



Investing for a Better World

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2005 Shareholder Resolutions: A Poem

By Shelley Alpern

When it came time to write our annual preview of Trillium's 2005 shareholder proposals, the prose form just didn't seem up to the task. Besides, certain seasonal poems just haven't been parodied enough.

*'Twas nearly late autumn, when all in the firm
Had gone home to their partners (or whatever the term)
The resolutions folded in envelopes with care
Awaiting FedEx for their trips through the air
To corporate attorneys, ill at ease in their beds,
With nightmares of high shareholder votes in their heads
And Steve on the West Coast, and I in the Hub
Over conference call analyzed companies, bub
Whom we'd written to, lobbied, lunched with and more*

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Corporate Reporting Report Card: Needs Improvement

By Steve Lippman

In the award-winning documentary "The Corporation" that came out this year, the filmmakers argue that companies display many of the same psychological characteristics that would lead clinicians to diagnose someone as a psychopath, including an inability to experience guilt or admit

thought provoking, funny, and has more than a ring of truth to it. Many companies are loath to acknowledge any negative impacts they have on society. Few take the time to assess their social and environmental impacts and even fewer will communicate honestly about those impacts. Now there are signs that's changing, and a

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Dear Reader



Joan Bavaria

Trillium Asset Management threw a surprise shower for two couples, four women, on May 17, 2004. There was the requisite white cake and two bouquets of beautiful roses, confetti and streamers. One of our employee partners was able to take time off to share the moment, and she was a little teary. By the time we had finished examining the bright orange licenses and posed for pictures, the rest of us were also choked up. One of the couples had already been together for 16 years – the other for an eye-popping 29 years. Yet, for the couple with almost three decades together, there was strong and clear love between them as they clutched the little piece of paper that legitimized their

commitment. A few weeks later, we were able to crowd around a monitor and view the wedding of the other couple as they were married by their minister, and once again the tears flowed.

On the same day, our friends Hillary and Julie Goodridge were married in Boston. Their marriage was one of the first in Massachusetts after gay marriage was declared constitutional. It was their court challenge, led by attorney Mary Bonauto, that was responsible for the landmark ruling.

Just a few weeks later on November 2, 2004 – election day – eleven states passed bans on gay marriage, eight of which threaten civil unions between heterosexual couples as well. Living in an era when few blink at thousands of innocent

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Energy Independence: Are We Talking About Borders or Boardrooms?

By **Blaine Townsend**

The question of energy independence dominates the lexicon of energy policy. The Bush Administration believes the answer lies beneath the permafrost in Alaska, the sagebrush of the Mountain West or the blue waters of the Gulf Coast. But it does not. For all its oil reserves, does Nigeria have energy independence? Does Colombia? They don't, because true energy independence is not about the borders that surround the oil, but the boardrooms that control it.

American energy policy is now set in corporate boardrooms. A far cry from the vision of Thomas Jefferson who hoped America would "crush in its birth the aristocracy of our monied corporations."

But there is no denying that in the ascendancy of corporations, America has flourished. Only today we are in the nexus of the downside. The democratic ideals that once rose alongside prosperous corporations are now ebbing. Individual rights and corporate interests are diverging rapidly. Corporations have unfettered access to elected officials. Citizens do not. Nowhere is this more dangerous than in the development of our national energy policy.

At the center of this maelstrom is America's dependence on oil, a byproduct of a century of easy oil. But this is a new century and oil is no longer easy to come by. Today, conservation, alternative energy sources and innovation should be the focus of our national energy policy.

But the Bush administration does not see it that way, despite the wars that rage in a hunt for these remaining deposits and the desperate and costly struggle to mitigate the environmental impact of oil use. In fact, the long-term costs associated with oil are now greater than the actual economic benefit of the energy itself. In a market economy, how can this happen? The answer is simple: companies don't bear these costs. Taxpayers do.

Essentially, Americans pay a down payment of approximately \$1.50-\$2.00 a gallon for their gasoline. They then pay, by some estimates, an additional \$3.00 per gallon through their taxes to pay for the military cost of protecting the oil supply and the environmental and health costs associated with oil's use.

And these costs are only going to rise. For example, building more oil facilities will come with a huge price tag for security. Consider that of the 257 major oil spills in 1999, 51 were the result of terrorist attacks (according to risk analyst Cutter Information Corporation). And that was pre-9/11.

