Investing for a Better World

A Publication of Trillium Asset Management

Winter 2005-06

Vol. 20, No. 4

INSIDE

The Promise and Perils of Water Privatization

By Steve Lippman

Much of the world is desperately thirsty. Over a billion people around the world don't have access to safe drinking water, and more than 3 billion lack access to adequate sanitation systems to stay clean and healthy and protect local water resources from contamination. As a result, up to 30,000 people a day—most of them children—die from water borne diseases. In short, kids all around the globe are literally dying for a clean glass of water.

Governments, development organizations, and aid agencies have failed to meet the exploding demand for water services. Even in the United States, strapped local governments are struggling to find the money to replace aging water pipes and infrastructure, and in developing countries with dramatically expanding urban populations, the problems are often much worse. Take Dar es Salaam in Tanzania, one of the fastest growing cities in the world. The city's wa-

Continues on page 4

Sudan Divestment Campaign Begins to Bear Fruit

By Shelley Alpern

The systematic killing, raping and displacement of hundreds of thousands in the African nation of Sudan is so dire, divestment is on the table for many institutional investors who haven't looked seriously at the "D" word since the apartheid years. The focus of concern is Darfur, a region in western Sudan whose tribal peoples, some of them aligned with insurgents, have been subjected to a campaign that the U.S. has officially deemed to be genocidal. The goal of divestment proponents: to use institutional investor clout to deprive the brutal National Islamic Front government of Sudan and its *janjaweed* militias of commercial revenues – particularly revenues from the oil industry — that fund the killing. Divestment is also a potent tool

Continues on page 6

Dear Reader

Joan Bavaria

The New England town where I spent my first 17 years has only a few more people now than it did when Wal-Mart opened its first store. There were about 1600 people then and there are about 2000 people now, though those who live in this picturesque village these days are more likely to be artists than farmers. Neighboring Greenfield, Massachusetts, became famous in 1993 because it was one of the first towns in the country to keep Wal-Mart out. Locally-owned stores I frequented before Wal-Mart was invented still thrive on tree-lined Main Street. Would that be true had Wal-Mart set up shop on the outskirts of town?

Wal-Mart has mushroomed into a social and environmental force to be reckoned with around the world since I left rural New England, and many people see that force as negative, but the company seems not to fully understand or take responsibility for its impact. Since the first Wal-Mart was built in 1962, the company has grown to 5000 stores worldwide employing 1.3 million "associates". More than 138 million customers *per week* visit Wal-Mart stores worldwide. Just about everyone in the U.S. is aware of this, thanks to justice and environmental activists and a recently released movie called "The High Cost of Low Price" (www.walmartmovie.com). As of November 22, 2005, a 66% majority of the 4,432 readers polled in the on-line environmental newsletter, Daily Grist, "wouldn't set foot in that lair of Beelzebub" (www.grist.org). Wal-Mart's

continues on page 12

Spotlight on Your Portfolio: What We're NOT Buying...Yet

By Lisa Leff, CFA

Investors with Trillium managed portfolios know that an important part of our investment discipline is diversification across economic sectors. We are often asked if, due to social screens, we have trouble finding investment opportunities in certain sectors and the answer is almost always no (with some client-directed exceptions). Our policy is to under- or over-weight sectors relative to the market as an intentional reflection of our financial outlook for that segment of the economy.

There are stocks we avoid as social investors: tobacco (classified under consumer staples), weapons manufacturers (typically industrials), and nuclear power (primarily utilities), as examples. We apply our expertise in analyzing the influence of these specific holdings on their sectors and make explicit adjustments to create prudently diversified portfolios. You'll find **Procter & Gamble**, **Group Danone** and **Whole Foods Market** in consumer staples, but not **Altria**; industrials like **3M** and **W.W. Grainger** rather than **Lockheed Martin**, and a nuclear power-free utility sector with natural gas-focused **Keyspan** and hydro-power-based **Puget Energy**.

