

ESG Investment Program

3Q11

On the Environmental, Social & Governance (ESG) front, we will state the obvious in observing that this past summer was an unsettling season for the financial markets, the global economy, and the political arenas.

Aside from the overarching theme of flux set by the continuing Greek debt crisis; raising of the U.S. debt ceiling by Congress on August 1st; the Fed's Quantitative Easing II; European Central Bank moves, along with the new head of the International Monetary Fund added to the mix, the markets have been both volatile and interesting at the same time.

From our ESG perspective, it is often during these tumultuous times that we further believe that confirmation of the long-term view on sustainability is essential to quality of management and the investment attractiveness of each holding. It is also during these times that many of the companies with strong fundamentals and valuable franchises take the opportunity to maximize the efficiency of their manufacturing processes, reduce energy use, track their emissions reductions, and raise health and safety standards, as well as, reaffirm their value to their shareholders, to the communities in which they operate, and to their employees.

In our regular internal and external interviews and meetings with the senior managements of our portfolio companies, we continue to be impressed by the increasing awareness of these management teams of the need to address societal issues – via their products & services, public reporting, communications with shareholders, and measuring of their overall sustainability footprint.

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For example, a food industry company CEO and CFO started off our analyst meeting by discussing the need to include more nutritional and health considerations in the innovation of their products; with regard to sodium content, calories, metabolic reactions, quantity served, etc., while continuing to provide value in the current economy. Other areas discussed included responsible ingredients sourcing, cultural diversity in product offerings, sustainable packaging and reduction of water usage and waste.

Another example was an international energy company CEO who could not stress enough the need for safe workplace and contractor practices. He went on to discuss the importance of community relations (to the extent of local employment, medical

and social services, and environmental impact), working well with governments (regarding bribery, corruption, avoidance of repressive regimes), and the extreme caution that the energy sector needs to apply when, or if, exploring unconventional sources.

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PORTFOLIO MANAGER COMMENTARY



In our meeting with a technology hardware company CEO, the copious statistics cited on increased efficiency in their products spanned from the construction process of the hardware, to the performance attributes of the product, to the speed of the results to the customer, to the lighter materials used – all within the context of the reduced energy usage by the products (and thus, by the consumer), as well as the ability for most of their technology hardware products to be fully recyclable or re-usable in refittings.

Also revealed in our cross-sector company meetings was that most of our ESG holdings with some form of packaging in the supply chain were acutely aware of the need to reduce the weight that went into packaging – with expected benefits of lower costs, fewer materials (paper, plastics, metals, glass, wood, chemicals, paints, etc.), re-engineering of shapes for storage and consumer applications, etc. All of this while maintaining the integrity of the product to be delivered, i.e.; meals & snacks, electronics, beverages, appliances, household goods. Moreover, the reduction in weight and materials usage in packaging has the effect of reduced waste in our landfills, reduced carbon emissions in transportation of such goods via more boxes fitting in the same space, lower cost overall for commodities in the packaging.

Generally speaking, many of the observations in the above examples have taken place with most of our company holdings in one form or another, in the past and/or currently. We will continue to monitor, engage, and advocate for best practices with the managements of our holdings through periods of both expansion and contraction, which again, can be both challenging and encouraging.

As always, thank you for your support of the ESG Investment Program.

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