

# Affirmative Thinking

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## Culture of Sustainability Linked to Strong Performance

By Sara Laks

A recent Harvard Business School [working paper](#) adds to the growing evidence linking a corporate culture of sustainability to performance. The study tracked 180 companies over an 18 year period. It found that “High Sustainability” companies—those with “solid commitments to environmental and social performance”—substantially outperformed “Low Sustainability” companies over the long term, both in terms of stock market and accounting performance. Of course, past performance is no guarantee of future results.

The High Sustainability companies were more likely to be engaged with their stakeholders and more likely to tie executive compensation to environmental, social, and “external perception” metrics. In addition, High Sustainability companies had a high level of disclosure of nonfinancial information and, as a whole, were more likely to take a long-term approach to profit maximization.

The evidence contradicts the widely held misconception that more responsibly managed companies necessarily underperform due to self-imposed constraints. Instead, this finding suggests that a corporate culture of social responsibility enhances shareholder value and has a positive impact on corporate

[Continued on Page 4](#)

## Green Building Up, Energy Costs and Emissions Down

By Holly Testa AIF®

According to the [Green Building Market and Impact Report](#) by GreenBiz Group, Inc. LEED (Leadership in Energy and Environmental Design) certified buildings now comprise over 20% of new floor area in the United States.

LEED is a certification program developed by the U.S. Green Building Council (USGBC). The program provides building owners and operators with a framework for identifying and implementing practical and measurable green building solutions. It took about 10 years for LEED to hit the 1 billion square foot mark, but at current growth rates, by the end of 2012, an additional 1 billion square feet will have come online in just three years, and that’s just in the U.S.

Since its launch in 1998, the LEED certification program has evolved, incorporating new energy efficiency and construction technologies. Buildings built to the newest [standards](#) show energy and water savings of roughly 30%. And while building or

[Continued on Page 3](#)

### Inside this Issue

Hydraulic Fracturing: Opportunities and Perils . . .	2
What Is Fracking? . . . . .	2
LEED Home Office . . . . .	3
Business for the Common Good . . . . .	4

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# Hydraulic Fracturing: Opportunities and Perils

By Holly Testa AIF®

Media stories about hydraulic fracturing—a.k.a. “fracking” range from glowing to apocalyptic. Does fracking represent the American Petroleum Institute’s vision of “[America’s New Energy Frontier](#)” promising the U.S. a 100-year supply of natural gas, or is Vanity Fair’s headline of “[A Colossal Fracking Mess](#)” closer to the truth? As is usual with complex issues, there are no easy answers.

## The Opportunity: Abundant, Cleaner, Domestic Energy

Shale gas deposits are being exploited throughout the Northeast United States, the Mountain West, and Texas, with further expansion expected across the country. Abundant natural gas supplies hold the promise of reduced dependence on imported oil, lower energy prices, improved economies in depressed areas, and lower greenhouse gas emissions (as compared to the current dominant way to generate electricity, coal).



## The Peril: Unaddressed Problems, Unknown Costs

The promise of natural gas as a transition “bridge” fuel to a cleaner energy economy is compromised by inadequate environmental practices, community impacts from drilling activities, and inconsistent state regulations—with states struggling to keep up.

Shale deposits are often beneath populated areas, and wells are often drilled in close proximity to homes. There have been numerous complaints alleging on-site chemical spills, contaminated drinking water, and air quality degradation; and even “[flaming faucets](#).”

Industry executives insist that there is no evidence that fracking has ever polluted groundwater, but an [EPA investigation](#) into groundwater contamination in Pavilion, Wyoming may prove otherwise. “When considered together with other lines of evidence, the data indicates likely impact to ground water that can be explained by hydraulic fracking,” said the preliminary EPA report.

States are struggling to update regulations governing fracking operations. Colorado recently adopted the nation’s toughest [disclosure rules](#). Many states are struggling with regulatory structures that have not been significantly updated since World War II.

## The “Known Unknowns”

In the rush to secure new energy sources, significant risks that are not well understood remain unaddressed—including groundwater contamination pathways and the possibility of triggering [earthquakes](#).

Also at issue—how much cleaner is natural gas, really? Natural gas burns cleaner than oil, but substandard procedures used to extract the gas reduces the advantage. The extent of greenhouse gas emissions produced by [flaring](#), and [fugitive emissions](#) is inadequately measured and therefore unknown.

## Investor Engagement

Investors Environmental Health Network (IEHN) and [Interfaith Center on Corporate Responsibility](#) (ICCR) have joined forces to press for changes. Recognizing the need for improved corporate disclosure and a uniform standard of best practices

and performance metrics, these groups have collaborated on “[Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations](#).”

According to Richard Liroff, Executive Director of IEHN and primary author, the Guide offers a “road map for companies to respond to the heightened concerns around fracking, and articulates industry best practices that will reduce the risks, and consequently, the impacts.”

As an active investor member of IEHN, First Affirmative is engaging with companies for the 2012 proxy season on behalf of clients.

