Investing for a Better World

A Publication of
Trillium Asset Management

Spring 2005
Vol. 20, No. 1

INSIDE

Four Big Lies About Social Security

By Farnum Brown

In signature style, the Bush Administration is once again selling us a pig in a poke, promising it'll make bacon. As with Iraq, the Administration's proposals for "reforming" Social Security are a tissue of lies designed to promote a radical policy agenda while masking it from the public.

At the heart of the President's plan is a proposal to allow taxpayers to divert a portion of their social security taxes to private accounts they can invest in stocks. The Administration rests its case for private accounts on Four Big Lies.

Lie #1: Social Security faces a crisis that demands immediate, dramatic measures.

Social Security is "in crisis" in much the way that Saddam Hussein had weapons of mass destruction. That is, as useful fiction.

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Media Reform Takes the Spotlight

By Steve Lippman

It's been exactly a year since we wrote about the issue of media reform for *Investing for a Better World*, and what a year it's been for the issue. It started with a furor over obscenity on television related to Janet Jackson's "wardrobe malfunction" at last year's Super Bowl, and ended with the controversial chairman of the Federal Communications Commission stepping down while the rules he'd pushed to allow media giants to become even more dominant remain stuck in legal limbo.

Among a few other media-related highlights (or rather lowlights) of the year:

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Dear Reader

Joan Bavaria

In early December of 2004, newly arrived in Sweden from the United States, my husband and I made our way through an airport terminal to the Arlanda Express commuter train, which carried us about twenty miles to Stockholm Central Station. In Central Station we hung out for over an hour, nervously checking the designated track for our departure. Right on time the train pulled in and pulled out, totally full of Sunday morning European travelers.

The web site of Arlanda Express summarizes one of the reasons why any developed country should support its rail systems:

"Not only is the Arlanda Express the fastest way to travel between Stockholm and Arlanda, it is also by far the most environment-friendly way. Firstly, electric trains do not generate any environmentally hazardous emissions at all. Secondly, Arlanda Express trains have been powered by electricity from renewable sources since the spring of 2001. In 2003, more than 2.5 million passengers took the Arlanda Express. As a result, environmentally hazardous emissions of carbon dioxide and nitrogen oxides were reduced by 4,900 tonnes and 1.4 tonnes, respectively, compared with the emissions that would have resulted from these passengers traveling by car."

The European rail web site offers additional basic logic: "The major cities are linked by the extensive European rail network — a vast

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The Art of Selling

By Lisa Leff

Prudent investors are typically eager to know what securities they own, when they were bought and why. As investment managers, we are focused on making smart buy decisions and communicating with clients about the holdings we've purchased – but our job also includes making sound decisions about when to sell. Arguably, the decision to sell a stock is as important as the decision to buy.

Overall, our strategy is the proverbial "buy low, sell high." Ideally, we aim to buy a stock when it appears undervalued, benefit from the stock's appreciation to full market value, and then sell to capture gains when the stock has peaked. Of course, we not only want to buy winners, we also want to avoid losers. At Trillium, our sell discipline is designed to both lock in gains and minimize losses.

In the optimal case, we sell a stock after it has increased in price. When our analysis indicates a stock has reached an excessive valuation, we sell the position in its entirety. As long-term investors, however, if a stock has reached its price target but we still see potential for further appreciation, we may trim and realize partial profits rather than sell the stock outright. We might also sell a portion if the holding or its industry has become too large relative to the overall portfolio. What this means for your portfolio is that you may see small holdings of stocks selling at relatively high valuations, but where we still see potential for growth.

But, of course, stocks don't always go up. And here, when a stock declines in price, having a strong sell discipline is both humbling and important. At Trillium, our investment committee reviews all holdings weekly, and any stock that has declined 20% in price from its 52-week high warrants special attention. As we review stocks that have declined, the key question is: what is the best place to invest our clients' assets *now* given the drop in price? There are three possible actions:

1. **Sell**: Our analysis indicates deterioration in company or industry fundamentals and we believe there are better investments going forward. (There is, of course, also the special case of a change in a company's social responsibility status leading us to sell a stock.) What this means for your portfolio: you may see stocks sold at a significant loss and the proceeds invested elsewhere. For taxable accounts, this creates a realized capital loss.

2. **Hold**: Our analysis indicates uncertainty about a stock's outlook, but we believe there is greater potential for upside than downside. What you may see on your portfolio appraisal in this case: stocks held in your portfolio at a significant unrealized loss – a loss we believe will be temporary.