Since funds in our society are finite (like oil), Americans are basically diverting between \$30-50.00 from schools, fire departments, police departments, 911 emergency response services, libraries, parks and healthcare for every tank of gas they buy. And to make matters worse, energy companies also pay perhaps the lowest tax rate of any individual or business in our society. Is it any wonder that **ExxonMobil** will make \$17 billion in annual profits this year?

For all its keen sense of peril, the Bush Administration ignores what threatens America at every turn: poison in the air, water and food supply at risk, global warming, and a generation of America children with toxins in their blood. And although this is lost on the Bush Administration, it will not be lost on the American public indefinitely.

The Bush administration has concluded that oil dependence is not the problem, just dependence on foreign oil. But we know better. If the market for oil is better in Shanghai than Cheyenne, it won't matter if the crude came from Alaska or Arabia. It's going to Shanghai. That is why there can be no energy independence as long as corporations are setting energy policy. And that is why continued oil dependence can no longer be passed on as solution for America's energy needs. ♪

Brits Go for American-style Capitalism, But Blink at Banning Smoking in Pubs

Old labels die hard. Those of us who have been around for more than five decades remember the Labor Party of Britain as a socialist organization with an anti-business agenda. The Labor government in power now has abandoned that mission. Instead, as I saw during a recent visit, "New Labor" is trying to establish itself as a staunch friend and supporter of business enterprise.

Gordon Brown, Chancellor of the Exchequer, published a manifesto in which he declared that "we must forever renounce those old stereotypes" and embrace a new revolution designed to "unlock entrepreneurial ability." To that end, the Chancellor opened Britain's first National Enterprise Week celebrating young entrepreneurs and the fastest-growing inner city start-ups.

"When I was in school," the Chancellor said, "no business ever came near my classroom. Fellow university students shied away from commerce in favor of the professions." That's changing, he added, pointing out that "now half our schools teach enterprise" and beginning next year, "every secondary school will offer pupils not just work experience but education in enterprise." Brown's program also calls for the introduction of enterprise partnerships with the United States. He pointed out that Britain's rate of business creation is half that of the U.S. – and that, he said, "is simply not good enough."

In time of course Britain may be able to develop its own **Enrons** and **WorldComs**. I saw good evidence that they are already on the way. In the 1990s the German car maker **BMW** acquired the Rover passenger car business. Failing to make a go of it and knowing the British affection for this brand, the Germans sold the company in 2000 to four Birmingham businessmen for a token price of 10 pounds (about \$20 at today's exchange rate) along with a soft loan of 427 million pounds. The Birmingham Four have done little to revive the brand – sales are down, profits are non-existent – but they have managed to pay themselves handsomely. In 2003, for example, they took home three million

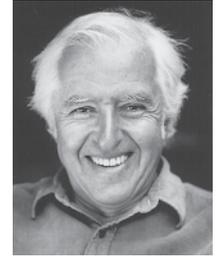
pounds apiece (roughly \$6 million dollars), which was more than double the pay of management board members at BMW. In addition, they have put 16.5 million pounds into a pension trust fund for themselves. Never mind about selling cars, just go for the money.

Meanwhile, the Labor Party was trying to protect the right of some British smokers to threaten their lives with this habit. Ireland has banned smoking in all public places including bars and restaurants. Scotland plans to do the same by 2006. But the Brits are fiddling with ideas for a ban that has exceptions. For example, smoking might continue to be allowed in pubs where cooked food is not prepared. This plan unleashed the legendary British sarcasm, delivered by Alan Coren, columnist for the *Times* of London, who wrote:

"Smoking is to be outlawed everywhere except in public houses where food is not prepared. The only food available will be crisps, pork scratchings, nuts – anything, in short, with enough salt, fat and sugar in it to make arteries crack like pipstems. Smokers will thus be corralled into places where they can not only inhale to their hearts' discontent, but also gorge themselves on vast intakes of alcohol and crunchy snax until the walls have to be knocked down to allow them to squeeze out again...."

"These customers... will primarily be members of that underclass who have nothing else in their lives. What, therefore, the inspired White Paper is advocating is a joyous return to the lowlife stews of yesteryear, the pothouses and shebeens and boozers ankle-deep in spit-and-strawberry slurry, good enough not merely for the likes of them, but also for the likes of their betters, tottering out of their smoke-free Connaughts and Savoy's and Annabels to cab themselves to their inbred conks, to the lower depths of Whitechapel and Shoreditch for a bit of slumming and a bit of rough."

