

Investing for a Better World

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2003—2004 Shareholder Advocacy Roundup

By Shelley Alpern

Shareholder activism professionals refer to it as “the season” – the months between the autumn deadlines for filing shareholder proposals and the spring shareholder meetings in which the voting results are announced. The season is the opposite of a quiet week in Lake Wobegon. We trade legalistic paperwork challenges at the Securities and Exchange Commission (SEC), meet with companies to persuade them to implement our proposals, and if that fails, we try to get large institutional investors to vote

for them.

In any event, the end of the season is always a good time to take stock (pun intended) of accomplishments, and share all the highlights that this space will allow. Additional information can be found at www.trilliuminvest.com.

From our Unqualified Good News Department

Avon Products agreed to reformulate its products in Europe and the U.S. to remove

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Is Fairness in Fashion?

By Steve Lippman

During the dot-com boom of the roaring 1990s, two very different San Francisco-based organizations battled for the imagination of the nation's youth and the spotlight of media attention. At the time, clothing retail giant **The Gap** could seemingly popularize swing dancing with a single

commercial, and its billboards took on the confident tone of commands that would be followed unquestioningly, such as “Everybody in leather....” In size, the tiny advocacy group Global Exchange seemed the David to Gap's Goliath, but it proved equally savvy at speaking to young people. Global Exchange helped turn anti-sweatshop activism into the biggest on-campus move-

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Dear Reader



Joan Bavaria

Since April 30, my husband and I have driven over 5,000 miles around the United States, working and vacationing, up and down the East Coast including the Shenandoah Mountains, Durham, Washington, and New York City and from San Francisco through Portland, to Yellowstone and back via Trillium Asset Management's branch in Boise. Nowhere was I as moved as I was walking through the Idaho Anne Frank Human Rights Memorial.

Since we opened our Boise office in late 1999, I've received a quizzical look every time I say “we have four offices: Boston, San Francisco, Durham and Boise”. This livable, well-planned capital is like a microcosm of the best of the United

States as it provides the transportation hub and watering hole for outdoor sportspeople, potato growers, cattlemen, and many others, as well as the artistic and culinary center for people living in the vast, breathtakingly beautiful land that surrounds the city. I've been there many times to visit Lisa and Debbie in our office and talk to the warm, tight-knit community they've come to love. The fabled militia of Northern Idaho seems far away indeed.

This past week, against a backdrop of national headlines tracing culpability for the torture of Arab prisoners right to the top of the Pentagon, we found the Anne Frank Human Rights Memorial nestled in part of the wonderful Boise Greenbelt.

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Easy Oil: The End is Nigh

By **Blaine Townsend**

In the rainforest of Ecuador, indigenous tribes have organized to prevent further oil exploration in the pristine areas they call home. In the U.S., shareholders are mobilizing to ensure oil companies address liabilities associated with decades of oil extraction in the region.

But exploration and exploitation is still going on. Backed by the World Bank, the International Monetary Fund, the U.S. government, and the guns of Ecuador's army, an increasingly desperate search for oil has companies taking increasing risks with shareholders' money. When powerful oil companies need to rely on the armies of a poor nation to execute their business plans, it can only mean one thing: the era of easy oil will soon be over.

For **ChevronTexaco**, the pursuit of "easy oil" in Ecuador is returning to haunt it. Before it merged with Chevron in 1999, Texaco had pumped 1.5 billion barrels of oil from the rainforest during the 1970s and 1980s. During that time, the company released 20 billion gallons of toxic wastewater into streams and watersheds, destroying some 2 million acres of rainforest. According to reports from health organizations, the populations in the area in which Texaco operated are affected by chronic health problems, including high rates of cancer, constant skin irritations and a rate of spontaneous abortion that is 2.5 times those in communities outside of the company's footprint.

Despite ignoring the best industry practices of the time, ChevronTexaco scoffs at the notion it did anything wrong. The company insists that the responsibility is that of its local partner, the Ecuadorian government. In a very unusual development, Ecuador's fragile courts will have a crack at deciding the matter, where the company is being sued by well-organized indigenous tribes over the devastating ecological and social impacts in the region.

Trillium Asset Management and other social investors are also taking the oil companies to task. Apparently, other shareholders are starting to listen. This year, Trillium filed a shareholder resolution at Chevron-Texaco addressing the company's potential legal liabilities in Ecuador. The resolution drew the support of 9% of votes cast, three times the threshold required for re-submission in 2005. The New York State Common Retirement Fund voted in favor of the proposal, as did the California Public Employee Retirement System.