Two stocks with prominent positions in their respective market sectors, which you won't see us buying in Trillium portfolios, are diversified industrial **General Electric** and consumer staples giant **Wal-Mart**. Both companies historically have not met our social criteria. But recently, there have been exciting and potentially groundbreaking announcements at both companies. So we've been re-evaluating – do GE and Wal-Mart have a place in Trillium portfolios?

In May, GE announced the launch of its Ecomagination initiative to aggressively address the need for cleaner and more efficient energy, reduced emissions, and new sources of water. GE's commitments include doubling its research budget for cleaner technologies, introducing new wind, solar, water purification, and energy efficiency products, and reducing its own greenhouse gas emissions. These developments present an opportunity for true environmental leadership from one of the world's largest companies.

Other aspects of GE remain of concern: GE's legacy of PCBs in the Hudson River followed by decades of unsatisfactory negotiations around clean-up, its development of nuclear power plants, its position as the 14th largest U.S. military contractor with both conventional and nuclear weapons-related contracts, its recent equipment sales to Iran through European and Canadian subsidiaries, and the conflicts of interest inherent in GE's ownership of broadcast network NBC. As much as we applaud Ecomagination, we are not ready to add GE to Trillium portfolios.

In October, Wal-Mart announced a set of social and environmental commitments with perhaps even greater transformative potential than GE's Ecomagination. Wal-Mart's ambitious commitments address climate change, product and store sustainability, product sourcing, workplace diversity, benefits and wages, and are, in rhetoric at least, a turnabout from Wal-Mart's formerly defensive stance. For Wal-Mart, the key will be implementation. Will Wal-Mart bring true change to those core issues that have been of such concern. The jury is still out about whether Wal-Mart will become an acceptable investment for us. In the meantime, we continue to own other attractive retail and consumer stocks.

From an investment perspective, we are satisfied with the opportunities to diversify around big stocks like GE and Wal-Mart — there are plenty of alternative attractive investment candidates in their sectors. But from a social perspective, we would very much like to add GE and Wal-Mart to our universe of buyable securities. The recent announcements are good steps in moving both companies in that direction. So keep watching… we may see GE and Wal-Mart as socially responsible stocks yet.

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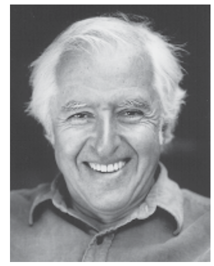
Investing for a Better World is published by Trillium Asset Management Corporation.

Let's Hear It for Bill Scandling—You Won't Read About Him in the *New York Times*

It Seems to Me

Milt Moskowitz



William F. Scandling, a good friend of mine, died in August – and after I helped to write his obituary, I spent more than a month trying to extract from the *New York Times* the reasons why it chose not to run any notice of his death. It seemed inexplicable to me. I'm an obsessive reader of *Times* obits, and I see there obituaries of people who had far less impact on American life than Scandling had. (During this stretch the *Times* carried an obituary of Jack Nicklaus' caddy.)

Scandling was one of three World War II veterans who met on the campus of Hobart College in upstate New York. Before they graduated, they were running the student cafeteria, and they used this contract as a springboard for a catering company specializing in feeding college students. Their company, Saga Corporation, rose to become one of the leading food service organizations in the country, feeding students on more than 400 campuses as well as employees at corporations and hospitals; in addition, they operated restaurant chains (Velvet Turtle, Straw Hat Pizza, Black Angus). At its peak, Saga employed more than 50,000 people. Scandling was CEO of the company.

Aside from its commercial success, Saga was known for enlightened policies and practices with regard to employees. It was one of the companies featured in my 1984 book, "The 100 Best Companies to Work for in America." But in 1986 Saga disappeared from sight after being acquired, over Scandling's bitter objections, by **Marriott Corp.** In his post-Saga years Scandling became a philanthropist, making multimillion-dollar bequests to the University of Rochester and his alma mater, Hobart, where he chaired the board of trustees for a dozen years. I met him in the early 1990s, editing and then publishing his memoir, "The Saga of Saga" (Vista Linda Press, 1994). This was not your usual fawning company history. Scandling told the story in a straight-forward fashion, owning up to mistakes, the biggest one being the decision to turn the company over to so called "professional managers," who presided over its downfall.

