Investing for a Better World

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INSIDE

Testing the Boundaries — Revisiting Animal Rights

By Steve Lippman

This summer, a national government gave the police new powers to crack down against protestors and stop demonstrations. This wasn't the work of John Ashcroft and didn't involve the FBI's much-criticized interviews of young peace activists in advance of the Democratic and Republican National Conventions. Instead, it took place across the Atlantic, where Tony Blair released new measures to stem some controversial tactics used by U.K. animal rights protestors, including demonstrations outside the homes of pharmaceutical executives. Even some long-time campaigners against animal testing, like Anita Roddick of **The Body Shop,** condemned those tactics and support the new restrictions. But the controversy shows that while the fight over animal testing has largely faded from the headlines in the U.S., the issues involved are far from resolved. In this article, we bring readers up to speed on both new developments and unresolved issues associated with animal testing, and how we

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Shareholders Shine a Light on Corporate Political Contributions

By Shelley Alpern

Until very recently, the socially responsible investment (SRI) movement has devoted relatively little attention to the problem of corporate political giving. Having nothing to do with companies that donate unseemly sums to political causes may sound tempting, but screening on this basis has always posed a number of difficulties. However, advocacy on this issue began to pick up steam during the 2004 annual meeting season last spring, and will continue in 2005.

What's a Social Investor To Do?

Academics, constitutional lawyers and other corporate observers have long debated

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Dear Reader

Joan Bavaria

This fall, the presidential election dominates the news. It is painful to watch character assassinations and ridiculously simplistic reductions of complex issues in media designed for sound bites. But for a couple of weeks my husband and I are in the mountains of Vermont, hiking the hills, biking, and kayaking, blessedly isolated from the rage of the presidential campaign. Almost no chain stores interrupt the bucolic coziness of the small towns, the food is often local, organic and well prepared, the people are friendly and the hills green and lush. Amazingly, there are few political signs. One long-time resident theorized that the lack of signs reflects the fact that Vermonters simply live in their own world, run it as they see fit and will quietly vote for whom they want.

The current events of the larger world creep into daily life at the gas pumps, though, where the price of regular gasoline is about $1.89 a gallon, up over 40% from a year ago. Although still cheap by world standards, the magnitude of the price hike is hurting tourism and even the farmers' market sales. In our interdependent world, vital elements like transportation, shelter (heating and cooling) and food are produced or controlled far from our homes. Vermont needs the tourists who drive or fly here to enjoy the outdoor recreation, the local culture and the feeling of escaping from the hassles of the rest of the world. Even Ben & Jerry's, a company that

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Wealth & the Next Generation

Trillium
ASSET MANAGEMENT

Investing for a Better World
711 Atlantic Avenue
Boston, MA 02111
617/423-6655
hdavenport@trilliuminvest.com

Publisher
Elliott Sclar

Editor
Eric Becker, CFA

Production Manager
Holly Davenport

Contributors
Shelley Alpern
Farnum Brown
Samuel B. Jones, Jr., CFA
Lisa Leff, CFA
Stephanie Leighton, CFA
Steve Lippman
Laura McGonagle, CFA
Randy Rice
Kevin Rideout, CFA
Cheryl Smith, CFA
Blaine Townsend

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By Lisa Leff

Over the next 50 years, our country will experience an enormous intergenerational transfer of wealth, with the assets passing from one generation to another estimated at more than $40 trillion. This massive money transfer will take place against a backdrop of the most affluent society in history, one where the size of the average home and the number of family cars have both doubled over the past 50 years — but also one with an increasing concentration of wealth and growing gap between rich and poor. According to the Federal Reserve Board, the richest 5% of U.S. households now own – and will likely pass along – nearly 60% of the nation's wealth.

This presents families facing inheritances with challenging questions that have both personal and societal implications. We often hear from our clients: How much wealth is enough for our family? How much should we pass on to our children, and when? How and at what age do we talk to our children about money? How do we teach our children about money, values, and meaningful work in a society that is so often blatantly materialistic? And perhaps the key underlying question is: How do we ensure that our child's inherited wealth is a blessing and not a curse?

The answers to these questions – and the process of discovering them – will be unique to each family. There are excellent resources for professional advice available from estate planners, family wealth counselors, and your Trillium Asset Management portfolio manager, among others. While there are no simple answers, here are actions for families to consider as they embark on transferring wealth to the next generation:

Talk with children about money. It's never too early for parents to begin teaching children financial literacy. The traditional allowance can provide a good focal point for age-appropriate conversations about money, and can help educated kids about spending, saving, giving, and making choices around money, all within limits. Dan Kindlon, author of *Too Much of a Good Thing: Raising Children of Character in an Indulgent Age,* observes that an inheritance is very similar to an allowance – "except there are a lot more zeros involved." Children who have early practice with making choices around allowances are likely to be well prepared as stewards of inherited wealth later on.

