



HONEYBEE CAPITAL

“STATE OF THE UNION” ISSUE FEBRUARY 2012

SUMMARY:

We approach this issue with some caution, recognizing how many have already made meaningful contributions to the field of sustainable investing, where we are just barely beginning. Additionally, we are conscious of the many debates and controversies in this area, questions both from without and from within - as is the case with any set of endeavors that are important, complex, and quickly evolving. Still, we hope that Honeybee’s position as insider/outsider can somehow be helpful. We see pieces of wonderful solutions everywhere: in traditional finance, in entrepreneurial endeavors, in academia, in grassroots social movements, in large corporations.... And let’s face it: any inspiring and urgent challenge that exists on a global scale will require help from ALL of these spheres. So our over-arching question for this issue – and the field in general – is simply, “how can I best be of use?” It is not a matter of picking “the” path forward, but rather of trying to help everyone, on every path, to veer towards an endpoint that is more rewarding, more just, more profitable in the truest sense of the word.

KEY TOPICS:

- **Sustainable Investing “State of the Union”**
 - **Change is Hard; Change is Good**
 - **To Be or Not To Be: The Separate Asset Class Conundrum**
 - **Trailing Clouds: The Importance of Philosophy**
- **Top Thought-Provokers (additional reading)**
- **Books, media, sites of all sorts**

QUOTES OF THE MONTH:

There can never be good for the bee which is bad for the hive.
- Ralph Waldo Emerson

Q: Do you ever get tired of being called controversial?

A: I don't consider my ideas controversial. I consider them right.

– Lynn Margulis, biologist

I truly believe that every human being is made for goodness.

- Desmond Tutu

If your dreams do not scare you, they are not big enough.

- Ellen Johnson Sirleaf, President of Liberia and Nobel Peace Prize recipient

It is people who make money, not excel spreadsheets.

*- Halla Tomasdottir, at TEDWomen
(http://www.ted.com/talks/halla_tomasdottir.html)*

I have lived a long life and had many troubles, most of which never happened.

- Mark Twain

Conventional wisdom dies a hard death. You have to drive a stake through it.

- Joe Keefe, PaxWorld

Consider man as he should be, and you make him capable of all he can be.

– Viktor Frankl (referencing Goethe)

Being powerful is like being a lady. If you have to tell people you are, you aren't.

- Margaret Thatcher

Power without responsibility – the prerogative of the harlot throughout the ages.

- Rudyard Kipling

Gandhi's summary of risks to humanity:

- *Wealth without Work*
- *Pleasure without Conscience*
- *Science without Humanity*
- *Knowledge without Character*
- *Politics without Principle*
- *Commerce without Morality*
- *Worship without Sacrifice*

IMPACT INVESTING STATE OF THE UNION: A DISCUSSION IN THREE PARTS

PART ONE – CHANGE IS HARD; CHANGE IS GOOD

Our last two issues focused on personal and systemic change, partly to emphasize this basic point: change is hard! However, change is also the source of all improvement.

There are many sources of challenge for the sustainable investment movement: many are practical, and happily there are talented, devoted people working on infrastructure, measurement systems, product design, legal structures, and communications of all sorts. This sort of change is hard, but more tactical in nature.

Instead of reviewing those important tactical issues, which have been well documented elsewhere, we'd like to focus this part of our discussion the larger, over-arching theme of philosophical clarity. This sounds highfalutin', but we see a lack of clarity here as one of the biggest challenges for the field. Why? One of the most troubling elements we observe is a risk of the "balkanization of sustainability", to borrow a phrase from scholar Elisabeth Schussler Fiorenza. We have impact investing, sustainable investing, ESG investing, socially responsible investing, and (my preferred term) integrated investing, plus more! All of the nuance between these terms is relevant, but Fiorenza notes that such division is also "in the interest of established powers, because it turns differently articulated...movements into 'special interest groups'." These various subdivisions, when taken individually, are all on the fringes, easy to ignore.

Without clarity on the "why" and the "how" of these varied approaches, we risk a fragmented, disjointed, ineffective community instead of a multifaceted, united, impactful one. Spending just a few minutes reviewing the next few pages and reflecting upon what they mean for you and your organization can save hours, days, maybe even years of frustration in mis-translating the motives of others. I hope that increased clarity can ultimately lead to increased unity, as the differences between sub-groups are more keenly understood and the larger goals of a system closer to "true cost/ true profit" is illuminated.