An impressive resume, right? But it was deemed not worthy of a *New York Times* obituary. The last explanation I had from the *Times* was that every obituary is "the result of an editorial decision." Thanks a lot. After thinking about it, I concluded that the decision probably resulted from a bias against business. Sure, if you were CEO of **ExxonMobil** or **General Motors**, you will get an obituary. However, it's easier for an actor or writer or composer or baseball player to make the *Times* obituary page than it is for business leaders.

My view of these matters was confirmed when I looked at the November issue of the *Smithsonian*, monthly magazine of the Smithsonian Institute. The cover article was on 35 people anointed as "innovators of our time," people "who made a difference." They are a distinguished bunch -- Gordon Parks, Edward O. Wilson, Richard Leaky, Wynton Marsalis, for example – but only one, Bill Gates, came from the business world, and Jimmy Carter's profile of him concentrated entirely on his philanthropy, not his business accomplishments. Maya Angelou, Yo-Yo Ma, Julie Taymor, Sally Ride and Andy Goldsworthy all made the list, but not Jack Welch, Warren Buffet, Gordon Moore, Fred Smith, Robert O. Anderson or David Rockefeller. The presumption is that the latter bunch did not "make a difference."

There is, of course, nothing new about this verdict. If you are familiar with the way business leaders are portrayed in novels, movies, plays and television sitcoms, you know they are invariably evildoers. The bad actors – Dennis Kozlowski, Bernie Ebbers and Kenneth Lay – leave the lasting impressions – and they **will** get obituaries. Not Bill Scandling.

In the end, I comforted myself with the remark Scandling once made about the *New York Times*: "Any newspaper that doesn't carry comic strips takes itself far too seriously."

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

The Promise and Perils of Water Privatization

continued from page 1

ter pipes date back to the 1950s and reach only 60,000 of the city's current population of 3 million residents. Two-thirds of the water supply never even reaches those 60,000 people, and instead leaks from broken pipes or is stolen. As typically happens, in Dar es Salaa, it's the poorest residents who often pay the highest price for water, buying their water one container at a time from local vendors at high prices. Others without access to the city water system rely on often-contaminated hand-dug wells or polluted rivers.

Without strong government oversight and effective regulation, water privatization often fails to deliver on its promises to increase access, and instead raises a host of new problems.

Some policy makers have argued that the free market and private enterprise can solve these water woes. They note that private companies have the technical expertise to deploy and the capital to invest that many local governments lack, particularly those in the developing world. They also suggest that private companies will operate more efficiently and respond better to customer needs than bureaucratic government agencies.

These ideas have been put into practice around the world in various ways and the results, while mixed, are troubling. They suggest that without strong government oversight and effective regulation, water privatization often fails to deliver on its promises to increase access, and instead raises a host of new problems. Since one of the main arguments for why water privatization is needed is a widespread lack of government resources and expertise, effective government oversight is often sorely lacking. There's also often a tremendous power and resource imbalance in negotiations between governmental officials and the giant multinational companies that now dominate the market for water privatization. This imbalance is heightened by the pro-privatization policies adopted by the World Bank and International Monetary Fund. Over the past two decades, these institutions have increasingly required countries to privatize water systems and other public services as a condition for receiving much-needed loans or debt relief. Some industrialized countries like Britain and France also tie their bilateral development aid to requirements that recipients privatize water services. (Ironically, the Netherlands requires countries receiving its aid to privatize water services even as all of its citizens at home are well-served by excellent, publicly operated water systems.)