Oil companies have proven that they cannot balance their economic interests with environmental protection and indigenous rights. Their record in the rainforest is abhorrent. They have pushed exploration in the rainforest to the limit and the inhabitants are pushing back. Investors need to recognize the risks inherent in this fact. **Occidental Petroleum's** oil pipeline in Columbia, for example, has been bombed so often that this year the Bush administration authorized \$100 million (from a \$500 million military aid package to Columbia) to protect it. This might make Occidental's investors feel good in the short term, but how long will that kind of subsidy be available to the industry?

Yet more companies look to join the fray. **Burlington Resources** purchased concessions to drill in southeastern Ecuador from the **Atlantic Richfield Company (ARCO)** in 1999. Indigenous opposition to drilling in this pristine area of the rainforest is particularly fierce and well organized. With so much at stake, and with so much bad history already recorded, why would Burlington put its reputation on the line? It is not based on its strategic focus. Ninety percent of Burlington's production is based in North America. It can't be because it was perceived to be easy. ARCO sold the concessions after spending tens of millions of dollars and several years trying in vain to drill in the region.

Rather, it is further proof that the era of easy oil is drawing to a close. Buyers beware. ☹

Wall Street Security Analysts Miss the Boat on Bad Guys, Hammer on the Good Guys

It's clear by now that the books were cooked at three sizeable corporations: **Enron**, **Tyco International** and **WorldCom**. So, did any Wall Street security analyst spot these shenanigans as they pored over the financial statements issued by these companies? Not one, as far as I have heard.

On the other hand, there are some financial figures that security analysts fixate on. They recently shot down the stock of **Costco Wholesale**, complaining that this operator of more than 400 warehouse club stores was paying its workers too much. Checkout people at Costco start at \$10 an hour, considerably more than the \$7.65 an hour that many **Wal-Mart** cashiers get when they hire on. Costco also pays 92% of the health insurance premium for employees while Wal-Mart covers only 66%.

Horrors! Now that's something to worry about. Never mind about fraudulent reporting. Costco needs to be more hard-nosed to improve its profit margins. "From the perspective of investors, Costco's benefits are overly generous," said Bill Dreher, retail analyst at Deutsche Bank Securities. "Public companies need to care for shareholders first."

Emme Kozloff, a retail analyst at Sanford C. Bernstein, agreed, saying: "Their benefits are amazing but shareholders get frustrated from a stock perspective."

These well-fed, well-paid analysts sitting in their New York offices ignore that employee turnover at Costco is one-half of what it is at Wal-Mart, resulting in considerable savings. *Business Week* looked at Costco in April and pointed out that it generates profits of \$13,647 per employee compared to the \$11,039 racked up by Wal-Mart's Sam's Club. The magazine concluded: "We found that by compensating employees generously to motivate and retain good workers, one-fifth of whom are unionized, Costco gets lower turnover and higher productivity."

I also did not notice Wall Street analysts

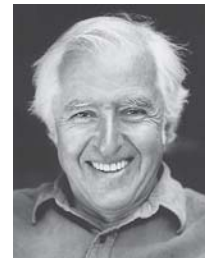
picking up last month on the very first social responsibility report issued by the **Gap**. This is not part of their regular reading. However, the report deserves their attention. Sourcing production overseas in low-wage countries is central to the operation of U.S. garment companies – and how they manage it has a great deal to do with their bottom line. Gap's report contains the most comprehensive and candid description I have seen of how one company monitors this activity around the world. It represents a strong response to the charges of sweatshop labor.

The Gap has more than 90 fulltime employees who make on-site inspections of factories. All new factories must undergo a multi-step qualification process beginning with a written agreement to abide by the Gap's Code of Vendor Conduct. About 90% of factories fail the initial inspection but then make improvements that result in an approval rate of 84%. Last year the Gap revoked the approval of 136 factories. The report has charts showing region-by-region code violations.

Transparency is the name of the game – and the amount of detailed information provided in this report is staggering. For example, here is a rundown of the number of factories producing clothes for Gap stores (these include Banana Republic and Old Navy):

Greater China: 464; North Asia: 200; Southeast Asia: 671; Indian Sub-Continent: 592; Persian Gulf: 42; North Africa & Middle East: 91; Sub-Saharan Africa: 118; Europe: 277; USA & Canada: 188; Mexico, Central America & the Caribbean: 298; South America: 68.

Amazing list – and never before disclosed. If social responsibility activists want evidence that their efforts are paying off, it's here in this Gap report. And it's high time for Wall Street security analysts to learn what to measure. ♪



*Milt Moskowitz is a journalist and author who has been writing about corporate social responsibility since 1968. He is co-author of the book, *The 100 Best Companies to Work for in America*.*

2003—2004 Shareholder Advocacy Roundup (cont.)