3. **Buy more**: Our analysis indicates the stock is "on sale." We liked owning the stock at a higher price and see no significant negative change in company fundamentals; we like the stock even better at its new cheaper price and decide to add to positions. What this means for your portfolio: you may see additional lots of a stock purchased at a price lower than the initial purchase price.

Our Investment Management Committee is the team charged with making both buy and sell decisions at Trillium. Decisions to add, delete or trim stocks are made by the entire committee, which meets on a weekly basis, and then implemented in client accounts by individual portfolio managers. We are confident that our team, which includes 12 portfolio managers and analysts with an average 17 years of investment experience, is among the best in the business. Of course, the markets sometimes outsmart us and we may sell a stock before a rise, or hold a stock that then declines. Our success, and your portfolio performance, is based on our team making the right decisions the majority of the time — both when buying and selling stocks.

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Investing for a Better World is published by Trillium Asset Management Corporation.

Can Citigroup Earn $17 Billion a Year and Be a Good Guy?

Citigroup, the world's largest financial services company, made more money last year than anyone has a right to make — $17 billion *after* taxes. The only U.S. company to exceed that mark was **ExxonMobil** — buoyed by soaring oil prices, it earned $25.3 billion. The Citigroup profit was greater than the *revenues* of 70 percent of the Fortune 500 companies.

Through its various arms — retail banking (Citibank), consumer and mortgage loans, corporate underwriting, asset management, merger and acquisitions advisor, brokerage (Smith Barney), private bank credit cards — Citigroup has a ubiquitous presence on the world scene.

So what's not to like? Well, these far-flung activities, driven by an aggressive strategy to submerge competitors, have yielded not only golden profits but a fair amount of mischief.

You may have seen the photograph that ran last year in newspapers across the world showing CEO Charles Prince bowing his head in apology at a Tokyo press conference. He was apologizing for shady practices by Citigroup's private bank, actions that led the Japanese government to close down the operation. Then there was last August's bond trading escapade in London. A bunch of brash Citigroup bankers used the electronic trading system to unload $16 billion of bonds in two minutes. A little while later they bought back a big chunk of the bonds at much lower prices. Small dealers were ravaged by this deal; Citigroup came away with a quick profit of $30 million.

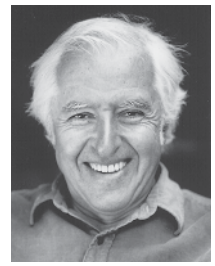
Citigroup's 2004 profits were about $1 billion lower than the previous year because the financial behemoth had to take various charges related to inappropriate actions such as helping **WorldCom** and **Enron** issue financial statements that misled investors. To settle the WorldCom matter, the company paid a fine of $2.9 billion. They also paid a $70 million fine levied by the Federal Reserve for violating fair-lending laws.

Prince has had it with these shenanigans. In February he laid out a five-point program to beef up ethical standards in the company. The program started on March 1 with the showing of a 25-minute documentary film, "The Story of Citigroup." The film deals with the history of the company and the "shared responsibilities" all employees have. It will be compulsory for every employee in Citigroup to see the film and to attest later that they understand the "shared responsibilities." Other aspects of the program include:

- An "ethics hotline" that will enable staff members to give anonymous feedback on managers.
- Senior managers (top 3,000 officers) will gather in small groups and spend a full day each year on how they and the company can do more to live up to "our shared responsibilities."
- Every employee will receive mandatory training in ethics every year.
- Prince will have a bimonthly dialogue with senior managers and will preside over a series of Town Hall meetings with employees.
- An annual survey of managers on how they feel about the senior managers.
- Compensation of business heads will include a significant component based on how the entire company performs, not just his or her business group.

Prince said the goals of the new program are to help Citigroup "grow responsibly" and to make it "the most respected financial services company." Shortly thereafter *Fortune* issued its annual "most admired lists." Citigroup failed to make the Top 10 and in the megabank category it slipped from first to third place behind **Bank of America** and **Wells Fargo**.

If you have any ideas on how Citigroup can become a more respected corporate citizen, send them on to Chuck Prince.



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.

Four Big Lies About Social Security

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The facts of the matter are these. As the baby boom generation retires, there will come a point when there aren't enough workers still paying Social Security taxes to cover the boomers' Social Security benefits. This will happen around 2018.

At that point a Social Security trust fund, which has been collecting surplus taxes to meet this shortfall, will have to be tapped. By using the trust fund to supplement revenues, the Government can pay all Social Security benefits for four decades or so. At the point when the trust fund is exhausted, Social Security revenues would cover only about 75% of the benefits currently promised by the system.