To illustrate how these forces can play out in practice, let's return to the city of Dar es Salaam. As a condition of receiving debt relief, the International Monetary Fund required Tanzania to "assign the assets of Dar es Salaam Water and Sewage Authority to private management companies." The World Bank funded a $140 million project to establish a privately managed water agency called City Water, a joint venture of U.K.-based Biwater and a German engineering company called Gauff.

The project was intended to be a model of boosting service to the poor and helping meet the UN Millennium Development goal of cutting the proportion of people without access to safe drinking water in half by 2015. However, according to Tanzania's water minister Edward Lowassa, "The company has failed to produce the goods." He and other officials objected that two years into City Water's 10 year contract, the company had invested half of what it promised to upgrade infrastructure, had failed to install any new pipes, and that water quality had declined. In the Spring of 2005 Tanzania revoked City Water's contract, and now faces legal challenges from Biwater on top of continuing to struggle to meet the water needs of residents in Dar es Salaam.

In a similar and even higher-profile example, the Bolivian government revoked a contract with the U.S. company Bechtel after a botched water privatization project in

The Promise and Perils of Water Privatization

continued from page 4

provoked widespread protests and rioting that left one city resident dead. As in Tanzania, Bolivia had been required to privatize the city's water, in this case as a requirement for getting the World Bank to renew a loan. Water privatization projects in Argentina, Ghana, South Africa and the Philippines have also provoked widespread community opposition, as have some prominent privatization deals here in the U.S. In 2003, Atlanta terminated a 20 year contract with a subsidiary of French water giant Suez to manage the city's water system. The project was plagued by five years of problems, which included allegations of overbilling, a series of water quality problems requiring city residents to boil their tap water to make it safe for drinking, and average rate increases to customers of 12 percent annually. In another dramatic example, as a result of privatization, last year poor residents of the California farm town of Chular faced water rates so expensive, they calculated it would be cheaper to fill their tubs with milk bought from the store than from their taps.

Not all examples of privatization are as dramatic or problematic as these. However, there is little in the record of privatization to suggest that free market competition is the only way to solve the world's water problems. Indeed, there's little in the record of privatization that suggests free market competition at all, with the World Bank and IMF requiring privatization and private water companies often granted long-term monopoly contracts with guaranteed rates of return. A wave of industry consolidation has left the industry an oligopoly dominated by a few giant multinationals like **Suez**, **Veolia**, and **RWE-Thames**.

These companies have been burned by the protests, cancellations, and backlash against water privatization of the last five years, and momentum towards privatization in developing countries appears to be slowing down. According to Pierre Victoria, Veolia's Director of Relations with International Institutions "In order for us to consider a project in a developing country, there has to be a clearly defined water policy and the genuine desire to deal with the private sector. [The project] must not be imposed from above, by international financial organizations." A World Bank report on the two-decade record of its privatization policy called that policy "oversimplified, oversold and ultimately disappointing." However, campaign groups continue to see the World Bank and IMF promoting privatization and they fear that European countries and others are promoting privatization in ongoing World Trade Organization negotiations, like the development of a new General Agreement on Trade in Services (GATS).

As socially responsible investors, we certainly see lots of important ways to leverage the power of financial markets in the service of sustainable development. However, the current model of water privatization seems deeply flawed and we don't hold companies like Veolia, Suez, or RWE that are competing for water privatization contracts. Given the need for effective government oversight to regulate private water utilities' monopoly power, investing in building the capacity of local public agencies around the world to deliver water on their own seems more likely to yield tangible benefits than pursuing privatization. Those investments are still desperately needed. As Cliff Stone, the chief executive of City Water in Dar es Salaam, noted after City Water lost its contract, "Our intention was to bring water to the poor. Whatever happens now, the problem of how to provide water for them remains a problem."

Given the need for effective government oversight to regulate private water utilities' monopoly power, investing in building the capacity of local public agencies around the world to deliver water on their own seems more likely to yield tangible benefits than pursuing privatization.