Following an extended dialogue with Trillium Asset Management and other leading social investment firms and environmental groups, Office Depot added strong new protections to its forestry policy.

dibutyl phthalates (DBPs), and to study the feasibility of removing them from products sold in other world markets. DBP is a plasticizer found in various cosmetics ranging from nail polish to lipsticks. According to a report by the Environmental Working Group, phthalates may be linked to a number of male reproductive disorders.

In January, **Citigroup** announced new environmental initiatives, including a commitment not to finance commercial logging in tropical rainforests or to loan money to any companies engaged in illegal logging. Citigroup has also pledged not to finance projects within “critical natural habitats” unless the borrower can demonstrate that the project “will not significantly degrade or convert the critical natural habitat.” Citigroup will also seek to boost its financing of sustainable forestry and green energy projects and will account for the greenhouse gas emissions associated with the energy projects it finances. In May, **Bank of America** adopted its own environmental policies that go even beyond these commitments. We withdrew a proposal at **JP Morgan Chase** this year after the firm agreed to establish an environmental affairs department to develop policies similar to Citigroup’s and Bank of America’s by October 2004.

In March 2004, following an extended dialogue with Trillium Asset Management and other leading social investment firms and environmental groups, **Office Depot** added strong new protections to its forestry policy and launched a new partnership with environmental groups to protect forests and biodiversity.

From the Qualified Good News Department

We didn’t succeed in persuading the Bush Administration to ratify the Kyoto Protocol, but our shareholder resolution at **Anadarko Petroleum** addressing greenhouse gas emissions did receive 31.4% of votes cast. (Shareholder resolutions don’t need to re-

ceive a majority vote to make a strong impression on management.) We’ll be pursuing further discussions with Anadarko. We co-filed a similar proposal at **Apache** with Boston Common Asset Management that received 37.1% of the vote.

Support for the second-year shareholder proposal at **YUM! Brands** (co-filed with the Center for Reflection, Education & Action and others), calling for a report on the social and environmental sustainability of the company’s operations, remained high (32.9%).

Support for the sexual orientation nondiscrimination proposal at **ExxonMobil** continued to inch upward (to 28.9%) despite the company’s ongoing PR campaign to convince the public that its current policies already ban this form of discrimination.

For the Long Haul

A disappointing SEC ruling gave our climate change co-filings at **American International Group** and **Chubb** an early death. The agency reasons that assessing the risk from climate change is part of an insurance company’s “ordinary business,” and therefore inappropriate subject matter for a shareholder proposal. Who are we to argue? (We did, actually, but we got nowhere.)

Avon receives an honorable mention in this category, too, as we’re still pressing the company for more transparency and community accountability in its breast cancer fundraising activities.

Our resolution at **ChevronTexaco** addressing the company’s legacy of environmental damage in Ecuador gained 9% of the vote at the company’s stockholder meeting, where human rights activist Bianca Jagger seconded the proposal. This writer – who spent several days in the Ecuadorian rainforest examining contamination sites and meeting with communities whose environment and health continue to suffer – is optimistic that investor pressure on the

2003—2004 Shareholder Advocacy Roundup (cont.)

company will pick up as Northern investors become better acquainted with the situation.

Pfizer agreed to begin reporting on its political contributions on the company's website in response to a resolution asking for such disclosure, co-filed with the Nathan Cummings Foundation and members of the Interfaith Center on Corporate Responsibility. The first-year resolution, which we'd kept on the proxy, got 10.9% of the vote. A similar resolution at **Merck** received 10.4%.

A second resolution co-filed with ICCR

members asked Pfizer to reaffirm its past commitment to limit price increases to increases in the Consumer Price Index; this proposal didn't do as well, garnering 5% of the vote.

Trillium co-filed a shareholder proposal with ICCR members at **Eli Lilly** calling for the company to report on its response to the HIV, TB, and malaria pandemics in the developing world. We withdrew the resolution after the company announced some new initiatives to address these issues, including an innovative partnership to fight multi-drug resistant TB.

