

# Haas Socially Responsible Investment Fund

**Annual Report**

**May 2011**

University of California  
Berkeley  
Haas School of Business



CENTER FOR  
**RESPONSIBLE  
BUSINESS**

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## INTRODUCTION

*“Nothing is secure but life, transition, and the energizing spirit” – Ralph Waldo Emerson*

We, the graduating 2011 MBA Principals, joined the Haas Socially Responsible Investment Fund (“Fund”) in a year when the market was rebounding strongly from the depths of the financial crisis. Within the context of this broad market recovery, the basic framework and spirit of the fund – identifying socially responsible companies at reasonable valuations – guided us wonderfully in discovering, analyzing, and ultimately investing in attractive candidates for the fund. More importantly however, this academic year became one of great transition for the Fund. As Emerson noted, we saw not only significant transition within the fund itself but also an energizing spirit from the current team as the principals established various new key procedures for the Fund in its fourth year.

Throughout the year, we implemented many new portfolio management measures to our overall investment process. This year, we started the “mini-pitch” process where the Principals are responsible for actively monitoring incumbent positions, in addition to recommending new investments; doing so, we understood better the investment decisions of our predecessors. We also transitioned our investment position sizes as we adjusted our investment positions via detailed risk-reward profiles, allowing us to become fully invested across the entire portfolio – putting our previously significant amount of available cash toward our ideas. Furthermore, through our efforts, we established several methods of analyzing our portfolio against different benchmarks to understand our portfolio performance and attribution.

Yet despite these tremendous updates to the portfolio management process, we continued to search actively for candidates through our SRI monocles. Moreover, we even refined and upgraded our research process. At the beginning of the academic year, we agreed to analyze all our investments through a long-term (three-year) IRR angle with the higher potential IRR investments having a greater weighting in the portfolio. We worked diligently to create a financial model template for future principals, hoping to make the modeling and valuation process more consistent. Our aforementioned portfolio management measures became helpful in terms of screening for potential investment ideas as we researched new ideas in sectors that we had an underweight versus the respective benchmarks. Finally, we created a detailed, structured outline for analyzing companies from a SRI perspective that allowed us to place potential candidates in appropriate “levels” of ESG factors and clearly articulate the reasons behind our judgment.

The Fund was blessed in the spring of 2011 when a talented group of 2012 MBAs joined the fund. They have hit the ground running in terms of pitching investment ideas and helping to improve our newly-implemented portfolio management process. In addition, they have helped our team in establishing and maintaining more regular contact with the advisory board, external SRI professionals, and for the first time this year, former alumni Principals of the Fund. We are highly bullish on the Fund’s future in the hands of such a strong (and fun!) group of professionals.

On behalf of the 2011 graduating class, it has been a privilege serving on the Fund and we would like to thank the Center for Responsible Business (“CRB”), the Advisory Board, the past Fund principals, and the entire Haas community for their continued support.

## INVESTMENT APPROACH

As part of the Fund's 2010-2011 investment approach, we started the year off by setting goals that would focus our efforts and allow us to better measure our development as a Fund. The principals identified the following three goals to focus on during the 2010-2011 academic year:

- 1) Determine a performance benchmark and outperform it by investing in stocks that have both strong financial and ESG performance.
- 2) Standardize the pitch process by developing a standard pitch format and regular monitoring practices, focused on the following initiatives:
  - Create standard pitch format that includes investment thesis, ESG analysis, financial analysis, valuation and risks
  - Develop standard DCF and Comp models for valuation
  - Explore ways to “standardize” ESG analysis
  - Establish a minimum level of expected return necessary to vote in a stock
  - Establish a standard investment period
  - Continue to develop regular portfolio monitoring practices
  - Define exit rules to clarify divestment practices
- 3) Improve the Fund's knowledge capture:
  - Develop performance tool with market and industry benchmarks. Track historical performance on a monthly, annual, and since inception basis
  - Develop a performance tracking tool to monitor stocks that were voted against, divested, or are on the Fund's watchlist
  - Build out lists of ESG issues by industry

The principals are pleased to report progress on all three of these goals, as follows:

### **Outperforming a Benchmark**

With a strong belief that “*companies can do well by doing good*,” the Fund decided to hold that belief to a rigorous test. If that premise is true, a socially responsible investment fund should be able to perform well financially. As a result, we set the goal to outperform a financial benchmark.

While that first step was straightforward, choosing the relevant benchmark has become a more difficult process. Given our open investment approach lacking specific regional, market size or risk-return profile limitations, this benchmark is ever more elusive. Due to our natural inclination for U.S. equities, the S&P 500 was originally considered. After further discussion, we selected the Russell 3000 because it is broader and more reflective of our investment approach. However, we do not use Russell 3000 sectors, but rather GICS sectors. This hybrid benchmark is considered valid and used often in the industry. The main difference is added granularity and a preferred breakdown of industries. We understand that this is a dynamic process and that it will evolve as we become more comfortable with our monitoring standard. While choosing multiple benchmarks was considered, the current constraint to one benchmark has a cost component that holds the Principals accountable to pick only one.

### **Investment Horizon**

The root of this topic emerged due to the challenge of changing investment principals every year. From a conceptual point of view, a one-year target return did not make sense because we normally expect the benefits of a particular investment to be realized over a longer period of time. Relying on an investment philosophy based on

'Fundamentals', one-year seemed too short. On the other hand, too long of an investment horizon would be difficult to forecast confidently. At the same time, the horizon should approximately match the time required to reasonably evaluate the impact of a decision and provide enough time to monitor and transfer knowledge. Three years was ultimately chosen as a balance between the challenge of transitioning a new class of principals every year, expected appreciation outlook, accountability and ability to measure returns. Within the standardized financial model, each analyst is responsible for forecasting a three-year Target Price and calculating an implied three-year IRR.

### **ESG Framework**

A recurring theme among current and past principals, which reflects a challenge in the space of SRI investing, relates to the difficulty of linking ESG factors to an increase in value. The second challenge relates to having a point of departure to compare companies across industries and sectors in a way that ensures a reasonable and defensible approach. In the past, a list of principles was crafted by the Fund principals to inform the investment decision-making process. However, we recognized that there was still room to articulate a more direct relationship. To that end, we started by recognizing first that the ESG factors should be taken into account in an integrated fashion. Second, the initiatives that the company focuses on should address the most serious challenges to that particular industry or sector. Third, these initiatives should have direct relevance to the business model and be strategic in a way that reduces risks or aligns appropriately to deliver and enhance the company's value added. Finally, ESG factors must be supported strongly by senior management, have a solid organizational component and permeate the company's culture to achieve its mission.

As a result, we borrow from current authors in the space to develop a proposed framework for analysis. We ultimately utilize a framework that incorporates a set of integrated elements that guide corporate action. In order to be comprehensive, we include seven dimensions: **Citizenship Concept, Strategic Intent, Leadership, Structure, Issues Management, Stakeholders Relationship and Transparency**. Within each dimension, we evaluate the stage of engagement of the company's initiatives and determine a qualitative assessment in each dimension. As a final step, we consider all these elements together to provide a holistic picture of the company. The intent is not to be numerically exact about a particular score, but rather develop an intuition about the mechanism through which a company may ultimately have an advantage over peers with a "business-as-usual" mindset. At the end of the process, the team should be able to clearly articulate whether the ESG factors are significantly impacting overall value. Hence, ESG factors are understood as an opportunity to enhance the overall business and in many cases an imperative to remain competitive.

Figure 1 below summarizes the steps outlined above, providing a rigorous analytical tool to evaluate individual companies, in relationship to their peers and in comparison to other holdings in the portfolio. Starting this year, this framework has been instituted formally in each investment pitch and the philosophy of investing attributes equal weight to the resulting rationale as much as purely financial considerations.

**Figure 1. ESG Framework**

Company	Stage 1: Elementary	Stage 2: Engaged	Stage 3: Innovative	Stage 4: Integrated	Stage 5: Transforming
<b>Citizenship Concept</b>	Jobs, Profits, & Taxes	Environmental Protection	Stakeholder Management	Triple Bottom Line	Change the game
<b>Strategic Intent</b>	Legal Compliance	License to Operate	Business Case	Value proposition	Market creation
<b>Leadership</b>	Lip Service, Out of Touch	Supporter, In the Loop	Steward, On top of it	Champion, in front	Visionary
<b>Structure</b>	Staff Driven	Functional Ownership	Cross-Functional Coordination	Organization Alignment	Mainstream; business driven
<b>Issues Management</b>	Defensive	Reactive	Responsive, programs	Pro-active, systems	Defining
<b>Stakeholder Relationships</b>	Unilateral	Interactive	Mutual Influence	Partnership Alliance	Multi-organization
<b>Transparency</b>	Flank Protection	Public Relations	Public Reporting	Assurance	Full Disclosure

### Existence of Alpha

While evaluating the alpha potential of an investment based on fundamental/financial principles is an already well recognized process, it is more difficult when evaluating the ESG dimension. In principle, the framework described before provides us with a solid basis to compare investments. However, it does not address the question of whether we want to pick best-in-class performers or those on track to becoming industry leaders. One perspective could claim that investors have already recognized the significance of a best-in-class company's initiatives and therefore it is already reflected in the stock price. Others would argue that these elements will become more critical throughout time and that they will continue to represent an advantage in the marketplace. Ultimately, we have reached the consensus that alpha can come from two scenarios: 1) a best-in-class company with proved execution and a well-supported ESG mission which will become more relevant in that industry, or 2) a company that is not best-in-class yet, but has set out clear goals and a roadmap to achieve them. Close monitoring of a movement along this roadmap is essential.

### Portfolio Monitoring and Performance Reporting

With an increased number of positions and after experimenting with several internally developed models, the task of tracking portfolio performance became more complicated. With a clearly stated goal to outperform financial benchmarks, the principals recognized that more visibility and frequent reporting would be necessary for appropriate monitoring. The existing solutions were based on manual input, prone to calculation errors, and hard to replicate in the future. As a result, alternative options were considered including professional portfolio analytics platforms that could generate the desired outputs. After researching potential vendors in the space and taking into account budget considerations, the vendor Telemet Orion was chosen as the software of choice. The subscription to the tool has recently been signed and formal training was carried out for the first time. The net benefits of this tool will be the opportunity to develop performance metrics in line with industry best practices, improved accuracy, speed of reporting, better historical tracking and ease of knowledge transfer. The tool is also capable of performing attribution analysis so that the portfolio breakdown by sectors is more transparent. Similarly, principals can distinguish the portion of performance attributable to a selection versus an allocation

bias. Reliance on this tool is essential to the Fund's commitment to outperform a benchmark and ultimately to testing the merits of SRI investing.

### **Portfolio Optimization**

In the past, the focus of portfolio optimization had been a secondary priority given a Fund that was not fully invested. Each investment had been done following a fixed, equally-weighted position size. For the first time this year, we set a goal not only to invest the entire portfolio, but also to develop a rationale for allocating funds. Given the Fund's clear goals to outperform a financial benchmark and select companies with business-driven ESG missions, the task to optimize the portfolio became more attainable. Previously, we had explored and evaluated models that inform the Value-at-Risk in the portfolio and other quantitative tools that would give us some guidelines to allocate current positions. However, the consequent reliance on technical calculations sometimes alienated individuals from the discussion. Throughout time it was recognized as a process that could distance principals from developing a more intuitive approach. Ultimately, a basic risk model provides us with some initial optimal allocations, but the core of the final decision is developed qualitatively and as a group decision-making process. Consulting with SRI investment professionals in the industry confirmed that this is a reasonable approach. In fact, they recognized that the method is thorough. The elements considered in the Fund's portfolio optimization are:

- 3-year IRR to Target Price (from Financial Valuation Model)
- Company risk (Analyst's qualitative assessment)
- ESG Thesis Conviction (from ESG Framework)
- Return Conviction
- Diversification Value (relative to other portfolio holdings)
- Square root of Market Capitalization (to reflect size)

All of the above result in a ***"Final Recommended Weight"*** in the portfolio. Upon reaching consensus, position weights are changed accordingly.

From a performance point of view, it is important to recognize that a small portfolio of this type is inherently more volatile. The desired upside is the belief that by having a more concentrated portfolio, the Fund might benefit from having a greater focus on ESG factors, which should amount to larger returns.

### **Portfolio Rebalancing**

Each time a position is entered or divested, the portfolio is rebalanced following the portfolio optimization principles. However, after the Fund was finally fully invested and a new position had been approved by the principals, the question became where to get the financial resources for the new investment. Ultimately the position was acquired by reducing the relative weights of some existing portfolio companies. However, in the future, it will be a worthwhile discussion to decide what the best policy will be going forward.

