Haas Socially Responsible Investment Fund

Annual Report

May 2012
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The 2011–2012 academic year was an exciting period of growth and development for the Haas Socially Responsible Investment Fund (“Fund”). Against the backdrop of financial crises abroad and a robust IPO tech market at home, the Fund returned a benchmark-beating 4.96%. As its fifth year in existence draws to a close, the Fund has a promising runway ahead of it. With a strong base of institutional knowledge and an impressive team of incoming Principals, the future looks bright. This positive outlook is further bolstered by the accretive projects we have completed as a team over the course of the past 12 months.

Portfolio management has been one key area of improvement over the past year. Prior to 2012, the Fund’s investment strategy was piecemeal. Principals tended to fixate on the individual stocks being pitched and often neglected to adequately consider either the stock’s attractiveness vis-à-vis the existing portfolio or broader macroeconomic factors. Although the tools developed by the Fund’s alumni remain at the core of our investment process, this year’s team designed and implemented a portfolio-monitoring regimen to augment the existing infrastructure. We have already seen a return on this project. In December, with the market still reeling from the onset of the sovereign debt crisis in Europe, we saw an opportunity and rebalanced out of lower-beta names into more volatile stocks.

Although we made some significant additions to the Fund’s investment process, we were careful not to throw the baby out with the bathwater. We still employ the “mini-pitch” review process enacted by our predecessors. We remain committed to the ESG framework developed by the Class of 2011. We continue to evaluate investments using a three-year IRR and adjust portfolio weightings based on a combination of market capitalization and subjective opinion. Most important of all, we continue to scour for attractive new investment opportunities.

As the academic year draws to close, our graduating Principals can reflect back on a year and a half of landmark changes. In late 2011, we hit another important milestone—the Haas Socially Responsible Investment Fund became a BILD-qualified course. The Berkeley Innovative Leadership Development (BILD) program is a key strategic focus at Haas. This initiative is rooted in a set of specific competencies, including experimentation and problem framing, and is designed to develop the crucial skills needed to address the challenges of the 21st Century. The core curriculum has been reshaped around BILD, and a basket of required elective courses has been introduced. As one such elective, the Haas Socially Responsible Investment Fund not only enjoys added prominence, but also an exciting role in Dean Lyons’ vision for the future of the school.

Finally, we are thrilled to welcome an important new leader to the Fund. Nadja Guenster will join Kellie McElhaney as the Fund’s co-faculty advisor starting next year. Nadja is an assistant professor of Finance at Maastricht University. Previously, she worked as both a Ph.D. researcher at RSM Erasmus University and a visiting researcher at Ohio State University. Her studies have been published in the Financial Analysts Journal and the Journal of Asset Management. Professor Guenster was awarded the 2005 Moskowitz Prize for best quantitative study in the SRI domain and the 2005 European Finance & Sustainability Research Award. We look forward to the expertise and dedication she will bring to this exciting endeavor.

Professor Guenster isn’t the only talented person we are pleased to have added to the Fund this year. In addition to two new board members, we are also thrilled to welcome a talented group of incoming Principals. Our new MBAs have already made a positive impact, pitching investment ideas, taking on day-to-day responsibilities and identifying exciting new opportunities for future improvement. We are confident that we are leaving the Fund in good hands and look forward to watching the Class of 2013 take the reins.

On behalf of the 2012 graduating class, it has been a privilege serving the HSRIF. We would like to express our thanks to the Center for Responsible Business (“CRB”), the Advisory Board, our predecessors and the entire Haas community for their continued support.
INVESTMENT APPROACH

With the Fund fully invested as of the close of the 2010-2011 academic year, we realized that we faced a challenge in defining our mission as Principals. As a result, we identified the following three goals to focus on during the 2011-2012 academic year:

- Portfolio management for a fully invested portfolio
- An exploration of SRI in additional investable asset classes
- Building greater knowledge through engagement with investment professionals

Portfolio Management For a Fully Invested Portfolio

As in the past, our primary goal in portfolio management was to achieve outperformance. To achieve this goal, we continued to make investments in attractively-priced firms whose ESG policies would help drive financial gains. While we purposely refrain from managing the portfolio to a benchmark, we nonetheless compare the Fund with the Russell 3000 index in order to gauge the progress of our performance and the relative risk exposures that we have assumed.

While individual investment pitches remain a sizeable part of our ongoing activities, we have had to consider other factors that influence the composition of our portfolio this year. First, with every new investment idea that we have voted into the Fund, there has been a corresponding need to reduce one or more positions in order to accommodate the new investment. As a result, we now require that Principals specifically identify how each idea fits into the portfolio – based on position size, diversification characteristics, and the relative attractiveness of each portfolio holding – as part of the investment pitch process. In addition, after internal discussion and on the advice of board members, we now give less weight to price targets in our investment evaluation and selection process.

Thanks to the efforts of Fund Principals who worked on portfolio return attribution and weekly portfolio reports, we were able to develop a clearer picture of the exposures that we had relative to our benchmark. This holistic overview of the portfolio was enlightening in many ways, as we were able to more clearly judge the results of our collective decision-making process based on factors such as the industry and market capitalization of our individual portfolio holdings. This deeper understanding of how individual holdings contributed to our performance also led to discussions on risk, with the Principals affirming our commitment to a 10% maximum holding in a single position as a mechanism to limit risk.

In our final meetings of the academic year, we experimented with a different format for selecting new investments and rebalancing the portfolio. In the past, Fund Principals conducted open votes on whether to add new positions to the portfolio and whether to reduce or divest current holdings. We discussed our views on this process and, while acknowledging the merits of open voting, decided to adopt blind voting on a trial basis. Our rationale for this change is that we wished to allow those Principals who did not have a strong opinion about an investment to still give the reason for their vote. Previously, in open voting, those who did not feel as strongly tended to be less vocal in the discussion prior to voting. Our final portfolio investment decisions were made using the blind voting process, and the Fund Principals for the 2012-2013 academic year will later revisit whether to permanently incorporate blind voting into the Fund’s procedures.

Exploring SRI In Other Asset Classes

Another initiative that we pursued this year was the exploration of socially responsible investing in asset classes outside of equities. While our portfolio consists almost entirely of publicly-traded equities, the Fund has and will likely continue to have a cash position due to dividend payments and rebalancing or divestment decisions. As a result, we examined the prospects for conducting our cash management using products that follow SRI principles. One of the cash management products that we examined was Calvert Foundation Community Notes. These notes represent direct loans to community development financial institutions
(CDFI) and other nonprofit entities involved in affordable housing and economic development in rural and impoverished areas. We also examined impact-related certificates of deposit offered by Self-Help, one of the largest CDFIs in the U.S. However, despite our support for the impact that these investments have on underserved communities, our concerns regarding the low interest rates offered by these instruments led us to refrain from investing.

Additionally, we considered whether fixed-income investments in socially responsible firms would be attractive for the Fund. We discussed socially responsible bond funds that are offered by Domini and Pax World. Both firms have very impressive offerings backed by an admirable investment process that yields diversified portfolios of fixed-income investments. However, due to concerns over the liquidity of certain instruments in those portfolios and the current relative unattractiveness of intermediate and long-term fixed-income securities when compared to equities, we elected not to invest in any of these fixed-income offerings. In the future, however, Fund Principals may revisit the issue. In light of the Fund’s original mission to serve as a portion of the endowment for the CRB, we believe that fixed-income investments may later play a role in generating income that can be used to help fund the activities of the CRB.

**Engagement With Investment Professionals**

Our third goal was to leverage our connections to the community of investment professionals at Haas for the benefit of the Fund. We continually sought opportunities throughout the year to develop our abilities in fundamental and ESG analysis and to promote greater awareness of the Fund. During the fall, we sent a representative to SRI in the Rockies, and as a result we were able to better understand the current state of socially responsible investing in the country. Additionally, Fund Principals sought out the counsel of faculty at Haas, arranging visits with Randolph Wedding, the portfolio manager of the fixed-income portfolio for the University of California system, and Robert O’Donnell, a long-time portfolio manager at Capital Group and a leader in the Haas community. Through these interactions, we were better able to understand the issues affecting fixed-income investment and portfolio management, two topics of particular interest to us in this academic year.

