

ESG Investment Program

4Q11

On the Environmental, Social & Governance (ESG) front, we wanted to briefly encapsulate a few of the major events of 2011 and how they relate to your ESG portfolio.

Japan: On March 11, 2011, a magnitude 9.0 earthquake struck off the coast of Japan leading to a devastating tsunami and a series of aftershocks. This was the largest earthquake in Japanese recorded history and the fourth most powerful earthquake in the world since 1900.ⁱ In addition to the approximately 16,000 confirmed casualties from the earthquake and tsunami,ⁱⁱ the events triggered a state of emergency and a fire that eventually destroyed the Fukushima Daiichi Nuclear Power Plant (Units 1, 2, 3). This was declared the world's worst nuclear disaster since Chernobyl in 1986.

Even in December 2011, over 160,000 people of Fukushima remained displaced and the dismantling of the nuclear plant is expected to take at least four decades to complete.ⁱⁱⁱ Shortly after the Fukushima crisis, Germany announced a "measured exit" from nuclear power and a three-month moratorium for its nuclear lifetime extension plan, even as there had already been increasing political demand in Germany for substitutes for nuclear energy.

With regard to the portfolios, our ESG investment program has typically avoided significant involvement in companies that produce nuclear power within the Utilities sector. Among much of our client base, there has been wariness around the safety of nuclear energy, as well as concerns about the long-term storage of nuclear waste. In terms of fuel mix, our preference has typically been for companies that explore, produce and distribute electricity from natural gas, solar, wind, geothermal, waste-to-energy, hydro, and biomass.

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Given the current electricity needs within the U.S., cleaner coal (“scrubbed”) has been a sizable allocation by many utilities, though support of the Environmental Protection Agency regulations, and more recently around the MATS (Mercury and Air Toxics Standards) may cause an eventual phasing out of certain capacity (through decommissioning and natural attrition) from coal, still the largest segment of power generation in the U.S.

Occupy Wall Street: On September 17, 2011, what began as a loosely organized group of protestors in New York City’s financial district to call attention to societal issues that they believed warranted change, soon became a global movement reaching 100 cities in the U.S. and 1,500 cities worldwide.^{iv} While many

observers had varying reactions; ranging from ideological support to confusion, dismay, anger, indifference and so on, the overwhelming sentiment from the general public was recognition that many in our society were not satisfied with the current state of affairs. Or more likely, a state of affairs that had built up over years of apathy, corporate malfeasance, environmental destruction, tax havens, costs of education and health care, political weakness and

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inequality. However, a large number of viewers still questioned if there was a single “mission” or if there were too many disparate demands and a lack of organization. This excerpt from the Occupy Wall Street web site may constitute as a brief position statement. “Our nation, our species and our world are in crisis. The U.S. has an important role to play in the solution, but we can no longer afford to let corporate greed and corrupt politics set the policies of our nation.”

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A significant portion of our client base shares these concerns and has invested in our ESG program over the years for our advocacy approach. In addition to the investment objectives, it has been our ESG process to actively engage corporations as large shareholders representing the aggregate concerns of our individual and institutional clients.

We hold meetings with all of our ESG portfolio companies and ask questions about sustainability strategies; environmental management systems, human rights policies, what level of Return on Investment has come from the company’s sustainability initiatives, renewable energy, water scarcity, labor relations and so on.

Is it “fringe” to be a long-term sustainable investor these days? Should issues of inequality and non-discrimination, executive compensation, environmental stewardship, human rights and other causes be only labeled for activists? Our enduring view has been that material factors involving environmental, social and

governance issues can affect long-term shareholder return; and that risk of fraud, corruption and unethical behavior could hinder the investment performance and growth potential of portfolio holdings.

Myanmar: Formerly known as Burma, this majority Buddhist nation has been run by what is considered a repressive regime by most democratically led countries around the world and has for decades been the target of economic sanctions. Myanmar is the second poorest country in Asia, after Afghanistan, and the world’s second most corrupt, after Somalia.^v Since 1988, the country had been ruled by the military, even though a national election held in 1990 resulted in the overwhelming victory for Aung San Suu Kyi, leader of the National League for Democracy party, who had been placed under house arrest and was later held in confinement for over 15 years, as the ruling party refused to recognize the election outcome.

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In March, a civilian government replaced the ruling junta. While a healthy dose of skepticism around the intentions of the government is warranted, the recent visit by U.S. Secretary of State Hillary Clinton to Myanmar in December marked a symbolic gesture by the U.S. in the wake of the release of Nobel Peace Prize laureate Aung San Suu Kyi from house arrest in November 2010. This was the first visit by a U.S. Secretary of State to Myanmar in over 50 years. A new aid pledge by the U.S., and a recent \$289 million pledge by Britain to fund health and education projects distributed through nongovernmental groups, were sorely needed in Myanmar, where less than 1% of total government spending^{vi} is on public health care (the U.S. government spends approximately 18% on health care).^{vii} Myanmar’s government recently approved the National League for Democracy party to run in upcoming elections, potentially giving the government greater legitimacy domestically and abroad. With these recent developments, we will continue to monitor the progress by the civilian government on human rights for the more than 50 million people living there.

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Signs of progress include recent releases of a number of political prisoners, the creation of labor unions, and allowance of some freedom of the press. It's been our practice to exclude investment in companies that have supported the military government of Myanmar and assisted in raising revenues for its corruptive practices. We are hopeful that the people in this small country will begin to experience fundamental human rights.

As always, we thank you for your support of the ESG Investment Program in 2011.

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ⁱ USGS (U.S. Geological Survey) National Earthquake Information Center. www.usgs.gov

ⁱⁱ National Police Agency (Japan)

ⁱⁱⁱ New York Times, "Japan – Earthquake, Tsunami and Nuclear Crisis (2011)." December 27, 2011.

^{iv} www.occupywallstreet.org

^v Time World, "Burma's New Hope: A Repressive Regime Loosens Its Grip (for Now)." November 30, 2011.

^{vi} U.S. Department of State

^{vii} Organization for Economic Co-operation and Development (OECD) Health Data 2011