### **Team Dynamics**

The focus of the team has been to continuously improve the investment process, logistics and the structure of the Fund. As a result, the standardization of templates, frameworks and quality of analyses to scrutinize investments has seen an improvement. Moreover, the diversity of professional backgrounds among principals has been kept a priority throughout the recruitment and selection process. As a result, our discussions are typically balanced with a variety of perspectives. Nonetheless, increased standardization has resulted in a more informed and timely decision-making process with a surprising level of consensus. Whenever opinions were highly divided, the conversation led us to unveil themes that we had not thought about thoroughly enough and always resulted in an enriching conversation.

## PORTFOLIO SUMMARY

As of April 30, 2011 the Fund portfolio was made up of a diverse set of twelve companies, including:

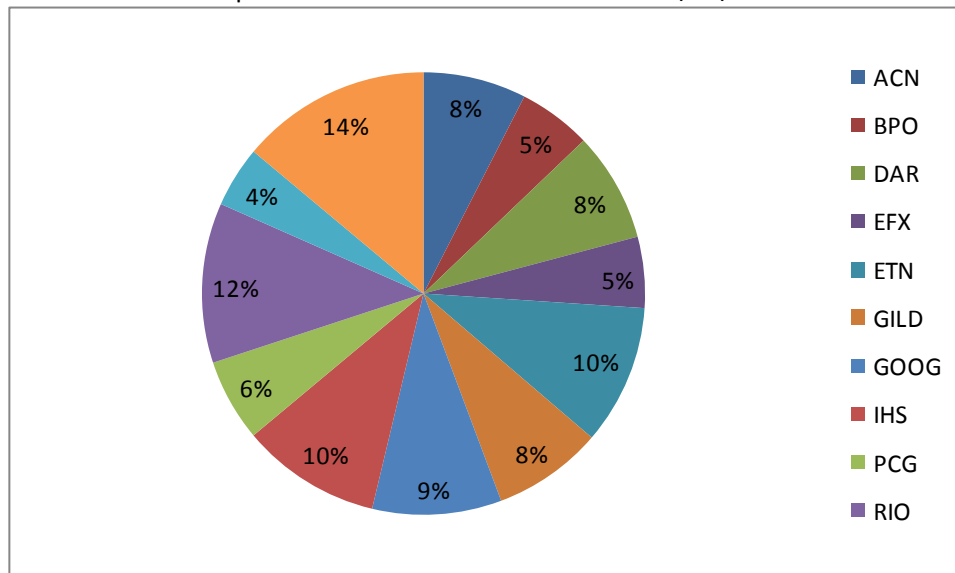
- Accenture
- Brookfield Properties
- Darling International
- Equifax
- Eaton
- Gilead Sciences
- Google
- IHS Inc.
- PG&E
- Rio Tinto
- Net1 UEPS Technologies
- Walmart

In May the principals voted to add two additional positions to the fund: Norfolk Southern, a railroad, and Waste Management. Principals also voted to divest of the Net1 UEPS position. A summary of the portfolio follows, as of April 30, 2011.

### Composition of the Fund Portfolio

In general, we are working to maintain a portfolio of ten to twenty positions and are weighting the positions based on a combination of the following five factors: 1) analyst assessment of absolute company risk, 2) analyst absolute ESG thesis conviction, 3) diversification value (relative to portfolio), 4) analyst absolute return conviction, and 5) the square root of the market cap weight. The chart below shows the percentage size of each of the Fund's twelve positions.

Composition of the HSRIF Portfolio as of 4/30/2011



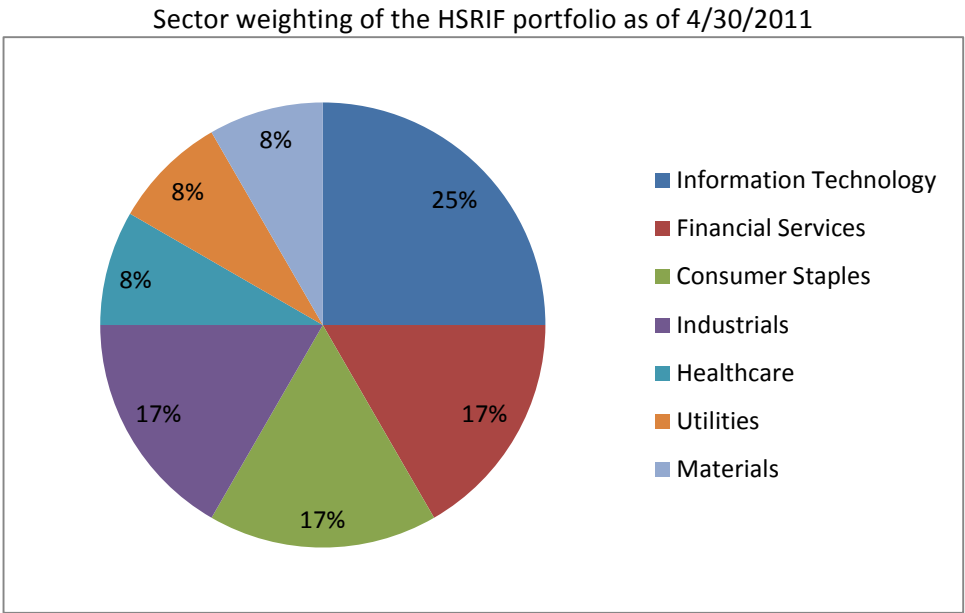


**Cash**

For the first time since the Fund’s inception, the Fund is now fully invested. A small amount of excess cash continues to be held in our Schwab account.

**Sector Exposures**

The following chart illustrates our sector exposures. In 2011, we made great strides to gaining greater diversification in the portfolio, adding positions in financial services, healthcare and industrials.



**Risk Management**

Risk management is a critical area of importance for the Fund. In 2010, the Fund implemented a practice requiring a formal review of each holding every four months, which was continued in 2011. During each review, the stock’s financial and ESG performance is assessed and its target price is updated. During these presentations, the Fund’s principals decide by vote whether or not to maintain the position. This process has been extremely important and beneficial in ensuring that the Fund is actively managing investment positions made by past principals.

In addition, in 2011, the Fund contracted with a new vendor to provide detailed reporting on the fund’s holdings, which will allow future principals to more easily monitor the fund’s positions and allocations.

## PERFORMANCE ANALYSIS

### Fiscal Year Ended April 30, 2011

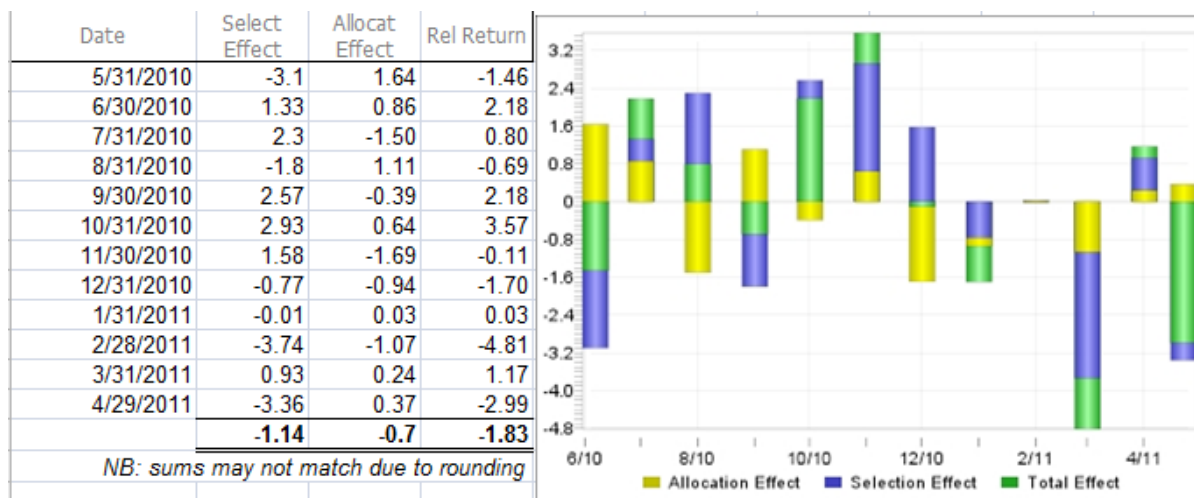
The invested portion of the Fund realized growth of 16.51% over the last fiscal year (5/1/10 – 4/30/11), lagging the Russell 3000 return of 18.36% by 185 basis points. The total Fund (including cash) had more modest growth of 8.12%, reflecting the cash ballast on the Fund for most of the fiscal year, until we moved to a fully invested portfolio on March 11, 2011. In the analysis below, we will focus exclusively on the invested equity portion of the Fund.

The following graph shows the Fund's equity performance throughout the fiscal year relative to the Russell 3000. We enjoyed meaningful outperformance beginning in October 2010 (soon after the Principals articulated the explicit goal of outperforming a benchmark), but relative performance suffered beginning in February.

### Cumulative Returns: HSRIF invested equity vs. Russell 3000 (5/1/2010-4/30/2011)



For deeper insights into our relative performance over time, we examine our monthly performance attribution<sup>1</sup>:



Interestingly, our weakest two months of returns (February & April) may all be attributed primarily to our security selection, rather than allocation effects. To a lesser extent, but still notable, our overall underperformance for the year may also be attributed more to security selection than allocation.

For deeper insights into our security selection, we look to our top- and bottom-contributing holdings for the year (which, due to the Fund's high concentration, shows overlap in the bottom three names):

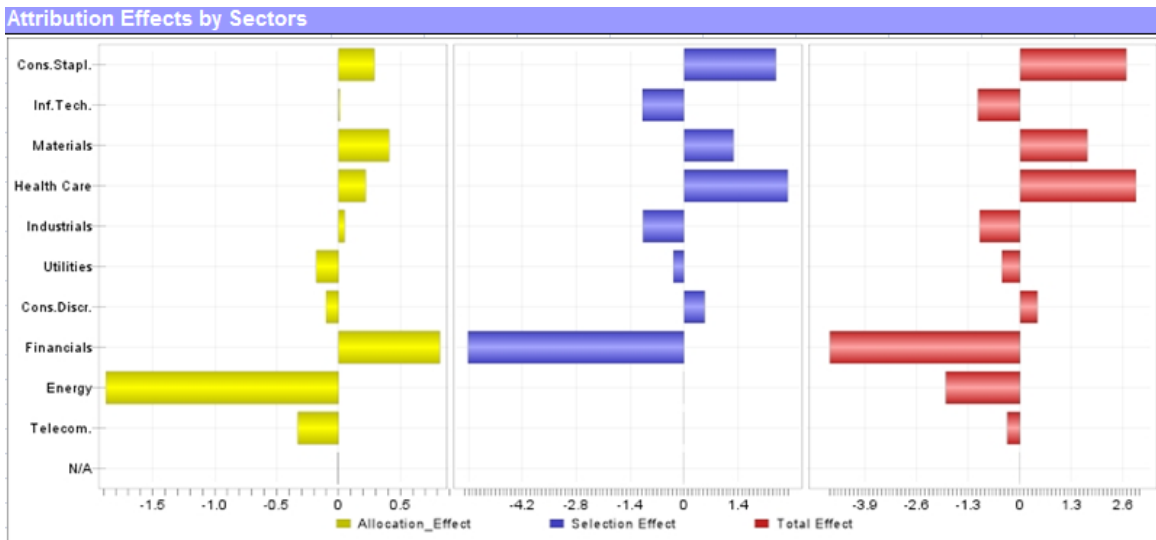
Top Contributors by Holdings				Bottom Contributors by Holdings			
Company	Weight	Return	Contrib	Company	Weight	Return	Contrib
DARLING INTERNATIONAL INC	8.35	72.14	5.39	NET 1 UEPS TECHNOLOGIES INC	9.02	-49.02	-5.59
Novo-Nordisk A/S	8.75	19.60	3.64	ENER1 IN	6.69	-39.43	-1.95
Rio Tinto PLC	6.41	46.87	3.29	GILEAD SCIENCES INC	3.88	-2.82	-0.39
ACCENTURE PLC-CL A	9.89	35.80	2.97	ABB Ltd	0.03	-2.14	-0.08
AUTODESK INC	6.94	26.30	2.54	NIKE INC -CL B	0.40	2.56	0.31
IHS INC-CLASS A	4.47	18.62	1.68	EQUIFAX INC	2.43	6.36	0.47
EATON CORP	3.85	12.67	1.21	WAL-MART STORES INC	10.73	5.93	0.70
BPO	0.87	7.58	0.87	P G&E CORP	7.39	9.37	0.73
GOOGLE INC-CL A	9.92	3.86	0.76	GOOGLE INC-CL A	9.92	3.86	0.76
P G&E CORP	7.39	9.37	0.73	BPO	0.87	7.58	0.87

Clearly, the most troubling performance comes from Net1 UEPS, a South African transaction processing company that delivers financial services to under- and unbanked populations in the developing world. As discussed in the Investment Pitches section below, the stock has suffered over uncertainty surrounding its contract with the South African Social Security Administration, which drives over 50% of company revenues. Although we believe the ESG story on the company is strong and that return upside exists from current trading levels near book value, we also acknowledge that we have not fully understood the drivers for the stock's downward trajectory, which we believe is not fully based on fundamentals. Accordingly, the team voted to divest from UEPS in May 2011 (after the end of this fiscal year) and monitor the stock to attempt to gain greater clarity. We likewise exited Ener1 in early May 2011, while ABB and Nike were both divested at the very beginning of the fiscal year, in May 2010.