Start young. Many planners and CPAs recommend beginning to transfer assets to children early on, primarily for tax purposes, but there are benefits involving learning and communication as well. Passing money to children as young or middle-age adults offers parents the opportunity to see how children handle wealth, to identify specific challenges, and help shape future giving.

Incorporate philanthropy. Children can participate in philanthropy, even at a young age. Some families establish a "triple piggy bank" for their children, with each contribution allocated among compartments for saving, spending, and giving. Others create a special family giving fund, with the children collectively making decisions about the allocation of grants. The charitable giving process offers children invaluable opportunities for learning about responsibility, sharing, and leadership, as well as the specific societal challenges in their own communities.

Connect money and values. Jon and Eileen Gallo, authors of *Silver Spoon Kids: How Successful Parents Raise Responsible Children,* observe that money itself is neutral, but that in the absence of values can cause "incalculable problems," while the connection between money and values has the power to solve problems. The most powerful messages parents can send to children about the money-values connection come from parents' own attitudes and behaviors. Parents who enjoy their work for the sense of accomplishment rather than for a paycheck, choose quality family time over material acquisitiveness, and are conscious about the societal impact of their spending and investing decisions, are teaching their children about the responsibilities, power, and joys connected with money.

Chinese Throw Open the Doors to Firm Responsible for their Cigarette Addiction

What goes around comes around. This tired, old cliché came to mind when I read over the summer that the **British American Tobacco Compan**y is being allowed to build a cigarette factory in China after 52 years of exile. Since China is the world's biggest cigarette market, that's no mean achievement for BAT. Eat your heart out, **Philip Morris.**

The Chinese are indefatigable smokers. Two-thirds of Chinese men smoke cigarettes — and the habit is gathering momentum among Chinese women. The government apparently does little to warn people about the consequences of smoking. Indeed, the Chinese government derives a significant share of its tax revenues — the *Financial Times* puts it at 10% — from the tobacco industry.

And how did the Chinese become such big cigarette smokers? Well, to be frank, it was the British American Tobacco Company that did the trick. They moved into China 100 years ago, bringing the new cigarette-making machines invented by a North Carolinian, James Bonsack. A Bonsack could roll tobacco into paper at the rate of 10 million cigarettes a day.

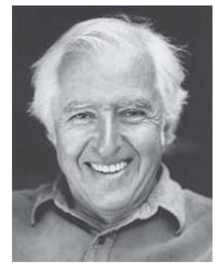
It was an auspicious time, at the turn of the 20th century, to sell cigarettes in China since it coincided with a vigorous anti-opium campaign. The Chinese, by the millions, turned in their opium pipes for cigarettes — and it was BAT that orchestrated this switch. They built plants in Shanghai, Hankow, Mukden and Harbin. They used trains, camels, mules, carts, wheelbarrows and men's backs to reach every corner of China. Historian Sherman Cochrane detailed BAT's advertising blitz in his 1980 book, *Big Business in China: Sino-Foreign Rivalry in the Cigarette Industry, 1890-1930*:

> *The BAT advertising system left no region of China untouched. In 1905 in Manchuria, for example, BAT put up two thousand large paper placards and two hundred large wooden or iron signboards in the city of Ying-kvou – creating an effect that reminded an American journalist of the sensational billing that the Barnum and Bailey circus arranged in advance of its arrival in American cities. In North China a newspaper correspondent in Kaifeng reported in 1907 that the "whole city has been placarded with thousands of staring advertisements." In the Southeast, according to a report from the British consul in Foochow in 1909, BAT drummed up business by "preaching the cult of the cigarette and distributing millions gratis so as to introduce a taste for tobacco."*

It worked. Between 1902 and 1920 Chinese consumption of cigarettes zoomed from 1.2 billion a year to 25 billion — and BAT was racking up profits of $7.6 million in China, one-third of its total earnings.

So BAT is now returning to the scene of the crime. Having addicted the Chinese to cigarettes, it's coming back to reap the benefits of its pioneering. It will take a couple of years to get its factory up and running, but eventually it will be turning out 100 billion cigarettes a year — that's more than double the annual consumption in the UK and about equal to Italy's yearly intake. Still, it will account for only 5% of the Chinese market.

One of the first brands off the production line will be State Express 555, which was said to be the favorite brand of Chairman Mao Zedong. Watch for those billboards when you go the 2008 Olympic Games in Beijing.



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.

Testing the Boundaries (cont.)

Experts estimate that the use of animals in laboratory tests has dropped by about half in the U.K. and U.S. since the 1970s, even as new drugs and consumer products have proliferated.

help clients ensure their investments reflect their own values in this contentious debate.