Bring back Charles Dickens! ☺



*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*.*

2005 Shareholder Resolutions: A Poem

*On multitude issues till our brains were so sore
And some got proposals – twenty-six this year
(Full text on our web site: Just click right here!)*

*When up at the front desk arose such a clatter
I sprang from my desk to see what was the matter
‘Twas the FedEx guy in full regalia
(I’ll never file a resolution at FedEx, I tell ya)
And what did I hallucinate there in the foyer:
Twenty-two CEOs and their eight tiny lawyers
More rapid than eagles their letters appeared
“These resolutions won’t go on our ballots!” they jeered*

*When up at the front desk
arose such a clatter
I sprang from my desk to
see what was the matter
‘Twas the FedEx guy in full
regalia
(I’ll never file a resolution
at
FedEx, I tell ya)*

*Now, Avon! Now Lilly! Now GM and Nucor!
On Yum Brands! On Southern! On Pfizer and Ford!
To the stockholder meeting, we’ll speak before all!
The Chairman said what?! My heavens, what gall!*

*Dow Chemical sued by vets of the war
Big drug companies keeping their meds from the poor
General Electric won’t clean up its PCBs
From the floor of the Hudson, it would rather pay fees
To the government — \$20 million are due
But that’s really nothing at all, when compared to
The mess that ChevronTexaco is in, being sued
For a billion in Ecuador for spilling sweet crude –
Oil, that is (black gold), for pumping,
But somehow too there was plenty of dumping
And spilling and leaking on rainforest floors
In the billions of gallons deep into Earth’s pores
I saw it myself, the mess that they’d made
Back in March with a small investor brigade
Led by Amazon Watch, a non-profit group,
We saw illness, disease and black, tar-like goop.*

*And speaking of oil, we also did file,
Resolutions, asking in most reasonable style
For some big oil companies to not play the Scrooge,
By drilling in the Arctic National Wildlife Refuge.*

*But political Scrooges,
Many companies were not.
They gave and they gave,
Yes, they gave quite a lot.
And we’ve asked just a few, to come fully clean,
And detail their giving where it can be seen.*

*Steve Lippman serves as our Media Man,
On consolidation?, “I am no fan,”*

2005 Shareholder Resolutions: A Poem

*"As the bandwidth grows larger and larger, I ask,
How can investors take up the task
Of ensuring that 'fair and balanced' reporting
Is truly free of ideology distorting?"*

*Oh Dominion! Oh Apache! Oh Anadarko and Ford!
Oh Exxon! And Mobil! And GM we are bored
With excuses for ignoring global warming to date
We want reports from your Boards of Directors that state
How you'll reduce your emissions and invest in renewables
For Pete's sake, BP and Shell found it doable!*

*Forgive us the companies we didn't mention
Space is tight -- and henceforth, the tension
So go to our web site and the table below
☺ Happy Holidays to all, friend, family and foe!*

*To the stockholder meeting,
we'll speak before all!
The Chairman said what?!
My heavens, what gall!*

2004-05 Shareholder Resolutions

Environmental Health	
Whole Foods Market	Label private-label products regarding GE ingredients
General Electric	Report on expenditures relating to PCB exposures
Avon	Disclose info. on breast cancer fundraising/grantmaking
Dow Chemical	Report on phasing out products that contribute persistent, bioaccumulative toxins to the environment
Political Contributions	
GE, Merck, Johnson & Johnson, Eli Lilly, Southern	Disclose amounts, rationale and governance procedures
Climate Change	
Anadarko, Dominion Resources, Apache, Ford, ExxonMobil, GM	Report on greenhouse gas reductions
Equal Employment Opportunity	
ExxonMobil, Nucor, Reliant	Adopt and implement a sexual nondiscrimination policy
Home Depot, Wal-Mart	Publicly disclose workforce demographic data
Other	
Textron	Separate Chairman and CEO Positions
Chevron Texaco	Report on new initiatives to address environmental contamination in Ecuador
YUM Brands	Report on sustainability initiatives
Pfizer	Report on measures to contain price increases
ConocoPhillips, ExxonMobil	Report on potential environmental damage from drilling for oil and gas in Arctic National Wildlife Refuge

Corporate Reporting Report Card: Needs Improvement

Continued from page 1

growing movement to promote sustainability reporting may be just the therapy that many companies need.

Companies face increasing demands for disclosure of their social and environmental performance from socially responsible investors and other stakeholders, from customers to communities. In response, a growing number are beginning to report on impacts of their operations and products. A global reporting survey conducted in 2004 by the Association of Chartered Certified Accountants found that the number of corporate social, environmental, and sustainability reports increased from fewer than 100 in 1993 to more than 1,500 in 2003. A 2003 study of the world's 100 largest companies by the consulting group CSR Network found that just under half, 49, now issued an environmental, social, or sustainability report.

