Principles and Profits Working Together

THE CLEAN YIELD

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There's Gold in Carrots

"Slow money" is all the buzz in the social investment field, and we'll be covering aspects of it in this and future issues. At its simplest, slow money is about investing in the development of sustainable food systems using long-term—so-called, patient—capital. But to date, few slow money investment vehicles have been available, and therefore little capital has flowed down the slow money path.

That's beginning to change. The Carrot Project (www.thecarrotproject.org) is among the first vehicles using investment dollars from social investors to help rebuild a sustainable food system. The Carrot Project employs a community investment model to address the financing needs of small- and midsize sustainable farmers in the northeast U.S.

Bloomfield Farm in Charlotte, Vermont, is small and scrappy. Four years ago, when farmers Tanya Srolovitz and Matthew Burke started out, they were like pioneers. They had their home and access to the land, but little else. There were no structures on the property to house animals or supplies. There was no tractor or tiller to work the land. They did everything with shovels and hand tools. At the end of each workday, they stored those tools under a tarp in the woods.

The Carrot Project helped finance Bloomfield Farm. Here, owners Matthew Burke and Tanya Srolovitz.

Photo: © Elizabeth Ferry

Today Tanya and Matthew grow organic vegetables for the nearly 40 members of their CSA program and a handful of wholesale accounts in the Burlington area – all from one cultivated acre. Several more acres pasture their flock of 80 laying hens and seven sheep. Bloomfield sells flowers and herbs as well. On the land, you'll now see a hoop house and a small barn to house their tools, including a walk-behind tractor.

This year, thanks to a loan they received from the Strolling of the Heifers Microloan Fund for New England Farmers, a partnership of the Carrot Project and Strolling of the Heifers, the farmers are making two additional improvements. The first, construction of a timber-framed, hexagonal farm stand, will accommodate the CSA program's weekly vegetable pick-up and establish a storefront open to the public.

The second improvement will be the construction of a cold room that uses a low-cost technology appropriate to their needs and resources. The cold room will allow Tanya and Matthew to harvest crops at peak ripeness and in advance of market days, thereby smoothing their work flow. The loan they received has eliminated the inefficiency of, for example, harvesting the same crop two days in a row.

The microloan received by Bloomfield Farm is slow money in action. Through an innovative partnership involving a group of investors, Chittenden Bank, Strolling of the Heifers, and the Carrot Project, Bloomfield Farm and six other farms in Vermont and Western Massachusetts have received loans of up to $10,000 for working capital or capital expenditures. Strolling of the Heifers raised the initial capital for the Microloan Fund from the proceeds of benefit concerts generously given by the legendary folksinger Pete Seeger, his grandson Tao Rodriguez-Seeger, and bluesman Guy Davis in September, 2008, as well as major grants from the Thomas Thompson Trust and Green Mountain Coffee Roasters. The Carrot Project brought the operational know-how to develop and administer a loan fund fueled by private investments.

THE carrot PROJECT

Creating small farm financing solutions

This year the Microloan Fund will expand to the rest of Massachusetts with the involvement of the Massachusetts Development Finance Agency. The goal is to offer the microloan fund (loans up to $15,000) throughout New England. The Carrot Project is also developing a second loan fund offering larger loan amounts to farmers and farm-related businesses.

To date, the Carrot Project has needed to raise only modest amounts of investment capital from social investors to support its pilot microloan funds. These investors have purchased CDs or promissory notes at cooperating local financial institutions to secure the loans made to the farmers. The Carrot Project anticipates raising more capital in the form of CDs or promissory notes later this year. These investors won't be out to make a killing—but that's just their point. ■

MARKET NOTES

Exchanging Risks

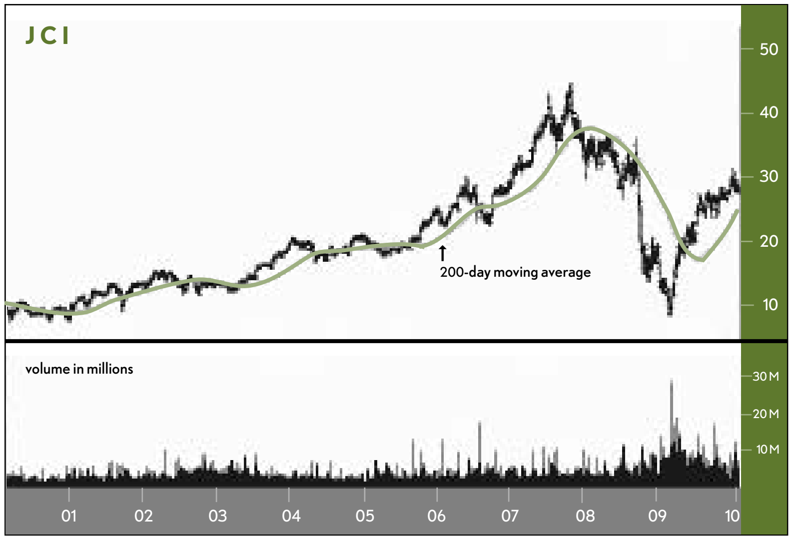
2010 has started out much like 2009—frightening uncertainty. Unlike last year, however, this early-year sell-off follows a very strong market in the preceding three quarters. The early-year, 2009 drop continued a fall that was already well underway.