Efforts to restrict animal testing in the U.S. date back at least to the 1890s, but the modern movement against animal testing burst into the public consciousness in the U.S. in the late 1970s to mid-1980s. The movement gained steam with public protests, shareholder resolutions, and effective media campaigns showing pictures of rabbits subject to painful eye irritancy tests. In the more than 30 years since then, animal welfare activists have achieved important victories. Experts estimate that the use of animals in laboratory tests has dropped by about half in the U.K. and U.S. over that period, even as new drugs and consumer products have proliferated. Many pharmaceutical and consumer products companies have significantly reduced their use of animal testing, and some consumer products companies have demonstrated leadership in eliminating the use of animal testing altogether.

In addition, some company scientists and government regulators have begun to accept the use of various alternative test methods that reduce reliance on animal testing. New legislation goes into effect in the European Union this month restricting the use of animal testing in cosmetics. The legislation bans animal testing of finished cosmetics within the EU starting this month and (with a few exceptions) it bans the sale of cosmetics with ingredients tested on animals within five years, by September 2009.

There are some positive changes in U.S. policies, too. U.S. Food and Drug Administration regulations require animal testing for pharmaceutical and medical products, and the U.S. Environmental Protection Agency and Occupational Safety and Health Administration require animal tests of certain chemical compounds. However, in 1993 Congress passed legislation to promote more acceptance of non-animal test methods within these and other regulatory agencies. In response, the National Institute of Environmental Health developed an interagency coordinating committee to review and approve non-animal test methods in order to speed their approval by the dozen federal agencies represented on the committee. The European Union has developed a similar committee, and both committees have approved a number of alternative tests for things like skin corrosivity that otherwise can require painful tests on animals. The number of alternative methods approved is still relatively small, but some testing experts are encouraged by the range of research underway through the federal National Toxicology Program and research centers such as the Johns Hopkins Center for Alternatives to Animal Testing and the U.K.-based Fund for the Replacement of Animals in Medical Experiments. Both these research institutions have received significant funding from leading consumer products companies to support their work.

As a side note, there's an interesting debate about whether animal tests are reliable ways to ensure that pharmaceuticals, food additives, and chemicals are safe and effective for human use. It would take the rest of this article, or indeed, this newsletter, to describe these arguments in detail. In short, many scientists argue that animal tests are necessary to find cures for new diseases and protect human health from ineffective medicines or dangerous products. Animal welfare advocates have countered these arguments by pointing out the difficulties involved in assessing human hazards from animal test results. These criticisms have gained some acceptance from the mainstream scientific community. In fact, the February 2004 issue of the peer-reviewed *British Medical Journal* includes an article that questions the usefulness of a significant portion of the animal studies that the authors reviewed. At the very least, it's an ironic fact that new non-animal test methods are often validated by

Testing the Boundaries (cont.)

multiple laboratories to show they accurately predict effects in humans, while many of the animal tests they replace have never been validated and are just the traditional way of doing things. Thus, approved alternative tests not only eliminate suffering of animals; they may also prevent future human suffering from unintended side effects that animal tests would not have predicted.

Despite the progress they've made, many animal welfare advocates remain frustrated with the persistence of animal testing, particularly for products where tests are not required by law, such as cosmetics and most personal care and household products. The Humane Society of the U.S. (HSUS) estimates that animal tests for these products account for only 10-20 percent of the total animal tests conducted in the U.S. each year with cosmetics testing accounting for less than 1 percent of all animal tests. However, as the HSUS's Vice President for Animal Research Issues, Dr. Martin Stephens, and its Senior Vice President for Research, Education and International Issues, Dr. Andrew Rowan eloquently put it in an HSUS publication, such testing, "figures prominently in the animal research controversy [because] it raises issues such as the ethics and humaneness of deliberately poisoning animals, the propriety of harming animals for the sake or marketing a new cosmetic or household product, the applicability of animal data to humans, and the possibility of sparing millions of animals by developing alternatives to a handful of widely used procedures."

Some consumer products companies have responded to this ethical challenge. Certainly well known supporters of animal welfare like **The Body Shop**, **Tom's of Maine**, and **Aveda** have made a commitment to not use animal testing on the cosmetics, personal care, or household products they offer. But according to the Caring Consumer lists kept by People for the Ethical Treatment of Animals, major companies like **Estee Lauder, Revlon**, and **Trader Joe's** have also made that commitment. Other companies have taken more limited steps than pledging a permanent ban on animal testing. **Gillette** announced a moratorium suspending animal testing on its products in December 1996, but remains on PETA's list of companies that test because it has not committed to a permanent ban. In June 1999, **Procter & Gamble** announced that it would end animal testing for all its non-food and non-drug products, which represents 80 percent of its product lines. However, PETA asserts that this ban applies only to P&G's existing products, and doesn't include a commitment to end testing of new products or new ingredients. In March 1999, **Colgate-Palmolive** announced a moratorium on animal testing for its adult personal care products, but remains on PETA's list of companies that have not pledged a permanent and total ban on non-required animal testing. In addition to these steps, many consumer products companies have provided significant support for research into alternatives to animal testing, and some animal welfare advocates praise both P&G and Colgate-Palmolive for lobbying the FDA to accept non-animal tests on some of their medical products where testing is required.