During the spring semester, we further built on our knowledge base, inviting Lloyd Kurtz to spend part of an afternoon with us discussing SRI. For the first-year Principals who have not yet had the benefit of taking Lloyd's fall term class, this meeting was an especially important overview of SRI from the viewpoint of a current practitioner. Additionally, we welcomed Nadja Guenster as our incoming advisor. Nadja made an immediate impact in our class, giving advice and feedback during the final stock pitches of the semester. We look forward to her continued involvement as our advisor with the start of the 2012-2013 academic year.
PORTFOLIO SUMMARY

As of April 30, 2012, the Fund’s target portfolio was made up of a diverse set of fourteen (14) companies, with the following target weights:

<table>
<thead>
<tr>
<th>Holding</th>
<th>Target Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0.5%</td>
</tr>
<tr>
<td>Accenture PLC (ACN)</td>
<td>8.0%</td>
</tr>
<tr>
<td>Brookfield Office Properties (BPO)</td>
<td>5.5%</td>
</tr>
<tr>
<td>Darling International Inc. (DAR)</td>
<td>6.0%</td>
</tr>
<tr>
<td>Equifax Inc. (EFX)</td>
<td>7.0%</td>
</tr>
<tr>
<td>Eaton Corporation (ETN)</td>
<td>8.5%</td>
</tr>
<tr>
<td>Gilead Sciences, Inc. (GILD)</td>
<td>5.5%</td>
</tr>
<tr>
<td>Google Inc. (GOOG)</td>
<td>9.0%</td>
</tr>
<tr>
<td>IHS Inc. (IHS)</td>
<td>8.0%</td>
</tr>
<tr>
<td>Norfolk Southern Corporation (NSC)</td>
<td>8.0%</td>
</tr>
<tr>
<td>PepsiCo, Inc. (PEP)</td>
<td>6.0%</td>
</tr>
<tr>
<td>PG&amp;E Corporation (PCG)</td>
<td>4.0%</td>
</tr>
<tr>
<td>Rio Tinto PLC (RIO)</td>
<td>10.0%</td>
</tr>
<tr>
<td>Waste Management, Inc. (WM)</td>
<td>6.0%</td>
</tr>
<tr>
<td>Wal-Mart Stores, Inc. (WMT)</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Compared to the April 30, 2011, this composition reflects the following changes in terms of holdings:

**Divestitures:** The Principals voted to divest from Wal-Mart Stores, Inc. (WMT). The primary cause of this divestiture was the recent bribery scandal in Mexico, although certain financial and operational factors were also taken into consideration.

**Additions:** The Principals voted to add two additional positions to the Fund: Compass Minerals International, Inc. (CMP) and Mattel, Inc. (MAT).

**Composition of the Portfolio:** In general, the Principals strive to maintain a portfolio of ten to twenty positions. Each holding’s weight in the portfolio is carefully assessed based on a combination of the following factors:

1) Analyst assessment of absolute company risk
2) Analyst absolute ESG thesis conviction
3) Diversification value vs. the portfolio, both in terms of total beta and sector distribution
4) Analyst absolute return conviction
5) The relative market capitalization with respect to the other holdings.

As was the case last year, the Fund remains fully invested (although a small amount of excess cash continues to be held in our account). In order to avoid excessive trading costs, each position is allowed to float up to 1% above or below its target weight before rebalancing. The following table shows the portfolio composition as of April 30, 2012:
### Composition of the HSRIF Portfolio as of 4/30/2012

<table>
<thead>
<tr>
<th>Holding</th>
<th>Value ($)</th>
<th>Weight</th>
<th>Target</th>
<th>OW/UW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>18,313</td>
<td>1.19%</td>
<td>0.50%</td>
<td>0.69%</td>
</tr>
<tr>
<td>Accenture PLC (ACN)</td>
<td>126,717</td>
<td>8.24%</td>
<td>8.00%</td>
<td>0.24%</td>
</tr>
<tr>
<td>Brookfield Office Properties (BPO)</td>
<td>91,999</td>
<td>5.98%</td>
<td>5.50%</td>
<td>0.48%</td>
</tr>
<tr>
<td>Darling International Inc. (DAR)</td>
<td>102,490</td>
<td>6.66%</td>
<td>6.00%</td>
<td>0.66%</td>
</tr>
<tr>
<td>Equifax Inc. (EFX)</td>
<td>117,437</td>
<td>7.63%</td>
<td>7.00%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Eaton Corporation (ETN)</td>
<td>119,246</td>
<td>7.75%</td>
<td>8.50%</td>
<td>-0.75%</td>
</tr>
<tr>
<td>Gilead Sciences, Inc. (GILD)</td>
<td>92,804</td>
<td>6.03%</td>
<td>5.50%</td>
<td>0.53%</td>
</tr>
<tr>
<td>Google Inc. (GOOG)</td>
<td>126,414</td>
<td>8.22%</td>
<td>9.00%</td>
<td>-0.78%</td>
</tr>
<tr>
<td>IHS Inc. (IHS)</td>
<td>129,875</td>
<td>8.44%</td>
<td>8.00%</td>
<td>0.44%</td>
</tr>
<tr>
<td>Norfolk Southern Corporation (NSC)</td>
<td>126,534</td>
<td>8.22%</td>
<td>8.00%</td>
<td>0.22%</td>
</tr>
<tr>
<td>PepsiCo, Inc. (PEP)</td>
<td>82,500</td>
<td>5.36%</td>
<td>6.00%</td>
<td>-0.64%</td>
</tr>
<tr>
<td>PG&amp;E Corporation (PCG)</td>
<td>66,005</td>
<td>4.29%</td>
<td>4.00%</td>
<td>0.29%</td>
</tr>
<tr>
<td>Rio Tinto PLC (RIO)</td>
<td>141,352</td>
<td>9.19%</td>
<td>10.00%</td>
<td>-0.81%</td>
</tr>
<tr>
<td>Waste Management, Inc. (WM)</td>
<td>85,226</td>
<td>5.54%</td>
<td>6.00%</td>
<td>-0.46%</td>
</tr>
<tr>
<td>Wal-Mart Stores, Inc. (WMT)</td>
<td>111,693</td>
<td>7.26%</td>
<td>8.00%</td>
<td>-0.74%</td>
</tr>
<tr>
<td><strong>Total invested portfolio</strong></td>
<td><strong>1,538,604</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>100.00%</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Comparison vs. Benchmark:** The benchmark for the Fund’s performance is the Russell 3000 index. Therefore, the Principals monitor the portfolio’s composition and key statistics with respect to the Russell 3000.

The following table shows a comparison between the Fund and its benchmark in terms of beta, average market capitalization, average price-to-earnings ratio (P/E) and average dividend yield:
<table>
<thead>
<tr>
<th>Stock</th>
<th>Beta (1)</th>
<th>Mk.Cap.(2)</th>
<th>P/E (2)</th>
<th>Div. Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 3000 TR</td>
<td>1.00</td>
<td>$5.6 B</td>
<td>15.30</td>
<td>1.89</td>
</tr>
<tr>
<td>Cash</td>
<td>0.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accenture PLC (ACN)</td>
<td>0.90</td>
<td>$45.8 B</td>
<td>17.24</td>
<td>1.73</td>
</tr>
<tr>
<td>Brookfield Office Properties (BPO)</td>
<td>1.13</td>
<td>$9.3 B</td>
<td>6.45</td>
<td>3.03</td>
</tr>
<tr>
<td>Darling International Inc. (DAR)</td>
<td>1.47</td>
<td>$1.9 B</td>
<td>11.17</td>
<td>0.00</td>
</tr>
<tr>
<td>Equifax Inc. (EFX)</td>
<td>0.98</td>
<td>$5.5 B</td>
<td>18.98</td>
<td>1.44</td>
</tr>
<tr>
<td>Eaton Corporation (ETN)</td>
<td>1.36</td>
<td>$16.1 B</td>
<td>11.81</td>
<td>2.92</td>
</tr>
<tr>
<td>Gilead Sciences, Inc. (GILD)</td>
<td>0.75</td>
<td>$39.0 B</td>
<td>15.09</td>
<td>0.00</td>
</tr>
<tr>
<td>Google Inc. (GOOG)</td>
<td>0.88</td>
<td>$197.0 B</td>
<td>18.33</td>
<td>0.00</td>
</tr>
<tr>
<td>IHS Inc. (IHS)</td>
<td>0.73</td>
<td>$6.6 B</td>
<td>49.80</td>
<td>0.00</td>
</tr>
<tr>
<td>Norfolk Southern Corporation (NSC)</td>
<td>1.07</td>
<td>$24.2 B</td>
<td>12.90</td>
<td>2.32</td>
</tr>
<tr>
<td>PepsiCo, Inc. (PEP)</td>
<td>0.44</td>
<td>$104.0 B</td>
<td>15.22</td>
<td>3.10</td>
</tr>
<tr>
<td>PG&amp;E Corporation (PCG)</td>
<td>0.49</td>
<td>$18.5 B</td>
<td>12.38</td>
<td>4.12</td>
</tr>
<tr>
<td>Rio Tinto PLC (RIO)</td>
<td>1.77</td>
<td>$110.1 B</td>
<td>N.A.</td>
<td>3.21</td>
</tr>
<tr>
<td>Waste Management, Inc. (WM)</td>
<td>0.79</td>
<td>$16.0 B</td>
<td>15.70</td>
<td>3.98</td>
</tr>
<tr>
<td>Wal-Mart Stores, Inc. (WMT)</td>
<td>0.42</td>
<td>$200.9 B</td>
<td>13.19</td>
<td>2.47</td>
</tr>
<tr>
<td>Total invested portfolio</td>
<td>0.97</td>
<td>$56.8 B</td>
<td>16.79</td>
<td>2.02</td>
</tr>
</tbody>
</table>

(1) Beta is calculated vs. the benchmark of the Fund (Russell 3000) using 2 yrs. of weekly data.
(2) Simple (not weighted) average is used for the benchmark index and the Fund.

Sector Exposures: The following chart illustrates our sector exposures. In 2012, we made strides to gain greater diversification in the portfolio and to get closer to the distribution of the benchmark.