Shareholder Resolution Results

Human Rights	Chevron Texaco	Report on new initiatives to address legacy of pollution on indigenous lands	9%
Burma	BJ Services	Report on risks of doing business with repressive governments	4.5%
Sustainability Report	YUM Brands	Produce a sustainability report	32.9%
Greenhouse Gas Emissions	Anadarko	Report how the company is responding to rising regulation, competitive and public pressure to significantly reduce emissions	31.4%
	Apache		37.1%
	Ford Motor	6%	
	ExxonMobil	Report on increasing renewable energy sources	8.8%
PCB Cleanup	General Electric	Disclose costs of delaying PCB cleanup	12.2%
Pharmaceutical Price Restraint	Pfizer	Report on economic effects of the HIV/AIDS, tuberculosis, and malaria pandemics on the company's business strategy, and its initiatives to date	5%
Sexual Orientation	ExxonMobil	Implement sexual orientation non-discrimination policy	28.9%
Worker Rights	YUM Brands	Accept supply chain responsibility for workers and environment	32.9%
Political Contributions	Pfizer	Report on corporate resources devoted to supporting political entities or candidates on both state and federal levels	10.9%
	Merck		10.4%
Equal Employment Opportunity	Walmart	Disclose workforce demographic statistics	16.1%

Is Fairness in Fashion? (cont.)

Continued from page 1

ment since the struggle against apartheid a decade before. It hounded Gap on the issue of sweatshops through protests at the retailer's ubiquitous stores and with a class action lawsuit filed on behalf of workers making clothing for Gap and 17 other U.S. brands.

Five years later, companies and advocates continue to struggle over how workers around the world are treated as they make the clothes and shoes we wear every day and the toys our children play with. In many cases, those discussions have moved from shouted protests in the streets outside Gap and other retailers to discussions inside corporate boardrooms. Gap's publication this month of an unprecedented public report on working conditions in its suppliers' factories, a move praised by its old nemesis Global Exchange, provides the perfect opportunity to take stock of how far the anti-sweatshop movement has come over the past decade and the remaining challenges it faces.

The fight against sweatshops didn't start in the 1990s. Indeed, in the second half of the 1800s and first half of the 1900s, trade unions fought sweatshop working conditions facing millions of poor European immigrants (including my great grandmother) in the crowded garment factories of New York City and elsewhere. They won important protections for apparel and other factory workers in the U.S. over the years. However, as the twentieth century drew to a close, those protections applied to fewer and fewer workers making the clothes and toys found in U.S. stores, as trade agreements and globalization led to a dramatic shift in garment work to overseas factories. In the early 1960s, only 4% of clothes sold in the U.S. were manufactured overseas. By the middle of the 1990s, imports accounted for 60% of clothes sold here. Even Levi Strauss, which epitomized the "Made in the USA" label, began shuttering the factories it owned across America. Instead, Levi followed the lead of Nike, Gap, and

other major brands and transformed itself into a marketing and design company that owned no factories and instead had its products made by contract manufacturers located in countries with low wages and few worker protections.

Although Trillium Asset Management became the first SRI firm to file a resolution on sweatshop labor in 1992, the human costs of this new business model really rose to prominence in 1996. That year, Kathy Lee Gifford tearfully apologized on TV after the National Labor Committee found that some of her brand-name clothing line was made in sweatshops in Honduras that employed children as young as 12. The issue gained widespread public attention, and Nike, Gap, Disney and other prominent brands faced their own controversies about how their products were made.

In response, many companies adopted or strengthened their vendor codes of conduct, which are policies guiding working conditions in the factories that these companies contracted with to produce their products. These codes of conduct generally prohibit the use of child labor, specify that factories obey local minimum wage and overtime laws, and require them to provide a safe working environment. To ensure factories followed these codes, apparel and toy companies hired employees to visit and inspect factories and also turned to outside auditing firms. In a few high-profile cases involving controversial factories, companies even reached agreements to have local church groups and other independent non-governmental organizations conduct the inspections to boost their credibility. In the space of a few years, trade associations, advocacy groups, universities, and even the Clinton Administration sponsored competing external monitoring and certification systems. Factories from El Salvador to the Philippines suddenly were wallpapered with a dozen different codes of conduct hanging on the walls, and might host sev-

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Gap's publication this month of an unprecedented public report on working conditions in its suppliers' factories provides the perfect opportunity to take stock of how far the anti-sweatshop movement has come over the past decade and the remaining challenges it faces.

Is Fairness in Fashion? (cont.)

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eral different groups of auditors a week.

This brief sketch of a decade of effort glosses over a range of complex developments and important players, but highlights the key point that in the space of less than 10 years, an entire new field of global labor compliance developed. The Gap's groundbreaking new social responsibility report offers a snapshot of what this new field has accomplished, and also its limitations and remaining challenges it faces. (Credit for Gap's new report goes to many of our friends and allies in the field of socially responsible investing. The report grew out of dialogue Gap held with Domini Social Investments, the Calvert Group, the As You Sow Foundation, the Center for Reflection, Education, and Action [CREA], and the Interfaith Center on Corporate Responsibility [ICCR].)