At Trillium Asset Management, we work to track the status of all the companies in our portfolio with respect to animal testing so that we can screen client accounts based on preferences, such as not holding consumer products companies that haven't committed to end all their animal testing. Interested clients can talk with their portfolio managers to discuss what animal testing screens are appropriate for them.

At Trillium Asset Management, we work to track the status of all the companies in our portfolio with regards to animal testing so that we can screen client's accounts based on their preferences, such as not holding consumer products companies that haven't committed to end all their animal testing.

Shareholders Shine a Light on Corporate Political Contributions (cont.)

Continued from page 1

whether corporate involvement in the political process in any form is appropriate. Shareholders, however, for the most part have accepted corporate political giving as a cost of doing business. After all, the amount expended on donations and lobbying is only a fraction of revenues, a small price to pay for reduced regulation and tax breaks that can save individual companies millions of dollars.

The SRI movement has always argued that corporate policies that benefit shareholders at the expense of the long-term public interest are detrimental to all citizens in the long run. Few would contest that the primary purpose of corporate political contributions is the pursuit of narrow corporate agendas. Thus it should follow that social investors should participate more in the debate over what role corporations should play – if any — in the political process.

In 2004, a campaign has been building to promote two key principles of SRI — transparency and accountability – in the realm of corporate political giving.

Screening and advocacy are social investors' most direct tools for change. Screening on political giving, however, is impractical and limited in its potential effectiveness. The most glaring obstacle is the fact that virtually every major corporation has been a large contributor; the numbers of those who abstain or give little are not great enough to comprise a diverse portfolio. Even if it were possible to do so, the social investor would be left with the difficult dilemma of avoiding investments in companies that maintain prominent political profiles but otherwise have strong records on corporate responsibility issues. Another layer of complexity is whether a screen should avoid only the companies who donate to recipients whom one dislikes, or all large political donors. For these reasons, those who choose to screen on this issue will likely remain so small a group as to lack influence over corporate behavior.

The advocacy path is more promising. In 2004, a campaign has been building to promote two key principles of SRI — transparency and accountability – in the realm of corporate political giving. "Sunlight is the best disinfectant," Justice Louis Brandeis once said in the days before antibacterial soap. This is the approach being taken by the Center for Political Accountability (CPA), which coordinated the filing of more than thirty shareholder proposals in 2004 calling for transparency in political giving. In 2004, Trillium Asset Management participated in two of these resolutions, and we will be part of the 2005 campaign as well. We will be writing to all of our clients' largest holdings requesting increased disclosure, and will be filing resolutions at selected companies.

Shareholder Campaign

CPA was created in the fall of 2003 "to bring transparency and accountability to corporate political giving." Last spring, twenty shareholder proposals organized by CPA came to a vote, calling upon companies to:

- Disclose their political soft dollar and in-kind contributions,
- Explain the business purpose of the contributions,
- State company policies for making political contributions, and,
- Identify the corporate officers responsible for making the donations.

CPA states on its web site, "The resolutions are critical to ending the secrecy that undermines public confidence in companies and in the political process, and aligning more closely corporate political giving to the interests of companies and their shareholders and other stakeholders."

Support for these proposals ranged from 7.2% at **Altria** to 16% at **Verizon** – very respectable results for a first-year shareholder campaign. Other resolution sponsors included labor unions (the Service Employees Industrial Union, Central Labor Pension Fund, Teamsters, and the Carpenters union), Sierra Club Mutual Funds, Domini Social Investments and religious investors. Trillium co-filed proposals at **Merck** and **Pfizer** (10.1% and 10.9% respectively) with the Nathan Cummings Foun-

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Shareholders Shine a Light on Corporate Political Contributions (cont.)

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dation. The resolution prompted Pfizer to prepare the requested report, which is published on its web site (www.pfizer.com, corporate governance section).

Do corporations have a role to play in the political process? What should that role be? The SRI movement may find no consensus on these questions, but it is a discussion that needs to happen. We call on the SRI community to undertake this discussion guided by principles of transparency and our concern for society as a whole.

Did McCain-Feingold Make a Difference in Corporate Giving?