(Please note, these sorts of distinctions are important in ALL endeavors – I have witnessed many an argument between mega-growth and conservative value investors, where no one piped up to say, hey, you might have the same objective in terms of making good investments, but you have very different paths to reach it! The real difference was in the How - the path – and not the end goal; but the argument did not recognize that. So even if you're not so keen on sustainable/impact/integrated investing, please read on.)

PART TWO - TO BE, OR NOT TO BE? -- THE SEPARATE ASSET CLASS CONUNDRUM

Much attention has focused lately on the concept of impact investing as a separate asset class, fueled by last year's JP Morgan/Rockefeller Foundation report. The report can be found at the link below, and it marked another advance for the field, as the work represented the active engagement of another major investment firm (plus many others), and provided a framework that was especially helpful for newer investors to begin to take action in the field.

However, the report also re-energized a longstanding debate within the sustainable investing community – do we want to be a new, separate asset class (which implies a niche orientation, at least in the medium term), or do we want to be an integrated part of the whole big fat investment pie?

Link to the report:

<http://www.jpmorgan.com/pages/jpmorgan/investbk/research/impactinvestments>

My editorial commentary on this debate:

I've been uncomfortably torn on this issue – uncomfortably, because I recognize it as a vital question, and do not want to be wishy-washy about it. The businessperson in me sees how helpful the JPM approach is: it provides a clear roadmap for engagement, and sets out a structure that is familiar (and follow-able) for experienced investors of all sorts. It is logical, and therefore likely to be effective. But the investor-person in me (or maybe just the person in me) feels that this approach is too tidy, that it sets up an excuse NOT to think of the other 98% (or 95% or 80%) of the pie differently, because we've already made a "prudent" allocation to impact investing. As many have noted, **all** investment has impact (good or bad) – so why would this subset constitute a separate asset class?

Finally, finally, I've realized why I've been so conflicted. Some of the tension is related to the convoluted nomenclature we've developed for the field (as noted above), by which one could argue that impact investing (narrowly defined) really should be an asset class, and sustainable investing (broadly defined) is more of a philosophical approach. Blah blah blah. This is unsatisfying.

What is really at the heart of this question, to me, is **the ongoing battle between the investment business and the investment profession**. The investment business is just that, a business. It is a "what". It needs business

plans and market analysis and performance assessments and consultants and asset allocation models (and I am all for these things, in proper context). But the investment profession, that's a "how". It is a creative, outward-looking, forward-looking endeavor, engaged with the world and all of the fascinating things that are happening in it. Issues of sustainability are already intertwined with all of the important fundamental analysis that a good investor is doing – there is no separation. Whether it's labeled as such or not, for the thoughtful, professional investor, impact and sustainable investing are already an integrated, applies-to-everything approach. This is why the term "integrated investing" is my label of preference, because it emphasizes the connection between traditional and sustainable practice that already exists, (I would also argue that most professional investors are not yet taking full advantage of this fantastic information set... but that is a discussion for another day).

So here is my conclusion: for the investment business, the asset class approach makes perfect sense. But for the investment profession, an integrated approach is the only possible answer. We just need to be precise about which group we're addressing, and use advances on one side to positively influence the other.

PART THREE - EXAMINING PHILOSOPHICAL DIFFERENCES: YOU SAY, "FIGHT THE POWER!", I SAY "FIGHT THE POW-AH!"

If, as philosopher Ronald Dworkin describes, we all have "clouds of political philosophy trailing behind us", we must do our best to pin them down, or at least to carefully observe them. Though often unspoken, the greatest substance is to be found not in the bullet points of various strategic plans, but rather amongst the billows of those philosophical clouds.

A cloud is made up of billows upon billows that look like clouds. As you come closer to a cloud you don't get something smooth, but irregularities at a smaller scale.