<sup>1</sup> Note that the month labels on the bar chart on the right-hand side of the page are mis-labeled by 1 month – the bar labeled 6/10 actually corresponds to the data for the month ending 5/31/2010, etc. We intend to notify our attribution analysis data vendor of that mis-labeling in the software output.

Looking to our strongest contributors, we captured gains with exits from Novo-Nordisk and Autodesk. Darling, Rio Tinto and Accenture are all still part of the Fund, though their position sizes will be pared back with a May 2011 portfolio rebalancing.

While sector allocation was less of a drag on our portfolio than security selection, the following charts give some insights into our performance by sector:



Looking at attribution alone (in yellow), our lack of exposure to the Energy sector hurt performance relative to the Russell 3000, though attribution effects in the other sectors were, on balance, positive. Our security selection **and total** performance was weakest in Financials (primarily Net1 UEPS) and strongest in Health Care (Novo-Nordisk) and Consumer Staples (Darling).

### Inception to Date

The invested portion of the Fund realized a total time-weighted return<sup>2</sup> of 0.96% since inception (5/8/08 – 4/30/11), lagging the Russell 3000 return of 6.65% by 568 basis points. The total Fund (including cash) strongly outperformed the benchmark with a total return of 22.87% -- more than 16 percentage points over the benchmark return of 6.65%, due primarily to the sizable cash position in the market collapse of 2008 and early 2009. In the analysis below, we will focus exclusively on the invested equity portion of the Fund.

<sup>2</sup> Note that this time weighting reverses a decision by prior principals to measure returns on a dollar-weighted basis due to the principals' discretion in deploying cash over a long period of time. While the Fund's dollar-weighted historical return is considerably stronger, we believe that a time-weighted return will be most appropriate for the Fund's fully-invested status going forward. We therefore present all returns here on a time-weighted basis for the sake of comparison.

The following graph shows the Fund's time-weighted equity performance since inception relative to the Russell 3000:

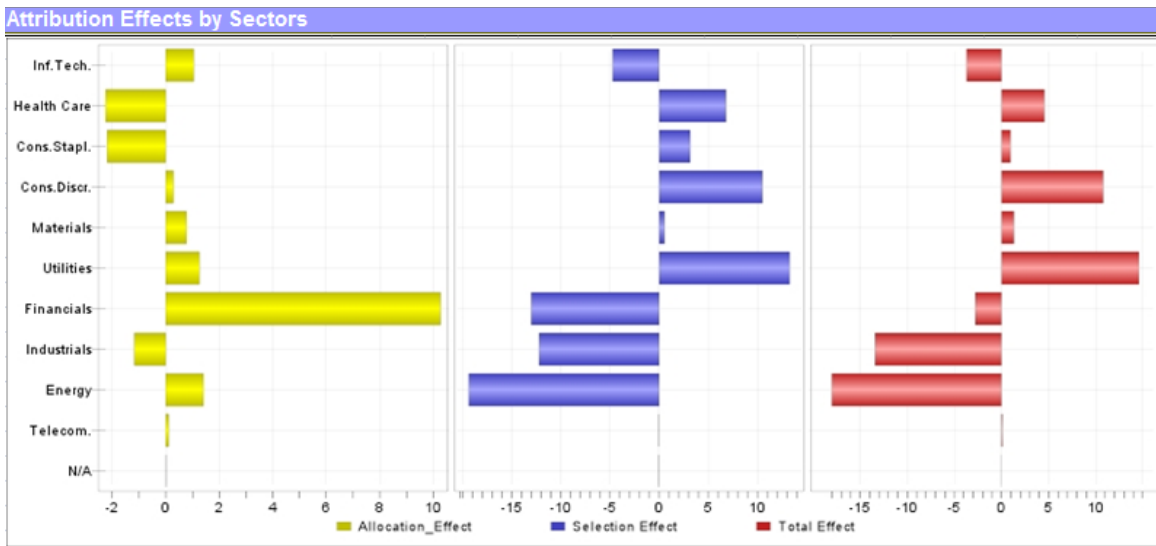
**Cumulative Time-Weighted Returns<sup>1</sup>: HSRIF invested equity vs. Russell 3000 (5/8/2008-4/30/2011)**



Notably, our inception-to-date relative return has a positive allocation effect of 9.55% offset by a negative selection effect of 15.12%. Examining our top- and bottom-contributing holdings, we observe that we have exited our five worst-performing holdings and captured gains on four of our strongest five performers as of May 2011:

Top Contributors by Holdings				Bottom Contributors by Holdings			
Company	Weight	Return	Contrib	Company	Weight	Return	Contrib
Novo-Nordisk A/S	7.48	105.09	8.72	ABB Ltd	8.91	-36.99	-18.90
JOHNSON CONTROLS INC	5.04	100.64	7.49	Suntech Power Holdings Co.	2.93	-56.20	-18.54
DARLING INTERNATIONAL INC	5.05	171.75	7.03	NET 1 UEPS TECHNOLOGIES INC	8.20	-44.04	-3.87
AUTODESK INC	4.45	128.91	5.28	ENER1 IN	3.68	-50.39	-3.11
CISCO SYSTEMS INC	5.10	36.91	4.00	NIKE INC -CL B	10.71	34.47	-0.80
ACCENTURE PLC-CL A	3.55	42.28	2.88	GILEAD SCIENCES INC	1.32	-2.82	-0.34
BERKSHIRE HATHAWAY INC-CL E	2.76	59.48	2.50	GOOGLE INC-CL A	4.92	-1.23	0.23
Rio Tinto PLC	2.38	34.08	2.49	EQUIFAX INC	0.82	6.36	0.41
P G&E CORP	15.27	28.13	1.69	WAL-MART STORES INC	4.30	6.79	0.65
IHS INC-CLASS A	1.51	18.62	1.46	BPO	0.30	7.58	0.75

Our ITD sector allocation effect (in yellow below) is overwhelmingly positive, primarily due to underexposure to Financials throughout the global credit crisis:



However, the blue bars reflect security selection shortcomings in Financials (primarily Net1 UEPS as discussed above), Industrials (primarily ABB, exited in early May 2010) and Energy (Suntech Power, exited in May 2009).

We wish to re-emphasize the fact that Fall 2010 marked the first time that Fund principals set an explicit goal for financial outperformance of a benchmark, and that the performance analytics tools shown in the graphs above only became available to the principals in Spring 2011. We expect that future principals will benefit strongly from the ability to review performance analytics on a monthly (or even more frequent) basis to better understand how the financial and ESG theses for each holding is playing out against a backdrop of broader market trends.

**Accenture (NYSE: ACN)**

**GICS Sector:** Information Technology

**Industry:** IT Services

**Company Description:** Accenture is a management consulting, technology services, and business process outsourcing company. The company leverages its industry and business-process knowledge and service-offering expertise to identify business and technology trends and formulate and implement solutions for clients under demanding time constraints.

Accenture helps its clients improve operational performance, deliver their products and services more effectively and efficiently, increase revenues in existing markets and identify and enter new markets. Revenues are derived primarily from Fortune Global 500 and Fortune 1000 companies, medium-sized companies, governments, and government agencies.

**Investment Pitch:** The Fund principals sought to invest in Accenture to investigate the suitability of investment in a professional services company that has taken its core competencies/business to organizations working in the international development sector. Additionally, the benefits of Accenture's entrepreneurial culture and best-in-class CSR programs are believed to not be fully incorporated into its stock price.

**Outcome:** The Fund entered a position in Accenture in April 2010, with a purchase price of \$42.01 per share. Since the purchase, Accenture has had very strong share price increases driven by improving business results, especially in its financial services and resource practices. Accenture has also continued to return cash to shareholders in the form of a 20% increase in dividends and continued share repurchases. As of the writing of this report, total returns from the Fund's position in Accenture exceed 30%. Due to the run-up in Accenture's share price, we believe that Accenture is approaching full valuation on both a discounted cash flow and multiples basis. We have therefore voted to reduce our position incrementally in order to lock in profits and rebalance the portfolio towards stocks with higher reward-risk ratios.

## Brookfield Properties (NYSE: BPO)

Brookfield Properties



**GICS Sector:** Financials

**Industry:** Real Estate Investment Trusts

**Company Description:** Brookfield Properties Corporation (BPO) is a publicly owned real estate investment firm. The firm engages in the ownership, development, and management of premier commercial properties. BPO's strategy focus on high-quality office properties provides significant exposure to rising values of high-quality office assets in primary markets, driven by rising market rents and property NOI's and abundant low cost mortgage debt financing.

**Investment Pitch:** BPO is the clear leader in Premier Office Properties located in downtown cores and with proximity to major transit hubs. Positioned in strong local economies and high-growth cities, which are also supply-constrained markets, BPO has a premium quality portfolio that is levered to rising property values. BPO develops large, modern and environmentally advanced office space. Its portfolio is consistently well-leased, with long-term lease profiles matched with diversified, quality tenants (such as top financial, government, and energy sector companies). BPO also has a strong development pipeline that poises the company for future growth. Near term financial catalysts for the company include: reduced lease rollover exposure, leasing progress on its nearer-term lease maturities, continued re-financing at attractive interest rates, select property sales at attractive pricing/low cap rates, closing of the residential asset sale, and a higher share price, supported by higher and rising NAV and social property market fundamentals.

From an ESG perspective, BPO's overall value proposition is highly integrated with its business case and organizational alignment. BPO is best-in-class for green building and design results in top-notch premium rated properties, appealing to the most environmentally conscious tenants. The carbon efficiency of its buildings will lead to large savings for both BPO and tenants. Finally, BPO efforts in strategic community engagement through public arts & events add to the business value.

**Outcome:** Fund principals voted to accept BPO into the Fund.



## Darling International Inc. (NYSE: DAR)



**GICS Sector:** Consumer Staples

**Industry:** Food Products

**Company Description:** Darling International has a dominant position in one of the most disgusting industries imaginable: the rendering and recycling of animal waste products and grease. The company is divided into two segments: 1) Rendering (animal by-products) and 2) Restaurant Services (grease and cooking oil).

**Investment Pitch:** Principals originally invested in Darling as rendering provides a positive benefit to society and shareholders alike by recycling waste into usable consumer products that are both environmentally sensible and profitable to produce. As the only national renderer, Darling is best equipped to capture national corporate accounts and produces substantial free cash flow with little credit risk. From an ESG perspective, we see Darling as a good fit within the Fund due to the environmental benefits the core business generates along with the commitment the company shows toward environmental and safety compliance. Darling's core business of rendering, recycling, and recovering food by-products and waste reduces carbon output throughout the entire value chain. Furthermore, rendered bio-fuels are better for the environment than corn-based ethanol and offer a perfect feedstock for the production of alternative fuels. Darling also demonstrates to go beyond simple compliance with applicable environmental, health, and safety laws and regulations.

**Outcome:** Since the Fund purchased the stock in April 2009 at just under \$5/share, Darling has performed incredibly well, returning over 200% of our investment to date. Darling's performance has been driven by several accretive acquisitions, initial approval for funding on a Joint Venture with Valero on a biofuel facility, and increasing food demand and agricultural commodity prices. Fund principals expect the company to continue to benefit from its strong market position and increasing food demand, and voted to hold and monitor Darling.