As any honest analyst will agree, fixing this problem doesn't require heroic efforts. Over time you could make small changes in one or more of the following ways: a) Increase the age at which Social Security benefits commence; b) raise the cap for income that's subject to Social Security tax; c) reduce benefits; d) increase the Social Security tax rate. In 1981, the last time the system needed tweaking, President Reagan chose "a" and "d." President Bush could do the same.

Of course there's a simpler solution still. Congress could repeal the tax cuts for the richest 1% of Americans that President Bush pushed through in his first term and redirect those revenues to Social Security. That would do the trick. But the President doesn't favor this solution.

Lie #2: Private Accounts will save Social Security.

In the debate over Social Security, this canard is doing the work that "Saddam attacked the World Trade Center" did in the prelude to war in Iraq. More insinuated than asserted, the notion has a simplicity and emotional appeal that sells the Administration's proposals despite being patently false. David Walker, Comptroller General of the non partisan U.S. Government Accountability Office (GAO), put it most plainly: "The creation of private accounts for Social Security will not deal with the solvency and sustainability of the Social Security Fund." In fact, it will make things worse.

Think about it. By allowing taxpayers to divert up to a third of their Social Security taxes into private accounts, the government will reduce revenues to a Social Security Fund already "in crisis." And yet President Bush has vowed not to cut benefits for folks near retirement (55) at the time the plan takes effect. So on the Bush plan, the government faces the same benefit demands for a long time—20 years anyway—while having even less tax revenues to meet them. The revenue shortfall caused by private accounts over the next 20 years would come to something in the range of $2 trillion, which would have to be borrowed by the government.

The real sucker punch is that even after putting future generations in hock for $2 trillion President Bush's plan doesn't "save" Social Security. Benefits will still have to be cut, a reality private accounts will only hasten.

The real sucker punch is that even after putting future generations in hock for $2 trillion, President Bush's plan doesn't "save" Social Security. Benefits will still have to be cut.

Lie #3: Allowing individuals to divert Social Security taxes into stock investments will make up for reduced future Social Security benefits.

The kernel of truth in President Bush's plan is that stocks historically have earned much higher returns than bonds. This being the case, it makes sense that the Social Security trust fund assets could grow faster over time if they were invested in stocks ***and*** bonds instead of in bonds only, as has been the case. Faster growth of trust fund assets could offset a future decline in Social Security tax revenues and so support a higher level of benefit. This is a plausible argument. Only it happens not to be one for private accounts.

The Social Security Administration could itself invest a portion of trust fund assets

Four Big Lies About Social Security

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in stocks just as it now does in bonds. While the Government might thus reap the benefits of superior stock returns, the odds of individuals doing so are much lower, for two main reasons. The first is cost.

The President's own Commission to Strengthen Social Security concluded the administrative costs of individual accounts would be 10 to 30 times more than the costs of administering the current system. Which makes sense. You'll pay much lower fees on one vast account than you will on 150 million small ones. High administrative costs (plus outright gouging) have plagued private accounts in Chile and England, cutting deeply into the superior returns advertised for stocks.

Equally important is the disadvantage individuals face as decision makers over their investments. Over 20 years of professional investment experience has shown us that most people — even highly educated, financially sophisticated people — are lousy decision makers when it comes to investing. Most notoriously, they panic in market declines and sell their stock holdings, thinking they'll buy back in when the market is acting better.

Empirical studies have shown time and again that such tactics — if panic can be called a tactic — dramatically reduce the returns from stocks and thus their advantage vs. bonds. The federal government could avoid such emotionalism by adopting a mandate that a fixed percentage of Social Security assets be invested in stocks at all times. So why doesn't President Bush simply let the Social Security Administration invest a portion of the trust fund in stocks, as President Clinton contemplated? Well, because…

Lie #4: It's your money.

By referring to the Social Security taxes Americans pay as "your money," the President shrewdly casts Social Security as a kind of savings plan. You pay a certain amount in; you get a certain amount back at retirement. If this were the whole story, one might well ask rhetorically, as the President does, why the government should be handling "your money" that you've saved for retirement.

But Social Security wasn't devised as a savings plan. It was designed as an ***insurance*** plan to protect the elderly in our society from poverty. The Social Security taxes you pay are thus better thought of as insurance premiums than savings deposits. And there's a big difference. Indeed, it's the absolute crux of the matter.

Insurance plans reduce the cost of any one person dealing with a potential misfortune — whether car wrecks or cancer — by sharing the risk and cost of that misfortune with others. To work, an insurance plan has to have members who will turn out not to need it. Their premiums go to pay the claims made by others who do. This is how Social Security works. A poor person who lives long can draw more in benefits than he ever paid in Social Security taxes while a rich person who dies young doesn't get any benefits for the taxes he paid.