- Benoit Mandelbrot

Dworkin's recent work is rooted in his concern over the popular phrase "it's true for me", a sort of live and let live approach to truth that he finds deeply unsatisfying: it implies that either everything is true, or nothing is. But we are talking about *truth*, not taking sandwich orders – this is important! To combat this lowest common denominator, it's-all-good approach and yet still allow for legitimate differences, Dworkin asks us to focus first on purpose, on the root, and

only then to discuss interpretation of the issue at hand. He believes that most differences are difference in purpose, mistaken for differences in interpretation. This might sound like needless wordplay, but examining purpose and philosophy before getting caught up in picking sides between alternative strategies can save a lot of unproductive debate. The first question should not be whether a given approach is good or bad, better or worse – but rather WHY this approach suits the problem at hand. What is the problem that matches this particular solution? It's like growth and value investing – neither one is right or wrong, but if you use value tools to analyze a growth situation (or vice versa), you are likely to miss some important pieces of the puzzle. Or as my dad would say, quit using your shoe for a hammer. And definitely don't use a hammer as a shoe.

So, here is my application of a Dworkonian approach to sustainable investing. Yes, really. Some caveats: First, I will note up-front that some of the characterizations below are over-simplified: in fact they must be so, in order to provide some sort of tangible structure for thinking more clearly. The fascinating nuance can then be layered on accordingly. Second, I will note that, indeed, during my divinity school studies I wrote several different term papers about these topics, so am chock full of even more detail, complete with footnotes, if you should happen to want it (but I will not be offended if the requests don't come flooding in). Here we go.

There are three main theories of power that I see at work in the sustainable investment community:

1. **Advocacy - Max Weber-style hierarchical power.** Many advocacy-focused groups use tools from one hierarchy (government/legal) to fight another hierarchy (corporate/financial system). This approach is closely aligned with the power theories of Max Weber, who saw bureaucracy as an important mechanism in perpetuating existing power structures. The benefit of this hierarchical approach is that it uses established, familiar, effective structures to assert influence – fighting power with power, as it were. The risk of this approach, since it is tied to the mechanics of the status quo, is that it can be very narrow, and perhaps too aligned with the reinforcement of current power structures. Thus – possibly – this approach, in isolation, might undermine broader systemic change).
2. **“Vote with your wallet” - Parsons/Foucault-style power.** Many “vote with your wallet – or your feet” investors are more aligned with Talcott Parsons and Michel Foucault, who viewed power as a more fluid, circulating element (rather than a rigid hierarchy). This group thinks that power can move and be moved from all sorts of different directions by all sorts of actions, and that even small actions can be leveraged (through persuasion) to have a yeasty, puffed-up super-impact on shifting power (this impact/puffing theory is also relevant to social media). The benefit to this approach is that it's simultaneously tangible (related to specific, and often

easy-to-take, action) and indirect (it re-routes power, rather than clanging at it head-on). It's sort of like Angry Birds, where you can have more impact by smashing an adjacent structure than by flying straight into the rocks. One main risk of this approach is that it might be too indirect, and if it's not puffed-up with leverage, its influence could be marginal (I could extend the Angry Birds analogy here, but you get the point).

- 3. Secession & founding new systems – Cone/West-style power.** Both of the above approaches incorporate an underlying belief that the existing system is capable of functioning in a better way. Those who think the current system is not just flawed, but fundamentally broken, usually have a view of power more aligned with James Cone or Cornel West (a number of the Occupy Wall Street points fall into this category). This approach advocates rejection of the current system, and formation of new and better – but separate – alternatives. The benefits to this approach are clarity and purity: the creation of a radically different system that is distinct, and thus observable by all. Main risks of this approach relate to disconnection and scale: the separatist group might benefit from the new structure they've created, but it is likely to be smaller in scale and perhaps less impactful due to that smallness. Also, seceding from the larger system abandons the hope of correcting or improving it through active engagement, likely leaving those who remain stranded, unchanged.

So, do you need to choose? How 'bout "AND"? Scholar Amy Allen's work shows that an "and" approach is viable, if you view the above philosophies as relating to FEATURES of power rather than to rigid FORMS of power. The features ebb and flow as circumstances shift. This fluid view seems aligned with most economic ecosystems, and work in the complex adaptive systems field supports such an approach as well.

As longtime Honeybee readers know, we are generally inclined to look for a creative, legitimate "and" instead of a false "either/or" whenever it's possible. There is no need for a cookie-cutter approach here – one size does NOT fit all. **Different circumstances warrant different approaches.** If a new set of environmental regulations is needed, advocacy is great. If a more diffuse shift towards development of sustainable products is required, voting with our wallets can help. If a more dramatic break from the past is warranted, OWS and other movements towards brand-new systems could be best. With multifaceted potential for improvement in our current systems, using a full "toolbox" makes sense.