## Eaton Corporation (NYSE: ETN)



**GICS Sector:** Industrials

**Industry:** Electrical Equipment

**Company Description:** Eaton Corporation is a diversified power management company and a global technology leader in electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulic and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy, and safety. Put simply, ETN provides the infrastructure to deliver and control energy. The company has over 70,000 employees and sells products in over 150 countries. ETN sells into a wide range of markets, including agriculture, aviation, communications, IT, electronics, government and military, healthcare, manufacturing, residential, and vehicles.

**Investment Pitch:** Eaton's core mission is "thinking powerfully" to deliver innovative power management solutions that not only improve customer businesses, but also help improve the world. With the cost of energy extraction, distribution, and utilization increasing, along with more stringent government regulation to control energy consumption, companies increasingly need power management technologies to ensure energy is used safely and economically. ETN has been gaining market share and outperforming its end markets, and we expect this to accelerate in the coming years. Coupled with this is future expected growth driven by expansion to emerging economies, new energy-efficient innovation, and acquisitions. From a social perspective, ETN's diverse portfolio of energy-efficient innovations across industries, strong supply chain management policies, and internal commitment to sustainability add value by driving future revenue growth, controlling costs at the company-level and within the supply chain, and mitigating supply-chain risk. We believe that sell-side descriptions of the company indicate that the Street has been slow to recognize Eaton's transformation from an old-line industrial company into a new-economy sustainability leader, contributing to strong earnings surprises over the past four quarters. We expect that perception gap to close, providing a catalyst for the ETN shares to continue to outperform over our 3-year time horizon.

**Outcome:** Based on all the above, we voted to make an initial investment of approximately \$60,000 on November 30, 2010 (a split-adjusted 1,250 shares at \$47.85). We subsequently deployed another roughly \$75,000 into the position with our portfolio rebalancing on March 11, 2011 (1,450 shares at \$51.60). As of April 30, the ETN shares stood at \$53.56, and we recently raised our three-year price target to \$67, representing an annualized IRR of 11% from current levels. The Fund voted to continue to hold and monitor the stock.

## Equifax (NYSE: EFX)



**GICS Sector:** Industrials

**Industry:** Commercial Services

**Company Description:** Equifax is a leading global provider of consumer and business credit information. Equifax's products primarily assist businesses in making underwriting and marketing decisions. Equifax acquires and manages comprehensive databases containing the credit applications and repayment histories of consumers. The company derives its revenue from the sale of a wide variety of services, including credit reports and scores, risk management tools, fraud services such as identify verification and authentication, mortgage reporting and settlement solutions, and collection services. Lastly, the company's TALX subsidiary (acquired in 2007) provides employment and income verification services and other human resources outsourcing services to businesses in the U.S.

**Investment Pitch:** As one of three credit bureaus in the United States, Equifax is a leading company in an oligopoly. The company has an estimated market share of approximately 35%. Equifax enjoys a wide "moat" around its business primarily due to its database asset, which contains demographic, wealth, purchase, and payment data going back more than 100 years. Replicating the company's database of over 300 million records is virtually impossible. In addition, the company benefits from a network effect because by having data, firms transact with Equifax and Equifax receives new data, enhancing its "moat". Equifax also benefits from significant switching costs for large business customers who house Equifax technology internally in order to directly access the Equifax database.

From an ESG standpoint, Equifax's core business is socially responsible. Equifax is an essential part of the lending cycle in many countries, facilitating home ownership and access to capital (a home loan in the U.S. is not made without accessing Equifax's database). Also, Equifax's services empower individuals to understand and better manage credit, protect their identity (avoid identify theft and fraud), and maximize their financial well-being. Equifax's services help protect those that cannot afford to become indebted from becoming so. Finally, Equifax is a leader in its industry in terms of advancing transparency among credit rating agencies.

**Outcome:** The Fund voted to purchase shares of Equifax in December 2010, with an initial position size of \$60,000 at a price of \$35.45 per share.

## Gilead Sciences, Inc. (NASDAQ: GILD)



**GICS Sector:** Health Care

**Industry:** Biotechnology

**Company Description:** Gilead is the leader in the worldwide HIV therapeutics market, with the company's HIV product sales constituting more than 80% of total 2009 revenues. Gilead is a biopharmaceutical company that discovers, develops, and commercializes therapeutics in areas of unmet medical need. The Company has United States and international commercial sales operations, with marketing subsidiaries in Australia, Austria, Canada, France, Germany, Greece, Ireland, Italy, New Zealand, Portugal, Spain, Switzerland, Turkey, United Kingdom, and United States. Its commercial team promotes Truvada, Viread, Emtriva, Hepsera, AmBisome, Letairis, and Flolan through direct field contact with physicians, hospitals, clinics, and other healthcare providers. Gilead has recently made acquisitions in the cardiovascular arena to diversify its portfolio of offerings and in May 2008, the Company acquired Navitas Assets, LLC and in April 2009, CV Therapeutics, Inc.

**Investment Pitch:** Gilead holds a leadership position in the global HIV market with 25.9% of market share in 2009. The company manages to continuously gain market share by introducing next-generation HIV medicines. Additionally, diversification into new therapeutic areas is allowing the company to expand its revenue streams. Its revenue CAGR for the past seven years is around 11%. The firm operates with an experienced and industry-respected management team.

Gilead ranks in the top of SRI indices and is considered a leader in equitable pricing, manufacturing, distribution, and voluntary licensing. Over 825,000 people in Africa, Asia, Latin America, and the Middle East are receiving the company's HIV treatments. Gilead is quickly becoming a leader in access-to-medicine programs and product safety.

**Outcome:** The Fund voted to maintain its exposure in the stock.

## Google Inc. (NASDAQ: GOOG)



**GICS Sector:** Information Technology

**Industry:** Internet Software & Services

**Company Description:** Google Inc. is one of the leading internet technology and advertising companies in the world and is the largest search engine on the Internet. The Company maintains an index of web sites and other content and makes them freely available on the Internet through the search engine. The Company's automated search technology helps people obtain nearly instant access to relevant information from its index. The Company generates revenue primarily through online advertising (98%). It also offers advertising in news papers, radio and television, and gains non-core search revenue from Google Applications, licensing, YouTube, Android/iPhone Applications and DoubleClick.

**Investment Pitch:** A clear leader in its industry, Google, Inc. is positioned to continue to experience significant growth over the next several years, which is expected to come from multiple expansion, increase in revenue, and operating margin improvement. Additionally, as part of the Company's efforts to reduce structured costs to improve margins, it has taken a leadership position in developing energy efficiency initiatives commensurate with its burgeoning reputation as a sector-leader in social and environmental best practices. Google has only recently appeared as a high performer in various sustainability metrics, suggesting that the market has not yet fully realized the scope or potential impact of its sustainability program. In turn, this suggests that the value to be gained from these initiatives is not yet baked into its security price. Consensus estimates and valuations are currently based on current earnings and growth, and systematically overlook the efficiency gains from its energy projects and the positive impact this will have on its margins as well as its brand. This should allow the company to continue to expand its offerings and maintain its dominant market position.

**Outcome:** With a share price of \$544.10 at April 29, the GOOG shares have lagged the market since the Fund initially purchased 110 shares at \$552.80 on October 23, 2009 and an additional 160 shares at \$578.30 upon our portfolio rebalancing on March 11, 2011. The shares experienced strong performance in September through November 2010, but concerns over margin contraction have caused a downturn since December. Our April 26 report and model update suggest that our long-term fundamental and ESG theses on Google remain intact, and we expect operating margin compression to taper off by 2012. We updated our three-year price target to \$936, representing a 20% annualized IRR from current levels. The Fund voted to continue to hold and monitor the stock.



## IHS Inc. (NYSE: IHS)

**GICS Sector:** Information Technology

**Industry:** Software

**Company Description:** IHS Inc. (IHS) is the source of critical information and insight in areas such as energy, product lifecycle, security and environment. IHS sources data and transforms it into information that businesses, government, and others use every day to make high-impact decisions. Raw data is converted into information through a series of transformational steps. The seven-step process IHS follows in transforming data into critical information and insight involves Sourcing, Capture, Matching, Identification, Relationships, Analysis, and Modeling and Forecasting. The Company is organized in three geographical segments: Americas, which includes the United States, Canada, and Latin America; EMEA, which includes Europe, the Middle East, Africa, and India, and Asia Pacific.

IHS is particularly attractive to customers in both emerging and developed markets because of its large presence in and robust data sets from largely under-covered developing countries. Information and insight provided by IHS allows customers to accelerate intelligent decision-making, making penetration of business faster and better prepared to handle risk. In many cases IHS is the first one to ever provide accumulation of data in these countries. We believe that their exposure to these untapped revenue sources will provide a competitive edge to IHS.

**Investment Pitch:** IHS' core mission is to add value through the transformation of information into critical insight and to be a thoughtful and responsible citizen by improving the quality of life for its customers, employees, shareholders and the communities in which they live and work. We expect IHS' products that facilitate the implementation, support and monitoring of Environmental, Social and Governance (ESG) practices in several industries to be key drivers for continued strong revenue growth for the company, which will also be supported by continued pricing increases based on added value, cross-selling opportunities across information domains, and further acquisitions with successful integration. The company's profitability and cash flows should grow even more quickly than revenues, driven by high incremental margins inherent in its information products, continued progress toward industry-standard margins, and implementation of a streamlined back-office platform.

**Outcome:** IHS' core mission is to add value through the transformation of information into critical insight and to be a thoughtful and responsible citizen by improving the quality of life for its customers, employees, shareholders and the communities in which they live and work. IHS is directly linked to the implementation, support and monitoring of Environmental, Social and Governance (ESG) practices in several industries. Based on promising financial and social returns, the Fund voted to purchase the stock in November 2010.

## Norfolk Southern (NYSE: NSC)

GICS Sector: Industrials

Industry: Road & Rail



**Company Description:** Norfolk Southern Corporation controls a major freight railroad on the East Coast of the United States. The company operates approximately 21,000 rail route miles in 22 states and the District of Columbia, serves every major container port in the eastern United States, and provides connections to other rail carriers. In addition, Norfolk Southern operates the most extensive intermodal network in the East. The company is a major transporter of coal and industrial products. The company employs approximately 28,500 people.

**Investment Pitch:** NSC is an attractive investment because of the high barriers to entry in the railroad industry, the company's revenue and profitability growth prospects and a direct link between the company's ESG practices and its bottom line. The capital intensity and regulation of the railroad business effectively limits new entrants. The secular shift from truck to rail for cost and environmental efficiency purposes will improve the business. Furthermore, improved intermodal rail transport will continue to drive share from trucks to rail. Highway congestion will accelerate this trend. The opportunity is significant due to current high levels of truck market share. Further financial return upside comes from a combination of pricing increases and cost cutting, which should enhance operating margin. Operating margin is likely to return to around 30% by 2015. From an ESG investment perspective, the company's business is directly enhanced by the environmental goals of the company and its customers. NSC will benefit from its customers' sustainability objectives, because the company can transport goods in a fuel-efficient manner. To capitalize on this trend, NSC created the "Green Machine," a carbon footprint analyzer that allows shipping companies to estimate emissions savings by choosing rail instead of highway. Lastly, the company has a track record of returning cash to investors through dividend payouts and share buybacks. In 2010, NSC completed the share repurchase program approved in 2005, which authorized repurchase of 75 million shares for a total cost of \$4.1 billion. The Board authorized a new repurchase program of an additional 50 million shares through 2014. The company has paid out approximately \$500 million per year in dividends, or \$1.40 per share in 2010.

**Outcome:** Our valuation analysis indicates the stock is undervalued at 12x forward earnings versus a historical average earnings multiple of 14x. Underlying our financial analysis is the belief that the economic recovery will be sustained in the United States. The Fund principals voted unanimously to buy the stock on April 19<sup>th</sup> 2011.

## PG&E Corp. (NYSE: PCG)



GICS Sector: Utilities

Industry: Multi-Utilities

**Company Description:** PG&E is a \$17.9 billion holding company and utility engaged in the generation, procurement, and transmission of energy in California, and one of the largest utility holding companies in the U.S. The company also is involved in the generation, procurement, transmission, and distribution of electricity; and procurement, transportation, storage, and distribution of natural gas.

**Investment Pitch:** Pacific Gas & Electric is the largest regulated utility in the United States by sales. PG&E's stable earnings are expected to grow moderately over the long run. Moreover, because the market is regulated, a healthy rate of return is guaranteed to the company through the ongoing adjustment of rates. Concerns for other utilities regarding the volatile cost of natural gas for generation purposes are diminished for PG&E because it is an integrated gas and electric utility.