Although there's still significant room for improvement, it appears that corporate sustainability reports are also improving in quality. Few reports provide a genuinely balanced view of a company's positive and negative impacts on society, but more companies are starting to admit their missteps and the challenges they face. For instance, after years of avoiding public comment on critics' allegations it used sweatshops, clothing retailer **The Gap** won praise for its first social responsibility report issued earlier this year in which it provided quantitative data on its labor compliance audits of the factories making clothing for the company and admitted "few factories, if any, are in full compliance [with Gap's code] all of the time." The report outlines new steps Gap is taking to address the issue.

One key driver that's enhanced the quality of many corporate sustainability reports, and has also contributed to their growing numbers is something called the Global Reporting Initiative (GRI). The GRI is now an independent organization based in Amsterdam, but it began as a joint project

of the U.S.-based environmental coalition CERES and the United Nations Environment Programme. (As we always note with pride, Trillium Asset Management's President Joan Bavaria served as Founding Chair of CERES, chaired its board from 1989 to 2001, and is still an active CERES board member.) To create the GRI, CERES and the UNEP brought together participants representing business, social and environmental advocacy groups, accounting bodies, labor, government, the investment community, and others to determine the key information companies should report.

The current version of the GRI's Sustainability Reporting Guidelines includes 110 indicators related to companies' economic, environmental and social performance. The indicators range from traditional quantitative reporting on water use and waste management to disclosure of policies on child labor, nondiscrimination, and consumer privacy. Companies have flexibility to choose which GRI indicators to use, but must report on 57 core indicators (or note why those aren't relevant to them) in order to state that they are reporting "in accordance" with the guidelines. The GRI is just launching a new effort to update and revise the Sustainability Reporting Guidelines by 2006. It is also developing sector-specific supplements tailored to address the sustainability reporting challenges of certain types of companies, such as banks, mining companies, and automobile manufacturers, as well as guidelines for reporting on specific issues of interest to stakeholders, such as how a company is responding to the global pandemic of HIV/AIDS.

Four years after the GRI released its first pilot test version of its reporting guidelines in 2000, more than 600 companies and other organizations around the world have told the GRI that they are using the guidelines for their reporting. Spurred by the GRI's reporting guidelines, some gov-

Four years after the GRI released its first pilot test version of its reporting guidelines in 2000, more than 600 companies and other organizations around the world have told the GRI that they are using the guidelines for their reporting.

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Corporate Reporting Report Card: Needs Improvement

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ernments and regulators are also taking steps to encourage greater disclosure of companies' social and environmental impacts. For instance, France now requires large French companies to include in their annual reports discussions of their social and environmental impacts. Under pending regulations, the United Kingdom may require U.K.-listed companies to publish Operating and Financial Reviews that would include discussions of a company's environmental issues and social and community matters. The Johannesburg Stock Exchange in South Africa promotes GRI reporting to all of the companies listed on the exchange as part of its recently adopted code of corporate governance reforms.

Despite the important gains the GRI has made, corporate sustainability reporting in the U.S. lags behind Europe, Japan, and even emerging markets like Brazil. More than 40 leading companies in the U.S. have referenced the GRI guidelines in their sustainability reports, but so far only seven have produced "in accordance" reports. In fact, corrected for the size of our economies, even Italy has more corporate sustainability reporting than the U.S. does.

To address this, Trillium Asset Management has worked with partners through our trade group the Social Investment Forum to develop a joint statement of support for the GRI guidelines and better corporate reporting among U.S. companies. The statement recommends that all publicly traded companies prepare annual sustainability reports based on the GRI guidelines and provides basic tips for increasing the credibility, comparability, and utility of those reports.

We launched the statement this fall with a press event at the Social Investment Forum's annual industry conference. (The call-in telephone press conference was recorded, and you can listen to it on the web at www.socialinvest.org; see press release from October 6.) Eighteen major socially responsible investment institutions,

with \$230 billion in assets under management, signed onto the statement, as well as many social research firms including Innovest, the Investor Responsibility Research Center, and KLD Analytics. The statement notes that companies' GRI reports should be the first source all of our institutions consult for information about a company's social and environmental performance.