![Sector Weighting 4/30/2012](image1)

![Portfolio vs. Benchmark Weighting 4/30/2012](image2)
**Risk Management:** Risk management is a critical area of importance for the Fund. In line with previous years, the Fund performs a formal review of each holding every four months. During each review, financial and ESG performance is assessed and prospective returns are estimated. Subsequently, the Principals decide by vote whether or not to maintain the position. This process has been extremely important and beneficial in ensuring the Fund is actively managing the portfolio.

In addition, the Principals established the maximum exposure in any given position at 10% and developed a weekly portfolio and market report, a copy of which is presented below.
PERFORMANCE ANALYSIS

Fiscal Year Ended April 30, 2011: The Fund realized a total return of 4.96% between April 30, 2011 and April 30, 2012, outperforming the Russell 3000’s total return of 3.38% by 158 basis points. Because there were no withdrawals or contributions to the Fund, this also implies a growth in assets under management (AuM) of 4.96%.

The following graph shows the evolution of the AuM since inception on the right axis, as well as cumulative returns for the same period on the left axis:

The following graph shows the Fund’s cumulative performance since inception relative to the Russell 3000:

The following chart shows the performance of each stock held by the Fund at the closing of April 2012. However, it is important to note that this graph does not truly reflect the return of the position on the holding, as it is not adjusted by time of purchases or sells. The Fund is not currently in a position to conduct
formal attribution and contribution analysis; however, these calculations should be available in the near future:

**Historical Performance:** Following is a presentation of monthly returns for the Fund, as well as the Russell 3000 and the Fund’s performance vs. this benchmark. The Fund has earned a cumulative return of 28.29% since inception, which outperforms the Russell 3000’s 9.91% return by 18.38%. The Fund’s return is also equivalent to an average annual return of 6.43%.

<table>
<thead>
<tr>
<th>HSRIF returns since inception</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
<th>ITD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>-0.43%</td>
<td>-0.28%</td>
<td>0.12%</td>
<td>-0.51%</td>
<td>-4.08%</td>
<td>-1.60%</td>
<td>0.40%</td>
<td>-6.28%</td>
<td>-6.28%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>-1.27%</td>
<td>-1.24%</td>
<td>2.76%</td>
<td>2.52%</td>
<td>1.59%</td>
<td>-0.26%</td>
<td>5.92%</td>
<td>0.98%</td>
<td>2.81%</td>
<td>-2.21%</td>
<td>3.20%</td>
<td>1.81%</td>
<td>17.59%</td>
<td>10.20%</td>
</tr>
<tr>
<td>2010</td>
<td>-3.22%</td>
<td>-2.72%</td>
<td>3.70%</td>
<td>-0.04%</td>
<td>-4.45%</td>
<td>-1.33%</td>
<td>3.10%</td>
<td>-2.25%</td>
<td>4.61%</td>
<td>2.63%</td>
<td>-0.10%</td>
<td>2.43%</td>
<td>7.54%</td>
<td>18.51%</td>
</tr>
<tr>
<td>2011</td>
<td>1.20%</td>
<td>-0.16%</td>
<td>2.06%</td>
<td>0.01%</td>
<td>0.65%</td>
<td>-2.24%</td>
<td>-1.59%</td>
<td>-4.81%</td>
<td>-9.14%</td>
<td>13.46%</td>
<td>-0.28%</td>
<td>-0.10%</td>
<td>-2.38%</td>
<td>15.69%</td>
</tr>
<tr>
<td>2012</td>
<td>6.16%</td>
<td>1.06%</td>
<td>2.21%</td>
<td>1.13%</td>
<td>1.13%</td>
<td>0.58%</td>
<td>6.78%</td>
<td>2.28%</td>
<td>5.68%</td>
<td>3.20%</td>
<td>7.99%</td>
<td>10.89%</td>
<td>28.29%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Russell 3000 returns since HSRIF’s inception</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
<th>ITD</th>
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<tbody>
<tr>
<td>2008</td>
<td>-8.25%</td>
<td>-0.80%</td>
<td>1.55%</td>
<td>-9.40%</td>
<td>-17.74%</td>
<td>-7.89%</td>
<td>1.91%</td>
<td>-35.34%</td>
<td>-35.34%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>-8.39%</td>
<td>-10.48%</td>
<td>8.76%</td>
<td>10.52%</td>
<td>5.34%</td>
<td>0.34%</td>
<td>7.78%</td>
<td>3.57%</td>
<td>4.19%</td>
<td>-2.57%</td>
<td>5.68%</td>
<td>2.85%</td>
<td>28.34%</td>
<td>-17.01%</td>
</tr>
<tr>
<td>2010</td>
<td>-3.60%</td>
<td>3.39%</td>
<td>6.30%</td>
<td>2.16%</td>
<td>-7.90%</td>
<td>-5.75%</td>
<td>6.94%</td>
<td>-4.71%</td>
<td>3.91%</td>
<td>0.58%</td>
<td>6.78%</td>
<td>16.93%</td>
<td>-2.96%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>2.18%</td>
<td>3.64%</td>
<td>0.45%</td>
<td>2.98%</td>
<td>-1.14%</td>
<td>-1.80%</td>
<td>-2.29%</td>
<td>-6.00%</td>
<td>-7.76%</td>
<td>11.51%</td>
<td>-0.27%</td>
<td>0.82%</td>
<td>1.03%</td>
<td>-1.97%</td>
</tr>
<tr>
<td>2012</td>
<td>5.05%</td>
<td>4.23%</td>
<td>3.08%</td>
<td>-0.66%</td>
<td>12.12%</td>
<td>9.91%</td>
<td></td>
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</tbody>
</table>
HSRIF’s outperformance relative to the Russell 3000

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
<th>ITD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7.82%</td>
<td>0.52%</td>
<td>-1.44%</td>
<td>8.80%</td>
<td>13.65%</td>
<td>6.30%</td>
<td>-1.52%</td>
<td>29.05%</td>
<td>29.05%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>7.12%</td>
<td>9.24%</td>
<td>-6.00%</td>
<td>-8.01%</td>
<td>-3.74%</td>
<td>-0.60%</td>
<td>-1.87%</td>
<td>-2.59%</td>
<td>-1.38%</td>
<td>0.36%</td>
<td>-2.49%</td>
<td>-1.04%</td>
<td>-10.75%</td>
<td>27.21%</td>
</tr>
<tr>
<td>2010</td>
<td>0.39%</td>
<td>-0.67%</td>
<td>-2.60%</td>
<td>-2.20%</td>
<td>3.45%</td>
<td>4.42%</td>
<td>-3.84%</td>
<td>2.46%</td>
<td>-4.83%</td>
<td>-1.28%</td>
<td>-0.68%</td>
<td>-4.35%</td>
<td>-9.38%</td>
<td>21.47%</td>
</tr>
<tr>
<td>2011</td>
<td>-0.99%</td>
<td>-3.80%</td>
<td>1.61%</td>
<td>-2.97%</td>
<td>1.79%</td>
<td>-0.44%</td>
<td>0.70%</td>
<td>1.18%</td>
<td>-1.38%</td>
<td>1.95%</td>
<td>-0.01%</td>
<td>-0.92%</td>
<td>-3.41%</td>
<td>17.66%</td>
</tr>
<tr>
<td>2012</td>
<td>1.11%</td>
<td>-3.17%</td>
<td>-0.87%</td>
<td>1.79%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-1.22%</td>
<td>18.38%</td>
</tr>
</tbody>
</table>

More importantly, perhaps, is the risk-adjusted return. We compute the Sharpe ratios for the Fund and the Russell 3000 using the 10-year Treasury yield, which was 1.94% at the end of April, 2012. The Fund achieves a higher risk-adjusted performance (0.43 vs. 0.13 of the benchmark). This is due to both a higher return since inception, as well as a lower volatility, as measured by the standard deviation.

**Calculation of Sharpe Ratios since HSRIF’s inception (May 2008)**

<table>
<thead>
<tr>
<th></th>
<th>HSRIF</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Return</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly</td>
<td>0.59%</td>
<td>0.39%</td>
</tr>
<tr>
<td>Annualized</td>
<td>7.05%</td>
<td>4.73%</td>
</tr>
<tr>
<td><strong>Standard Deviation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly</td>
<td>3.41%</td>
<td>6.21%</td>
</tr>
<tr>
<td>Annualized</td>
<td>11.81%</td>
<td>21.50%</td>
</tr>
<tr>
<td><strong>Sharpe Ratio (*)</strong></td>
<td>0.43</td>
<td>0.13</td>
</tr>
</tbody>
</table>

* Based on a 10-year Treasury yield of 1.94%
Accenture (NYSE: ACN)

GICS Sector: Information Technology  
Industry: IT Services

Company Description: Accenture is a global management consulting, technology services, and outsourcing company, with more than 246,000 people serving clients in over 120 countries. The company leverages its industry and business-process knowledge to formulate strategic and technical 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. The company generated net revenues of US$25.5 billion for the 2011 fiscal year.

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, nonprofit and environmental sectors. For example, Accenture released a report on its work for the World Wildlife Fund during 2011. This project highlights the ongoing activities of Accenture Sustainability Services, which helps organizations to achieve improved performance and improved value for stakeholders.