HIGHLIGHTS OF GREAT IDEAS FROM THE FIELD:

Here are just three of the many resources that I find inspiring and thought-provoking, whether your work is centered on sustainability or not.

ETHICAL MARKETS.COM – HAZEL HENDERSON

This site is a treasure trove of insights, resources, and commentary, “promoting the emergence of a sustainable, green, more ethical and just economy worldwide.” This endeavor is tangible evidence of Hazel’s ecosystem approach to change, engaging investors, scientists, nonprofits, academia, for-profits – all sorts of organizations and individuals, from all over the globe. Each section of the site is a happy Alice in Wonderland hole into which you can dive headfirst, surfacing hours later, dizzy with new knowledge. It is all too rare that we see such a multi-faceted, inclusive approach (to anything!) – which makes this endeavor all the more worthwhile. Hazel is known to remark, “the wealth is in the network!”, and you see that here, in spades.

<http://www.ethicalmarkets.com/about/>

NEWER, BETTER PORTFOLIO THEORY – LESLIE CHRISTIAN

Last year Leslie Christian, CEO of Portfolio 21, authored this paper, “A New Foundation for Portfolio Management” in conjunction with RSF Social Finance. It provides a fantastic analysis of the limits of Modern Portfolio Theory, specifically highlighting its narrow definitions and measurements of risk and utility. (For a related discussion of risk and uncertainty, see Honeybee’s December 2009 research supplement, which in turn draws upon the work of Frank Knight, Gabriel Marcel, and Michael Mauboussin).

Christian proposes a new framework that includes more comprehensive understandings of integrated risk, selective growth and resilience. I admire how her analysis refuses to falsely separate sustainability – rather she points out how a more encompassing approach is a better one, one that addresses some of the inherent flaws in the older, narrower system.

In addition to its relevance for sustainable investors, Leslie’s work also makes a strong case for the benefits of fundamental research – you know, the kind done by actual human beings.

<http://rsfsocialfinance.org/wp-content/uploads/downloads/2011/10/A-New-Foundation-for-Portfolio-Management.pdf>

INVESTING IN A RESILIENT ECONOMY – FIELD GUIDES FROM THE CAPITAL INSTITUTE - JOHN FULLERTON AND SUSAN ARTERIAN CHANG

Just a few of the many attributes I admire in this series:

- *Solid intellectual underpinnings – including a focus on resilience as a key investment theme.*
- *Focus on connecting thought and action – these are real projects, not just neat ideas.*
- *Potential for replication or extension in all of the projects.*
- *Candid discussion of some challenges as well as benefits in each area.*
- *A central premise of the potential for “healing” – both resources and systems. This is a helpful term, kind, and proactive.*

<http://www.capitalinstitute.org/capital-lab/field-guide-investing-resilient-economy>

BOOK REVIEWS:

STEVE JOBS, by Walter Isaacson

I held off on reading this book – well, not for long – because for one thing, EVERYONE was reading it, and I like to think I’m not so trendy. But duh, just like the iPhone, some things are popular because they are important, and useful, and this book is in that category. What interests me most here is the chameleon-like nature of the Jobs story – the Jobs life. I’ve talked with at least a dozen people about this book, and each one found validation for their own particular point of view on their own particular topic of interest – one thought it showed that design was the heart of all great innovation; one thought it showed that a person cannot excel in one area without being deficient in another; one thought it showed that our current definitions of “good” governance might actually go too far *against* long term thinking... and so on. The neat thing is, they’re all right! It’s all in there. I am hopeful that this story will serve as an inspiration to focus on important questions: can you create a company that is designed for long-term excellence in the midst of short-term mania? Can you be a nice person and also have ridiculously high standards? Can you produce an amazing product with amazing working conditions for your supply chain? Can you extend the influence of one individual to percolate through an entire organization? (I believe yes, on all counts. But as my mom would say, that’s why it’s called work – it’s not supposed to be easy).