In the report, Gap discloses that it has more than 90 full-time employees working on vendor compliance, and that the company audited 86% of the 3,010 factories making clothing for the company in 2003, spread across 50 countries. The report notes that "few factories, if any, are in full compliance [with Gap's code] all of the time." The company works to help factories understand and correct violations, but it terminated contracts with 136 factories last year for "serious or excessive breaches of our Vendor Code of Conduct," including two cases involving child labor. The company also pre-screens new factories for compliance before it begins doing business with them, and in 2003 it rejected 16% of these as "unable or unwilling" to meet Gap's code.

Despite Gap's investment in efforts to monitor and enforce its code, the company's re-

port admits, "While factory monitoring is an important part of our program, we know it isn't enough to support sustainable change." For instance, the report notes that some provisions of its code are much harder to monitor and enforce than others. The provision ensuring workers' freedom of association and right to organize unions is a particular challenge, especially in countries like China that don't give workers the legal right to form independent unions. As a result, Gap is increasingly supporting innovative partnerships to educate and empower workers to assert their rights and even to build support for this among factory owners and managers. These initiatives range from bringing labor rights activists to give lunchtime talks in Chinese factories to supporting a labor law training program developed by the Cambodian government for factory workers and managers.

Trillium Asset Management will certainly encourage the apparel companies we hold to follow Gap's footsteps in reporting on their progress implementing Codes of Conduct. Earlier this year, we talked with senior managers at both **Target** and **Talbots** about their own labor compliance programs, and will point to Gap's report as a model we'd like to see them follow. This year we also began adding **Timberland** stock to many of our client's portfolios and appreciate its leadership labor compliance program and support for many innovative partnerships to educate and empower factory workers, similar to those described in the Gap's report. With these efforts and others, we'll keep pushing to bring basic fairness for workers back into fashion. ♪

The Gap's groundbreaking new social responsibility report offers a snapshot of what this new field has accomplished, and also its limitations and remaining challenges it faces.

Portfolio Profiles

East West Bancorp
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www.eastwestbank.com

East West Bancorp (EWBC — NASDAQ) was founded 30 years ago as the nation's first federally chartered Chinese-American savings bank. Today it is the third largest independent commercial bank headquartered in Los Angeles. It has \$3.5 billion in assets and 38 branches plus an office in Beijing. Earnings per share have grown 21% annually over the past 5 years and the bank has above average returns on equity and assets. Loans are 42% commercial real estate, 9% consumer, 14% business and trade finance, 27% multi-family residential, and 8% construction. Ninety percent of EWBC's retail customer's are Chinese and 40% of its commercial customers are Chinese.

East West primarily serves the Chinese-American community in California. Asians are the fastest growing minority in California, with 39% growth in the past decade,

and represent 12% of the state's population. The bank has been a pioneer with no-document home mortgages for immigrants, multilingual services, and the nation's first Asian focused supermarket banking network.

The bank's projected 15% growth rate compares favorably with the 12% estimated growth of its peers. As a result, it has attained a premium stock market valuation, which we believe is warranted.

East West is the sole no-document Fannie Mae-approved bank in the U.S. This allows the bank to assist immigrants with no credit histories to gain access to home ownership. The company is also one of the leading lenders for affordable housing for seniors in California.

— **Stephanie R. Leighton, CFA**
and Eric Becker, CFA

Pentair

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Pentair (PNR – NYSE) is transforming itself from a diversified industrial products firm into primarily a water technologies company. It is doubling the size of its water business through a major acquisition while exploring how to divest its slower-growing tools business. With a strengthening portfolio of products, improving profit margins and a recovering economy, Pentair is well positioned for future success.

Assuming it exits the tools business later this year, Pentair will operate in two primary areas: water technologies and enclosures. The water technologies segment makes products for the treatment and transport of water and wastewater, including pumps, valves, tanks, pool products and water treatment and filtration systems. The enclosures segment focuses on electronics enclosure systems for the technology, telecommunications and industrial markets.

In February 2004 the Company announced the acquisition of WICOR, which manufactures water system, filtration and pool equipment products. Pentair's product portfolio now targets water markets of about \$50 billion, a small portion of the \$350 billion water industry – leaving plenty of room for growth.

With water becoming an increasingly important issue, we think Pentair is an attractive addition to concerned investors' portfolios. In addition, the company has a generous charitable giving program (2% of pre-tax earnings, twice the corporate average); it discloses its workforce diversity data; and the company has three women on its nine-member board of directors.