The McCain-Feingold Act (formally known as the Bipartisan Campaign Reform Act) is generally failing to keep big money out of federal elections, despite a provision ending corporate (and labor and individual) unlimited soft-money contributions to national parties. Giving by some industries has decreased, but overall corporate giving remains high through the use of corporate political action committees. PACs are used to bundle contributions from individual employees.

According to the Center for Responsive Politics, as of June 2004, the entertainment, pharmaceutical and health products industry, telephone and electric utilities, tobacco, oil and gas companies have substantially reduced their political giving from 2002 to 2004.

While this is good news, corporate contributions have by no means evaporated. As of July, **Microsoft** had donated nearly $1.9 million in this election cycle; **Pfizer**, nearly one million; **Citigroup**, roughly $1.8 million, and the list goes on.

These numbers become staggering in the aggregate. For example, the combined political giving from financial services, insurance and real estate companies is pushing $200 million in the '04 election cycle — down from the $231 million this group gave in '02, but still not chump change.

Fears that corporations would divert their giving to issue-oriented "527" organizations has yet to materialize. To date, the bulk of the $234 million raised by 527 organizations has focused on labor or other "ideological" issues favoring Democratic causes. Industry has contributed much less to 527s to promote corporate agendas, but John Richardson of the Center for Political Accountability expects that to change during the last stretch of the campaign.

Where is Corporate Money Flowing?

Overall, corporate funding favors Republicans over Democrats. In the 2002 election cycle, 57% of a total of over $1 billion in business donations went to Republicans. Sectors favoring Republicans include finance, insurance and real estate, healthcare, energy and mining, agribusiness, transportation and construction. Democrats do better with communications and electronics, lawyers and lobbyists. (Republicans are quick to point out that Democrats overwhelmingly receive labor union money, but total labor giving in the 2002 election cycle ($96 million) was equaled by the giving of the healthcare sector alone.)

Lest we paint too stereotypical a picture, it must be noted that a number of executives have jumped the fence to the Democratic side. In August, John Kerry released a list of 200 business executives who support his candidacy, which includes some surprises: the chief executives from **News Corp**. (which owns 82% of Fox Entertainment), **QUALCOMM**, **Hasbro**, **AT&T Broadband**, **Brown-Forman**, and **Anheuser-Busch**. Lee Iacocca and Kirk Kerkorian are public endorsers of Kerry. The chairman of **Progressive Corp**., Peter B. Lewis, has distinguished himself for giving over $14 million of his personal fortune toward 527 organizations opposing the re-election of George W. Bush.

Sources for this story include www.opensecrets.org, the Center for Political Accountability, the New York Times *and the* Wall Street Journal.

www.opensecrets.org

www.politicalaccountability.net

Portfolio Profiles

Johnson Controls

Johnson Controls
5757 North Green Bay Ave.
P.O. Box 591
Milwaukee, WI 53201
(414) 524-1200
www.jci.com

Johnson Controls (JCI – NYSE) is a global leader in automotive systems and facility management and controls. With 57 straight years of sales growth and 13 straight years of earnings growth, the company is the premier player in the auto supplier group. It also has a very strong environmental record, with a slew of sustainability initiatives in place.

Johnson Controls has two operating segments, the Automotive Group (75% of sales) and the Controls Group (25% of sales). The automotive group is the world's largest independent supplier of seating, overhead, door and cockpit systems as well as integrated electronics. Virtually every major auto manufacturer is a customer.

The Controls Group provides installed building control systems and technical and facility management services, including comfort, energy and security management for the non-residential buildings market. The Leonardo Academy has estimated that JCI's energy conservation efforts with customers will have reduced power plant emissions by 352 million tons by 2010, the equivalent of eliminating nine 400-megawatt power plants.

In 2003, JCI issued its first sustainability report, prepared in alignment with guidelines set by the Global Reporting Initiative. The company's array of initiatives and achievements is impressive, including a 30% reduction in energy consumption from 1997 levels by 2003, a commitment to subject all new product lines to Life Cycle Analysis and Design for the Environment, a commitment to an 18% reduction in greenhouse gas emissions from its 2002 baseline by 2012, and participation in Leadership in Energy and Environment Design (LEED), which integrates current building practices with new environmental and energy efficiency designs.

— Laura McGonagle, CFA and Eric Becker, CFA

QUALCOMM

QUALCOMM
5775 Morehouse Dr.
San Diego, CA 92121
(858) 587-1121
www.qualcomm.com

QUALCOMM (QCOM – NASDAQ) is a pure intellectual property play in the telecommunications equipment business, specifically for wireless gear based on "code division multiple access (CDMA)" technology, one of the key standards of wireless networks. QUALCOMM designs CDMA-based chips, and farms out their production to third parties, most notably IBM, Texas Instruments, and Taiwan Semiconductor.