This is what Republicans don't like about Social Security: It's an insurance policy that they, as the party of wealth, believe they'll never need. They'd much prefer to shoulder the cost of their old age through their own personal savings. And they want everyone else to do the same. This is what they're selling under the guise of private accounts and it amounts to a radical shift in policy from a plan where risks and costs are shared to one where they are not.

So the next time you hear President Bush talking about his vision of an "ownership society," remember that what he really has in mind is a society where you're on your own.

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Media Reform Takes the Spotlight

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- **Sinclair Broadcasting Group's** plan to force the 62 local TV stations it owns to broadcast "Stolen Honor," a highly partisan critique of John Kerry's war record just weeks before the election. Before a national outcry forced it to temper its broadcast, Sinclair had planned to broadcast the show as news rather than commentary and did not plan to provide the Kerry campaign with equal time for a response.
- Revelations that CBS News' venerable "60 Minutes" program relied on forged documents in a piece investigating President Bush's National Guard service.
- Recent revelations that the Bush Administration paid journalists to promote its policies like the No Child Left Behind Act.

Given all this, it's not surprising that public trust in the media continues to decline. Audiences for "old media" such as newspapers and television and radio broadcasts are declining too, with Internet, cable, satellite television and radio, and digital music players all competing for people's overwhelmed attention. Indeed, as 2005 began, reports of the "death of mainstream media" appeared everywhere from Internet blogs to the pages of *The Washington Post*.

Time will tell whether that is true or whether it falls into the category of Mark Twain's famous response to reading his own obituary, "Reports of my death have been greatly exaggerated." But even if mainstream media is on the ropes, established media companies are bigger than ever, and in fact continue to increase their reach into what we watch, read, and hear. For instance, **Viacom** (owner of CBS), **General Electric** (owner of NBC), **Disney** (owner of ABC), and **News Corp.** (owner of Fox) also own 90 percent of the top 50 cable TV stations. The three cable news networks are owned by GE (in partnership with Microsoft), News Corp., and — just for variety's sake — media giant **Time Warner**. These same companies and a handful of others dominate Internet news sites. In 2003, the ten biggest media companies in the U.S owned 42% percent of the 20 most popular web news sites. In fact, Time Warner alone owns 20% of the top online news sites: CNN, AOL, Netscape, and Time. And in 2003, four companies accounted for two-thirds of all news radio listeners in the U.S.: ABC Radio, **Clear Channel**, **Entercom**, and Viacom. (Are some of these names starting to look familiar?) Further, as media companies grow in size and scope, they increasingly control the content they produce (looking for so-called synergies) and squeeze out independent production. The major broadcast networks had an ownership stake in just 12.5% of the new series they aired in 1990, which had climbed to 77.5% by 2002.

An increasingly small number of companies get to shape our views of the most important issues of our day.

So despite the proliferation of new technology (but with the help of 20 years of deregulation in Washington, D.C.), big media companies are getting bigger. Does that matter? For lots of important reasons, it does. First, as Benjamin Franklin himself put it, "Freedom of the press belongs to those who own the presses." An increasingly small number of companies get to shape our views of the most important issues of our day without significant competition from other sources. Fox News has been an enthusiastic supporter of the war in Iraq and not surprisingly, a study found that heavy viewers of Fox News were nearly four times more likely to believe "demonstrably untrue" opinions about the war (such as that weapons of mass destruction have been found in Iraq) than do heavy listeners/viewers of National Public Radio and PBS. Sinclair Broadcasting's ham-handed efforts to attack John Kerry in the waning days of the 2004 presidential campaign provide another clear example of the potential power media companies

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Media Reform Takes the Spotlight

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have to advance a political agenda. And often, just as significant is what companies choose not to report. For instance, the *Columbia Journalism Review* found that media companies devoted almost no coverage to media industry deregulation in the run up to passage of the major 1996 Telecommunications Reform Act. A poll by the Pew Research Center in early 2003 found 72% of Americans had heard “nothing at all” about proposals pending at the FCC to further deregulate the media.

Even when there’s no overt political agenda, media consolidation can hurt local content and diminish programming. The city of Minot, North Dakota found that out the hard way in a life-and-death situation in 2002. Radio giant Clear Channel owned all six commercial radio stations in the city, which played prepackaged content that Clear Channel distributed nationally from its headquarters 1,600 miles away. According to news reports, when a train derailment released a dangerous cloud of ammonia gas in town, for over an hour local emergency officials could not reach any local radio employees to get them to air warnings to stay inside. In the end, one Minot resident died and hundreds were hospitalized from exposure to the cloud. While it’s rarely this clearly a matter of life and death, the dramatic move towards nationally syndicated content has killed public affairs and educational content that serves the needs of local communities.