Sudan Divestment Campaign Begins to Bear Fruit

Continued from page 1

to focus a distracted world's attention on Darfur.

The Darfur genocide is the most recent episode in a twenty-year war waged by the Sudanese government against insurgents. The north-south conflict against Christian and tribal rebels in southern Sudan, which has claimed over 2 million lives since 1984, gave rise to the divestment movement. The role of the oil industry in fueling the conflict led to the call for divestment: oil projects displaced residents, and government oil revenues have funded the government's attacks on insurgents and civilians. Oil monies are alleged to have funded human trafficking by northern Arab Sudanese of black Sudanese women and children. To combat these abuses, divestment advocates first targeted Greater Nile Petroleum, the state-sponsored company developing oil fields in the southern part of the country. **Talisman Energy** was another target, accused of allowing its facilities to be used as outposts for the government's helicopter attacks on civilians.

Divestment is a potent tool to focus a distracted world's attention on Darfur.

In January 2005, a peace agreement was signed that brought an official end to the north-south conflict. Yet a new conflict had meanwhile broken out in the western region of Darfur in 2003. The government used genocidal tactics against the insurgents there as the international community stood by. The African Union has been the only entity to provide peacekeeping troops, yet its several thousand have been unable to stop the killing. Given China's dominant position in the Sudanese oil industry, U.N. sanctions are an extremely remote possibility. The U.S. response has been uneven. U.S. sanctions enacted in 1997 banned nearly all trade with Sudan except for the provision of humanitarian goods. But in 2002, legislation failed that would have prohibited companies involved in Sudan from trading on American capital markets. And while the U.S. had been supporting African Union peacekeepers, Congress recently cut all funds. The Administration also opposed prosecution of the Sudanese government by the International Criminal Court because it does not want to legitimize that body. An additional complication is the Administration's desire to cultivate the Sudanese government as an ally in pursuing international terrorists.

There may be as many as 130 foreign companies operating in Sudan (estimates vary). The most prominent include **PetroChina** (90% owned by the **China National Petroleum Co.**, and a 40% stakeholder in **Greater Nile Petroeum**), **Sinopec** (China), **Siemens AG** (Germany), **ABB Ltd**. (Switzerland), **Tatneft** (Russia), **Total SA** (France), and **Alcatel** (France).

Pressure from activists is likely to have contributed to the refusal of several major public pension funds to participate in the initial public offering of PetroChina in 2000; any linkage was not publicly acknowledged. However, when the Canadian firm Talisman Energy announced that it was selling its 25% share in Greater Nile Petroleum to an Indian firm, the campaign's role was indisputable. The Investor Responsibility Research Center observed:

> *Often, when a company makes a move that it has been under pressure to take, it attributes the action to "business reasons," rather than to outside factors. But Talisman's CEO Jim Buckee was unusually frank… comment[ing] that "Talisman's shares have continued to be discounted based on perceived political risk. Shareholders have told me they were tired of continually having to monitor and analyze events relating to Sudan." He said he had concluded that the controversy had discounted the company's share price to an extent that "was unacceptable for 12 percent of our production."*

Public pension funds currently hold over $91 billion in companies with business in-

Continues on page 7

Sudan Divestment Campaign Begins to Bear Fruit

Continued from page 6

terests in Sudan, according to Divest Sudan. Many are now examining the appropriateness of such holdings, which has led to several prominent divestment announcements. Four states (Illinois, Louisiana, Oregon and New Jersey) have passed legislation requiring or recommending divestment, and at least ten have bills pending (New York, Massachusetts, North Carolina, Arizona, Texas, California, Maryland, Vermont, Indiana and Ohio). In August 2005, New York City Comptroller William C. Thompson wrote to twenty-four companies requesting that each review its business ties to Sudan, examine any potential financial and reputation risks, and report its findings to shareholders. In December, California State Treasurer Phil Angelides recommended that the California State Teachers' Retirement System sell its more than 27 million shares in PetroChina – spurred by a deadly explosion at a company plant and a subsequent cover up resulting in contamination of drinking water supplies, but also credited to its Sudan business.