Additionally, Accenture is recognized as having best-in-class CSR programs. Accenture is known as a thought leader that contributes to the CSR literature through regular reports produced by its employees. This exposure to the cutting edge of CSR practices positions Accenture well to benefit from emerging CSR trends. However, it is not clear that analysts have properly valued this aspect of Accenture’s operations, and as a result we believe the benefits of Accenture’s entrepreneurial culture and best-in-class CSR programs are not 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 continued to show strong share performance driven by business results. ACN’s latest 2Q12 earnings beat both revenue and EPS guidance, with impressive bookings and a guidance raise for both top line and bottom line for the whole year. Accenture’s above-peer-group double-digit growth rate, margin expansion, strong free cash flow, rising dividend and robust EPS growth rates are a testament to its stellar business and stock performance. As of the writing of this report, total returns from the Fund’s position in Accenture exceed 40%. Our long-term fundamental and SRI theses on Accenture remain intact. However, the current high valuation also gives cause for concern. We recommend that the Fund continue to hold shares of Accenture but keep monitoring its stock performance. We will periodically consider revisiting our position and valuation in order to rebalance the portfolio mix towards stocks with higher reward-risk ratios.
Brookfield Properties (NYSE: BPO)

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 in major cities across the US, Canada and Australia. 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 cash flows and abundant low-cost mortgage debt financing.

Investment Pitch: BPO leverages its best-in-class sustainability initiatives to design and build premium-rated properties that appeal to both environmentally conscious and luxury-oriented tenants. The company believes that its efforts toward carbon efficiency will lead to cost savings that will drive greater free cash flow as well as the longevity of the demand for LEED certified office buildings. BPO has a premium quality portfolio, and 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 refinancing at attractive interest rates, select property sales at attractive pricing/low cap rates, closing of residential asset sales, and continued exploration into new markets. The company maintains a strong liquidity profile with over $20 billion in cash.

BPO’s overall value proposition is highly integrated with its business case and organizational alignment. A large proportion of its portfolio has met the relevant regional green building standards, and there is evidence of further improvement of the energy efficiency of its US properties. BPO’s efforts in strategic community engagement through public arts and events add to its brand recognition for the users of its properties.

Outcome: BPO currently makes up approximately 6.3% of our portfolio and is trading at a price of $18.37. Our three-year price target is $22.00. The Principals voted to continue to hold and monitor the stock.
Compass Minerals International (NYSE: CMP)

GICS Sector: Materials
Industry: Metals & Mining

Company Description: Compass Minerals International, Inc. is the number one producer of salt, magnesium chloride, and sulfate of potash (SOP) specialty fertilizer in North America. It is also the number one producer of salt in the U.K. CMP provides salt for use in highway, consumer and industrial deicing, water care, and animal nutrition in North America and the U.K. (~80% of revenues) and specialty fertilizer for use with high value crops worldwide (~20% of revenues). The company also has a small records management business (DeepStore) in the U.K. that utilizes excavated portions of a salt mine for secure underground document storage.

Investment Pitch: The salt industry enjoys stable demand through economic cycles and has experienced long-term volume growth of 1-2% annually and pricing growth of 3-4%. As one of three major salt producers in North America, Compass is a market leader in an oligopoly. Compass enjoys access to the world’s largest rock salt mine and the only naturally occurring source of SOP in North America, both of which give Compass a sustainable cost advantage. Further, its mines and depots are located near strategic waterways that minimize transportation costs and allow it to be the low-cost producer in its service areas, an important advantage since salt consists largely of localized markets. These advantages allow Compass to enjoy 20%+ operating margins for what is essentially a commodity product. The fertilizer segment benefits from the long-term secular trend of increasing populations and decreasing arable land. These trends should increase demand for SOP specialty fertilizers that boost yields for high value crops such as fruits and vegetables. Further, the mildest winter in 15 years presents a unique opportunity to acquire shares at a discounted valuation.

From an ESG perspective, Compass provides the necessary, life-saving service of deicing the nation’s highways. It should be noted that deicing-salt, when applied in excessive amounts, can cause harm to plant life. However, we believe Compass is the best in its class in terms of a comprehensive CSR policy and its position as a market leader should encourage other players in the space to follow suit. The company’s solar evaporation facilities are a great example of a core business strategy that is also good for the environment as it is both green and low-cost. Compass also has an excellent safety record and even includes safety metrics in determining management compensation. Compass is listed in the Calvert Social Index and is a holding of Parnassus Investments, a San Francisco-based SRI fund.

Outcome: The Fund voted to purchase shares of Compass in May 2012, establishing an initial position size of 5% of the total portfolio at $77.92/share.
Company Description: Darling International collects and recycles animal by-products, bakery waste and used cooking oil from poultry and meat processors, commercial bakeries, grocery stores, butcher shops, and food service establishments. After Darling completed the acquisition of Griffin Industries in December 2010, the company was re-organized into two segments: 1) Rendering (animal by-products) and 2) Bakery (bakery waste).

Investment Pitch: The Principals originally invested in Darling due to its unique business model of recycling waste into usable consumer products that are both environmentally sensible and profitable to produce. As the only national renderer and with its dominant market position, 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 produce less environmental harm than corn-based ethanol and act as a base for other alternative fuels. Darling demonstrates its commitment to the environmental, health, and safety by performing to a standard beyond regulatory compliance.

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, continued progress on a joint venture with Valero on a biofuel facility (expected to come online Q42012), and increasing food demand. 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. 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 and automotive, communications, IT, electronics, government and military, healthcare, manufacturing and residential.

Investment Pitch: Eaton's core mission is “thinking powerfully” to deliver innovative power management solutions that not only improve customer businesses, but also help to reduce global energy consumption. 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 into emerging economies, new energy-efficient innovation, and acquisitions. From a social perspective, ETN's diverse portfolio of energy-efficient products, strong supply chain management policies, and internal commitment to sustainability add value by driving revenue growth, controlling costs at the company-level and across 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: Eaton has been a core portfolio holding since November 2010. Since then, we have been opportunistically adding to the position in times of market weakness, the last of which occurred on 9/14/11. In its latest earnings report on 4/23/12, the company reported record first quarter sales, segment operating margins and EPS, and expects 2012 to be another record year despite continued economic uncertainty. 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, which in turn provides Equifax with new data, enhancing its entrenched position as a market leader. 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 initiated its Equifax position in December 2010 at $35.45. Since then, Equifax has outperformed the Russell 3000 and now trades at ~$45. With Equifax positioned to benefit from increasing mortgage applications and a recovering housing market, the Fund voted to maintain its position.
Gilead Sciences, Inc. (NASDAQ: GILD)

GICS Sector: Health Care  
Industry: Biotechnology

Company Description: Gilead is a research-based biopharmaceutical company that discovers, develops, and commercializes therapeutics in areas of unmet medical need. Its primary areas of focus include human immunodeficiency virus (HIV)/AIDS, liver diseases such as hepatitis B and C and serious cardiovascular/metabolic and respiratory conditions. It is the leader in the worldwide HIV therapeutics market, with the company's HIV product sales constituting more than 80% of total 2011 revenues. The company product portfolio is comprised of Atripla, Truvada, Viread, Emtriva, Complera /Eviplera, Hepsera, AmBisome, Letairis, Ranexa, Cayston and Vistide.

Gilead Sciences operates its business through one reportable segment, which primarily focuses on the development and commercialization of human therapeutics for life threatening diseases.

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.

Investment Pitch: Gilead holds a leadership position in the global HIV market with 25.9% of global market share. The company manages to continually gain market share by introducing next-generation HIV medicines and has made efforts to diversify its revenue streams by moving into new therapeutic areas. In January of 2012, GILD closed an $11 billion acquisition of Pharmasset to expand into hepatitis C treatment. The company has exhibited a revenue CAGR for the past seven years of approximately 11%. Gilead 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. For example, through its Access Program, 2.4 million people in over 130 developing countries are now receiving an HIV treatment regimen based on Gilead's medicines. Gilead has also worked with the World Health Organization and non-governmental organizations to expand its access to treatment for visceral leishmaniasis, one of the world’s deadliest parasitic diseases.

Outcome: GILD appears to be relatively undervalued at the current price levels. Its valuation is below its peers, yet from a margin perspective, the company seems to be significantly stronger than those of the more traditional large pharmaceutical companies. The Fund will 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 internet search engine. The Company maintains an index of web sites and other content and makes them freely available on the Internet through its automated search technology. Advertising revenues made up 97% of Google's revenues in 2009 and 96% of its revenues in 2010 and 2011. Most of the company’s additional revenues are derived from its enterprise products (Google Apps), as well as display advertising management services to advertisers, ad agencies, and publishers.

Investment Pitch: A clear leader in its industry, Google is positioned to continue to experience significant growth over the next several years, including international expansion and the potential acquisition of Motorola Mobility, which could add 17,000+ patents to the company's portfolio. Google remains the market share leader in search and video content (YouTube) and though competition is increasing in both these areas, we expect Google to remain the market share leader. International expansion and new revenue channels could pressure operating margins, but on a dollar basis, we anticipate strong revenue and net income growth.