Since 1984, the FCC has steadily relaxed rules limiting the dominance of large media companies, with little public notice. Then two years ago, the FCC under Michael Powell relaxed its rules yet again to allow a new wave of media consolidation. Under the new rules, a single company like Rupert Murdoch’s News Corp. could own the dominant newspaper, the local cable television system, three local television stations and eight radio stations in a single market, thus controlling virtually all the news and information outlets in the area. The move drew a firestorm of unexpected criticism from groups across the political spectrum and 2.3 million Americans submitted comments to the FCC protesting the changes. E-mail comments came in so rapidly that it crashed the FCC’s servers. Although the FCC moved ahead with the rules, Congress and the Bush Administration appear to have gotten the message. Congress passed legislation partially rolling back the rule changes, and just last month, the Bush Administration announced it wouldn’t appeal a federal appeals court ruling that the FCC followed improper procedures in developing some of the new rules. Yet media reform advocates are cautiously waiting to see who President Bush will appoint to follow Michael Powell as chair of the FCC, and fear that the FCC may try to push Powell’s broad agenda in more piecemeal form to avoid another public outcry.

Trillium Asset Management is also watching the policy developments at the FCC, and in the meantime, we’ve been weighing in with some of the largest media companies, including Clear Channel, Disney, GE, and Viacom to call for more responsible use of the tremendous power they now have, such as doing a better job of meeting their public interest broadcasting obligations. This fall, we raised concerns about Sinclair Broadcasting’s extreme partisanship with some of the large consumer products companies that are its major advertisers. We’re now partnering with Common Cause and other media reform groups to develop strategies that leverage the power of shareholder advocacy in the growing media reform movement. We plan to launch some exciting new initiatives out of that partnership later this year. We’ll have updates on our website and in future issues of *Investing for a Better World*, unless of course, Time Warner buys them from us first.

We’re now partnering with Common Cause and other media reform groups to develop strategies that leverage the power of shareholder advocacy in the growing media reform movement.

Getty Images

Portfolio Profiles

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Getty Images (GYI-NYSE) is a leading provider of digital images to advertising, media and corporate customers. It has exhibited very strong growth and an attractive, cash-rich business model. Future growth will come from acquisitions, entry into new geographical markets and organic growth.

Getty has an online library of stock imagery, editorial and archival photography, and illustrations. The company also provides custom photography projects for corporate clients, such as photographing executives or products or covering a news event.

Getty has grown into one of the world's leading image providers through a series of acquisitions and organic growth. The company has been an industry innovator, as the growth of the Internet has completely changed the business. The company has long-term goals of 15% revenue growth and 25% earnings growth. The company has also exceeded consensus earnings estimates in 10 consecutive quarters, often by double-digit margins.

Getty generates over 50% of its revenues outside of the U.S. (53% in 2003). The biggest foreign countries by sales are the U.K., Germany and France. This will continue to be a significant portion of the company's growth, as it is aggressively entering the Japanese market with expanded offerings of country-specific images. This international exposure is an attractive feature of the stock.

The company is economically sensitive due to the nature of its end customers' businesses. A significant piece of its business is with advertising agencies and magazine and newspaper publishers.

According to KLD, the company provides domestic partnership benefits and includes sexual orientation in its nondiscrimination policy. The company is a member of the Global Business Coalition on HIV/AIDS.

—Eric Becker, CFA

Fisher Scientific International

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Fisher Scientific (FSH – NYSE) is the leading manufacturer and distributor of consumable products for the global scientific research and U.S. clinical laboratory markets. $5 billion in acquisition spending in last two years is moving Fisher from a low-margin distributor to an integrated provider of scientific instruments.

Pharmaceutical and biotechnology company research and development spending increases are driven by innovative product development needs. Revenue growth is primarily driven by increased demand from an aging U.S. and world population for drugs, devices, supplies and healthcare services. Despite fluctuations, there has never been a decline in R&D spending from year to year.

One of the best-known names in the scientific lab market, Fisher has also expanded into clinical and industrial safety products distribution. The company's strategy is to increase the percentage of higher-margin self-manufactured products. Recently, Fisher acquired Apogent Technologies, which should increase this percentage to 40% from 30%.

Fisher has significantly increased operating margins over the past several years by improving its distribution network and increasing the proportion of self-manufactured products. The acquisition of Apogent adds yet another earnings and cash flow driver, which will help Fisher's stock attain a higher valuation.

Fisher's products are critical to health care R&D. Its customers range from health care companies to colleges and universities, medical research institutions and development labs. In March 2004, *Fortune* magazine listed Fisher #1 for its industry on its list of America's Most Admired Companies, based on innovation, social responsibility, employee talent and management, among many factors.