Three prominent universities have taken divestment stands, prompted by student pressure. Stanford voted to divest of PetroChina, ABB, Tatneft, and Sinopec. Harvard announced its divestment of PetroChina holdings, and Dartmouth has also taken a partial divestment stand. Other campuses with active campaigns include the University of Pennsylvania, Duke, University of California, Columbia, George Washington and Brown.

The risks to corporations and their investors from Sudanese involvement are real. Talisman Energy is facing a lawsuit filed under the U.S. Alien Tort Claims Act by the Presbyterian Church of Sudan, alleging complicity in the government's human rights abuses in southern Sudan. The lawsuit claims these abuses amounted to genocide.

Support for divestment is growing, but it is far from universal. As would be expected, the anti-sanctions USA Engage and the American Enterprise Institute have expressed their opposition. Staking out the middle ground is the European Coalition on Oil in Sudan (ECOS), an alliance of over 80 organizations working for peace and justice in Sudan that was established, according to the group's web site, "when [members] saw that oil, rather than bringing peace and prosperity to the people of Sudan, caused massive human suffering." The January 2005 north-south peace agreement "allows a sharp turn away from past practices, when oil brought misery to many people. There is a widely shared hope that natural resources will be instrumental to bring peace and prosperity." To that end, ECOS has released recommended benchmark practices for oil and other businesses doing business in Sudan. These recommend, for example, that companies practice transparency around payments to the government and for security arrangements, renegotiate product sharing agreements, practice non-discrimination, and support the peace process and human rights, among other key areas.

As for investors, is divestment the right course? It's often considered a tool of last resort among socially concerned investors, a blunt tool like chemotherapy that can destroy the good along with the bad. Engagement is more often the preferred approach. Stock ownership offers unique leverage – such as the ability to file shareholder resolutions — and social investors are reluctant to divest their holdings completely because of this advantage. Mainstream institutional investors are loathe to accept any limits on their investment choices. For these reasons, divestment campaigns are unpopular and infrequent. That the Sudan divestment campaign has gained as much traction as it has is a sign of how desperate the situation there has become.

Trillium Asset Management is reviewing its portfolio holdings for involvement in Sudan and evaluating screening options.

Resources

www.SudanActivism.com

www.DivestSudan.org

www.SudanCampaign.org

www.sudandivestment.com

www.SudanReeves.org

platform.blogs.com/passionofthepresent

www.business-humanrights.org

www.sudandivestment.org

Portfolio Profiles

Itron

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Itron (ITRI – Nasdaq) is a key player in the automated energy and water metering business, and as such is a green play on building a smarter, more efficient electric grid and minimizing water waste. Using Itron's products and software, utilities can better manage their systems, reducing waste and implementing more effective water and energy conservation strategies. Just 25% of U.S. electric/gas/water meters have automatic meter reading (AMR) systems, providing a huge opportunity as utilities convert to these more efficient systems from handheld meter readers.

Itron's three businesses are Electricity Metering, Meter Data Collection and Software Solutions. Electricity Metering includes household meters, commercial and industrial meters, generation, transmission and distribution meters, and international meters. Meter Data Collection products include automatic meter reading (AMR) modules, handheld meter reading and handheld AMR, mobile AMR, fixed-network AMR, and SmartSynch Meter Systems.

Itron is the dominant market leader in AMR (55% share in North America), which is growing rapidly (~20% annually) and is an important capital spending priority for many utilities. The company's earnings and backlog have soared since the acquisition of Schlumberger's electric metering business last year. Meanwhile, the company has aggressively paid down the debt it took on to acquire the Schlumberger business.

Itron stock has gained over 90% in 2005 and looks fairly valued at the moment, but we think it has very bright prospects over the long term.