## What Is Fracking?

Hydraulic fracturing, or “fracking,” is a method of extracting natural gas trapped in ancient shale deposits deep underground. A mixture of water, chemicals, and sand is pumped into the ground under high pressure causing tiny fractures to open, releasing the gas. The recent development of “horizontal fracking”—drilling that extends parallel rather than down through the rock layer—has birthed a new era of gas exploration.

# Green Building Up, Energy Costs and Emissions Down

Continued from Page 1

renovating to LEED standards may cost more up front, the evidence of long-term financial, environmental, and productivity benefits is mounting.

- **Employee Productivity:** A [study](#) from CB Richard Ellis and the University of San Diego found a self-reported increase in productivity of almost five percent across 500 tenants in 124 buildings. A follow-up study of 75 LEED projects showed productivity gains of nearly five percent, and an average of three fewer sick days taken per worker when businesses move from a non-LEED to a LEED environment.
- **Reduced Environmental Impact:** LEED promotes reuse of existing buildings and encourages waste reduction, resulting in over 80 million tons of waste being diverted from landfills. Buildings are located to minimize vehicle miles traveled. Minimization of site disturbance, erosion, and storm water run-off are emphasized. There are many buildings that are not LEED certified that are, nevertheless, incorporating standards developed by the program, leading to an overall improvement in building practices.
- **Enhanced Building and Rental Values:** A recent “green value” study, published in *Real Estate Economics*, found that green buildings command both a rental premium—4% for Energy Star, and 5% for LEED—as well as a building value premium—26% for Energy Star and 25% for LEED. Other studies confirm these findings, citing similar rent and market premiums.

## The Better Buildings Challenge

President Obama joined former President Bill Clinton on December 2, 2011 to announce that \$4 billion in private and federal funds will be invested to upgrade commercial and federal buildings over the next two years as part of the Department of Energy sponsored [Better Buildings Challenge](#). Sixty CEOs, mayors, labor leaders and university presidents pledged \$2 billion in capital to make major upgrades to commercial buildings, and a matching \$2 billion has been made available through a Presidential Memorandum to finance energy upgrades of federal buildings.

This \$4 billion-dollar investment will be paid back quickly through energy savings. The Department of Energy [estimates](#) that about 30% of the energy used to power commercial, industrial, and school facilities costs is wasted by failing to implement cost-effective energy technologies. It is estimated that U.S. businesses can save \$40 billion a year by improving energy efficiency by the stated goal of 20% by 2020.

The U.S. Treasury Building in Washington, DC is a very recent example of an old building (built between 1836 and 1869) that’s been retrofitted to LEED Gold standards. Upgrades have improved daylighting and reduced electricity consumption by 7%, among many other benefits.



### LEED Home Office

LEED does not just apply to big building projects. In 2007, First Affirmative’s new headquarters became the first office space in Colorado Springs to achieve a LEED for Commercial Interiors certification (LEED CI). Our 4400 square-foot office provides numerous sustainable features, including cabinets made from 100% recycled wood, EnergyStar office equipment, use of regional materials, and natural lighting for 90% of the space. First Affirmative offsets electrical use for both its home office and Boulder office by purchasing wind power through certified Renewable Energy Credits (RECs) from [Native Energy](#).

First Affirmative's ADV Disclosure Brochure is available at any time. Please write or call for a copy or visit [firstaffirmative.com/about-us](http://firstaffirmative.com/about-us).

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## Business for the Common Good

By Sara Laks

First Affirmative has proudly joined the ranks of the nearly 500 For Benefit Corporations in the United States.

B Corps offer an alternative to “business-as-usual.” A new class of corporation, B Corps are legally required to pursue the creation of a material positive impact on society and the environment, while meeting higher standards of accountability and transparency. Current law requires most corporations to prioritize the financial interests of shareowners over the interests of workers, communities, and the environment.

B Corps are structured to maximize profits for society, not just for their shareowners. With the growing public demand to move away from corporate greed and corruption, B Corps offer a much needed solution to better serving the “99%.”

In December 2011, New York became the seventh state to legally recognize B Corps; joining California, Hawaii, Virginia, Maryland, Vermont, and New Jersey. Similar legislation is pending in North Carolina, Pennsylvania, Michigan, and Washington DC, and will be introduced in Colorado in early 2012.



## Culture of Sustainability Linked to Strong Performance

Continued from Page 1

performance. This Harvard study was cited in a subsequent Wall Street Journal opinion piece in which former U.S. Vice President, Al Gore, and former Goldman Sachs CEO, David Blood, urged that “global businesses must adopt ‘sustainable capitalism’ to create long-lasting value in the face of global challenges such as climate change, poverty, and disease.”

### Enough with the Short-Termism!

Adopting environmental, social and governance standards improves companies' profitability over the long term and makes them more attractive to investors, Gore and Blood co-wrote.

To improve returns, investors should push companies to stop issuing quarterly earnings guidance that encourages management to prefer short-term gains and instead concentrate on longer-term sustainable value creation, according to Gore and Blood. “The dominance of short-termism in the market fosters general market instability and undermines the efforts of executives seeking long-term value creation.”