by Eric Packer

**T**HE RECENT TRAGEDY involving the deaths of 29 miners in West Virginia is an extreme example of an irresponsible company within a very problematic industry. The miners worked for Massey Energy, an S&P 500 company, in a mine that has been cited for numerous safety violations, including failure to implement a proper ventilation plan.

Massey Energy Company has a history of violating environmental standards. In 2008, the Environmental Protection Agency filed a lawsuit against Massey for numerous violations of the Clean Water Act that resulted in a \$20 million settlement. Regarding the recent fatalities, the Mine Safety and Health Administration reported “in short, this was a mine with a significant history of safety issues, a mine operated by a company with a history of violations and a company that MSHA was watching closely.”<sup>1</sup> With a long history of union-busting tactics, employee attempts to organize have been unsuccessful. Given management’s unwillingness to comply with various environmental agency’s rules and regulations and major labor concerns from its non-union workforce, it was only a matter of time before such a tragic accident like this would occur.

In response to this horrific accident and Massey’s irresponsible behavior, many individuals, such as New York State Comptroller Thomas DiNapoli and William Patterson, Executive Director at CTW Investments in Washington DC, are calling for the resignation of Massey’s CEO, Don Blankenship. DiNapoli stated in a press release on April

*“Massey’s cavalier attitude toward risk and callous disregard for the safety of its employees has exacted a horrible cost on dozens of hard-working miners and their loved ones”*

12, 2010 “Massey’s cavalier attitude toward risk and callous disregard for the safety of its employees has exacted a horrible cost on dozens of hard-working miners and their loved ones...This tragedy was a failure both of risk management and effective board oversight. Blankenship must step down and make room for more responsible leadership at Massey.”<sup>2</sup> Management must be held fully responsible

for the conditions within their workplaces, the treatment of their workers and their impact on the local communities where they operate.

The fundamental practice of SRI has been to educate and enable investors to be proactive in choosing what companies they wish to support and own. PAM’s Social Research Department enables advisors to evaluate the social and environmental profile of investments for clients. The SRI Index and Large Cap funds that we use for our client’s portfolios reflect our values not only as a progressive, socially concerned firm, but also as concerned investment advisors and individuals. Companies like Massey Energy are typically found in conventional Large Cap Mutual Funds and Index Mutual Funds. According to a recent study by Progressive Asset Management, three of the top ten largest Equity Mutual Funds hold Massey Energy stock. Contact your financial advisor to review your mutual funds to ensure that your investments match your social and environmental standards. **DO YOU KNOW WHAT’S IN YOUR MUTUAL FUNDS?** ■

<sup>1</sup>Hupp, Michael (2010, April 22). *Reports Critical of Massey, Other Mining Operations*. Retrieved from The State Journal website: <http://www.statejournal.com/story.cfm?func=viewstory&storyid=78670>

<sup>2</sup>Office of the New York State Comptroller (2010, April 12). *DiNapoli: Blankenship Should Resign As Massey Chair*. Retrieved from the Office of the New York State Comptroller’s website: <http://www.osc.state.ny.us/press/releases/apr10/041210.htm>

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als survive, shareowners will have new tools to influence the behavior of corporations<sup>2</sup>:

**Say on Pay:** Giving shareholders an advisory vote on executive pay packages is crucial in keeping runaway executive pay packages in check. A September 2009 report from The Corporate Library found that median total annual compensation for the CEOs at 2,700 companies declined by a mere 0.08 percent in 2008, during a time when the S&P 500 index tumbled more than 37 percent. It clearly proves that “pay is fatally divorced from performance” at U.S. companies. Thanks to an amendment from Senator Robert Mendendez (D, NJ) the Senate bill would require public companies to report CEO pay, median employee pay and the ratio between them. This would

be the most powerful tool yet to help shareowners rein in exorbitant executive pay.

**Proxy access:** The Securities and Exchange Commission (SEC) needs clear authority to require companies to include director nominees from shareholders in their proxy statements. This “proxy access” will give shareholders a much-needed tool to hold corporate boards and management accountable.

**Majority voting:** Directors should receive support from a majority of voted shares in order to be elected rather than the current plurality standard that allows uncontested directors nominated by the existing board to win election with a single vote.

**“Clawback” provisions:** Shareholders should be able to take compensation back

from executives if the compensation was based on inaccurate financial statements or other fraudulent acts, and many U.S. companies already have acknowledged that this is a good governance practice.