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 incorporated into its stock price. Over the past year, Google has added three notable ESG initiatives, including Google for Nonprofits, Google Dengue & Flu Trends and child protection measures through google.org in collaboration with the National Center for Missing and Exploited Children.

Outcome: Google's share price on May 11, 2012 was $605.23, compared to the Fund's initial purchase price of $552.80 in October of 2009. In a rebalancing in March 2011, the Fund purchased an additional 160 shares at $578.30. Looking back on the past year, GOOG shares experienced strong growth after the August 2011 announcement that Google planned to acquire Motorola Mobility and the subsequent November 2011 announcement that stockholders had approved the merger. We updated our three-year price target to $810.92, representing a 10% annualized IRR from current levels. The Fund will 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. 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, and Africa; and Asia Pacific (including India).

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

**Investment Pitch:** IHS’ core mission is twofold. It not only strives to add value through the transformation of information into critical insight, but also focuses on being a thoughtful and responsible corporation 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. Future growth will also be supported by continued pricing increases based on added value, cross-selling opportunities across information domains, and accretive acquisitions. 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 has been a strong performer, gaining nearly 30% since the Fund’s initial purchase in November of 2010. Though organic revenue growth dipped to 4% in the 1Q12, management reiterated its full year organic growth targets (7-10%) and rising EBITDA margins suggest that productivity initiatives are gaining traction. With best-in-class sustainability solutions representing a growing portion of the business, Fund Principals were encouraged to see IHS codify its internal ESG commitment earlier this year by adding Corporate Sustainability to its list of core strategic objectives. While the fundamental backdrop remains solid, valuation metrics are beginning to look full (23x NTM P/E) relative to historical averages and the stock is approaching our $105 price target. Fund Principals recently voted to reduce the target position weight to 5.5% (selling 500 shares on May 3, 2012) in order to accommodate new names in the portfolio.
**Mattel, Inc. (NASDAQ:MAT)**

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

**Company Description:** Mattel designs, manufactures and markets a variety of toy products worldwide that are sold into retail distribution as well as directly to consumers. Mattel’s portfolio of brands and products include Mattel Girls & Boys Brands, Barbie fashion dolls and accessories, Polly Pocket, Little Mommy, Disney Classics, Monster High, Hot Wheels, Matchbox, Tyco R/C vehicles and play sets, CARS, Radica, Toy Story, Max Steel, WWE Wrestling, Batman, Fisher-Price, Little People, BabyGear, Imaginext, View-Master, Dora the Explorer, Go Diego Go!, Thomas and Friends, Mickey Mouse Clubhouse, Sing-a-ma-jigs, See 'N Say, Power Wheels, and American Girl Brands.

**Investment Pitch:** Mattel is the largest toy manufacturer in the world with significant positive attributes including strong brand names, a top-tier global distribution network, excellent management, and international growth potential. The company has some of the best and most consistent margins in the industry due to its ability to leverage its scale and empower employees to drive efficiencies. From an ESG perspective, Mattel has strong CSR initiatives that include responsible manufacturing, sustainable sourcing, philanthropic programs, and a commitment to product safety. The company’s commitment to ESG is likely to set it apart from its much smaller peers who may be unable to have the same level of dedication to product safety and environmental issues.

**Outcome:** The Fund voted to purchase shares of Mattel in May 2012 at $33.45/share, establishing an initial position size of 6% of the total portfolio. The purchase represented the first discretionary name for the portfolio in an effort to capitalize on an expected increase in consumer confidence and spending.
Norfolk Southern (NYSE: NSC)

GICS Sector: Industrials  
Industry: Road & Rail

Company Description: Norfolk Southern Corporation controls one of the largest freight railroads 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. Collectively, Norfolk Southern operates the most extensive intermodal network in the East. 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 the direct link between the company's cost-saving ESG practices and its bottom line. The capital intensity and regulation of the railroad business effectively limits new entrants. Meanwhile, the distribution industry continues to experience a shift from its current trucking majority to rail due to the compelling economics of rail versus trucking. Furthermore, improved intermodal rail transport and increased highway congestion will continue to strengthen this secular trend. Further financial return upside comes from a combination of pricing increases and cost cutting, which should enhance operating margins. Lastly, the company has a track record of returning cash to investors through dividend payouts and share buybacks. In 2011, NSC repurchased more than $2 billion of stock, representing roughly 10% of the market cap. In addition, the company paid out $576 million in dividends, representing a dividend yield of ~2.6% at current prices.

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. In 2011, NSC reduced its greenhouse gas emissions by 3.9% per revenue-ton mile and achieved the best safety record for large railroads in North America for the 22nd consecutive year.

Outcome: Despite revenue growth of 17% in 2011, NSC stock remained largely unchanged since our acquisition in April 2011 as a weak coal market in 2012 compressed valuation. Given our continued conviction in the favorable long-term shift from trucking to rail and the attractive valuation of 12x forward earnings, the Fund Principals voted unanimously in February 2012 to add to our position and rebalance back to our 8% target.
PepsiCo Inc. (NYSE: PEP)

GICS Sector: Consumer Staples  
Industry: Food, Beverage, & Tobacco

Company Description: PepsiCo, Inc. is a global food, snack, and beverage company. The company was originally incorporated in 1919. The company operates in six reportable segments: PepsiCo Americas Beverages, Frito-Lay North America, Quaker Foods North America, Latin America Foods, Europe, and Asia, Middle East, and Africa (AMEA). Within PepsiCo's stable of products, the company has 19 brands with over $1 billion in retail sales each, including Pepsi-Cola, Mountain Dew, Lays Potato Chips, Gatorade, Tropicana, 7-Up, and Lipton Teas.

PepsiCo competes primarily on the basis of price, quality, product variety, and distribution. The company focuses its efforts on manufacturing, marketing, and distributing its products, which it has arranged into three separate portfolios: The Fun-for-You Portfolio, Better-for-You Portfolio, and Good-for-You Portfolio.

Investment Pitch: We believe PEP is poised for above-consensus revenue growth based on ramping international sales. Urban areas in the developing world will add 300 million households, and companies in the global food and beverage business are all seeking to build brand equity with and develop distribution to these emerging consumers. PEP is also poised to take advantage of trends towards healthier, more nutritious foods with its development of its Better-for-You and Good-for-You portfolio, while the company enjoys stable growth for its products in developed markets. Through marketing, branding, and differentiation, PEP has been able to consistently raise prices, driving long-term sales and EPS growth, despite being a mega-cap name in a mature industry. PEP also consistently returns cash to shareholders, and at the Fund’s time of purchase had an attractive valuation, trading at 13.5x NTM earnings, well below its 5-year average of 16.0x.

PEP’s CEO, Indra Nooyi, has dedicated extensive resources to strategic CSR initiatives, and PEP has become recognized as an ESG leader in the food and beverage industry. PEP’s product portfolio reflects its efforts to promote healthy eating habits and to develop healthier alternatives for its “Fun-for-you” products. PEP has also made a concerted effort to reduce energy consumption, water usage, and carbon emissions. PEP also actively works with its supply chain to improve upward social mobility and fair wages.

Outcome: The Fund Principals voted to invest in PEP with approximately 6% of our total portfolio allocation in November 2011. PEP is currently 5.39% of the portfolio and has increased in value by 4.5% since its inclusion into the Fund. PEP announced in February 2012 that it would ramp up marketing and advertising expenditures by $500-600 million in 2012, focusing on regaining market share for Pepsi in North America. It also announced cost cutting measures and a workforce reduction of 8,700 and guided towards mid-single digit net revenue growth for the next year.
PG&E Corp. (NYSE: PCG)

GICS Sector: Utilities  
Industry: Multi-Utilities

**Company Description:** PG&E is an $18.7 billion holding company and utility engaged in the generation, procurement, and transmission of energy in California, and is 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 as well as the procurement, transportation, storage, and distribution of natural gas.

**Investment Pitch:** Pacific Gas & Electric is one of the largest combination natural gas and electric utilities in the United States, serving approximately 15 million people in Northern and Central California. 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. Given the nature of the business, these two aspects are a critical component to distinguish leaders from average players. The 2010 San Bruno accident has significantly tested these priorities, but a change in leadership as well as increased investment in safety measures show a dedication to improvements. 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 positions, PG&E has provided dual benefits of diversification and relative safety during turbulent markets, especially during the downturn of 2008-2009. The company continues to work through legal and regulatory proceedings surrounding the 2010 San Bruno tragedy, and uncertainty regarding its total liability could remain an overhang on shares into next year. Nonetheless, the Fund believes PG&E’s SRI practices will continue to set a leading standard in the industry. After bringing in a new CEO in September of last year, PG&E reorganized its gas and electric businesses with a focus on improving accountability and operational expertise. Further, proactive investments in meeting the more stringent CPUC pipeline safety standards should help rehabilitate the company’s reputation, and position it for future earnings growth given California’s generous recovery rate regime. PG&E’s 1Q12 earnings update included some encouraging signs: management reiterated its guidance for FY12 operating earnings and non-recoverable pipeline investments related to the San Bruno incident. Relative to its utility peers, the stock is currently valued at a discount on EV/NTM EBITDA (7x versus 8x average) and offers a superior dividend yield (4.4% versus 4.1%). That said, any valuation analysis is clouded by the fact that capital improvements and potential liabilities surrounding the San Bruno incident could cost shareholders an additional $1 billion through 2013. Fund Principals voted to hold and closely monitor regulatory developments.
Rio Tinto (NYSE: RIO)

**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, TiO2 slag and borax. Operations are characterized by world-class deposits consisting mainly of the lowest-cost quartile of opencut 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 at a 35% discount to intrinsic value when using a discount cash flow (DCF) model.