As had happened many times before, when fear appeared on the horizon, the euro fell and the dollar rose, as anxious investors sought ground they perceived to be safe. From its December highs in 2008, the euro fell 13% before it bottomed out in late March of 2009. Likewise, from its late November 2009 highs until its February 2010 lows, the euro fell more than 10%.

The euro's fall this time around is exacerbated by recognition that Greece, Portugal, Ireland, and Spain have debt levels that pose significant risks, not only to their common currency, but also to the E.U. itself. It is a very real and honest fear, but as always happens when darkness descends on all of the markets, the specifics get lost in still greater exaggeration. We believe that the euro will continue to face troubling issues, and its instability will try Europe's unity, but it won't take the European Union down.

Currency instability wreaks havoc on the earnings of companies that have a global presence. Many companies hedge their currencies, but that is expensive and ultimately undercuts profits. For equity investors, it is an up-and-down affair that adds another element of unpredictability to forecasting a company's profitability.

To reduce currency risk, one of Clean Yield's practices is to include companies in our universe that have nearly as much exposure to other currencies as they do the dollar. Both companies that we profile in this issue are so positioned. **John Wiley (JWA)** and **Johnson Controls (JCI)** each derive between 50% and 60% of their revenues from overseas customers—an effective dollar-for-dollar hedge. ■



JOHNSON CONTROLS, INC. (JCI)

Revenues: $29.6 Billion
EPS: 2011E $2.45
2010E $1.80
2009A $0.47
Web site: www.johnsoncontrols.com

Projected Annual Growth Rate: 15%
Dividend: 1.90%
52-Week High–Low: $8.35 – $31.09
Risk: Medium

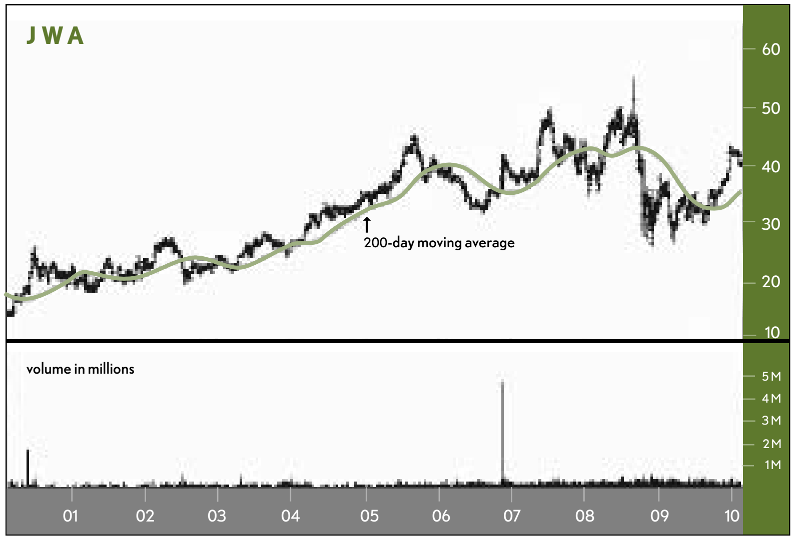
At the Switch

Johnson Controls' (JCI) founder was a professor who received a patent for the first electric thermostat in the 1880s. More than 100 years later, the company continues to work in the same industrial sector: manufacturing and engineering energy-efficient heating, ventilation, and air conditioning controls and systems for residential and commercial buildings. The company also produces automotive interiors and advanced automotive batteries. The company's energy efficiency segment makes up almost half of its revenues. The power solutions segment, which comprises about 15% of annual revenues, is the country's market-leading manufacturer of batteries used in hybrid vehicles. Johnson Controls' automotive also designs, engineers, and manufactures car interiors and seating systems.

JCI is a prominent member of not just one but two industries that are going through tough times, auto and building construction. The company, however, is likely to flourish, not perish, because of its focus on technologies within these industries that promote energy efficiency and environmental sustainability. Financially, JCI struggled at the end of 2008 and the beginning of 2009, reporting two quarters of losses. However, the manufacturer has beaten expectations for the last three quarters and is in the midst of a bump-up brought about by stimulus funding. The company received a $299 million grant from DOE to increase capacity for advanced hybrid and electric vehicle batteries and is bidding on thousands of building projects that need energy-efficient heating and cooling systems. The stock is currently in the slightly undervalued to fairly valued range. Any pullbacks from the $30-dollar level represent very good long-term value.