The company has three core busineses. CDMA Technologies designs and markets CDMA chip-sets and software for wireless voice and data communications. Technology Licensing collects one-time license fees and royalty payments on CDMA wireless handsets. Wireless and Internet has three sub-segments: Internet Services, Wireless Business Solutions and Digital Media.

CDMA and its progeny, wideband CDMA (or WCDMA), are expected to gain share from rival technologies GSM and TDMA. The advent of 3rd generation phones is expected to heavily favor CDMA for its properties that will drive down the cost of communications. The industry views India and China as markets of significant opportunity, and CDMA/WCDMA have already made substantial inroads there.

QUALCOMM offers health benefits for the domestic partners of its gay and lesbian employees and has a written policy barring discrimination based on sexual orientation. The company won the 2002 Secretary of Labor's Opportunity Award in recognition of the company's efforts to develop and maintain an "exceptional" equal employment opportunity program. The company was included in *Fortune* magazine's "100 Best Companies to Work For" in 2004.

—Samuel B. Jones, Jr., CFA and Eric Becker, CFA

ACCION International

Community Investment

Geographic Impact:

International

Lending Focus:

Microenterprise

Financial Indicators

ACCION International
Finances as of 12/31/03

Current Assets:	$8,339,446
L/T Assets:	$21,964,450
Total Assets:	$30,303,896
Current Liabilities	$3,696,673
L/T Liabilities	$8,653,592
Total Liabilities	$12,350,265
Total Net Assets	$17,953,631
Total Liabilities & Net Assets	$30,303,896

Overview

In 1961 ACCION International (ACCION) was founded as a student-run volunteer effort to address the poverty in Latin America's cities. Over the last four decades, ACCION has built a tradition of developing innovative solutions to poverty.

ACCION is one of the premier microfinance organizations in the world and serves as an umbrella organization for a network of micro-finance institutions in 20 countries throughout Latin America, the Caribbean and Africa.

Mission

The mission of ACCION International is to give people the tools they need to work their way out of poverty. ACCION provides capital for "micro" loans and business training to poor women and men who start their own businesses. With capital, people can grow their own businesses and earn enough to afford basics like running water, better food and schooling for their children.

Programs

Most of the world's three billion poor people cannot find work. Where they live, few jobs are available and those that are often don't pay a living wage. To survive, they must create their own jobs by starting tiny businesses or "microenterprises." They make and sell tortillas, sew clothes or sell vegetables in the street — anything to put food on the table.

ACCION provides working capital — a loan as small as $100 at a fair rate of interest. These loans are often considered too small for banks to justify the time and expense to administer them, and microentrepreneurs lack the collateral and credit history required by traditional lenders. But a small loan can cover the cost of raw materials or a critical piece of equipment like a sewing machine, allowing borrowers to grow their tiny businesses. With a growing income, people can work their way out of poverty.

Additionally, ACCION's technical assistance teams have helped build and strengthen some of the most successful microlending institutions in the world. These institutions use a market-based approach that enables them to become profitable, permanent parts of the financial systems in the countries where they operate.

Impact

Latin American, Caribbean and African borrowers:

- Are among the region's poorest people at the time of their first loan.
- Usually have no collateral.
- May not be able to read or write.
- May not have enough capital to open for business every day.
- Are 65 percent women.

ACCION works with more than 25 partner microfinance organizations in Latin America, the Caribbean and sub-Saharan Africa. ACCION's partner programs served 740,000 borrowers in 2002.

Investing with ACCION

On behalf of our clients, TAMC has been making investments with ACCION for nearly twenty years and we currently manage over $400,000 that is invested in ACCION promissory notes. TAMC will make investments for our clients of at least $5,000 for a term of not less than two years.

—Randy Rice

Funding the Same Old Song?

Shareholder Activism

Steve Lippman

We want to make sure banks don't finance environmental destruction and human rights violations like it's 1999.

Remember 1999? NASDAQ stocks were hitting the roof, Ricky Martin was topping the charts with "Living La Vida Loca," and the major political news was the House of Representatives voting to impeach Bill Clinton. Given everything that's happened since, it's hard to believe that was just five years ago. Yet at Trillium Asset Management, some major bond offerings from China are giving us a sense of *déjà vu* that's got us checking to make sure our computers are ready for Y2K….

The issue dates back to the 1990s, when China sought international funding to build Three Gorges Dam, a massive project with reservoirs stretching 350 miles upriver that will displace up to 2 million people from their homes and flood irreplaceable cultural treasures and habitat for endangered river dolphins. Due to impacts like these, even the dam-friendly World Bank and U.S. Export-Import Bank refused to fund the project. At first, private funders also seemed to steer clear of funding the project…at least directly. Yet in 1997 and 1999, **Morgan Stanley**, **Citigroup**, and 17 other private banks helped manage the sale of $830 million in bonds for the China Development Bank, a state-owned bank that is the largest funding source for Three Gorges Dam.