From an ESG perspective, the Fund has selected the company for its prioritization of safety and reliability among its principles. Given the nature of their business, these two aspects are a critical component to distinguish leaders from average players. Recently, the company has also become an example for other utilities to reduce carbon emissions through proactive procurement of renewable resources in its generation portfolio. These initiatives were accompanied by a strong effort to promote energy efficiency among consumers and upgrade the infrastructure required to meet a higher standard of savings.

**Outcome:** As one of the Fund's longest held holdings, PG&E has provided dual benefits of diversification and relative safety during the downturn of 2008-2009. The firm's stable cash flows and defensive nature has led to significant outperformance versus the overall market over the last three years. Overall, the Fund believes PG&E's ESG practices will continue to set a leading standard in the industry. At a fundamental level, ESG practices have not changed and the company is demonstrating accountability for the San Bruno pipeline explosion in late 2010. The steady nature of PG&E's cash flows, coupled with a robust SRI thesis, provides for a proper diversification of investments in the portfolio. Something that is not priced in clearly is that by taking significant steps forward compared to other utilities, PG&E stands to be at a significant competitive advantage related to costs of reducing greenhouse gases and replacing its infrastructure to accommodate new generations of technologies, as well as responding to innovative business models. By being the pioneer to pilot these opportunities, it is likely that the stock will get a premium once regulation evolves. Fund principals voted in favor of holding PG&E.



## Rio Tinto (NYSE: RTP)



**GICS Sector:** Materials

**Industry:** Metals & Mining

**Company Description:** Rio Tinto is one of the world's largest mining conglomerates with major interests in copper, iron ore, coal, aluminum, mineral sands, borax, diamonds and gold. It is one of the largest single producers of copper, iron ore, steaming coal, TiO<sub>2</sub> slag and borax. Operations are characterized by world-class deposits - principally openpit, mostly in the lowest-cost quartile and located in North and South America, Australia, Indonesia, Europe and Southern Africa.

**Investment Pitch:** Rio Tinto exceeds industry benchmarks with respect to Governance, Human Capital, the Environment and Stakeholder Capital. Specifically, we believe there is SRI “Alpha” associated with Rio Tinto’s strong environmental record and comprehensive stakeholder policies that enables it to strike favorable deals with resource-rich countries who want mining done in a sustainable manner. From a financial perspective, Rio Tinto gives the Fund exposure to the basic materials space and rising commodity prices. Rio Tinto appears to be attractively valued when using a discount cash flow (DCF) model. The firm appears to be trading at a 35% discount to its intrinsic value, and that is with conservative estimates.

**Outcome:** The Fund voted to maintain its exposure in the stock.

## Waste Management (NYSE: WM)



**GICS Sector:** Industrials

**Industry:** Commercial Services

**Company Description:** Waste Management, Inc. is the nation's largest provider of waste collection, transfer, recycling and disposal services, operating with the slogan "Think Green." The company operates 271 landfill sites (more than its two closest competitors combined), 345 waste transfer facilities, and 390 collection operations. WM also manages a growing portfolio of recycling, waste-to-energy and landfill gas-to-energy projects, as well as independent power production plants and sustainability advisory services, based on the strategic view "not that the waste stream is going away, but that parts of it are being diverted to recover greater value from the materials that make up that stream." The company's 43,000 employees serve customers in the US and Canada, and WM also has a waste-to-energy joint venture in China.

**Investment Pitch:** The waste management business is no longer just a collections business; it's more about waste processing business and WM is positioned to lead in this area. Specifically, actual landfill volume hit a plateau in 2006. Part of this is based on economic conditions (as GDP grows, waste output grows), but the growth rate of landfill volume will likely not increase as fast as before as the economy recovers due to consumer interest in recycling and the adoption of "zero waste" mentality. These consumer/ household trends are beginning to transfer to the commercial waste sector as large companies like Wal-Mart are instituting stringent recycling policies; these actions put pressure on other corporations to follow suit from a CSR perspective and are supported by customer demand. In addition to its innovations and operational efficiencies in recycling processes, WM is finding more ways to reuse waste materials through either processing recycled materials or converting waste to alternative energy forms. Although these two revenue segments are the smallest, they are high margin and high growth and will be the long-term drivers of the company's growth.

Environmental sustainability initiatives are central to the company's core revenue lines and primary strategy. In 2009, the company reorganized its operations to integrate the management of its recycling business with its other solid waste businesses, in four regional operating units. When considering the follow-on energy generation and recycling opportunities from collection, transfer and landfill operations, management points out that a full 50% of its revenue stream can be considered "green" and is working actively to increase that proportion.

**Outcome:** The Fund principals voted to enter with approximately 5% of our total portfolio allocation. Shares are trading currently at \$38.71, as of May 2011, and our 3-year price target is at \$43. With a dividend yield of 3.5%, our implied return would be approximately 7%. Although this is below our traditional return hurdle of 10%, the principals voted in favor of purchasing WM as they felt the ESG story behind the company was strong.

## Walmart Stores, Inc. (NYSE: WMT)



**GICS Sector:** Consumer Staples

**Industry:** Food & Staples Retailing

**Company Description:** Walmart is the largest retailer in the world, with over 2.1 million employees and trailing 12-month revenues in excess of \$420 billion. The company's revenues are divided into three main segments: Walmart U.S. (approximately 62% of sales), International (approximately 26% of sales) and Sam's Club (approximately 12% of sales). As of January 31, 2011, Walmart operates 4,300 supercenters, discount stores, neighborhood markets and Sam's Club warehouses across the United States. The company also operates 4,000 stores in 15 international markets, including Argentina, Brazil, Chile, China, Costa Rica, El Salvador, Guatemala, Honduras, India, Japan, Mexico, Nicaragua and the United Kingdom.

**Investment Pitch:** Walmart has cultivated a reputation as a leader in the field of corporate responsibility, promoting environmental and social sustainability across its global supply chain. We continue to see sustainability as a profit driver. Although international expansion remains front-and-center, increasing sales of green and organic products also represent top-line opportunities. Despite the firm's SRI successes, we see multiple risk factors, most prominently in the area of employment discrimination (including a high-profile case currently before the US Supreme Court). Walmart's continued sale of tobacco and firearms, minimal commitment to LGBT diversity and ongoing lawsuits against employees are somewhat concerning.

**Outcome:** We purchased Walmart on February 2, 2010 at a price of \$53.49 per share. Although poor sales at Wal-Mart's U.S. stores are an ongoing concern, strong performance across its International and, to a lesser degree, Sam's Club segments is encouraging. A revamped domestic strategy centered on price leadership and opening "hundreds" of smaller "Wal-Mart Express" stores should enable the firm to regain its US footing. Overseas, the growth story remains attractive. Our new three-year price target is \$68.72.

## Autodesk (NYSE: ADSK)

**GICS Sector:** Information Technology

**Industry:** Software



**Company Description:** ADSK is a design software and services company that offers products and solutions for the architectural, engineering & construction, manufacturing, geospatial mapping, and digital media and entertainment markets. ADSK's most well-known products are AutoCAD and AutoCAD LT, which are 2D horizontal design solutions, and several 2D and 3D industry-specific design and documentation tools. ADSK has more than 9 million users, 9 global strategic partners (including Microsoft, Intel, HP, and Apple) and over 2,500 third-party developers.

**Initial Investment Thesis:** The Fund invested in Autodesk in May 2009 at a price of \$18.75 per share. Our thesis revolved around the firm's status as the global leader in design software and services, strong brand portfolio and competitive positioning. Exposure to emerging markets and increased infrastructure spending in the United States were also cited as profit drivers. From an ESG perspective, Autodesk remains the industry leader in sustainability software, helping reduce material waste, increase energy efficiency and more accurately evaluate project lifecycles.

**Outcome:** The Fund divested Autodesk at a price of \$42.76 per share for a total gain of 128%. Our primary motivation in exiting the stock was valuation. Even after applying an aggressive terminal EV/EBITDA multiple, we could not justify continuing to hold ADSK. The stock also looked expensive on a P/E basis. We remain fans of the company, particularly from an ESG perspective, and have continued to track the stock closely. If valuations become more attractive, we will consider reentry. Since selling our shares, ADSK has underperformed the S&P by a negligible margin.

## Ener1 (NASDAQ: HEV)



**GICS Sector:** Information Technology

**Industry:** Electronic Equipment & Instruments

**Company Description:** Ener1 is a lithium-ion battery manufacturer. The company's core battery technology was formed in cooperation with Argonne National Laboratories, one of the largest research centers of the U.S. Department of Energy (DOE). Ener1 has two principal battery solutions, one for HEV applications and another for pure EV applications like the Think City. Ener1 is a full range solution provider: it designs and manufactures the cells, the battery modules, and the fully integrated battery packs, and it controls electronics in-house.

**Initial Investment Thesis:** The original investment thesis hinged on high oil prices, stricter legislation and the development of next-generation battery technology promising to fuel a rapid industry transition toward hybrid (HEV), plug-in hybrid (PHEV), and pure electric (EV) Vehicles. The thesis centered on the idea that if Ener1 could simply be one of core 5-6 lithium-ion battery manufacturers for OEMs, its stock price could easily double.

**Outcome:** Revenue expectations for 2011 and beyond were significantly impaired by customer Think's suspended production due to high inventory. While the hit to sales was partly mitigated by a Russian grid contract for \$45 million for energy storage systems, guidance for the year has been adjusted to \$130-\$150 million from earlier consensus of \$215 million. The investment in Think to-date is substantial (book value of \$58.6 million) and collection of \$14.3 million in receivables and loans of \$17.1 million may be doubtful. Ener1 has laid off about 3 percent of its 770 employees worldwide, partly because of lower-than-expected demand from the Think electric car being assembled in its Elkhart, IN plant. During 2010, the company reported EPS of -\$0.39, representing a modest 1.9% improvement compared to prior year. However, the stock price hit its 52-week low at \$2.39 on 5/2, representing a 40% decline since January, and has continued to slide. On 5/5/11, the Fund fully divested our position and sold 12,500 shares of HEV at \$2.20.

## Net1 UEPS Technologies Inc. (NASDAQ: UEPS)



**GICS Sector:** Financials

**Industry:** Consumer Finance

**Company Description:** Net1 offers an electronic payment system (similar to debit cards) for people in developing nations who have limited access to traditional financial institutions and services. This system is especially effective in communities where 1) the use of cash is unsafe, 2) traditional banking services are unaffordable, or 3) the existing communications infrastructure cannot support traditional debit cards from providers like Visa or national banks. In addition to banking, the cards can be used for health care management, international money transfers, voting, and identification uses. Already established in South Africa (65% of revenues), Net1 also has operations in Ghana, Iraq, Namibia and Uzbekistan and plans to expand into India, Latin America and Asia.

**Investment Pitch:** The core mission of the company addresses an important social issue—the dangers and costs of using cash in developing countries. As compared to cash, debit cards offer much more security for individual users. One prime example of this is with Net1’s schools project. The use of cash on school grounds to purchase meals, books, and sports equipment introduces the possibility of theft or the chance that the cash will be used to buy drugs. Additionally, Net1 is looking at a similar program for 360 prisons that look after more than 5 million people.

Although the SRI story on the stock is strong, the financial picture is extremely uncertain. Shares are currently trading slightly above book value (\$8/share versus \$7/book), indicating that investors seem to think the future potential of the company is low to nonexistent. The company is currently sitting on \$88 million in cash (\$2 per share), with about \$120 million in debt.

Net1’s largest acquisition to-date of KSNET, a payment processor in South Korea, has been dilutive to earnings. Since the acquisition closed in November of 2010, the KSNET has contributed \$41 million to the topline and has negatively impacted the bottom line by \$4.1 million. NET1 paid \$240 million in cash and a new debt facility provided by a syndicate of Korean banks to fund the acquisition KSNET. The acquisition was expected to be immediately accretive.

The company’s contract with the South African Social Security administration is again up for a public tender in September 2011. There are rumors that the welfare benefits distribution business will go to the South African Post Office, although NET1 management believes that the organization will have trouble meeting the requirements outlined in the contract. The company has reiterated that it is not allowed to talk about the public bid, but that it is spending a significant amount of time negotiating with the South African government to retain this business.

**Outcome:** The Fund recently reviewed NET1 and has decided to divest our position to help mitigate our exposure to risk, although we believe the stock will remain stabilized at slightly above book value until the results of the South African government’s public tender for welfare distribution contract are announced in September of 2011.