— **Laura McGonagle, CFA**
and Eric Becker, CFA

Shared Interest Celebrates a Decade of Democracy in South Africa

From 1982-84 Trillium Asset Management supported the South Africa divestiture movement. Two decades later, our own Linnie McLean visited community investment projects in South Africa, attended South Africa's presidential inauguration and participated in South Africa's commemoration of 10 years of democracy. The following are excerpts from a letter from Shared Interest, an organization that helps guarantee community development loans in South Africa.

You stood with us in spirit on April 27, 2004, at the Union buildings in Pretoria (recently renamed Tshwane), as our Shared Interest delegation stood with representatives of 141 countries to witness the inauguration of South Africa's President Mbeki. Speaking with quiet emotion, he recalled the long and difficult road South Africa's people have traveled – with their friends like you from around the world – to win their freedom.

But despite the mood of pride and jubilation, this was not a moment of magic or miracle, as some had characterized the country's first inclusive elections a decade ago. This was the celebration of a democracy that is here to stay. It was clear to us all that South Africa has completed the first, the political, stage of its struggle – and is now preparing to launch the second daunting campaign: to redress the economic legacy of apartheid that continues to subject the majority of South Africans of color to daily deprivation.

In his inaugural address, President Mbeki noted,

"Endemic and widespread poverty continues to disfigure the face of our country. It will always be impossible for us to say that we have fully restored the dignity of all our people as long as this situation persists."

"For this reason the struggle to eradicate poverty has been and will continue to be a central part of the national effort to build the new South Africa..."

For Shared Interest this is not a new campaign. We have worked since September 1994 to give low-income South Africans of

color the chance to create new businesses and jobs and to build the homes and community facilities they so desperately need. To date we have assisted more than 350,000 of the country's most economically disenfranchised people – the ones who seldom make the news. As we begin this new decade, Shared Interest plans to double to number of people benefiting from our guarantees.

It is hard work, done with our South African partner Thembani, to make the country's most marginalized communities viable by guaranteeing loans to grassroots institutions serving the traditionally "unbankable."

Our results speak for themselves.

- Rose Rammalana is preparing to pay her children's school fees with the anticipated profits of her new bee-keeping business.
- Having established his reputation as a contractor with a Shared Interest-guaranteed loan to build 40 homes, Nicodemus Phori is preparing for a provincial government contract to build 300 houses.
- Teba Bank, which during its 100-year old history had never lent to low-income communities, made its first two such loans during the past year with the help of our guarantees and Thembani's technical support.

Today we are celebrating Shared Interest's 10th anniversary – and the decade of South Africa's democracy. We are recommitting to South Africa's second decade – its decade of development. Our hope is to:

- Double the number of people benefiting from our guarantees
- Serve as a catalyst and provide technical assistance for creative new projects (ranging from women's beekeeping businesses to credit and care for HIV+ homebuyers), and
- Stabilize South African micro-finance institutions and boost their ability to serve thousands of new borrowers, while becoming commercially viable. ♪

Community Investment

Shared Interest

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Home Depot's Endangered Forest Policy: The View From Five Years Later

Shareholder Activism

Steve Lippman



Home Depot has further details on its implementation progress on its Wood Purchasing Policy web page.

www.homedepot.com/HDUS/EN_US/corporate/corp_respon/wood_purchasing_policy.shtml

This summer marks the five-year anniversary of a major victory for shareholder advocates, environmental groups, and endangered forests around the globe. In August 1999, The **Home Depot's** then-CEO Arthur Blank announced at the company's 20th anniversary dinner that by the end of 2002, Home Depot would no longer sell wood from "endangered areas" and would give preference to wood products certified as sustainably harvested. The announcement came after more than a year of grassroots protests at Home Depot stores led by Rainforest Action Network. It came three months after the company's annual meeting, where a shareholder resolution filed by Trillium Asset Management and the As You Sow Foundation calling on Home Depot to phase out old growth wood sales received 11% support. We meet annually with senior Home Depot managers in charge of the company's Wood Purchasing Policy for updates on its implementation. Here's our assessment of the company's progress and the challenges that remain.

First, Home Depot deserves special praise for its role in fostering agreements to protect some of the world's most endangered forests. Home Depot brokered six months of talks between Chilean logging companies and U.S. environmental groups to negotiate major new protections for rare temperate rainforests in Chile. Under the agreement, companies agreed to stop logging in native forests and to certify their plantations under the rigorous standards of the Forest Stewardship Council (FSC). Todd Paglia, Executive Director of the U.S.-based group Forest Ethics, recently told *The Progressive Investor*, "Home Depot played a key role and used its leverage very effectively. That an American corporation helped to force corporations from another country to raise their standards in order to continue selling to this market is groundbreaking."