In response to the statement, Global Reporting Initiative Chief Executive Ernst Ligteringen said: "The analyst community has spoken - there is a need for fuller disclosure of business risks and opportunities facing companies today.... I feel that this strong statement of support from the analyst community will spark more interest in GRI-based reporting from US companies." His prediction appears to be coming true. In the last month, the joint statement gained press coverage in a dozen outlets. Companies have noticed as well. Business for Social Responsibility held a conference call to provide us a chance to explain the statement to 50 large companies, some of which already report and many of which do not.

We now plan a more targeted outreach effort to share the statement with the largest 100 companies in the U.S. and encourage those of them that aren't using the GRI to do so. We hope many of them heed not only our joint statement, but also the experience of Intel Corporation, one of our core holdings that just met the standards for "in accordance" GRI reporting last month. Intel's Director of Corporate Responsibility Dave Stangis explained: "Our stakeholders look to us to disclose key environmental and social data so they can compare and judge our performance. It makes clear business sense for Intel to meet that need. Our shareholders and communities expect it, and it helps us improve our performance. GRI has provided a flexible framework to achieve those goals." ♪

Despite the important gains the GRI has made, corporate sustainability reporting in the U.S. lags behind Europe, Japan, and even a number of emerging markets like Brazil.

Portfolio Profiles

3M
3M Center
St. Paul, MN 55144
(651) 733-1110
www.3m.com

With a tremendous record of innovation, financial health and environmental stewardship, 3M is a core holding for many social investors. 3M is a leading diversified manufacturer. It has about 67,000 employees and manufactures and distributes over 50,000 different products in 200 countries. Nearly 60% of its \$18 billion in revenue comes from outside the U.S.

Its sales break down as follows: 22% health care, 18% industrial, 16% display and graphics, 14% consumer and office, 10% electro and communications, 11% safety, security and protection services, and 8% transportation. The company has a deep commitment to research and development, which represents approximately 6% of sales. The company aims to derive at least 30% of sales from products introduced in the past four years.

For investors who are looking for increased international exposure in their

stock holdings, 3M is a good place to start. It took in 58% of its revenues from overseas in 2003.

Until 2001, 3M was well respected for its product innovation but was seen as slow growing and insular. The company brought in a new CEO from General Electric in 2001, who reinvigorated the company's growth, resulting in a higher valuation for the company's stock.

The company has a very strong environmental management program with concrete goals and extensive public disclosure that follows the Global Reporting Initiative guidelines. 3M reports having made significant eco-efficiency strides since 2000, with pounds of waste per million dollars of sales down 24%, energy used per million dollars of sales down 20%, and toxic releases per million dollars of sales down 47%. The company also reports having saved \$46.2 million through its pollution prevention efforts.

— Eric Becker, CFA

Puget Energy

Puget Energy
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www.pse.com

It used to be that electric utility stocks were big, safe, boring, and environmentally unattractive. You bought them for the income they generated and could stash them away for decades without worry about their financial soundness. That all changed with deregulation and the ensuing impositions of numerous utilities.

Puget Energy (PSD — NYSE) isn't exactly a throwback to the old days. It is a mid-size, slightly risky, and environmentally preferable utility. It derives most of its revenues from its regulated Puget Sound Energy (PSE) gas and electric utility. The balance comes from its unregulated utility construction engineering business (InfraStrux). Approximately 15% of Puget Sound's electricity generation is coal-fired, and another 5% each come from hydropower and oil/gas. The majority is purchased from outside sources, primarily hydro. But this year the company signed agreements to purchase up to 380

megawatts of newly constructed wind power, making wind a significant component of the company's generating capacity. Utilities that depend on hydropower are always a bit risky because they depend on rainfall for their power supply. Puget also carries above-average levels of debt.

In addition to the new wind power, Puget offers a green energy program to customers, and is committed to increasing its purchases of renewable power. The company also just signed a relicensing agreement for its biggest hydro dam that purports to enhance fish and wildlife habitat, improve recreational facilities for the public, enhance flood mitigation in the Skagit River Valley, and protect Native American cultural resources. The agreement was hammered out over five years with Indian tribes, fisheries interests, environmental groups, and government representatives.

—Eric Becker, CFA

Cascadia Revolving Fund

Overview

Cascadia Revolving Fund (Cascadia) is a nonprofit Community Development Financial Institution serving Washington and Oregon. It provides loans and technical assistance to small businesses and nonprofits that are unable to access support from traditional sources. It focuses on lending to businesses owned by low-income individuals, women, minorities, and immigrants; childcare businesses; rural businesses; businesses that create jobs in low-income communities; and nonprofit organizations. Since 1985, Cascadia has made more than 430 loans totaling approximately \$29 million.