## Novo Nordisk (NYSE: NVO)

GICS Sector: Health Care

Industry: Pharmaceuticals

**Company Description:** Novo Nordisk A/S is a Denmark-based healthcare company. The Company provides diabetes care and is engaged in homeostasis management, growth hormone therapy and hormone replacement therapy. The Company manufactures and markets pharmaceutical products and services to patients, the medical profession and society. The Company is organized in two segments: diabetes care and biopharmaceuticals. Diabetes care includes discovery, development, manufacturing and marketing of products within the areas of insulin, glucagon-like peptide (GLP)-1 and related delivery systems, as well as oral anti-diabetic products (OAD). Biopharmaceuticals includes discovery, development, manufacturing and marketing of products within the therapy areas homeostasis management, growth hormone therapy, hormone replacement therapy, inflammation therapy and other therapy areas.

**Initial Investment Thesis:** Strategically, the stock provided exposure to the Healthcare sector and was considered a relatively good stock in a recessionary environment. The company's stock had strongly outperformed the S&P 500 as well as the S&P Healthcare Index on an absolute basis and on a risk-adjusted basis. From an ESG perspective, the company is a leader in providing education and diabetes care to people in developing and underdeveloped countries and this was expected to provide a significant boost to company's revenues in the long run, when the economies develop.

**Outcome:** We first entered into the position on 5/8/2009 at a price of \$48 with a target price of \$60. Following the mini-update review the stock, it appeared that there were no new drivers of significant growth in the near-term horizon while the stock had run up to over \$100. The company had realized big drivers of growth/ stock price appreciation with a successful launch of Liraglutide (Drug for Diabetes + Obesity) in the U.S. coupled with a delay in competitor product launches that helped fuel significant product uptake after launch. The SRI story remained very strong with increased charitable contributions to new organizations and the release of new interactive patient platform using social media to educate patients on diabetes care. Yet, versus the rest of the large pharmaceutical comparable companies, NVO was trading at a significant P/E multiple premium while on blended valuations however, the stock appeared to be closer to fair value. Thus while an updated target price implied ~ 5% additional upside, we felt there was greater downside given depressed multiples from the overall pharmaceutical sector and potential competitors entering the space – forcing the company to compete more on price. In addition it appeared that continued healthcare reform concerns/stalemates would lead to additional downward pressure. The Fund divested our entire position on 10/5/2010 at \$97.10.

**AnnTaylor Stores (NYSE: ANN)**

ANN INC.

**GICS Sector:** Consumer Discretionary**Industry:** Specialty Retail

**Company Description:** AnnTaylor Stores Corporation, through its subsidiaries, operates as a specialty retailer of women's apparel, shoes, and accessories primarily in the United States. The company's stores offer a range of career and casual separates, dresses, tops, weekend wear, shoes, and accessories under the Ann Taylor, LOFT, Ann Taylor Factory, and LOFT Outlet brands. It serves customers through its traditional retail stores and on the Internet at anntaylor.com and LOFTonline.com, as well as by phone. As of January 30, 2010, it operated 907 retail stores, including 291 Ann Taylor stores, 506 LOFT stores, 92 Ann Taylor Factory stores, and 18 LOFT Outlet stores in 46 states, the District of Columbia, and Puerto Rico. The company was founded in 1986 and is headquartered in New York, New York.

**Investment Pitch:** We considered ANN for investment because of the company's positioning for recovery in women's spending on work and casual clothes. Rolling out a new strategy, ANN is focusing on opening higher sales/square foot stores, such as Ann Taylor Factory and LOFT Outlet and is wrapping up a three-year restructuring program. Given its new strategy, renewed merchandising strategy, and growth potential in e-commerce, ANN is believe to be well-positioned to capture the growth in spending on women's clothing. Furthermore, ANN has a strong balance sheet complemented by consistently strong free cash flow (\$100mm+ in 2010). From an ESG perspective, ANN currently follows industry standards on labor rights, supply chain management, and environmental management. ANN recently released a CSR plan focused on ESG improvement and increased engagement, which could position the company to become a strong CSR player in the apparel industry.

**Outcome:** The Fund principals chose not to invest in ANN. While we appreciated the change in strategy and ANN's revitalization of its brands, we did not believe it was an appropriate time to invest given the company's current valuation. We recommend monitoring the stock and investing at a position at \$22.50.



## Companhia de Saneamento Basico (NYSE: SBS)

GICS Sector: Utilities

Industry: Water Utilities



**Company Description:** SBS is one of the largest water and sewage service providers in the world. The company operates water and sewage systems in the State of Sao Paulo, Brazil, including the city of Sao Paulo, Brazil's largest city. SBS supplies water to approximately 23.4 million people, about 60% of the state's urban population, and sewage services to 19.6 million people.

**Investment Pitch:** We considered SBS for the HSRIF portfolio because of the company's virtual monopoly status as a provider of key services in a populous and growing city and nation. The key driver behind the SRI thesis for SBS was the company's ability to launch meaningful social and environmental programs, which directly benefit the company through increased revenue and reduced operating costs. From a financial perspective, SBS is an attractive business because of its large volume of customers and its depth of experience. Growth prospects for the company are good because of the increasing population in Brazil and the burgeoning middle class. The company also has the opportunity to grow into adjacent businesses and states. From an ESG perspective, the company is attractive because it provides critical resources and services for healthy living in one of the world's largest countries. Further, the company controls a key portion of the country's water resources and has proven to be a good steward of the resource.

**Outcome:** The Fund principals chose not to invest in SBS. While we appreciated the long-term growth prospects of the water and waste industry in Brazil, we did not believe it was an appropriate time to invest in the company due to substantial impending government regulation and a rich valuation. While SBS has a compelling ESG case, we believe the company had little upside at the time of the valuation, especially given the substantial risks.

## Gap (NYSE: GPS)



**GICS Sector:** Consumer Discretionary

**Industry:** Specialty Retail

**Company Description:** The Gap, Inc. is a global specialty apparel retailer with over 3,000 retail stores located in the U.S., Canada, Europe, and Asia. The Gap was founded in 1963 and went public in 1976. The Gap Foundation was established in 1977. After a series of acquisitions and new brand launches, today Gap, Inc. is comprised of the following brands: Gap, Banana Republic, Old Navy, Piperlime, and Athleta.

**Investment Pitch:** The Fund principals who presented Gap believed that the company is poised for above-consensus revenue growth based on ramping international sales and outperformance of its direct segment (consisting of Athleta, Piperlime, and online). Additionally, they believed that the share price was inexpensive on both a historical and an absolute basis, with shares trading at 10.4x forecast 2011 EPS of \$2.09 at the time of the investment pitch in March 2011. Finally, Gap is recognized as an ESG pioneer across all aspects of its operations, including requirements for sustainable practices among its suppliers and the creation of programs to educate and empower underprivileged female garment workers in developing nations. However, given its low valuation, Gap shares did not reflect the benefits of these best-in-class sustainable practices.

**Outcome:** Ultimately, an investment in Gap, Inc. was not approved because of flat to declining sales in North American retail stores, which are currently responsible for the majority of the company's revenues. While the international, Piperlime, and Athleta businesses are growing rapidly, Fund principals felt that the growth of these segments has not been sufficient to compensate for continued weakness in the North American retail segment. Fund principals will continue to monitor the company's operations for evidence of material improvement in the operating results of this segment of the company.

## RINO International (Nasdaq: RINO)



**GICS Sector:** Industrials

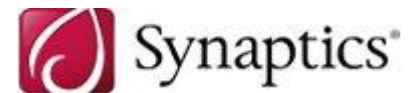
**Industry:** Commercial Services

**Company Description:** RINO International Corporation, through its subsidiaries, operates as an environmental protection and remediation company in the People's Republic of China. The company engages in designing, manufacturing, installing, and servicing wastewater treatment and flue gas desulphurization equipment primarily for use in the iron and steel industry; and anti-oxidation products and equipment for use in the manufacture of hot rolled steel plate products.

**Investment Pitch:** RINO focuses on the iron and steel industry in the areas of wastewater treatment, flue gas desulphurization, anti-oxidation, and sludge treatment. In addition to providing proprietary machines and equipment, RINO also provides environment-related services to industrial companies. The company appeared to be the leading clean environmental technology provider to China's iron and steel industry and stood to benefit from its favorable positioning with new PRC government guidelines on pollution output. The company does appear to have a diverse customer base and broad product offerings. From an ESG perspective, the company had significant corporate governance concerns in the past years and the SRI alpha would derive from improvements in corporate governance. However, while on paper, this appeared to be a great investment, we discovered several problems mainly on the governance side including past financial restatements and several class action lawsuits which did not appear to be improving.

**Outcome:** While the company does seem to be interesting from a business and environment perspective, there were too many landmines with the research given the reporting and governance issues. Being principals based out in Bay Area, we felt it would be difficult to have a strong grasp on the name and issues. Thus we recommended AVOID investing in a US-listed Chinese company that seems to have many governance concerns.

## Synaptics (Nasdaq: SYNA)



**GICS Sector:** Information Technology

**Industry:** Computers & Peripherals

**Company Description:** Synaptics (SYNA) develops and supplies custom-designed human interface solutions that enable people to interact with various mobile computing, communications, entertainment, and other electronic devices. The company provides custom interface solutions for navigation, cursor control, and multimedia controls for PC original equipment manufacturers (OEMs). It primarily targets the personal computer (PC) market and the market for digital lifestyle products, including mobile smartphones and feature phones, portable digital music and video players, and other select electronic device markets with its customized interface solutions.

**Investment Pitch:** Synaptics is one of the market leaders in the fast-growing touchscreen market for mobile phones, PCs, and tablets. The company's superior products and strong relationships with customers have allowed it to maintain a high relative market share in both the PC and mobile phone markets. Moreover, the company's leading market share in the notebook computer touchpad market positions it well to benefit from a corporate PC upgrade cycle. The company's heavy emphasis on R&D, even throughout the downturn, has allowed it to consistently deliver high quality products to its customers. As the market for touchscreens in smartphones is expected to grow significantly over the next several years, Synaptics is likely at the beginning of a major growth phase.

From an ESG perspective, the company is committed to having products comply with customers' requirements for environmental standards for their worldwide shipments. This commitment means eliminating any non-environmentally friendly chemicals, including halogen, PVC, phthalate, and other chemicals identified by new requirements (e.g., Greenpeace regulations). The company also works with organizations and contract manufacturers to eliminate these chemicals from electrical parts, mechanical parts, semiconductor devices, printed circuit boards, and other materials from third-party manufacturers.

**Outcome:** The Fund decided to pass on Synaptics due to an unconvincing ESG profile. While the company is attractive from a financial, growth and valuation perspective, the Fund did not feel the company fit in well with the current investment profile on an ESG front.

## Vodafone Group Plc (NASDAQ: VOD)



**GICS Sector:** Telecommunication Services

**Industry:** Wireless Telecommunication Services

**Company Description:** Vodafone Group Plc (Vodafone) is a mobile communications company operating across the globe and providing a range of communications services. It offers a range of products and services, including voice, messaging, data and fixed-line solutions and devices to assist customers in meeting their total communications needs. Vodafone has a significant global presence, with equity interests in over 30 countries and over 40 partner markets worldwide. It operates in three geographic regions: Europe, Africa and Central Europe; Asia Pacific, and the Middle East, and has an investment in Verizon Wireless in the United States. Vodafone is the second largest wireless telecom company in the world in terms of subscribers (behind China Mobile), with over 341 million customers as of November 30, 2010.

**Investment Pitch:** Vodafone Group is well diversified geographically in an industry where economies of scale are exploitable, and is positioned to succeed in both mature and developing markets. Average revenue per user and market shares are stabilizing in USA and in Western Europe, and the company has restored organic revenue growth post-financial crisis. The group has been selling non-core assets, which will help concentrate efforts on main business. Future subscriber growth will come from growing demand for mobile technology in emerging markets, where VOD has a big footprint. Assuming a conservative sales growth rate of 1%, our model still yields an attractive 13% IRR over 3 years.

On the ESG front, Vodafone has a strong focus on accessibility and digital inclusion programs in Europe and emerging markets. In its European market, the company offers a wide range of accessibility programs and products to facilitate the inclusion of senior citizens, people with disabilities, and low-income users into the digital mainstream. Vodafone also has a long list of initiatives to extend the benefits of mobile telecommunications to underserved populations in Africa, India, and the Middle East (21% of total revenues in 2009). The company recently established a new business unit to deliver mobile healthcare services to populations living without any healthcare infrastructure in Africa.