Corporate Responsibility

Johnson Controls strives to reduce its environmental footprint and improve eco-efficiency throughout the supply chain. The manufacturer has been reporting on a host of indicators since 2002 and participates in the Global Reporting Initiative, the gold standard for environmental reporting. It makes the data easily accessible on its Web site. In 2008, in recognition of these efforts, the company was invited to join the Pew Center's Business Environmental Leadership Council, for companies taking action to reduce carbon emissions. On the social front, the company grants approximately $7 million annually, focusing on arts, social services, and education. JCI also supports a robust employee volunteer program. JCI's board includes one woman and several individuals of color. ■



JOHN WILEY AND SONS (JWA)

Revenues: $1.61 Billion
EPS: 2011E $3.10
2010E $2.60
2009A $2.15
Web site: www.wiley.com

Projected Annual Growth Rate: 15%
Dividend: 1.30%
52-Week High–Low: $43.56 – $26.19
Risk: Medium

Publishing without Perishing

From Edgar Allen Poe to the Dummies series, John Wiley and Sons publishes a wide variety of books and journals. The family business started in 1807, and during the 19th century, the publisher printed works from top authors, including Melville and Dickens. By the early 20th century, Wiley turned its focus towards scientific and technical journals that today include medical, academic, and technical materials. It is no secret that publishing is a difficult business to be in at this moment. Wiley, however, publishes both electronic and paper versions of many of the most popular scientific journals. These works contain information that is critical to research across institutions and cannot be found elsewhere for free. Whereas publishers of more generic or topical information are being squeezed by "free models," Wiley doesn't have a problem charging for its online materials. Wiley's materials are not all highbrow; the company also publishes CliffsNotes, for which student demand never seems to slacken.

Wiley became a publicly held company in 1962, and for almost twenty years it has been paying a small but steady dividend. The company even managed to increase its dividend by 8% last summer, when most companies were slashing payouts. Notably, only 50% of Wiley's business is generated domestically.

The publisher has a substantial international sales force and is particularly strong in Europe and Asia. In 2007, Wiley acquired Blackwell, a UK publisher also preeminent in the science-journal world. In order to make the deal, Wiley took on a substantial amount of debt. The company is paying this off relatively quickly, and its balance sheet should continue to look better each quarter. Trading at reasonable valuations, JWA is suitable for most long-term investors.

Corporate Responsibility

Wiley's purchase of Blackwell instigated a company-wide focus on sustainability. In 2006, the year before being acquired by Wiley, Blackwell became the first publisher to go carbon neutral. All of Wiley is now looking at the model, measuring the company's carbon footprint, and implementing strategies to decrease carbon output in 2010. Wiley also recently developed guidelines for responsible paper sourcing and is aiming to cut paper consumption and waste throughout its facilities. On the social end, Wiley is working on philanthropic efforts in regions that it serves and is committed to ethical corporate behavior internally and externally. Its social profile includes the presence of two women board members, including one of Southeast Asian descent. ■

SOCIAL NOTES

Vote YES on Your EQT Proxy Ballot

If you are a CY client, there's a better-than-even chance you hold EQT Corp. in your portfolio. If so, *we hope you'll vote in favor of the Sustainability Report/Climate Change resolution on your proxy ballot.* Watch for the EQT annual report and proxy ballot around March 20 in your mail or e-mail.

Known as Equitable Resources until it changed its name last year, EQT is a well-run natural gas company based in Pittsburgh. Shareowners have enjoyed generally good financial performance while knowing that, as a fossil fuel, natural gas creates a much smaller carbon footprint than the oil or coal for which it often substitutes. Recently, however, EQT has gotten into deep drilling for natural gas in the Marcellus and Huron shales, and that activity raises a host of environmental, health, and safety questions. (See page 4.)

A pair of Clean Yield "activist" clients have challenged the company with the resolution that appears on your ballot. The 500-word proposal requests a report on the company's major environmental, social, and governance goals and performance. The idea is to raise company and public consciousness about its risks. We join our clients in urging all EQT shareowners to support the resolution.

We note with interest that **Met-Pro** has added a second woman to its board. In 2006, a CY client introduced a shareholder resolution to urge that the all-white-male board adopt a board nomination process that would seek out qualified women and minorities. Judith Spires and Robin L. Weissmann filled the next two vacancies. Incidentally, *Catalyst*, the nonprofit for executive women, reports that only 15.2% of Fortune 500 company board seats are held by women, a number that has been essentially holding steady for years.