Pressure from Home Depot and other companies also helped foster an agreement be-

tween logging companies and environmental groups to protect nearly 4 million acres of the temperate rainforest along British Columbia's central coast. Environmental groups are still pressuring the government of Indonesia to crack down on illegal logging there and some advocates have called on companies to boycott wood from Indonesia. In response to these concerns, Home Depot has cut its purchases of wood from Indonesia by more than 85%. Its remaining purchases there come from a supplier that is working toward FSC certification.

Home Depot now has a tracking system in place to identify the origin and species of all the wood products it sells: Home Depot won't accept any products made from the 40 suspect tree species listed by the World Conservation Monitoring Center as potentially endangered species (unless the supplier can provide a legal export permit) and won't buy uncertified wood products from the 10 most vulnerable forest eco-regions identified by the World Wildlife Fund.

Finally, Home Depot continues to express a preference for FSC certified products, despite pressure from major forest products companies to extend that preference to the Sustainable Forest Initiative (SFI), a certification system developed by industry. Under pressure from Home Depot and others, industry has strengthened the provisions of SFI over the years, although it remains less credible than FSC to many environmental advocates. The company has dramatically increased its sales of FSC certified wood products since 1999. Still a lack of supply of FSC certified product and very limited consumer demand for certified products have held back progress in this area.

We continue to encourage Home Depot to enhance its reporting on its Wood Purchasing Policy and to ensure it meets its commitment to not sell wood products from endangered areas. We'll keep you posted on further developments or new concerns that arise along the way. ♻️

Rewriting the Climate Change Script

The Day After Tomorrow encompasses multiple catastrophes: worldwide climate change, a cliché-ridden script and the laughable premise of overnight climate change, which serves up a perfect straw man for climate change deniers to knock down. Pile on a post-Spielbergian broken family whose all-too-human failings have something to teach us all, and the price for viewing the latest in special effects has become very steep.

The deeper tragedy of *The Day After Tomorrow* is that it should have been produced the day before yesterday. The fact of climate change is no longer controversial; the International Panel on Climate Change has projected that the Earth's average temperature could rise between 2.5 and 10.4 degrees over the next 100 years. Still, the U.S. and Russia continue to play politics with the anemic Kyoto Protocol, which would cap greenhouse gas (GHG) emissions at 5% below 1990 levels by 2008-2012. In stark contrast, the IPCC's scientists say that reductions of 60% below 1990 levels will be needed to stabilize the climate.*

Ten years ago, members of the Interfaith Center on Corporate Responsibility began serving companies with shareholder proposals calling for action to reduce GHGs. As the science of global climate change has become more certain, support for these resolutions has steadily increased. The average level of support in 2001 was 9.3%. This year, a new high was reached at 37.1% at **Apache**, a midsize oil and gas company. In an area with such a shortage of good news, the fact that mainstream investors are starting to support our efforts with higher votes is a hopeful development.

In coalition with others, Trillium Asset Management co-filed proposals addressing climate change or renewable energy at a number of companies this year: **Anadarko Petroleum**, Apache, **Ford Motor**, **American Electric Power (AEP)**, **ExxonMobil**, **Chubb** and **American International Group (AIG)**.

The shareholder coalition at AEP, led by Connecticut State Treasurer Denise Nappier, withdrew its proposal when the utility agreed to publish a board level review of climate change and effects of possible scenarios to address it. AEP, a heavily coal-reliant utility, is one of the nation's largest emitters of greenhouse gases. Shareholders at the energy firms **Cinergy**, **TXU** and **Reliant** also withdrew proposals when similar agreements were reached.

Trillium Asset Management took the lead with the Anadarko resolution, which received 28.9% support, and joined Boston Common Asset Management for the high-scoring Apache proposal. A proposal at **Marathon Energy** received 27%. Progress was achieved at other mid-tier oil companies: **Devon** agreed to expanded disclosure on climate change, and **Valero** committed to reducing its 2008 emissions by 5%. ExxonMobil's staunch resistance to calls for change were summarized by CEO Lee Raymond's blunt statement at the company's annual meeting on May 29: "The potential liabilities of climate change are neither likely nor can they be estimated."

Proposals at the insurers Chubb and AIG were deemed inadmissible by the Securities and Exchange Commission on the grounds that they impinged upon the "ordinary business" of the corporation. We can only hope that the insurance industry truly *does* regard planning for the disruptions of climate change to be part of its everyday work, and intend to find out in dialogue. A resolution we co-filed at ExxonMobil was omitted for similar reasons, but another addressing renewable energy received 8.8% of votes cast.