**Outcome:** The Fund voted to postpone Vodafone decision until Fall when more information will be available.

## ACCOMPLISHMENTS

As previously discussed, the 2010-2011 academic year was full of transition and growth for the Haas Socially Responsible Investment Fund. Building on the successes of our predecessors, the Fund principals challenged themselves to push the Fund forward, continue to develop and deepen our own knowledge of socially responsible investing, and strengthen the Fund for future years to come. Our key accomplishments are outlined below:

- Fully invested the Fund's \$1.4 million by rebalancing the portfolio and continuing to make new investments
- Established discrete goals for the Fund as a whole to focus 2010-2011 efforts and measure and report performance
- Analyzed various performance benchmarks and selected the Russell 3000 as the Fund's primary benchmark
- Institutionalized standard investment practices, including standard pitch formats and valuation models, a 3-year investment horizon, and a 10% IRR hurdle rate
- Developed a framework to analyze and evaluate ESG performance in a systematic and consistent manner across all investment pitches
- Created a decision-making framework to rationalize investment position sizes within the Fund's portfolio
- Evaluated ESG and SRI databases to determine which database best suited the Fund's needs going forward. Principals ultimately tested and approved Sustainalytics
- Researched and reviewed various performance reporting and monitoring software. Principals ultimately tested, approved, and trained with Telemet Orion
- Represented the Haas Socially Responsible Investment Fund at SRI in the Rockies
- Initiated the first annual Alumni Call, engaging current Fund principals with Fund alumni to share progress and receive feedback and insight
- Formalized communication with the HSRIF Advisory Board, sending weekly email updates and three performance updates per year
- Co-filed a resolution with Walden Asset Management on Accenture's role as a member of the U.S. Chamber of Commerce Board and potential gaps in Accenture's CSR practices
- Completed a Social Investing class taught by Fund advisor Lloyd Kurtz. Principals defined and completed an independent SRI research study as part of the class
- Selected the 2011-2012 class of MBA student principals and integrated them into the Fund's management and investment activities

**Carlos Gonzalez**

Carlos has a background in consulting, sustainability/community initiatives and asset management. Prior to attending Haas, he worked at a consulting firm, where he assisted electric utilities in expanding their portfolio of renewable resources, evaluated the cost-feasibility of pollution controls and helped design financial incentives to promote energy efficiency. He brings an extensive background of commitment to work for environmental stewardship, corporate governance, labor rights accountability, consumer protection and shareholder advocacy. Carlos also worked at the Royal Bank of Canada's Dain Rauscher Mutual Funds Division performing due diligence and screening funds to meet clients' investment strategies aligned with environmental sustainability and corporate governance. Through his relationships with successful microfinance institutions, Carlos has developed a firm belief in 'patient' capital. He has also developed quantitative skills to assess market risk and asset valuation within ambiguous scenarios. At Haas, he focused his studies on corporate responsibility, alternative energy and development in emerging economies.

**George Lai, CFA**

Prior to Haas, George worked in a variety of roles throughout finance. He started in New York at JPMorgan as an Associate in the Credit Portfolio Group researching companies in the technology, media, and telecom space and trading bank loans and credit default swaps. After four years at JPMorgan, he joined Merrill Lynch as part of the healthcare investment banking team covering biotechnology, specialty pharmaceuticals, and medical device clients. After Merrill Lynch, he joined Merriman Curhan Ford where he was responsible for the China investment banking efforts working with clients from industries including alternative energy, technology, and automotive. Immediately prior to Haas, George spent two months working at Glass Lewis, a corporate governance research firm where he was responsible for analyzing companies from China, Taiwan, and Southeast Asia. George received a B.A. with honors from Yale University in Political Science and History and is a proud Canadian who has lived in Hong Kong, Taiwan, China, Japan, and now the Bay Area.

**Kristen Mannix**

Prior to attending Haas, Kristen worked as a senior manager for New Sector Alliance, a nonprofit management consulting and leadership development firm. At New Sector Alliance, Kristen led over 20 consulting teams in developing performance management strategies, growth plans, and strategic plans for nonprofit clients. Prior to New Sector, Kristen spent several years as a program manager at the World Affairs Council of Northern California, where she worked to increase exposure to international affairs at Bay Area high schools and community colleges. Kristen received a B.A. from the University of Pennsylvania in Diplomatic History and Hispanic Studies. At Haas, Kristen focused her studies on strategic corporate social responsibility, socially responsible investing, and international business.

**Hallie Marshall**

Prior to Haas, Hallie worked as an Equity Research Associate at Dodge & Cox investment managers in San Francisco. Her industry coverage included international banks and building materials companies. Hallie's professional experience also includes working as a Marketing Analyst at Wells Fargo Bank and as a Microfinance Consultant in Central America. Hallie is a former board member of the Northern California Chapter of Women Advancing Microfinance and is the current Vice Treasurer of the Silicon Valley Microfinance Network. Hallie graduated cum laude from Princeton University with an A.B. in Political Economy. She is a Fulbright Scholar. Hallie will return to Dodge & Cox as a Portfolio Manager after school.

**Wendy Walker, CFA**

Wendy worked for three years as an equity analyst at Argus Research, where she covered media and business services companies. During that time, she also earned the Chartered Financial Analyst designation and served as

vice chair of the Sustainable Investing Committee at the New York Society of Security Analysts, where she developed programs to advance the dialogue about integrating environmental, social and governance factors into the investment decision-making process. Wendy keeps her NYC ties active by continuing to serve on the editorial board of NYSSA's quarterly journal, *The Investment Professional*, and on the advisory board of Oslo Elsewhere, a not-for-profit theater company. She graduated cum laude from Yale University with a B.A. in comparative literature and theater studies and is a current Haas Merit Scholar and a Forté Fellow. Wendy came to Haas to further explore the intersection of finance and sustainability and hopes to devote her career to sustainable and responsible investing.

#### **Bo Hu (MFE)**

Bo worked as an Algorithmic and Quantitative Strategies Trader at JP Morgan Hong Kong, where she focused on developing, trading and risk managing trading strategies in the Asian fixed income market. Prior to that, she was a credit derivatives trader in the Credit Hybrids and Exotics division, working on trading emerging market structured credit products for Asian institutional and corporate clients. Before joining JP Morgan, Bo was a derivatives structurer at Lehman Brothers. There, she worked extensively on pricing and developing interest rate and FX derivatives products for corporate clients to meet their investment and hedging needs. Bo holds dual degrees in Electrical Engineering and Physics from Swarthmore College, where she was the George I. Alden Scholar. As an undergraduate student, she was involved in many research projects in the field of high energy physics and that remains to be an area of interest for her throughout the years. In her spare time, Bo is an avid runner and a huge sports fan. She also enjoys reading about physics and philosophy.

#### **Vivien Yiting Lai (MFE)**

Yiting Lai holds a Bachelor's degree in Operations Research from Cornell University and a Master's degree in Management Science and Engineering from Stanford University. During her studies, she interned with Goldman Sachs in Hong Kong as an equity research analyst covering equity stocks in the consumer industry. After graduating from Stanford, Yiting spent 1.5 years working as an equity derivatives structurer for ABN Amro in London. In this role, she worked closely with exotics traders in designing, pricing, and marketing structured products for both retail and institutional clients. She also developed and back-tested numerous alpha strategies and thematic equity indices. Yiting has completed the CFA Level III and is currently pursuing her CFA charter. Through the Haas MFE program, she would like to further her training in quantitative finance as well as meet talented people in this field. Yiting has traveled extensively and is fluent in Mandarin. In her spare time, she enjoys watching films, taking pictures, and cross-country running.



**Aaron Azelton**

Prior to Haas, Aaron worked in a wide variety of roles at Fisher Investments, a Bay Area investment management firm. As a capital markets research analyst, Aaron was responsible for macroeconomic research and strategy for the Energy and Utilities sectors. He then spent four years as an equity research analyst, covering the Energy and Technology sectors. Additionally, Aaron is an internationally published author of an investment book entitled Fisher Investments on Energy, an investment guide to the Energy sector. Aaron received his undergraduate degree from UC Berkeley, where he majored in Economics with High Distinction. He intends to return to investment management in the Bay Area following graduation.

**Juan Manuel de los Rios**

Prior to Haas, Juan Manuel worked in a variety of roles throughout finance. He started at Prima AFP, one of the largest pension funds in Peru, where he managed market, credit and liquidity risk. Juan Manuel was part of the company since its inception and played an important role in creating its Risk division. He then joined Banco de Credito de Peru, where he participated in the development of a new wealth management division for high net worth individuals. There he assisted in managing portfolios invested both locally and globally. After that he became an internal advisor for the over 20 private bankers of the firm. Juan Manuel studied Economics in Universidad del Pacifico in Peru, where he also has served as an adjunct professor. He has also passed all three levels of the Chartered Financial Analyst program. At Haas, Juan Manuel is focused on learning more about corporate social responsibility, socially responsible investing, and sustainability.

**Gretchen Heckman**

After graduating from Cornell University with a degree in Biopsychology, Gretchen moved to San Francisco to begin her career as an investment banking analyst at RBC Capital Markets. After spending three years working with middle market technology companies, she left the industry to pursue an interest in the nonprofit world and found herself in the real estate development group of a small nonprofit in Philadelphia. There, she spent a year helping the organization to identify potential acquisition targets and move forward with a \$35 million transit-oriented mixed use development. The experience convinced her that real estate development could be an effective tool of economic development and social change. She came to Haas to explore this relationship and to better understand how social good and profit could be mutually beneficial for both corporations and nonprofits. At Haas, she is a member of the Real Estate and Women in Leadership clubs and serves as a co-chair for the Global Social Venture Competition, a socially responsible business plan competition.

**Dan Kanivas**

Prior to Haas, Dan was a field artillery officer in the U.S. Army, and he is currently a captain in the California Army National Guard. While stationed in Iraq, he repeatedly observed the negative environmental and social consequences of economic mismanagement, which led to his interest in studying socially responsible business practices while at Haas. He brings to the Fund a personal passion for investing, and he is a candidate for the CFA Level II exam. Dan graduated cum laude from Harvard University with an A.B. in Economics. He currently works part-time at Merlin Securities, where he assists in the development of long and short investment ideas for the firm's clients.

**Masha Lisak**

Masha came to Haas to leverage her experience in investment management and passion for sustainable development toward a career in social impact. Prior to attending business school, Masha worked as Senior Analyst in the Portfolio Management group at Hall Capital, a premier Bay Area asset management firm. Her professional experience also includes a stint as Financial Manager of a social enterprise in Guatemala, where she learned the power of market-based solutions to address social problems. At Haas, Masha is also Co-Chair of Impact

Assessment for the 2011 Global Social Venture Competition. Masha holds a B.A. in International Relations with a focus on human rights from Stanford University. She is actively involved with Opportunity Fund, a Bay Area microfinance institution.

**Ian Robertson**

Ian has worked in finance since graduating cum laude from Whitman College in 2006. Prior to Haas, Ian spent three years at a boutique firm in San Francisco, researching the wireless and videogame industries. As a senior associate, Ian covered a range of publicly traded companies, including Research in Motion, Apple, Sprint, Electronic Arts and Activision. Prior to moving to the Bay Area, Ian worked for a start-up hedge fund in Seattle. A deep believer in sustainability, Ian looks forward to applying the lens of social responsibility to his equity research skills. After business school, Ian plans to pursue a career in asset management. He holds a B.A. in History.

## ACKNOWLEDGEMENTS

Working with the Fund in its fourth year has been a tremendous experience. We are proud to have added so many strong socially responsible companies to the Fund and are glad to have made the Fund fully-vested this year. These noteworthy accomplishments would not have been possible without the support of numerous individuals.

For their dedication to the fund, we would like to thank:

**Lloyd Kurtz**, for the tremendous value he added to our learning experience. While his Social Investing course was very helpful to the principals, we want to further thank Lloyd for all the time he has taken over the past year to speak with Fund principals about our investment process and specific stock ideas.

**Kellie McElhaney and Jo Mackness** for their continuous guidance and support throughout the year. Kellie's boundless enthusiasm for the Fund, faith in our approach, and commitment to ensuring the Fund is, above all, a meaningful learning experience, provided the momentum and leadership for the Fund's success. Jo's support on every logistical, funding, and scheduling detail enabled us to focus our time on investing and learning instead of administrative issues.