—Adam Seitchik, CFA

Montana Community Development Corporation

Overview

The Montana Community Development Corporation (MTCDC) is a non-profit certified community development finance corporation founded in 1989 to serve five counties in Western Montana. These counties are large, rural, diverse, and sparsely populated.

MTCDC serves entrepreneurs with loans, consulting and technical assistance. It works with businesses and offers financing and business development services that help sustain communities and create income opportunities for low/moderate-income residents. Its clients range from one-person home-based businesses to non-profits and for-profit corporations.

Programs

- **Business Counseling:** Free, practical business planning and problem-solving through the Small Business Development Center. This program strengthens capacity among firms and lays the foundation for long term viability.
- **Small Business Loans:** Targeted to viable enterprises that are unable to obtain bank loans.
- **Loan Packaging:** Assistance in approaching conventional lenders for financing. Sometimes, combining other commercial loans with MTCDC funds or public funds, in order to make packages bankable.
- **Large Project Planning:** As an administrator for government-backed revolving loan funds, MTCDC helps in developing major business projects that require complex financing and the use of public economic development funds.
- **Native American Fund:** Makes micro loans to Native American borrowers.
- **Montana Child Care Loan Fund:** Helps childcare businesses expand facilities and improve programs. Connects applicants with the childcare-specific business instruction needed to become loan ready.

Impact

Mike Harris filled the need for quality, delivered, stone-baked pizza when he opened Big Boy's Pizza in East Missoula, MT. Mike worked with MTCDC to create a business plan with realistic expectations for the highly competitive restaurant business.

Lee McAllister of Cottonwood Traders began working with MTCDC nearly four years ago to finance the raw materials and inventory he needed to create and sell fine, hand-crafted silver and stone jewelry. In April of last year, using additional finances from MTCDC, Lee acquired equipment to help him update his jewelry making process and widen the distribution of his wares.

Since inception, MTCDC has lent more than $6,808,513 to 248 borrowers in its five county region. Loans have ranged from $1,000 to $368,000. Currently 56% of MCDC clients are women and 9% are Native American.

During FY 2003, MTCDC loaned more than $400,000 to nine borrowers. It also held five training events with a total of 25 attendees and 70 hours of training services.

Investing with MTCDC

Trillium Asset Management's (TAMC) Investment Management Committee added MTCDC to its list of approved Community Investments in February of 2005. On behalf of our clients, TAMC will make investments in MTCDC of at least $5,000 for a minimum term of two years.

—Randy Rice

Community Investment Profile™ *

Geographic Impact:

Montana

Lending Focus:

Small Business	55.0%
Microlending	45.0%

Financial Indicators

Finances as of 6/30/2004

Total Assets:	$4,370,324
Total Liabilities	$2,412,559
Total Net Assets	$1,900,852
Total Support & Revenue	$1,249,375
Total Expenses	$1,172,531

***Based upon the Community Investment Profiles information service of Calvert Social Investment Foundation (not meant as investment advice). For a database of CDFI Profiles, visit: www.calvertfoundation.org**

Can Building a Computer Be "No Sweat?"

Shareholder Activism

Steve Lippman

I grew up in Silicon Valley during the high tech boom of the late 70s and early 80s. That brought with it traffic and suburban sprawl that displaced almost all of Santa Clara Valley's beautiful orchards, but it also brought tremendous wealth to high tech workers. Now many of the same companies that grew up almost in my backyard have spread around the globe. As they have, human rights organizations and socially responsible investors, including Trillium Asset Management, are working to ensure that the global boom in high tech manufacturing helps bring prosperity to workers around the world and not just to those in the corporate headquarters near my childhood home.

If you ask yourself where computers come from, you're likely to think of sunny Silicon Valley, or the cow fields of South Dakota (at least when **Gateway** was advertising a lot), or the suburbs of Austin, Texas, now that **Dell** has surged ahead. In fact, in this era of outsourced overseas production, over a third of computers and high tech equipment are built in developing countries, a trend that is only accelerating. Early last year, the Catholic Agency for Overseas Development (CAFOD), a U.K.-based human rights organization, sounded a wake-up call for the high tech industry, its consumers, and investors, with a report on working conditions in factories producing equipment for many of the biggest U.S. computer manufacturers. The CAFOD report, based on interviews with workers in computer factories in China, Mexico, and Thailand, painted a picture of workers laboring in unsafe working conditions, facing compulsory overtime and degrading treatment, often for low pay that falls even below the legal minimum wage required in those countries.