Programs

- **Cascadia Community Loan Fund** makes loans to a wide variety of businesses and nonprofit organizations, creating jobs and business ownership opportunities and improving the health of Northwest communities. Cascadia also provides borrowers with customized technical assistance in business management, accounting, and marketing, helping to ensure that entrepreneurs have the skills needed to operate sustainable businesses.
- **Cascadia's Child Care Fund** recognizes that quality childcare plays an important role in the reduction of poverty for entrepreneurs and working parents. The fund provides lower-interest loans and intensive business assistance to in-home childcare businesses and childcare centers.
- **Olympic Microloan Fund** is a microenterprise loan fund organized by nine Washington counties and managed by Cascadia. The fund provides loans and technical assistance to small businesses that are unable to obtain financing through conventional sources.
- Cascadia offers asset-based **lines of credit** (LOCs). These LOCs provide fast access to funds on an as-needed basis for short-term working capital needs.

Once established, availability of funds on the LOC is typically tied to the value of the borrower's accounts receivable.

Client Population

Cascadia finances businesses and organizations in Oregon and Washington. In 2003, 46% of the borrowers were located in rural areas, 38% in major urban areas, and 16% in minor urban areas. Thirty-five percent of the businesses that received financing in 2003 were owned by low-income people and 95% of the businesses provided jobs to low-income people. Thirty-two percent of the businesses were owned by women and 19% were owned by minorities. In Cascadia's 18 years of lending, 52% of its borrowers have been low-income, 35% women, and 19% people of color.

Impact

In 2003, Cascadia:

- financed 35 microenterprises and small businesses with loans totaling over \$4 million;
- helped maintain 314 jobs at these enterprises;
- disbursed more than \$1.2 million to nonprofit community-building organizations;
- helped maintain or create 400 child care slots by providing loans and technical assistance; and
- provided 315,706 client hours of technical assistance to entrepreneurs and managers.

Investing with Cascadia

On behalf of our clients, Trillium Asset Management has been investing in Cascadia since 1998. We currently manage \$322,000 that is invested in Cascadia promissory notes. TAMC will make investments in Cascadia of at least \$5,000 for a minimum of two years. 

Community Investment Profile ^{*}™



Geographic Impact:

Washington State, Oregon

Lending Focus:

Small Business	72.0%
Microlending	6.0%
Community Development	22.0%

Financial Indicators

Finances as of 12/31/03	
Total Assets:	\$14,120,047
Total Liabilities	\$12,219,904
Total Support & Revenue	\$1,727,964
Funds Reserved Against Possible Loan Losses	\$1,116,505
Total Expenses	\$2,694,114

*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

For Social Responsibility, Globalization a Double Edged Sword

Shareholder Activism

Steve Lippman



Increasingly, regulations and market expectations in other countries are forcing U.S. companies to meet higher standards than they face here at home.

I missed a chance to join friends attending protests against the World Trade Organization negotiations in Seattle that broke out exactly five years ago from the day I'm writing this. A few months after that, I did get an opportunity to raise my voice in protest of unfair trade policies that hurt communities and the environment when I attended demonstrations at the annual World Bank and International Monetary Fund meetings in Washington, D.C. (This also involved the "opportunity" to see tear gas shot in my general direction and to find myself in a crowd surrounded by a cordon of baton-wielding police in riot gear. Still, the only harm I suffered was getting thoroughly drenched during a soaking rainstorm that led demonstrators to chant, "We're here/We're wet/Cancel Third World debt.")

These protests brought mainstream media attention and public attention to arguments that the globalization of trade leads to a "race to the bottom" as companies move operations wherever they can find the most lax environmental and labor standards, forcing countries to cut those protections to compete for jobs. The last five years have provided plenty of examples of this, as companies continue to outsource U.S. manufacturing—and now even white-collar jobs—to developing countries.

Yet after four years of policies from Washington, D.C. that are widely perceived as favoring business interests over protections for workers and the environment, another aspect of globalization is emerging. Increasingly, regulations and market expectations in other countries are forcing U.S. companies to meet higher standards than they face here at home.

As an example, take the pressing issue of climate change. Last month, Russia ratified the Kyoto Protocol on climate change, which gives the treaty enough international support for it to go into effect in early 2005. Only four industrialized countries refused to sign: Australia, Liechtenstein, Monaco, and the United States. Yet despite

the Bush Administration's steadfast opposition to Kyoto, a growing number of large U.S. companies are taking steps to reduce their greenhouse gas emissions to meet the Kyoto targets, in part to ensure they can operate factories in the thirty industrialized countries that must cut their emissions levels under the treaty.