In response, Trillium Asset Management helped form a partnership of leading socially responsible investment firms, religious investors, and environmental groups like Friends of the Earth and the International Rivers Network to ask banks to consider the environmental and social risks of projects they finance. As we've reported in the past (*IFBW*, August 2003), our advocacy helped push Citigroup, Morgan Stanley, and **J.P. Morgan Chase** to develop policies and structures that boost their accountability for the environmental impacts of their financing decisions. We continue to meet with these banks regularly, and do see them making important progress in fulfilling their environmental commitments. Yet some of these banks' participation in two controversial new bond offerings raise some troubling questions for us.

This summer, China Development Bank announced a new $500 million bond offering, with Morgan Stanley again playing a key role managing the bond sales. This time, the prospectus for the bonds does include some general discussion of the CDB's own environmental policies, and it notably doesn't discuss Three Gorges Dam. Yet environmental groups like Friends of the Earth fear that the latest round of bonds will provide important hard currency to help fund continued work on the dam.

In addition, in July, the Export-Import Bank of China (Chexim) sold $750 million worth of "private placement" ten-year notes. According to press accounts, the joint lead managers for the sale included Citigroup Global Markets Inc., **Deutsche Bank Securities Inc.**, **Goldman Sachs & Co**. and **HSBC Securities**. Chexim has failed to endorse a common set of environmental standards for export credit agencies developed in 2001 and adopted by many of its peers. In fact, according to a coalition of global environmental groups, Chexim "appears to have created a particular niche in financing controversial projects that are shunned by the international community." Its portfolio includes funding for major new dam projects in Burma and Sudan, countries with significant human rights violations that face U.S. trade sanctions.

We've gotten in touch with our contacts at Citigroup and Morgan Stanley to ask tough questions about how their new environmental commitments applied to these bond offerings and to express our concerns. Citigroup called us with some answers and we have a meeting scheduled with some of their senior executives at the end of September. We're still waiting to hear back from Morgan Stanley. As we wait, we can't help but think of Prince's classic song, "1999":

Yeah, they say two thousand zero zero party over
Oops out of time
So tonight I'm gonna party like it's 1999.

How they party is up to them, but we want to make sure banks don't finance environmental destruction and human rights violations like it's 1999. That would be a major step backwards.

Rewriting the Climate Change Script

Shareholder Activism

Shelley Alpern

Last spring, as they have for over three decades, religious investors affiliated with the Interfaith Center on Corporate Responsibility (ICCR) championed a seemingly lost cause: instilling ethical considerations into the decision making of the U.S.'s largest military weapons contractors. **Boeing, Lockheed Martin, Northrop Grumman, Raytheon** and **United Technologies** received shareholder resolutions calling on the companies to:

> Review and if necessary amend and amplify our company's code of conduct and statements of ethical criteria for military production-related contract bids, awards and contract execution and report the results of this process to shareholders within six months of the annual meeting.

Although these firms already have ethics codes, the proponents are looking for something much deeper – codes and behavior that take into account human rights and fair labor standards, environmental impact studies, strategies for employment stability, directives for respecting local community cultures, and the actual impact of using weapons on their victims' economies, environments and societies. Furthermore, they are pushing executives to evaluate the political and civil stability of countries before making sales of weapons, weapons parts and dual-use technology. Perhaps the most audacious part of the resolution is the call for the ethics code to include "processes that ensure that the principles of the common good and the integrity of creation are considered when making decisions about bidding on contracts." In sum, all the responsibilities that weapons producers have shirked for as long as war has been in existence.

As you would expect, investors in weapons manufacturers wholeheartedly and routinely trounce such resolutions. The 2004 proposals averaged just below 6%; the highest vote on such 'ethical contracting criteria' resolutions in recent years exceeded just over 14%. Fighting the military-industrial complex is probably the toughest challenge religious investors take on.

Whereas social investment firms frequently feel compelled to argue the business case for ethical behavior, faith-based shareholder activists have the luxury of openly expressing motivations that come from the heart and soul. The mission statement of ICCR's Violence & Militarization of Society Committee states, "The faith communities of ICCR are called to promote harmony among the human family and between the human family and all of creation." In a culture as soaked through with irony and cynicism as ours, it can be a relief to hear simple words like that spoken without self-consciousness or hesitation at a shareholder meeting or in dialogue with corporate executives.