As a side note, I have a message for all of the jerks out there who think this story gives them license to scream at people in pursuit of their “genius”: you, sir, are no Steve Jobs. More’s the pity - for all of us.

http://www.amazon.com/Steve-Jobs-Walter-Isaacson/dp/1451648537/ref=sr_1_1?ie=UTF8&qid=1328553458&sr=8-1

NO ONE IS HERE EXCEPT ALL OF US, by Ramona Ausubel

All summer, all fall, all holiday season I was waiting for a new novel to dazzle me, to suck me in from the very first page. Finally, it is here. I am only halfway through, and this book is stunning, full of poetry and poignancy so sharp it hurts. Aside from the compelling micro-story (a village in Romania that decides to re-imagine itself in the midst of WW2), it raises fantastic questions about the nature of storytelling and reality. I’m afraid to recommend it without knowing the ending, especially as the backdrop is so terribly dark, but really, the prose is just that compelling. It has some similar elements of magical realism to The Tiger’s Wife, but is even more beautifully written (and that’s a huge compliment!).

<http://www.amazon.com/No-One-Here-Except-All/dp/1594487944>

THINKING, FAST & SLOW by Daniel Kahneman

Acclaimed book (on almost every “Best of 2011” list) plus acclaimed author (Nobel in Economics for challenging the notion of ‘rational agent’) – I hardly need to add anything here.

What I admire most about Kahneman’s work (and writing) is that he can so convincingly show our irrationality, without making us feel too stupid. There is no “gotcha” sort of tone, no “I’m so clever and you’re not” pettiness to his explanations. Just as importantly, he is able to explain our irrationality quite – well, rationally - and coherently, framing the discussion around System 1 (fast/unconscious) and System 2 (slow/conscious) – two systems that are always clashing and combining in our own minds. The book then goes on to explain a number of central themes in behavioral finance – overconfidence, trouble with small (and large) numbers, etc. To be fair, if you have read a lot of Kahneman’s work before (or related research in the field), there are spots that you might skim over quickly, as this is sort of a grand sweep-up, covering decades of work. Still, this is required reading for any investor – or really anyone who decides anything, ever.

<http://www.amazon.com/Thinking-Fast-Slow-Daniel-Kahneman/dp/0374275637>

QUIRKY SITES AND STUDIES:

I WISH THIS WAS...

This site explores artist Candy Chang's experiment with stickers – instead of “Hello, my name is...” this version says, “I wish this was...” Chang first distributed them in New Orleans in the wake of Katrina, and the answers range from funny to crude to heart-wrenching. A follow-on project, “Before I die...” collects answers on giant chalkboards in public areas. A version of this, “Before I graduate, I want to...” was posted at Harvard last year, with the same curious range of answers – some crude (you can guess), some practical (“pass biochem!”), and some, in small tiny letters, unexpectedly sweet (“tell you that I care” and “I want to... matter”). Simple and engaging, for both writers and readers.

<http://candychang.com/i-wish-this-was/>

...AND, SPEAKING OF THINGS TO DO BEFORE YOU DIE...

*Okay, that heading is a little morbid, but here are two illuminating projects, one compiled by a gerontologist at Cornell, and one by a hospice nurse. It is tempting to dismiss some of these comments, as we have heard them so often before – focus on your friendships, seek work that you love – but stop a minute and think. These are not quotes from motivational wall posters; these are what real people said, when asked for their biggest and most important reflections on life. One interesting theme in both collections: a focus on choosing to be happy. Not on wishing for a better, happier life, but on actively choosing happiness. And the cliché is true, few wished they had worked more – but its also true that many wished they had **DONE** more, that they'd said yes instead of no. I read these as I was making plans for 2012, and they helped me to frame my thinking for this year – and beyond.*

legacyproject.human.cornell.edu

<http://www.guardian.co.uk/lifeandstyle/2012/feb/01/top-five-regrets-of-the-dying>

ON A LIGHTER NOTE...

This has been a slightly heavy issue – more hearty-greens than cotton candy (but don't you feel great?). Here's some dessert - a quick, entertaining, and informative romp through the history of the English language, courtesy of the Open Institute. (Please note that although it's cartoony, it might not be kid-appropriate – depending on your kid).

<http://www.youtube.com/watch?v=H3r9bOkYW9s>

And here is their companion mash-up, called “60-second adventures in thought”:

<http://www.youtube.com/watch?v=5zVaFjSxAZs>

IN CONCLUSION:

*You say you want a revolution
Well, you know
We all want to change the world
You tell me it's the institution
Well, you know
You better free your mind instead*

- The Beatles, “Revolution” (1968)

*Why oh why must it be this way
Before you can read me you got to learn how to see me, I said
Free your mind and the rest will follow*

- En Vogue, “Free Your Mind” (1992)

Have you freed your mind?

Have you tried?