Progressive Asset Management and PAM Network members have joined a letter writing campaign spearheaded by the SIF to urge Congress to support these provisions in a robust financial reform bill that reins in the excesses of Wall Street and the banking industry. For more information and current updates on the campaign, contact your financial advisor. ■

<sup>1</sup>Krugman, Paul. “Financial Reform 101.” *New York Times* 01 Apr 2010. n. pag. Web. 16 Apr 2010. <<http://www.nytimes.com/2010/04/02/opinion/02krugman.html?partner=rssnyt&emc=rss>>.

<sup>2</sup>Woll, Lisa, and Joe Keefe. “Financial Reform Needs to Protect Investors.” *Huffington Post* 07 Apr 2010. n. pag. Web. 16 Apr 2010. <[http://www.huffingtonpost.com/joe-keefe/financial-reform-needs-to\\_b\\_528986.html](http://www.huffingtonpost.com/joe-keefe/financial-reform-needs-to_b_528986.html)>.

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PAM Network is the Socially Responsible Investment division of FWG.

**Securities are offered through Financial West Group, a FINRA, SIPC member.**

## \$4 Million Raised for PAM-RBC Water Note

**I**N KEEPING WITH Progressive Asset Management's commitment to the UN Global Compact and Millennium Development Goals, we collaborated with the Royal Bank of Canada in November to create the world's first stringently socially and environmentally screened Direct Investment Note linked to 16 companies actively participating in innovative solutions to the water crisis. Raising \$4 million in two weeks, clients showed that effectively screened proactive investments dealing with the global water crisis are sought after by the investment marketplace. The water industry is the third largest global industry. Only 3% of Earth's water is fresh, and only one-half of one percent of that is accessible for consumption. Earth's hydrological cycle is a closed system. This means there will never be any more fresh water than there is today to support a growing population. Right now, 900 million people lack access to clean, safe water. 2.5 billion lack access to adequate sanitation. Over one half of the world's hospital beds are filled by patients suffering from a water-related disease. Human actions continue to exacerbate the crisis. Anthropogenic climate change is shrinking the supply of accessible fresh water. The efforts of a few huge multinationals to privatize water supplies has been making water inaccessible to the poor. Without conscious and concerted global action, this grim picture is sure to turn worse.

However, Wall Street is cashing in on the water crisis just as they did with environmental funds in the 1990's and alternative energy funds more recently. As a result, the market is flooded with Exchange Traded Funds (ETF's) and other products organized around a water theme. Unfortunately, these types of sector investments are rarely screened for social or environmental issues. Many of these vehicles contain weapons contractors, heavy industrial concerns or water multinationals actually exacerbating water supply issues in the third world. A recent article in Wealth Manager reported that assets were "pouring in" to water ETF's because while the "potential for profit was undeniable... Finding companies to extract profit from that market takes more effort".<sup>1</sup>

A recent report from the Interfaith Center for Corporate Responsibility condemned these profit seeking investments, saying, "There is little to support the notion that portfolios focusing on the water theme are intrinsically green or environmentally beneficial. The diversion of rivers and construction of dams can have devastating environmental consequences; drinking water and wastewater treatment plants can themselves be major sources of pollution, pathogens and odors."<sup>2</sup>

In contrast, example holdings in the PAM water basket include:

**SABESP (SBS/NYSE)** - the largest water utility in the world serves 22 million people in Sao Paulo, Brazil. SABESP' innovations

in low cost sewage and water system design have cut the cost of building and maintaining sewer systems in half, delivering sanitary sewage and drinking water systems to some of the poorest settlements of Latin America.

**Energy Recovery Inc. (ERII/NASDAQ)** manufactures scalable high energy efficiency products used in the desalination process; able to recapture 98% of the energy consumed during desalination. Scalable efficiency means more environmentally friendly desalination plants worldwide.

**Insituform Technologies (INSU/NASDAQ)** a provider of proprietary technologies and services for rehabilitating sewer and water systems while avoiding major construction projects or digging up pipes.

The note will mature in December 2010, delivering back to clients 97% of the value of the basket of 16 stocks plus accumulated dividends. The PAM RBC note is the second of a continuing series of specifically designed investments to meet stringent social and environmental standards and our clients' personal investment objectives. If you would like to be notified of upcoming designed investments from PAM, please contact your financial advisor. ■

<sup>1</sup> Scully, Vaughan. "The ETF Expert: Assets Pouring into Water ETFs." *Wealth Manager* 11/03/2009; n. pag. Web. 29 Mar 2010. <<http://www.wealthmanagerweb.com/News/2009/11/Pages/THE-ETF-EXPERT-Assets-Pouring-into-Water-ETFs.aspx>>.