**Charlie and Doris Michaels, BS'78; Marguerite and Al Johnson, BS'62, MBA'69; and Vicky and Larry Johnson, BS'72**, whose generous donation and faith in the competencies of MBA and MFE students to manage a fund made this unique learning opportunity possible.

**The Board of Advisors**, whose members provided us feedback on our investment pitches, portfolio balance, and trading strategies. Their continued involvement with the Fund in subsequent years will be integral to its success.

**The HSRIF Alums**, who have generously taken the time out of their new post-Haas careers and provided us with continued insights to better the Fund.

We hope that those with whom we interacted while working on the Fund enjoyed the experience as much as we did. We wish the future student investment principals the best of luck with the Fund.

Sincerely,  
HSRIF Principals 2011

## ADVISORY COMMITTEE

The members of our Advisory Committee have played an invaluable role with the Fund, and we cannot thank them enough.



**Margo Alexander** is currently the Chair of the Acumen Fund, a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty. Margo was formerly a senior executive of PaineWebber, where she spent the greater part of her thirty-three year career in the financial services industry. Beginning as a research analyst, she later became Director of Research, then Director of Institutional Equity and, in 1995, CEO of Mitchell Hutchins Asset Management. She was a member of the PaineWebber executive committee until the firm's acquisition by UBS in November 2000. Ms. Alexander is a graduate of the University of California at Berkeley and the Harvard Graduate School of Business Administration, where she met her husband, Robert Alexander. She has lived in New York since 1970 and has two sons. Ms. Alexander is a member of the advisory boards of the Haas School at Berkeley and The New School, serves on the board of the Eleanor Roosevelt Legacy Committee and is a member of The Council on Foreign Relations.



**George S. Dallas** is Director of Corporate Governance at F&C Investments in London, which manages over £100 billion in assets on behalf of more than 3 million people. He is a member of F&C's Governance and Sustainable Investment team, where he leads all aspects of F&C's global policies relating to corporate governance, including proxy voting, remuneration and engagement matters. He joined F&C in January 2008, prior to which he was a Managing Director at Standard & Poor's in the area of analytical policy and research. Mr. Dallas began his career as a corporate lending officer at Wells Fargo Bank before joining S&P in 1983, initially as an analyst. At S&P he served in a range of analytical and managerial roles, including global head of both Governance Services and Emerging Markets, regional head for S&P's Ratings Services in Europe and head of the firm's London office. As global practice leader for corporate governance at S&P, Mr. Dallas led the development of S&P's governance analysis and built a global team of governance analysts. He has conducted governance evaluations on companies across the globe and contributed to the formal linking of these to the overall credit rating process. He has also served on a working group to develop an S&P emerging markets index focused on corporate governance and sustainability. Mr. Dallas has written extensively on corporate governance and international finance and edited the book *Governance and Risk* (McGraw Hill, 2004). Mr. Dallas holds a BA degree, with distinction, from Stanford University and an MBA from the Haas School of the University of California at Berkeley. He has dual US/UK nationality and speaks German and French.



**David Distad** is currently on leave at Haas where he is a continuing lecturer in finance. He taught BA 103/130, 132, 133, and 203 at Haas part or full time from 1981 through 1992 and then part time from 2002 through 2008. David is currently the investments manager for a high net worth individual from Santa Barbara and an advisor to the Kavli Foundation in Oxnard. He currently resides in Camarillo and has been married to his wife since September of 1977. He has three children, the oldest went back to school (SFSU) and is finishing an MA in math/stat, a daughter who teaches 5th grade in the Novato USD (she just won teacher of the year) and a son who is at Santa Rosa JC, hoping to transfer to Haas.



**Stephen Etter** is a Partner at Greyrock Capital Group. Prior to joining the Greyrock Principals in 1996, Stephen held positions at GE Capital, Barclay's Bank and Citicorp for the preceding 9 years where he focused on senior and mezzanine debt. From 1983 to 1987 he worked for Price Waterhouse where he obtained his CPA. Stephen received his undergraduate degree and MBA from the Haas School of Business, University of California at Berkeley, where he has been a Finance Lecturer for the past 10 years. Stephen is a member of Board of Directors for the San Francisco Giants Community Fund and currently serves as a Trustee on the University of California Berkeley Foundation.



**Farha-Joyce Haboucha, CFA**, is the Portfolio Manager of the Libra Fund and Director of Socially Responsive Investments at Rockefeller & Co. Before joining Rockefeller & Co., she spent ten years as a Senior Portfolio Manager and Co-Director of Socially Responsive Investment Services at Neuberger & Berman. She also was with Manufacturers Hanover Trust as a Vice President and Group Head of the Personal Trust Investment, Private Banking and Securities Division and Division, and served at Union Trust Company as a Senior Investment Officer, Portfolio Manager, and Manager of Research. Joyce is past Chairman of the Social Venture Network and serves on the Investment Committee of the United Methodist Church and the Advisory board of the Heron Foundation's Community investment Index. She has also served on the boards of FTSE4GOOD USA Advisory Committee and several non-profit organizations, and over the years has been active in environmental and women's issues. Joyce holds a B.A. from Columbia University.



**Lawrence R. Johnson** retired in 2007 from Milliman, a worldwide employee benefits consulting and actuarial firm based in Seattle, WA. Mr. Johnson was the Founder and CEO of Lawrence Johnson & Associates, a national retirement plan recordkeeping firm and InvestorLogic, LLC, a Registered Investment Advisory firm. Both of these firms were merged with Milliman in 2006 and 2007 respectively. Mr. Johnson had overall responsibility for ensuring that the firm's retirement plan clients had access to the full recordkeeping and investment advisory resources of both organizations. He has over 35 years of tax and investment experience, of which the last 30 have concentrated on qualified retirement plans. Mr. Johnson is a nationally recognized expert in retirement plan design and administration. He has extensive experience in IRS and DOL compliance and audit issues and lectures frequently on fiduciary responsibilities affecting qualified retirement plans. Mr. Johnson served on several administrative and investment committees on behalf of the firm's clients. Mr. Johnson currently serves on the U.C. Berkeley Foundation Board of Trustees; and the Investment Committee— U.C. Berkeley Foundation. Mr. Johnson received his B.S. degree in Business Administration from the University of California, Berkeley.



**Lloyd Kurtz, CFA**, is a senior portfolio manager at Nelson Capital and lead PM for socially responsible investing (SRI). Before joining Nelson Capital in 2004, Lloyd was a Senior Vice President at Harris Bretall Sullivan & Smith in San Francisco where he served as Director of Quantitative Research and provided research coverage for the healthcare, basic industry and energy sectors. Before joining Harris Bretall in 1995, he spent four years as Senior Research Analyst at KLD, a Boston research firm specializing in social investment research. At KLD, he did much of the initial quantitative work in the development of the Domini Social Index. Lloyd is a Research Fellow at the U.C. Berkeley Haas Business School's Center for Corporate Responsibility, and serves as Program Administrator for the Moskowitz Prize. He has published numerous articles on SRI in academic journals, and authored a chapter on SRI for the Oxford Handbook of Corporate Social Responsibility, which was published in 2007. He holds a B.A. from Vassar College, an M.B.A. from Babson College, and is a Chartered Financial analyst. In 1999, he received the SRI Service Award for his contributions to social investing.



**Lisa Leff Cooper, CFA**, is a senior portfolio manager at Nelson Capital and a lead portfolio manager for socially responsible investing. Before joining Nelson Capital in 2009, Lisa served as portfolio manager for ten years with Trillium Asset Management, where she specialized in managing investments for sustainability-focused high net worth individuals and mission-based institutions. While at Trillium, Lisa also managed the firm's Boise, Idaho office. Lisa previously served as director and portfolio manager with the Social Awareness Investment program at Smith Barney Asset Management in New York. Throughout her career, Lisa has played a leadership role in the development of corporate engagement, community investing and sustainability research strategies, and is a frequent speaker on those topics.



Lisa has served on the boards of the EcoLogic Development Fund, CFA Society of Idaho, Social Investment Forum, Idaho Conservation League, and Ten Thousand Villages, Boise. Lisa holds a B.S. from California State Polytechnic University, and an M.B.A. from the Wharton School of the University of Pennsylvania, and is a Chartered Financial Analyst. In 2004, she was named Idaho's Progressive Businessperson of the Year.



**Kellie A. McElhane** is the John C. Whitehead Faculty Fellow of Corporate Responsibility and the Executive Director of the Center for Responsible Business at the Haas School of Business, University of California, Berkeley. She developed and launched this new center in January 2003, which has helped place corporate responsibility squarely as one of the core competencies and competitive advantages of the Haas School. Kellie teaches multiple courses on Strategic Corporate Social Responsibility in all of the Haas School's degree programs, which include in-depth student consulting engagements with companies on high-visibility strategic CSR challenges. Her research focus is in the area of analyzing companies' CSR strategy, and its fit with their core business objectives and core competencies. She consults to several Fortune 500 companies in developing an integrated CSR strategy, bridging her academic focus with the practitioner world. She is a member of the UN Global Compact Faculty and serves on the Association for Corporate Growth Strategic Philanthropy Advisory Committee. Kellie was named a 2005 Faculty Pioneer for Institutional Impact by the biennial report, *Beyond Grey Pinstripes*. Prior to joining Haas, she spent nine years at the University of Michigan Business School, where she was adjunct professor of corporate strategy and managing director of the Corporate Environmental Management Program (CEMP). Before joining academia, she was in the mergers and acquisitions area of commercial banking. Kellie holds a Ph.D. from the University of Michigan, a M.A. from Ohio University, and a B.A. from the University of North Carolina, Chapel Hill.



**Charles F. Michaels, CFA** is the Founder, Managing Partner, and Portfolio Manager of Sierra Global Management. Mr. Michaels was born in Europe and has spent much of his personal and professional life there, including six years with Goldman Sachs & Co. in London and Zurich. Mr. Michaels served as a vice president during his nine years with Goldman, as well as a founding member of Goldman's European equities business. Prior to Goldman, Mr. Michaels was an assistant vice president at Wells Fargo Bank in San Francisco and New York City. Mr. Michaels graduated from the University of California at Berkeley and received his MBA from the Columbia Business School.



**John O'Brien** is an Adjunct Professor and Executive Director for the Masters in Financial Engineering program at the Haas School of Business, UC Berkeley. Previously John was a Managing Director at Credit Suisse Asset Management, responsible for developing CSAM's first Risk Management department. Prior to CSAM, John was the Co-founder, Chairman and CEO of Leland, O'Brien Rubenstein Associates (LOR), a financial services firm that developed innovative funds, including precursors of the first exchange traded funds. Before LOR, John worked on pension investment management for A.G. Becker Funds Evaluation Group (now SEI Investment, Inc.). John joined A.G. Becker after the sale of O'Brien Associates, where he was co-Founder, Chairman and CEO. O'Brien Associates introduced modern portfolio theory and analytical risk management into the purely "Graham and Dodd" investment industry of the time. He created the first "beta" book of individual stock systematic risk, the first risk-adjusted investment performance measurement service, and the first Monte Carlo simulation of multi-asset-class return distributions for pension policy analysis and was the co-creator of the O'Brien 5000 Stock Index –re-named the Wilshire 5000. John received an MS, Engineering (Operation Research) from University of California, Los Angeles, CA and an SB, Economics and Engineering (Electrical) from MIT, Cambridge, MA.



**Marc Orlitzky** is an Associate Professor of Management at Penn State University Altoona. He has served on the editorial review boards of the *Academy of Management Journal* and the *Sage Encyclopedia of Business Ethics and Society* and has published papers in two Oxford University Handbooks, *Organization Studies* (a highly cited, award-winning meta-analysis of corporate social/financial performance), *International Journal of Human Resource Management*, *Business & Society* (in 2001 an award-winning article on corporate social performance and business risk and another study in 2006), *Small Group Research*, *Personnel Psychology*, *Journal of Management Education*, *Journal of Business Ethics*, *Journal of Investing*, *Academy of Management Review*, *Academy of Management Learning & Education*, and several other publication outlets. His book, ***Integrative Corporate Citizenship: Research Advances in Corporate Social Performance***, co-authored by Diane Swanson, was published in 2008. Previously, he held teaching and research positions at the University of New South Wales, the University of Auckland, and Nottingham University Business School. Marc's research interests revolve around corporate social, environmental, and financial performance, corporate strategy, human resource management, and quantitative methods (especially measurement and meta-analysis). Dr. Orlitzky received his PhD from the University of Iowa.





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