**Outcome:** Higher commodity prices as well as infrastructure build-outs in China and India are generating strong momentum for RIO. Moreover, the company’s net debt position continues to decline and company is slowly transitioning to a greater growth mode with new projects in copper, gold and iron, as well as a better focus on core businesses. The Fund will 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 a “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 in May 2011. WM is currently allocated at 5.73% of our portfolio. Shares are currently trading at $33.98 as of May 2012. This is a 12% price decrease from the HSRIF purchase price. EVX, which tracks the NYSE Environmental Services Index (a modified equal dollar-weighted index consisting of publicly traded companies that are involved in the management, removal and storage of consumer waste and industrial byproducts and related environmental services), is also down 12% over the same period. Our 3-year price target is $43.73. With a dividend yield of 4%, our implied return would be approximately 13.1%. We will continue to monitor and hold the stock.
Walmart Stores Inc (NYSE: WMT)

GICS Sector: Retail  
Industry: CPG

Company Description: Walmart Stores, Inc. operates retail stores in various formats worldwide. The company was founded in 1945 and is based in Bentonville, Arkansas. The company’s Walmart U.S. segment offers meat, produce, deli, bakery, dairy, frozen foods, floral, and dry grocery; health and beauty aids, household chemicals, paper goods, and pet supplies; electronics, cameras and supplies, photo processing services, cellular phones, cellular service plan contracts, and prepaid service and toys; fabrics and crafts, stationery and books, automotive accessories, hardware and paint, horticulture and accessories, sporting goods, outdoor entertaining, and seasonal merchandise; apparel, shoes, and jewelry; pharmacy and optical services; and home furnishings, housewares, and small appliances through discount stores, supercenters, and neighborhood markets, as well as through Walmart.com. Its International segment includes various formats of retail stores and restaurants, including combination discount and grocery stores, supercenters, Sam’s Clubs, hypermarkets, cash-n-carry stores, department stores, and general merchandise stores.

Initial Investment Thesis: International expansion and increasing sales of green and organic products represent opportunities for Walmart despite growth being somewhat limited due to the size of the company. Walmart appears slightly undervalued by the current market, which is still pessimistic about the retail industry’s prospects overall. Further, Walmart’s competitiveness, especially arising from its sustainability initiatives such as its leadership role in defining and promoting green products, its significant cost reduction due to energy and waste reduction initiatives and its improving corporate citizen reputation, may not be fairly priced-in to the market’s current valuation. The downside risk is also limited. P/E for this stock should remain steady at approximately 15x in the next 12 months and any earnings growth would directly translate into price returns, in addition to the dividend yield of 2.1% (2/20/2010).

Outcome: Our primary motivation in exiting the stock was the alleged involvement of Wal-Mart de Mexico (Wal-Mex) in a $24M bribery scheme to obtain building permits. Executives at the highest levels of Wal-Mart and Wal-Mex were reportedly aware of the systematic bribery practice and allegedly chose to cover up the actions. This scandal raises significant governance and social impact questions. First of all, bribery is a serious crime and undermines the development of a stable, fair free market. Second, the overhang from these allegations will be painful and distracting. Shareholders have already filed suit and competitors may do the same, alleging racketeering. The firm will have to pay for an internal investigation in order to address the US government’s concerns. It may also lose key managers, such as the former head of Wal-Mex who was once regarded as a potential future CEO. Finally, the scandal raises fundamental questions about our investment thesis, including WMT’s ability to grow abroad. The revelation of this bribery scheme brings into question WMT’s ability to grow revenue abroad without resorting to illegal and ethically questionable tactics. For all of the above reasons, the Principals voted to divest Walmart. The shares were sold on 5/3/2012 at a price of $58.91.
Ball Corporation (NYSE: BLL)

GICS Sector: Containers & Packaging
Industry: Industrial

Company Description: Ball is the largest supplier of beverage cans in the world, and is one of the leading suppliers of metal packaging to the beverage, food, personal care and household products industries. Ball competes in the general packaging industry on price, innovation and sustainability, service and quality. The company also provides aerospace and other technologies to governmental and commercial customers.

Investment Pitch: We decided to pitch Ball given its leading market share positions in all segments and geographies in which it operates and its position as a first-in-class leader in sustainability initiatives in the metal packaging space. Ball has an excellent track record of customer retention and typical contracts are long-term in nature. The company has strong relationships with its top three customers (Coca-Cola, MillerAB, and Pepsi) and has grown market share with these customers recently. The structure of the industry, in which can makers typically set up manufacturing facilities close to customers, is capital intensive and establishes high barriers to entry. Ball has a successful track record of acquisitions and recently divested its plastics division to focus on the aluminum and steel market. Ball generates consistent margins and we see upside in its topline in the form of global expansion and acquisitions. The company has executed considerable stock buy-backs in each of the last two years and recently bought back another $200 million in stock this year.

Ball is a clear leader in sustainability within the metal packaging sector and believes its triple bottom line approach creates shared value for stakeholders and the company. Ball been included in the Calvert Social Index and FSTE4Good Index and was also ranked as the leading company in packaging and paper by the Maplecroft Climate Innovation Index.

Outcome: The Fund Principals chose to place Ball on its watchlist, citing that it may not be the appropriate time to invest, given its current valuation.
Fuel System Solutions, Inc. (NASDAQ: FSYS)

GICS Sector: Consumer Goods  
Industry: Auto Parts

Company Description: Fuel Systems Solutions, Inc. designs, manufactures and supplies CNG / LPG fuel components and systems for transportation and industrial applications. FSYS delivers transportation / industrial products through a network of almost 1,000 distributors, dealers and OEMs in more than 65 countries. The company operates two business segments: BRC and IMPCO. BRC, headquartered in Italy, is the company's transportation segment, converting household vehicles, commercial / corporate fleets and public transportation systems to CNG / LPG. Key brands include BRC, Zavoli, TA Gas Technology and GFI. IMPCO houses FSYS's industrial business, consisting primarily of mobile equipment and stationary engines (forklifts, sweepers, auxiliary units, and construction equipment). It should be noted, however, that the company's North American transportation business is a part of IMPCO while MyPhill, a home fueling product, is actually sold by BRC.

Investment Pitch: New technologies have drastically increased the amount of recoverable shale gas both globally and in North America. This dramatic increase in supply will not only apply downward pressure to natural gas prices, it will also prove a boon to downstream firms in the natural gas industry. Fuel Systems Solutions, Inc. is one such firm. Given a resilient (if not expanding) spread between global crude oil and natural gas, firms, governments and individuals are incentivized to invest in natural gas conversion as a means of cutting costs. FSYS is poised to benefit from this trend. Although a risky investment, especially given a dawning era austerity, the potential upside is significant. Consequently, we recommend building a position in FSYS and set a 3-year price target of $40.48.

Outcome: The Fund Principals chose to place FSYS on the watchlist.
Praxair, Inc. (NYSE:PX)

GICS Sector: Materials  
Industry: Industrial Gases

Company Description: Praxair is an industrial gas supplier. Praxair's primary products for its industrial gases business are atmospheric gases (oxygen, nitrogen, argon, rare gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, specialty gases, acetylene). It also designs, engineers, and builds equipment that produces industrial gases for internal use and external sale. Its surface technologies segment, operated through Praxair Surface Technologies, Inc. Praxair serves approximately 25 industries, such as healthcare and petroleum refining; computer-chip manufacturing and beverage carbonation; fiber-optics and steel making; and aerospace, chemicals and water treatment. During the year ended December 31, 2010, 94% of revenue was generated in four geographic segments (North America, Europe, South America and Asia). In January 2012, the Company acquired Welders Industrial Supply, LLC.

Investment Pitch: Praxair is the market share leader in industrial gases across North and South America and a leader in the Asian and European markets. We see compelling growth opportunities both organically and through acquisitions. Many of the gases PX produces, such as hydrogen and oxygen, are used by its customers to reduce greenhouse gas and CO2 emissions. In many instances, Praxair's emissions from production are a fraction of what its customers save in consumption. Praxair's revenue has diverse end-market and geographic concentrations, and the company is a leader in process technology. The company generates consistent annual free cash flow and maintains strong EBITDA margins of 25%-30%. The company's strong cash flow profile enables an attractive dividend yield, and the board recently announced a $1.5 billion stock repurchase program. The company maintains a conservative debt profile with FY11 net leverage of 1.9x and a credit rating of A2/A.