Despite global concerns about climate change, the U.S. Congress and the Bush Administration have fought back efforts to significantly boost fuel economy standards for cars, trucks, and SUVs. On the other hand, Chinese leaders, concerned about their country's rapidly growing dependence on Mideast oil, recently imposed new fuel economy standards that are higher than U.S. requirements. U.S. automakers will have a harder time meeting the upcoming Chinese standards than European and Japanese automakers, which offer many more vehicles that already meet the standards. Duncan Austin, Senior Economist at the environmental think tank the World Resources Institute noted, "If China's booming automobile market demands smaller and more efficient vehicles than those being produced in the United States, car makers will have no choice but to respond. China's decision will have a spillover effect, influencing what types of cars are sold in other countries."

There are plenty of examples on other topics as well. To meet new European regulations, electronics manufactures like **HP** and **Intel** have eliminated the use of cadmium and other toxic materials from all their products, not just those units being shipped to Europe. Earlier this year, Monsanto dropped plans to launch a controversial strain of genetically engineered wheat because of concerns raised by major international customers, particularly those in Japan.

Based on these examples and others, companies may want to be careful about winning the "race to the bottom". In a surprise ending, they just might find a Chinese regulator waiting for them at the finish line...

Whole Foods Ducks GE Labeling Promise

I'll never forget my first visit to **Whole Foods Market's** flagship store at its downtown headquarters in Austin, Texas. I thought I had died and gone to food heaven, one stocked with exotic cheeses, flavorful marinades, delectable prepared foods – all tastefully displayed and seemingly lit from within. I was prepared to move in.

Ten years later, I still shop at Whole Foods but a little crankily. It's not that I've evolved beyond my weakness for beautiful foods beautifully displayed. The problem is my frustrating experience with Whole Foods as a consumer and shareholder advocate on the issue of labeling genetically engineered (GE) foods.

Three years ago, Trillium Asset Management filed a resolution at Whole Foods calling upon the company to specify on its private label product labels whether they contained GE ingredients. A no-brainer, we thought, since Whole Foods and its competitor **Wild Oats** had jointly announced in 2001 that their private label products were now sourced exclusively from non-GE crops.

Subsequent discussions with the company revealed that what looked like a no-brainer was in fact a conundrum. The Food and Drug Administration had been sending letters to natural foods makers requesting that they rescind claims of being 'GMO-free' (GMO stands for genetically modified organism.). 'Adventitious contamination' (also known as pollen drift) of non-GE crops by pollen drift also concerned Whole Foods. No food company, even those that have gone to great lengths like Whole Foods to source from non-GE crops, can guarantee that its product is fully 100% free of GE ingredients. Several months earlier, the *Wall Street Journal* had run a "gotcha!"-style piece that identified the presence of GE ingredients in foods advertised to be GE-free. Whole Foods fears that companies that label make themselves vulnerable to lawsuits. A complicating factor was the uncertainty around how accurate tests for the presence of GE ingredients actu-

ally were. Whole Foods was jointly funding a study to address that question.

We argued that Whole Foods should apply a 'non-GE' label with a disclaimer noting the possibility of adventitious contamination, with no success. Still, we agreed to withdraw our resolution when Whole Foods agreed to strengthen its in-store and web site educational materials explaining their commitment to avoiding GE ingredients, address inconsistency between stores, and continue our dialogue on related matters.

Whole Foods has broken virtually every aspect of its agreements with our shareholder group. In-store education on GE issues has gone nowhere and a random sampling of Whole Foods employees in stores around the country revealed widespread ignorance about the company's GE sourcing policies. The web site no longer links to the Campaign to Label Genetically Engineered Foods. We have received no written responses to our follow up letters. We were finally informed last May that Whole Foods wouldn't set timelines for these tasks because consumer education on GE ingredients was not a priority. The company has opted instead to promote the 'organic' label. This is fine as far as it goes, because 'organic' means, among other things, GE-avoidant. But customers will remain groping in the dark trying to figure out if Whole Foods' non-organic private label products are GE-avoidant. (They are. But I'm usually not around to clear up customer confusion.) Remember, these products compete with others that have clearer labels.

Whole Foods' "Core Values" document states: "We can generate greater appreciation and loyalty from all of our stakeholders by *educating them* about natural and organic foods, health, nutrition and the environment" (emphasis added). Our 2005 resolution reminds shareholders of that. (Full text available at www.trilliuminvest.com.) You can also contact Whole Foods at their web site to urge them to be a leader in this area. If they don't step forward, who will? ♪

Shareholder Activism

Shelley Alpern



In-store education on GE issues has gone nowhere and a random sampling of Whole Foods employees in stores around the country revealed widespread ignorance about the company's GE sourcing policies.