Not-So-Natural Gas

The watchword for a bright future in the 1967 movie *The Graduate* was, famously, plastics. Today, it might be Marcellus shale.

In 2002, the huge Marcellus shale formation was thought to contain less than two trillion cubic feet of extractable gas; in 2008, the estimated reserve was upped to 50 trillion. The increase came about after more thorough geological study and the availability of high-tech means of extraction. The Marcellus, which runs from N.Y.'s Adirondack Mountains through Pennsylvania and on into Tennessee, is the largest of a dozen or more domestic shale formations that are now being exploited thanks to specialized equipment that can go a mile or more deep and then bend to the horizontal and go for several additional miles.

Most major environmental groups see natural gas as the bridge fuel that will take us from coal and oil to renewables, and indeed, given real-world realities, we can't disagree. Natural gas has some highly attractive attributes. For starters, it is 70% methane, so when it burns, it releases a fraction of the CO_2 of other fossil fuels. The fact that it's found in the U.S. could lessen our energy dependency on volatile areas of the world. And it's abundant—if we can find a way to exploit it without polluting our water, air, and soil.

Deep drilling isn't the only technology revolutionizing the industry. The vast majority of gas producers in the U.S. have begun to use hydraulic fracturing of rock—"fracking"—in those wells deep underground. The purpose is to create fissures in the rock by exerting pulses of very high fluid pressure. The cracks are propped open, usually by sand particles, to let the gas flow back through pores in the shale to the well bore. Fracking uses water—millions of gallons per well—and lesser quantities of about 250 other substances, including lubricants and antibacterial fluids, many of them toxic.

Environmental concerns run from the potential to cause earthquakes to spoiling pristine forests with service trucks and pipelines. The central concern, however, is what to do with the contaminated, salty water, often high in radiation, which is essential to fracking. In the West, the wastewater can often be sent back down into very deep injection wells, well below any water table. In the Marcellus and many eastern shale formations, however, the character of the rock makes this difficult. So far, much of the wastewater has been sent to conventional municipal treatment facilities or stored in pools onsite. The treatment plants aren't set up to deal with this type of contamination, though, so there is fear that toxics are finding their way into drinking-water. The National Resources Defense Council has documented a number of instances of illness from drinking-water contamination, and even an explosion in a residence, apparently resulting from well-bore and other leaks.

The Safe Water Drinking Act regulates most fluids that are injected into the ground, but in 2005, an exception was carved out for fracking fluids. Dubbed the Halliburton exemption after the controversial company that manufactures drilling equipment, this clause removes fracking from EPA oversight, leaving it under a hodgepodge of state laws. A federal bill to tighten accountability is pending, but its passage is now questionable in the wake of recent Democratic electoral setbacks and industry's raising the specter that it would interfere with a proposed $31 billion buyout by ExxonMobil of a company with large holdings in the Marcellus.

At CY, we've joined other SRI players in pushing for federal oversight. For companies in client portfolios, we'll continue engaging in dialogue and proxy actions to ensure full disclosure of risks. (See page-3 sidebar.)

Kismet

We're not great believers in fate, but we might have recognized when we first got to know Elizabeth Glenshaw in the late 1980s that she seemed destined to join us one day. To our delight, that day recently arrived, and Elizabeth has signed on as our new managing director.

If we had guided Elizabeth's career development specifically for CY, we couldn't have done better than she did on her own. Back in the day, two of us (Rian and Rick) met Elizabeth as a fellow board member of the Vermont Community Loan Fund (VCLF). Then, Elizabeth was pioneering a novel idea: she was heading the Socially Responsible Banking Fund at the Vermont National Bank. The fund was lending expressly for sustainable agriculture, conservation and the environment, affordable housing, education, and socially responsible businesses.

At that point, from CY's perspective, Elizabeth's background could be seen as short on portfolio management. Sure enough, she worked for two major SRI asset management companies managing portfolios for clients wishing to integrate social and financial values, first with SRI trailblazer Amy Domini at Loring, Wolcott & Coolidge, and then at Trillium Asset Management. More recently, she was market and industry development director for the Calvert Foundation, where she played a lead role in moving community investing toward recognition as an asset class by institutional investors. To no one's surprise, Elizabeth became well known in the SRI world and was regularly elected to the board of the Social Investment Forum, our industry trade association, leaving as VP after 14 years. With 25 years of "training" under her belt, Elizabeth is brimming with fresh ideas.

By the way, remember the VCLF where we first met Elizabeth? After years away, she has returned to that board and is currently its president. For more about Elizabeth, see our Web site: www.cleanyield.com/staff.html#Elizabeth. ■

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