Resolutions at Ford and **General Motors** received only single-digit votes of support. Somehow the automakers have managed to convince investors that dragging out the life of the internal combustion engine for as long as possible is sound environmental policy. These are the guys who should be writing Hollywood scripts. ♪

Shareholder Activism

Shelley Alpern



In an area with such a shortage of good news, the fact that mainstream investors are starting to support our efforts with higher votes is a hopeful development.

* "History at Risk: The Crisis of the Global Climate," by Ross Gelbspan
<http://www.heatisonline.org/htmloverview.cfm>

Market Watch

by Farnum Brown

In our April comment we noted that on the so-called “Fed Model” the stock market was then 33% undervalued relative to prevailing interest rates. We said you could also read the Fed Model as indicating that bonds were 33% *over*valued relative to the then-current level of stocks. Our point was that valuation in the markets is always relative. We suggested that both readings would prove partially correct as we expected the markets to move toward fair value through a combination of rising stock prices and falling bond prices (= rising interest rates).

Well, we’re half right so far as bond prices have fallen precipitously, taking the yield on the 10-year U.S. Treasury Note from 3.75% to 4.75% in just over a month. The spur to this price drop/rate rise in bonds was the arrival of the long-awaited recovery in jobs. Over the past three months roughly 900,000 jobs were created, putting the final piece in the economic puzzle of recovery and silencing those who doubted the economy’s vigor.


Why should good news on the economy be bad news for bonds? There are two lines of reasoning here, one of which we buy and one of which we don’t. The one we buy is that the Federal Reserve has been holding rates at artificially low levels to get the economy back on its feet. Three months of strong job growth—following several months of otherwise positive economic news—suggests the easy money policy has succeeded. So the Fed is now free and, indeed, obliged to wean the economy from this stimulus lest it overdo the job. So it’s reasonable to expect the Fed to begin raising the short-term interest rates it controls and for those increases to ripple out across the spectrum of bond maturities. We take no exception to this and see nothing threatening about the current 4.75% interest rate on the

10-year Treasury.

The second line of reasoning behind the bond sell-off is that continued strong economic growth will bring with it materially higher inflation and interest rates. One would think this shibboleth—that growth brings inflation—had been laid to rest in the 1990s as inflation fell despite sustained, strong economic growth. Apparently it hasn’t, and its adherents have stalled the stock market’s advance for the past four months.

Were inflation on the horizon, however, you wouldn’t expect the prices of gold, copper, aluminum and other industrial commodities to drop sharply, as they recently have. Nor would you expect an economy utilizing only 78% of its productive capacity—as in the U.S. currently—to develop the production bottlenecks that breed inflation.

As for the headline-grabbing topic of oil prices, we think there’s a lot less there than meets the eye. Yes, oil prices are historically high and may remain so. Or they may not, which is why this highly volatile commodity is excluded from the “core” measures of inflation. But even if oil prices remain high, this isn’t 1973. The impact of higher oil prices on the overall economy and cost of living has declined dramatically over the last 30 years.

At the current level of interest rates and stock prices the Fed Model suggests that either stocks are 23% undervalued relative to bonds or bonds are 23% overvalued relative to stocks. We suspect the bulk of the adjustment in bond prices (down) is behind us. With inflation tame and corporate earnings continuing to climb, we expect the remaining move towards fair value in the markets to come largely from rising stock prices. 

Dear Reader (continued)

The Memorial features 54 quotations from Anne Frank’s diary and others throughout history, the complete text of the Universal Declaration of Human Rights, a graceful statue of Anne Frank “peering from a window, with the narrow steps of Amsterdam behind her”, and an amphitheater for gatherings, readings and presentations on behalf of human rights.

Jesse and I walked slowly around the Memorial, reading the words of the famous and the not so famous. Confucius shared space with Chief Joseph, Eleanor Roosevelt, Moses, Helen Keller, Dick Gregory and the Students from a fifth grade class in Zenica, Yugoslavia. The Declaration of Human Rights was the first stone exhibit, and it was there that tears began to stream down my face. The struggle to protect the rights of people all over the world is continuous and heartbreaking. The courage of those who have furthered the cause of justice under incredible adversity is awe-inspiring.

In the arcane but potent world of investments, there are few words

that measure “performance” in terms of the furtherance of human rights, environmental protection, community building or fair and equal employment opportunities. The effort to create those metrics and that language is part of our struggle as socially responsible investors. In the world of human rights, though, diverse people from all parts of the globe and many ages in history have given us inspiration and hope with eloquence. Given the context, these words of Anne Frank are almost painful to read: “How lovely to think that no one need wait a moment, we can start now, start slowly changing the world!”

Sincerely,



Joan L. Bavaria, President
Trillium Asset Management Corporation