Market Watch

by Farnum Brown

As the elections came down to the wire in late October the market began to stir from its slumbers, anticipating a resolution of the contest and of the uncertainty surrounding it. Once the results were in buying began in earnest and the market moved straight up for a month. From a pre-election low on October 25 through the post-election high on December 1, the S&P 500 gained 9% while the more volatile NASDAQ rose 12%, gains that put both indices up modestly for the year.

After the election President Bush was quick to throw the market a bone in the form of his proposed privatization of Social Security, a move that would unlock vast future demand for stocks. We won't go into the plan's many flaws here, but there's no denying its potential impact on stocks from a pure supply/demand perspective.

The greater boon to stocks has been the precipitous decline in oil prices, one that has OPEC scrambling to cut supply only weeks after pledging to boost it. From a high of \$55 a barrel the price of oil has plummeted nearly 30% in two months to the \$40 area. As we noted last time, the spike in oil prices was driven in no small part by pure financial speculation—a fickle source of demand that can turn into supply (selling) on a dime. Which is precisely what happened.

With the uncertainty of the election behind us and oil prices returning to more reasonable levels, two market negatives were resolved. As stocks remained significantly undervalued relative to bonds, the market responded by bidding up shares accordingly. What remains to be seen is whether this reduced uncertainty prompts corporate America to deploy its vast cash horde in new hiring and capital investment, something it has done only sparingly thus far in the recovery.

If hiring and capital investment pick up, corporate earnings expectations will accelerate and that would boost potential returns from stocks. If hiring doesn't pick up we would expect economic growth to continue at its current 3%-4% pace. On that scenario stocks should still deliver positive returns in excess of those available from bonds.

As a parting comment we'll note that the sudden ubiquity of panicky headlines on the falling US dollar suggests that the worst of this trend may be behind us. It's a truism of markets that by the time everybody's scared about something, the worst of it is already priced in (see the headlines on oil prices from two months ago). That said, we don't dismiss the possibility of a sudden dramatic decline in the dollar, but we think it rather unlikely.

The argument for a plunging dollar rests on the assumption that the largest foreign holders of US dollars — Japan and China, in that order — will lose their appetite for our currency and begin to sell off their US dollar holdings. Doing this would indeed depress the dollar and could do so quite dramatically. But because Japan's and China's dollar holdings are so large, they could sell only a small portion of their total position. That would be enough to drive down the dollar — and with it the value of their remaining vast dollar holdings. For Japan and China to sell dollars because they fear a further decline in the currency would be like pouring kerosene on a fire to put it out.

So while the dollar may decline further, it is likely to do so gradually. Such a gradual decline shifts demand toward US goods and away from foreign goods, which helps gradually correct the very trade imbalance that has driven the dollar down in the first place. This needn't be a disruptive process and it's the disruption that concerns investors. 

Dear Reader (continued)

people killed in war in Iraq while our military budget escalates, when there are over 940,000 incidences of abuse per year in this country, or when over one third of the women in this country report having been abused by a husband or boyfriend at some time in their lives, it is astounding to me that people can be afraid of something that in my experience is nothing but private love and fairness.

At their annual meeting on November 3, the day after the election, Wainwright Bank awarded attorney Mary Bonauto and her employer, Gay & Lesbian Advocates & Defenders (GLAD) their 16th annual Wainwright Bank Social Justice Award. "Mary Bonauto's quest to provide these couples with the legal protection and security that accompanies a civil marriage is simply, when all is said and done, a recognition of our common humanity," said Bob Glassman, Co-chairman of Wainwright Bank. Plaintiffs Hillary and Julie Goodridge, and their daughter Annie, assisted Mr. Glassman in presenting the award. A smiling Annie handed Mary Bonauto a huge bouquet of

flowers - I found myself wiping my eyes again.

Two days after the election, Trillium Asset Management's employees from our four branches attended an all-company retreat. New employees were introduced, skits were performed, awards were given, and Power Point use hit new highs as we were informed about new compliance rules, the strategic plan and how to service clients faster and better. We helped each other digest the election, and renewed our resolve to continue to fight for justice for all, peace and a healthy environment. Our toasts were made with those ever-present, bittersweet tears.

Sincerely,



Joan L. Bavaria, President
Trillium Asset Management Corporation