The company takes active steps to drive ESG factors within the company's sustainable development division, which is run by Riva Krut. Krut was hired in 2008 and previously spent 25 years in sustainability and environmental consulting. The sustainable development division at Praxair has several teams that work directly with operations personnel to quantify the environmental impact of cost reduction projects within the company. Savings related to productivity projects in 2010 included $400 million, 278 million metric tons of GHG emissions and 250 million gallons of water saved. The company publishes quarterly and annual reports that highlight sustainable development and community engagement practices.

Praxair is ranked 23rd in the world for carbon disclosure and 9th among S&P 500 companies as measured by the Carbon Disclosure's Project's Carbon Disclosure Leadership Index. Praxair is one of only ten companies to have been selected as a global leader in carbon performance for four years running. Praxair is a member of the Dow Jones Sustainability World Index, and is the only U.S.-based company to be selected from the chemical sector for nine consecutive years. Praxair is also a member of the Ethibel Sustainability Indexes, KLD Global Climate 100 Index and the Domini 400 Social Index. The company is included in PricewaterhouseCoopers’ Sustainability Yearbook and was selected among the top eight chemical companies. It is the only industrial gases company in the top group.

Outcome: The Fund voted to place Praxair on its watch list in May 2012.
**Company Description:** Shangri-La Asia Limited (SLA) and its subsidiaries own and operate luxury hotels and associated properties; and provide hotel management and related services. SLA operates in three segments: hotel operation (hotel ownership and operation), hotel management (provision of hotel management and related services to owned hotels and to hotels owned by third parties), and property rentals from investment properties (ownership and leasing of office properties, commercial properties, and serviced apartments). Shangri-La currently owns or manages over 24,000 rooms in 65 properties throughout the world, with 18 more properties in the construction or planning phase. Mainland China is the primary market for SLA’s investment and growth activities, although SLA has expanded to and will continue to expand its footprint in Europe, Australia, South Asia, and Africa, among other locations. The Kuok family, through their company, The Kerry Group Limited, own approximately 50% of SLA.

**Investment Pitch:** We consider Shangri-La as the best play on Chinese luxury business travel/tourism. The growing demand for luxury accommodations throughout China, and the enhanced regional connectivity that further leads to greater hospitality needs, are strong drivers of SLA’s domestic business. More importantly, what set SLA apart from other five-star hotels is that SLA has an attractive expansion pipeline in unsaturated second and third tier cities across mainland China, where it has first mover advantage into underdeveloped but fast growing markets. Additionally, SLA is well positioned to capitalize on outbound Chinese luxury travel driven by growing affluent Chinese and SLA’s strong brand value.

SLA is the well-recognized ESG leader in the Chinese luxury hotel market: SLA was inducted into the Hang Seng Corporate Sustainability Index in 2011; it is the only company on the 30-member list that is focused primarily on the hotel industry. In 2010, SLA produced its first bi-annual sustainability report highlighting its CSR efforts; SLA is effectively setting the example for the Asian hotel market through its report. Its “Embrace” program, where SLA provides training in hospitality skills to disadvantaged youths, has been recognized by UNESCO as a model of sustainable education.

Currently, SLA’s valuation has remained below its five-year average levels due to continued fears of an economic slowdown in China. SLA’s current valuation is well below its five-year average on both EV/EBITDA and P/B basis, providing an attractive entry point for a long-term investment.

**Outcome:** The Fund Principals voted to add Shangri-La to the watchlist.
**SYSCO Corporation (NYSE: SYY)**

**GICS Sector:** Services  
**Industry:** Food Wholesale

**Company Description:** Sysco Corporation is the largest North American distributor of food and food-related products to the foodservice and food-away-from-home industry. It is estimated that Americans spend 47% of total dollar purchases on food-away-from-home. Sysco’s approximately 400,000 customers include restaurants, healthcare and educational facilities, lodging establishments, and other foodservice customers. No single customer (supplier) is more than 10% of revenue (purchases). Sysco distributes frozen foods such as fully prepared entrees, meats, fruits, vegetables and desserts; canned and dry foods; fresh meats; dairy products; beverage products; imported specialties; and fresh produce. Sysco also distributes paper products (such as disposable napkins, cups, and plates), tableware (such as china and silverware), cookware (such as pots, pans, and utensils); restaurant and kitchen equipment and cleaning supplies.

Sysco distributes nationally branded merchandise and private-label brands. In addition to providing delivery services, Sysco also provides its customers with product usage reports and other data, menu-planning advice, food safety training and assistance in inventory control, and access to various other third-party services that can add value to customers’ businesses.

**Investment Pitch:** Sysco is a market leader with a track record of strong returns. It’s all about inventory turns in a low-margin business, but Sysco has produced impressive results. FY11 ROIC and ROE were 17% and 27%, respectively, well above comparable metrics for other publicly-traded distributors. Sysco also consistently has robust cash flows that are returned to shareholders and has increased its dividend 43 times in 42 years. Sysco’s dividend yield is currently 3.75% with a conservative payout ratio of 52%, and it has repurchased nearly $1 billion in stock between FY09-FY11. Sysco also has a clean balance sheet to weather challenging economic conditions. Should margin pressure persist, Sysco is conservatively levered at 54% net debt to equity and only 1x EBITDA. Long term and short term revolvers give it over $1 billion in liquidity.

Sysco seeks to integrate responsible food sourcing practices and energy efficiency throughout the value chain. Partly in response to consumer demand, Sysco offers local, seasonal, organic produce; meats from grass-fed, antibiotic-free, and humanely raised animals, and a ChefEx program to allow chefs to order directly from specialized suppliers. It also works with its customers to help them achieve their food sustainability goals and educates its customers through food labeling practices. It works with suppliers and industry NGOs to develop and implement standards on responsible produce, meat, and seafood sourcing. Sysco has also invested in reducing its energy use, increasing efficiency, and using alternative energy sources.

**Outcome:** The Fund Principals voted to add SYY to the watchlist.
The 2011-2012 academic year was the first year the Principals managed a fully invested portfolio. Building on the successes of our predecessors, the Fund’s Principals challenged themselves to continue to develop and deepen our own knowledge of socially responsible investing. Our key accomplishments are outlined below:

- Refined and improved our stock pitch investment document and stock update documents, including developing frameworks to maintain consistency for all Principals.

- Created a detailed “watchlist” to keep track of companies that have been pitched to the Fund but were not approved to buy. We consider these either replacement stocks that could be available to purchase should we need to quickly sell something, or companies that we would consider should valuations become more attractive.

- Created and refined the HSRIF Weekly Report based on helpful feedback from the Board.

- Tested an online blind voting system, which Principals used to vote to buy, not buy, or watchlist pitched companies. The blind voting system was tested to allow Principals to vote without any peer influence. The system received positive feedback from the Principals and will likely continue to be used in the next year.

- Evaluated ESG and SRI databases to determine which database best suited the Fund’s needs. Principals tested and ultimately approved MSCI.

- Represented the Haas Socially Responsible Investment Fund at SRI in the Rockies.

- Completed FactSet and Bloomberg training in the computer lab for the 1st year Principals.

- 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. We also conducted a separate one-hour lunch meeting with Lloyd in the spring to discuss SRI investing with incoming Principals.

- Selected the 2012-2013 class of MBA student Principals and integrated them into the Fund’s management and investment activities. Collaborated with the 1st year Principals on stock pitches to train them on the process.

- Managed the Fund through the BILD qualification process, reaching an important milestone for the Fund.
Aaron Azelon
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 the 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 will be entering the investment consulting industry following graduation, serving mostly endowments, foundations and charitable organizations.

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 this 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 at Universidad del Pacifico in Peru, where he also has served as an adjunct professor. He has 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 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 III exam in June 2012. Dan graduated from Harvard University with an A.B. in Economics. After graduation, he will join the San Francisco office of Prudential Capital Group.

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**  
Prior to Haas, Ian worked at a boutique research firm, covering publicly traded companies in the wireless and videogame sectors. After business school, Ian will join Osmium Capital Partners as a research analyst. Osmium is a long-short investment fund focused on micro- and small-cap US equities. Ian graduated *cum laude* from Whitman College in 2006 with a B.A. in History. When he’s not digging through SEC filings, he enjoys exploring the West with his wife and dog.
Alicia Chan
Prior to Haas, Alicia was a research associate at Cornerstone Research, an economics and finance consulting firm. There, her projects covered a wide variety of practice areas, including healthcare, finance, accounting, and general damages. Alicia is passionate about free markets and social impact and is at Haas to explore how free-market mechanisms can be a vehicle for social and environmental change. At Haas, she is actively involved with the Global Social Venture Competition as a co-chair of the Social Impact Assessment committee, and she served as a Berkeley Board Fellow for CVE, Inc., a non-profit social enterprise that provides employment training for disabled individuals. Alicia received her B.A. in Economics from Stanford University.

Mike Ciulis
In the four years prior to attending Haas, Mike worked in Wells Fargo’s high yield research group covering the retail, consumer products and technology sectors. Mike also spent two years as an investment banking analyst at Wachovia, focused on residential and commercial mortgage-backed securities. Prior to joining the bank, Mike worked as a management consultant with Accenture. He received his undergraduate degree from the University of Michigan – Ann Arbor, where he majored in Industrial and Operations Engineering and minored in Mathematics.