<sup>2</sup> Lowe, Leslie H., Patricia Jones, and Rebecca Brown. "Liquid Assets: Responsible Investment in Water Services." *Corporate Examiner*. 36:8-10 (2010): 36. Print.

### Perspective PAM Santa Rosa, CA *Continued from page 1*

Here are some SRI themes that are important to my office-mates, Andy Schexnaydre and Fred Ptucha. Community investing and thinking locally are important themes for our office. Fred has spent several decades cultivating relationships with top executives of local financial firms to promote numerous humanistic causes both locally and globally. Andy has recently been elected to the Board of Directors of GoLocal, a cooperative that is focused on reclaiming

economic power for the community. Our team dedicates time to several volunteer organizations including Rotary, Climbers for Peace, Sister Cities and the Santa Rosa Junior College Foundation.

The Community Investment Notes have been especially popular with our clients since they allow investors to make a difference in specific areas like micro finance, affordable housing and community development here at home.

As more and more people learn about the dirty secrets of Wall Street, the Triple Bottom Line - people, planet and profits - is gaining momentum. We can't begin to tell you how empowering it is for us have all of these solutions at our disposal to provide full-spectrum financial advice for people who we care about and love to serve -our clients. ■



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#### Shareholder Advocacy Resources:

Interfaith Center on Corporate Responsibility (ICCR): [www.iccr.org](http://www.iccr.org)  
CERES: [www.ceres.org](http://www.ceres.org)  
Friends of the Earth (FOE) Shareholder Activism Handbook: [www.foe.org/international/shareholder/](http://www.foe.org/international/shareholder/)  
Social Investment Forum (SIF)'s Advocacy & Policy Program: [www.shareholderaction.org](http://www.shareholderaction.org)  
AFL-CIO's Executive Pay Watch: [www.aflcio.org/corporateamerica/paywatch](http://www.aflcio.org/corporateamerica/paywatch)  
Responsible Wealth's Shareholder Activism: [www.responsiblewealth.org/shareholder/index.html](http://www.responsiblewealth.org/shareholder/index.html)  
Proxy Matters: [www.proxymatters.com](http://www.proxymatters.com)  
The Corporate Library: [www.thecorporatelibrary.com](http://www.thecorporatelibrary.com)

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## PAM in the Community How our People & Products Empower Communities

*PAM Community Investment Notes, offered in conjunction with the Calvert Social Investment Foundation, give our clients the opportunity to direct their investments toward community development and economic justice.*

### Making a Difference in Haiti

**FONKOZE** is Haiti's alternative bank for the organized poor. Fonkoze's mission is to alleviate poverty, help the economy grow, and promote self-reliance in Haiti. It does so by providing the poor with micro-credit, small business financing, financial services and educational training. Fonkoze has 42 branches, 55,000 active borrowers and 190,000 depositors.

Fonkoze's mission is to serve poor, rural women in Haiti, the poorest nation in the Western Hemisphere. They are reaching their target clientele, as 84 percent of their clients live in rural areas, 57% live below the internationally-recognized \$1/day PPP poverty line and 73% live under \$2/day PPP. Currently, 99 percent of their microloans are to women as Fonkoze believes that, "When the women dish out the food, everyone eats." Many of these women are street vendors, or Ti Machann. Fonkoze's clients are typically uneducated, as 60 percent of their clients are illiterate when they join the

program.

The need for these services becomes far greater when disaster strikes. The 7.0 magnitude earthquake that hit Haiti on January 12, 2010 left over 200,000 dead and limited food, water, and shelter for the survivors. After the earthquake, cash flow nearly came to a halt as many banks, businesses, and infrastructure became inaccessible. Haitians needed money to care for their families and to rebuild.

Fonkoze had 37 of its 42 branches up and running just weeks after the earthquake. Fonkoze was able to distribute \$1 million in funds to Haitians in the form of savings and transfers within a week of reopening. Additional funds were then moved from an account held in the United States from New Jersey to Florida through the leadership of Fonkoze's CEO, Anne Hastings, and



the assistance of the City National Bank, United Nations, the U.S. State Department, and the U.S. Department of Defense. The United Nations and the U.S. Military then coordinated with Fonkoze staff to drop the \$2 million discretely to predetermined locations throughout Haiti for pick up by each branch. These funds allowed Fonkoze branches to operate as smoothly as possible and to continue distributing funds from savings and from abroad.

*To learn more, contact your financial advisor and ask for a Community Investment Notes Prospectus, which should be read before investing. You can also visit the Calvert Foundation's website at [www.calvertfoundation.org](http://www.calvertfoundation.org) or Fonkoze's website at [www.fonkoze.org](http://www.fonkoze.org).*