To their credit, a number of leading high tech companies responded to the allegations by developing a common code of conduct to protect workers in their factories and factories of overseas companies that now manufacture many of their products or components. In October 2004, **Hewlett-Packard**, Dell, and **IBM** released a joint Electronics Industry Code of Conduct, which **Cisco**, **Intel**, and **Microsoft** quickly endorsed as well. Many of these companies already had their own codes of conduct, but the joint code sends a stronger signal to suppliers with a harmonized approach to addressing labor and employment practices, health and safety, ethics and protection of the environment. These companies are now working together to jointly implement the code of conduct, developing common tools for monitoring suppliers, identifying particularly risky suppliers, and providing training and resources to improve working conditions in their factories. CAFOD has offered qualified support for the new code, while noting that it should go farther to incorporate international standards for freedom of association that would give workers the opportunity to form unions and bargain collectively for their rights.

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Trillium Asset Management invests in many of the electronics companies that have adopted the new code of conduct, and we have contacted several of them to offer our thanks and also to press for strong and effective implementation. We're also encouraging several of our other holdings in the technology sector, including **Altera**, **Analog Devices**, and **Semtech** to adopt the code and have begun discussions with them to understand how they are currently managing these issues with their own suppliers. That's of particular importance with Altera and Semtech, computer chipmakers that specialize in the design and marketing of high-end computer chips, but don't own or operate any factories themselves and instead rely on companies overseas for all their production. Several of these companies are now actively considering endorsing the joint code of conduct and we hope to report more results from our engagement with them in the months ahead.

Did I Miss Something?

Why Dow Chemical's Reporting Should Drive Investors Crazy

Shareholder Activism

Shelley Alpern

The free ride is ending for companies like **Dow Chemical**, whose products and production processes regularly release persistent and bioaccumulative toxins (PBTs), carcinogens, mutagens and reproductive toxins into the environment. Two international treaties signed by the U.S. have called for the elimination of classes of PBTs, and the European Union REACH proposal[1] will require companies to evaluate chemicals that are especially toxic, and may lead to an outright ban on some types in favor of safer alternatives.

Dow knows the risks of continuing to make entire product lines based on the chlorinated chemistry responsible for these pollutants. Chlorine chemistry has bad courtroom karma. U.S. veterans and Vietnamese citizens are suing Dow over Agent Orange. Two thousand Michigan residents who live downstream from Dow's headquarter facilities are suing over dioxin contamination that exceeds allowable levels. The merger with **Union Carbide** dumped in Dow's lap continuing worldwide protest over the former company's chintzy compensation for victims of the 1984 Bhopal chemical disaster. Reviewing these and more liabilities, a 2004 report by Innovest Group[2]:

> *The combined impact of these developments implies that the firm has above average risk exposure and that the sophistication of management's strategy has deteriorated in the face of increasing complexity and growing challenges to its business strategy. As a result it will likely under-perform in the stock market over the mid to long term.*

Innovest also warns that because of the company's sizable debt and high debt-to-capital ratio, "environmental cost increases, even if small, may have a direct impact on profitability."

Incredibly, investors won't find mention of any of the aforementioned risks in Dow's 2004 10-K, even though the Securities and Exchange Commission requires discussion of "any known trends, demands, commitments, events or uncertainties" that are "reasonably likely" to have a material effect on the bottom line. (Dow is in good — or would that be bad? — company. A 2002 survey by the Environmental Protection Agency found that 74% of publicly traded firms openly violate these disclosure rules.)

Dow's web site manages to address these issues without addressing them at all. Consider REACH. According to one assessment, it could lead to the discontinuation of up to 20% of the chemical industry's products in the EU. In 2003, one-third of Dow's revenues came from Europe, and 31% were from its Chemicals and Performance Chemicals business unit. Dow's web site states vaguely:

> *Some Dow products may be subject to the authorization process…but it is expected that Dow will be able to demonstrate adequate risk management for the use and application of the majority of such substances.*

Shareholders need to know *which* chemicals of Dow's are at stake, and what, if anything, the company is doing to develop replacements in the event they are phased out. Nor do we find reassuring Dow's faith that its lobbyists will persuade the Europeans to abandon REACH's near zero-tolerance approach in favor of "adequate risk management," which would be a pretty big leap backwards.

Trillium's shareholder proposal addressing Dow's "toxic liabilities" will be voted on at the May 2005 shareholder meeting.

Dow's web site is equally nebulous on the risks posed by its insecticide chlorpyrifos and the emphasis that two international treaties signed by the U.S. (the Stockholm Convention on Persistent Organic Pollutants, and the Great Lakes Water Quality Agreement) place on the elimination of some of its core products. To read a longer analysis of what is said and what is missing, visit dowchemicalinvestors.strategiccounsel.net. Dow shareholders will be glad they did.