Lifan (Emilie) Deng
Emilie came to Haas with five years’ experience in investor relations and a passion for investment management. Prior to Haas, Emilie worked as a Vice President at ICR, LLC, a leading investor relations consulting firm, which provides capital market advisory services to companies seeking IPOs and follow-on offerings on U.S. stock exchanges. Her professional experience also includes an investor relations manager role at Vimicro. Emilie is a CFA Candidate and has passed all three levels of the Chartered Financial Analyst program. She is the Vice President of Finance Club, Net Impact Club and General Management & Strategy Club. Emilie received her bachelor’s degree in Advertising from Tongji University and a master’s degree in Communication from Boston University.

Paul Maa
After graduating from Northwestern University with degrees in Mathematical Methods and Economics, Paul spent three years working in the finance sector, first with Lehman Brothers in their investment banking division and later with Gryphon Investors, a middle-market private equity fund with $1BN under management. After receiving an opportunity to help build a growing international development organization, Paul decided to broaden his experience and spent three years at Room to Read, working across finance, fundraising, and program functions. Paul came to Haas to explore the intersection of financial sustainability and impact, with an interest in the energy sector. At Haas, Paul is a Vice Chair for the 2012 Global Social Venture Competition, a Board Fellow with the San Francisco YMCA, and a member of the Finance Club and Berkeley Energy & Resources Collaborative (BERC).

Matt Therian
Prior to Haas, Matt spent three years as a Research Analyst at Connecticut-based Renaissance Capital, which provides independent fundamental research on initial public offerings and related investment management services. As a generalist, Matt has covered U.S. and international equity offerings across a wide range of industries including media, software and clean tech. Earlier, he spent two years at Boston-area market research firm Chatham Partners. He graduated cum laude from Dartmouth College in 2005 with an A.B. in Economics and Government. Matt is a Chartered Financial Analyst candidate and passed the Level III examination in 2010. At Haas, Matt plans to build on his equity research experience through a deeper understanding of sustainability and socially responsible investing. He intends to pursue a career in investment management after graduation.
Chao Zhang
As the Co-President of the Investment Club, Chao wants to build the Haas brand in investment management. Prior to Haas, Chao spent three years at Q Investments, a multi-strategy hedge fund based in Fort Worth, TX. While at Q, Chao conducted in-depth credit analysis and was part of the Investment Committee that managed more than $2 billion of high yield and levered loan investments. He also assisted in managing Q's risk arbitrage portfolio. Chao has a passion for investing and has personally invested in the stock market since the age of 19. He is a CFA Candidate and recently passed all three levels of the CFA exam. Chao graduated with highest honors from the University of Texas at Austin with a B.A. in Chinese Language and Culture and a B.B.A in Finance.

From left to right: Paul Maa, Ian Robertson, Gretchen Heckman, Dan Kanivas, Mike Ciulis, Masha Lisak, Juan Manuel de los Ríos, Lifan (Emilie) Deng, Aaron Azelton, Chao Zhang, Alicia Chan, Matt Therian
ACKNOWLEDGEMENTS

Working with the Fund in its fifth year has been a tremendous experience. We are proud to have further institutionalized our processes and pitch documents to more resemble a professionally managed fund. We also feel that we have further refined our SRI knowledge and have used it to become better investors. 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:

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

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. Additionally, Lloyd volunteered to speak to the Fund Principals about social investing in the spring, which was a great help to the 1st year Principals.

Kellie McElhaney and Jo Mackness for their continued guidance and support throughout the year. We really appreciate all that you have done for the Fund in the last few years to help create a more autonomous student group. We also appreciate the work you put into getting BILD credit for the class. Senior Assistant Dean Jay Stowsky also played a vital role in this important process.

Nadja Guenster, who has graciously volunteered to take over Kellie’s responsibilities over the next year. We really valued your feedback in our last two meetings and we hope to further improve the Fund and our processes with your help.

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

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 Principals the best of luck with the Fund.

Sincerely,

HSRIF Principals 2012
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.

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 Chief Investment Officer at Nelson Capital. 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.

Christopher G. Luck, CFA is President of Luck Partners Consulting, which specializes in providing investment solutions for money management firms. The firm specializes in providing quantitative expertise in taxable and socially responsible investing. Prior to the founding of Luck Partners Consulting, Christopher was a Partner at First Quadrant, L.P., a quantitative money management firm in Pasadena, CA. He was employed at First Quadrant from 1995 to 2010, and managed the Equity Portfolio Management group, which was responsible for $6 billion in U.S. and international equities. Before joining First Quadrant, Christopher spent eight years at BARRA, most recently as Director of Sponsor Services. He has published a number of articles in various journals, including research on socially responsible investing, international diversification, style management, and tax-efficient investing. Christopher received his MBA from the University of California, Berkeley in 1988 with an emphasis in Finance and graduated summa cum laude with a B.A. in Economics from the College of the Holy Cross in Worcester, Massachusetts. Christopher is a Chartered Financial Analyst, and teaches several subjects for the Los Angeles CFA Society review course for Level III.

Kellie A. McElhaney is the Alexander Faculty Fellow and the founding Faculty Director of the Center for Responsible Business at the Haas School of Business. Launched in 2003, the CRB has helped place corporate responsibility squarely as one of the core competencies and competitive advantages of the Haas School. Her work focuses in analyzing and developing companies’ CSR strategy, the linkage between diversity and CSR, the business value and opportunities in CSR branding and leveraging the power of social media to advance a company’s CSR impact. Kellie consults to several Global 1000 companies, including HP, Gap, eBay, McDonalds, Levi, Wal-Mart, Target, Clorox, Ernst & Young, Blue Cross Blue Shield, Ford Motor Company, PG&E, Kimberly-Clark, Yum! Brands and Chevron. Kellie also serves on the Sustainability & Environmental Advisory Committee (SEAC) for the Dow Chemical Company, is an Academic Partner with Blu Skye Consulting, serves on the Boards for Globescan and iRazzle, and is a member of the Advisory Council for SustainAbility. She lives in the Oakland Hills in California and has two school-aged daughters. She enjoys photography, yoga, good wine, running and has even tried surfing. She earned her BA from the University of North Carolina, and her Ph.D. from the University of Michigan.
Charles F. Michaels, CFA is the founder, President, and Portfolio Manager of Sierra Global Management, an investment firm investing in high quality European growth companies. Mr. Michaels has served as the portfolio manager of the Sierra Europe® Funds since 1996. 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 9 ½ years with Goldman (1986-1996), 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 (1978-1985). Mr. Michaels completed his undergraduate studies in business administration at the University of California at Berkeley in 1978 and received his MBA from the Columbia Business School in 1986. Mr. Michaels is an honorary board member of the Lincoln Center Institute and is an advisory board member of University of California's Haas Socially Responsible Investment Fund.

Marc Orlitzky, Ph.D. is Associate Professor of Management at The Pennsylvania State University Altoona. Previously, he served on the faculties of the University of New South Wales (UNSW) and University of Auckland (Senior Lecturer Above the Bar) and, in 2007-8, was a Visiting Research Fellow at the International Centre for Corporate Social Responsibility at the University of Nottingham. He served or serves on the editorial review boards of several publications, including *Academy of Management Journal, Issues in Social and Environmental Accounting, Journal of Management Control*, and *The Sage Encyclopedia of Business Ethics and Society*. He co-authored (with D. Swanson) the book *Toward Integrative Corporate Citizenship: Research Advances in Corporate Social Performance* and co-edited (with J. Moon and G. Whelan) *Corporate Governance and Business Ethics*.

Michael Pearce is a Senior Investment Consultant with Cambridge Associates in Menlo Park, CA. Michael advises a number of universities, foundations, other nonprofit institutions and private clients on investment issues such as asset allocation strategy, manager selection, and investment program evaluation. In addition, Michael serves as a member of Cambridge’s Mission Related Investing group. Prior to joining Cambridge Associates, Michael was an Associate at Pacific Community Ventures, a non-profit/private equity hybrid organization. At PCV, Michael identified, analyzed, structured and valued potential investments for the $60+ million growth equity portfolio. Prior to graduate school, Michael worked at UBS Investment Bank in New York and London as an Associate Director in the Alternative Capital Group, raising over $1.5 billion for more than thirty clients. He is the Co-Founder of ChefStable Group, a restaurant investment and consulting firm based in Portland, OR and is an Advisory Board Member for Junior Achievement in San Mateo, CA. Michael is a graduate of the Haas School of Business at UC Berkeley and was an inaugural member of the portfolio management team for the Haas SRI Fund. He received a BS in Finance with a minor in Mathematics from Georgetown University.
Wendy Walker, CFA is an investment consultant with Cambridge Associates, working with not-for-profit institutional investors on asset allocation strategy, manager selection, and investment program evaluation. Prior to joining C|A, Wendy was an MBA intern on the investments team at Imprint Capital Advisors, focusing on socially responsible and environmental-themed investment managers, and at Parnassus Investments, conducting industry and company-specific research. She had 12 years of pre-MBA professional experience including securities analysis at Argus Research, where she co-managed four model portfolios and published equity research on media and business service companies, and fiduciary and tax accounting at McLaughlin & Stern. Wendy is a former vice chair of the Sustainable Investing Committee of the New York Society of Security Analysts.