I spoke with Sister Nora Nash, a Franciscan nun who is part of the Sisters of St. Francis of Philadelphia, and asked her whether dialogue with weapons contractors had achieved any major accomplishments. Most contractors have refused to talk with ICCR members, she said, but "if we can reach at least one person when we do have these dialogues, there's a possibility it can have an impact down the road" – the living application of faith. How does she keep up morale in the face of ever present militarism here and abroad? She responded, "It is very, very difficult for our world to understand that violence begets violence and peace begets peace. I hang in there and hope. There are times when I ask myself whether I should put more energy into other areas, but we're not going to give up. If you have a commitment to peace and nonviolence, you have to keep going, and the Spirit is definitely behind us."

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

Market Watch

by Farnum Brown

We first noted the importance of the so-called presidential cycle in our Market Outlook for January 2003. At that time the market was buried in the depths of an epic bear market that had begun almost three years prior. We stated at that time that we believed the market had made its final bottom in October 2002 and that stocks would improve over the course of 2003.

While various factors contributed to that (correct) view, the fact that 2003 would be the third year in a presidential term weighed heavily in our thinking. The historical record shows an uncanny regularity of stock gains in the third year of a presidency. Indeed, one must go back to 1939 to find a market decline in the third year of a presidential term and even then the market fell less than 2%.

The track record for the fourth year of presidential terms is also quite positive, if less compelling than that of third years. Since 1926 the market has risen in 16 of the 19 election years. The general pattern is for stocks to go sideways for the first half of an election year and then gain altitude as uncertainty surrounding the election's outcome dissipates over the second half.

Yet here we are in September and stocks remain stuck in a sideways pattern with returns for the year fluctuating around nil. This reflects in part, we suspect, the high degree of uncertainty that persists with regard to the outcome of the election. If you're looking for signs of the market's political preferences there's no denying that the market softened following the Democratic convention as Senator Kerry moved ahead in the polls, only to strengthen following the Republican convention as President Bush reclaimed the lead.

That most denizens of Wall Street are Republicans—and so favor a Bush win—should come as no surprise. What may be surprising, however, is that the historical record is quite clear that the stock market does better during Democratic administrations than it does under Republicans. (Whether there is any causation behind this correlation is an altogether separate issue.)

While we've been looking at the influence of presidential politics on the markets, the folks at Ned Davis Research have found that the markets can also be forecasting tools for presidential elections. Poring over the record, NDR found the market tends to be weak leading up to elections where an incumbent president is unseated while a strong market leading up to November tends to predict re-election. Kerry partisans may thus take comfort from the market's lack of vigor so far this year.

The fine points of political handicapping aside, there is little argument that investors and corporate decision-makers are keeping their powder dry pending the outcome in November. This waiting and watching attitude is keeping the stock market in check while corporate earnings continue to rise and cash hoards continue to swell. Which means that stocks are getting cheaper as the potential demand for them increases.

In looking out to 2005 the presidential cycle offers little help as the historical odds of the market going up (or down) in the first year of a president's term are about 50/50. While much will hang on the outcome of the election, it's good to keep in mind that the market hates uncertainty more than almost any particular outcome. Regardless of one's political persuasion, come the morning of November 3rd a great deal of uncertainty should be removed from the outlook.

Dear Reader *(continued)*

has insured that black and white cows will not go unemployed, could not bring back the self-sufficient family farm of my grandfather's day.

Any campaign discussion of the true cost of our petroleum addiction fades behind news of terrorist acts and the fears they provoke, but I have some old press clips with me. One is an article from *Forbes* magazine dated October 28, 2002, a few months before the U.S. attacked Iraq. In an interview, Fadhil Chalabi, who at that time directed the Centre for Global Energy Studies in London, predicted that Iraq's oil reserves could exceed those of Saudi Arabia and that production of this oil could "take off quickly," and if "a U.S.-led force succeeds in ousting Saddam these (American and British) oil companies will come in as soon as the fighting has died down." He also predicted that "the price for West Texas Intermediate [would go] from $30 today to $15". The last time I read a paper the price was $45. On June 30 of this year, the *Wall Street Journal* ran a front-page article on policing petroleum. According to this article, about 30 U.S. warships patrol the Persian Gulf and surrounding waters in an attempt to protect the 16 million barrels of oil that pass out of the Gulf daily – the military is spending an average of $4 to $5 per barrel for petroleum security.

In the village not far from our temporary home, there is a Mobil station, one of the few "chains" allowed to penetrate the picturesque landscape. ExxonMobil is not hurting. Last quarter alone, the company earned a stunning $5.79 billion in net earnings after taxes, up from $4.17 billion a year ago. The latest earnings of this oil company were 3.7 times the 2003 total tax revenues of the state of Vermont.

Sincerely,

Joan Bavaria

Joan Bavaria, President
Trillium Asset Management Corporation