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[1] REACH stands for Registration, Evaluation, and Authorization of Chemicals. For more information, visit http://europa.eu.int/comm/environment/chemicals/reach.htm.

[2] "Dow Chemical: Risks for Investors" (April 2004) is available at www.innovestgroup.com (in "Publications"). The study was commissioned by Trillium Asset Management and other concerned investors.

Market Watch

by Adam Seitchik, CFA

This past fall the price of a barrel of oil set a new record above $55, and after a brief respite we are close to those sky-high levels once again. Yet the economy is growing, and inflation is running at only 3%. For many of us who were both alive and out of diapers during the oil crises of the 1970s, this is a puzzling set of events. So what is driving the increase in energy prices, and what are the economic, social and market impacts?

Energy consumption has been rising steadily for at least 200 years, so what is perhaps most surprising was how low and stable prices were from the mid-eighties until quite recently. Then a confluence of factors sent energy costs to the stratosphere, including September 11th, the Iraq war, and global economic recovery. But perhaps the decisive factor has been the evolving nature of developing countries with large populations, most notably China.

Between 1990 and 2001, total energy use increased by 16% in industrialized countries, but by a whopping 56% in the developing world. Populous countries, including China and India, have crossed a wealth threshold that is leading to an explosion in the production and sale of consumer goods. Automobile sales in China have risen by as much as 35% in some years, reaching five million units in 2004.

Our country has gotten so rich that, for many people, the increase in energy prices just doesn't matter that much anymore. Yes, people are spending $8 billion more a month at gas stations than they were three years ago, but at the same time overall retail spending has risen by more than double that much. Gas station sales represent only 8% of overall retail sales, even with the higher prices. Rising energy prices have had little overall impact on our affluent society, but have put yet more pressure on working people and the poor.

One would hope that rising prices would lead to more conservation, but economic and population growth is swamping the impact of more-expensive energy. Worldwide emissions of carbon dioxide, the greenhouse gas most responsible for worrisome trends in global warming, are projected to increase by over 50% between 1990 and 2025, according to estimates by our own Department of Energy. Yet the policies to control energy demand are straightforward and well within our grasp. Greg Easterbrook has estimated that five years after raising average efficiency standards for new cars and light trucks by 6 miles per gallon, we would be conserving about 850 million barrels of petroleum per year – equal to what we import from the Persian Gulf states on an annual basis.

With little overall economic cost to the run-up in energy prices, the most tangible financial market response has been to raise the value of energy-company stocks. In the last five years technology company shares have declined in value by 65%. Meanwhile, the S&P 500 energy index is *up* 75%. Just in the first couple months of 2005, energy stocks have risen 20% in an otherwise flat market. At Trillium Asset Management Corporation, our clients' portfolios have participated in this price rise. While not excluding the energy sector altogether, we actively avoid the most egregious actors in the industry, and are engaged with some of the more progressive companies such as **British Petroleum** and **Royal Dutch Shell**.

Beyond the dramatic move in energy company stocks, markets have been bouncing around in 2005 with no clear direction. Given the ongoing strength of the economy, reasonable market valuations, and the lack of inflationary pressures, we expect stocks to continue their recovery and outperform bonds during the remainder of the year.

***Dear Reader** (continued)*

system stretching over 160,000 miles, as extensive in size and scope as the U.S. highway system. And train travel eliminates all the hassles that can play a part in a complex itinerary. This means travel city center to city center, no maneuvering through crowded airports located miles from the nearest city, no hailing taxis from airport to downtown, no traffic headaches driving in and out of big cities…."

Back in the U.S., it is heartbreaking to read that the White House is proposing to eliminate the $1.2 billion in subsidies for Amtrak, which could force the rail line into bankruptcy. Among comparisons that reflect sad national priorities is the fact that Amtrak's current subsidy equals less than 1.5% of the $82 billion 2005 *supplemental* war budget. The income tax cuts of June 2001, which lowered the top rate from 39.6% to 35% for people with taxable income over $326,450 in 2005, will likely cost $74 billion through 2013, representing 7.7 times the annual Amtrak subsidy.

A headline in the February 21, 2005, *Barron's* blared "Crazy for Poker – online gambling is booming, with poker sites alone expected to take in $2 billion this year." And finally, if temporary provisions in the corporate tax bill are made permanent, revenues could be decreased by almost $80 billion through 2014, or another annual revenue loss 7.7 times the Amtrak subsidy. What's wrong with this picture?

Sincerely,

Joan L. Bavaria, President
Trillium Asset Management Corproation