— Eric Becker, CFA

Toyota Motor

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This fall Toyota (TM-NYSE) became the first automaker to sell over 500,000 hybrid vehicles. Through October it had sold almost 200,000 this year alone, on pace to double its 2004 sales. The company has a significant lead in the hybrid market and plans to rapidly increase the number of vehicles offered as hybrids. The company expects to sell one million hybrids annually by early in the 2010s. Meanwhile, the company has been taking market share from the Big Three U.S. automakers and has built a reputation for quality and innovation. Toyota is also one of the most efficient and flexible auto manufacturers in the world, allowing the company to achieve industry-leading profitability.

Toyota is the second largest automaker in the world in terms of sales and production and is the largest automaker in Japan. Its product portfolio consists of a full range of models, from mini vehicles to large trucks. The company's operations are classified into three segments: automobiles (92%), financial services (4%), and all other (4%). Besides its main brands, Toyota produces and sells vehicles under the luxury label Lexus in North America and Europe. Approximately 60% of all Toyota vehicles sold in the U.S. are built in North America with parts sourced from over 500 North American suppliers.

Toyota's U.S. market share is expected to reach 12.4% in 2005, up from 8.9% in 2000. Given a strong pipeline of new models/remodels in 2006, combined with lessening interest in big SUVs (which is a smaller portion of its portfolio), Toyota seems poised to continue to grow its market share. In Japan, despite a basically flat market for the past few years, Toyota has achieved some modest market share gains to the mid-40s. Europe remains a challenge, but the rest of the world has been growing faster than expectations.

—Laura McGonagle, CFA

The Reinvestment Fund

Overview

The Reinvestment Fund (TRF) is a leading innovator in the financing of neighborhood economic revitalization. Central to its mission is a commitment to put capital and private initiative to work for the public good. TRF builds wealth and opportunity for low-wealth communities and low- and moderate-income individuals through the promotion of socially and environmentally responsible development.

Program

TRF manages $287 million in assets from over 850 investors, including individuals, religious and civic groups, financial institutions, the public sector and private foundations. It uses these assets to finance housing, community facilities, businesses, renewable energy projects and public policy research.

Client Population

While TRF began in the greater Philadelphia region, its market area now extends across the entire Commonwealth of Pennsylvania and through New Jersey, Delaware, Maryland and into Washington, DC.

Impact

Since its inception in 1985, TRF has created opportunity and choice for low-wealth communities and low- and moderate-income individuals in concrete and measurable ways. TRF has made more than $460 million dollars in loans and investments across its lines of business. These investments have resulted in the development of 11,652 housing units; 4.3 million square feet of retail space and community facilities; 27,771 jobs; 9,362 childcare and 14,631 charter school slots. It has also led to the financing of 233 businesses and the creation of 660,165 megawatt hours of energy – enough to power 70,000 homes for a year.

Impact Story

The Pennsylvania Fresh Food Financing Initiative is a new TRF program that works to increase the number of supermarkets or other grocery stores in underserved communities across the state. Created in 2004 with support from the State of Pennsylvania, the Initiative is an $80 million multi-faceted pool that is a one-stop-shop for financing fresh food retailers in underserved areas.

The Initiative provides financing for supermarket operators that plan to operate in these underserved communities where infrastructure costs and credit needs cannot be filled solely by conventional financial institutions. In September 2004 the first Initiative-sponsored supermarket, Shop Rite of Island Avenue in Philadelphia, opened its doors.

"Not only have we been able to create jobs in this close knit community, we've also been able to offer affordable and nutritious food options. We're delighted to be part of creating a stronger and healthier community," commented storeowner Jeff Brown.

One year after opening in the community, the Shop Rite on Island Avenue has quickly become an integral part of the community, visible at community meetings, and participating in neighborhood festivals. The Shop Rite's busy flow of customers is also stimulating additional development in the area and job opportunities nearby. Thanks to TRF financing, the neighborhood now has a supermarket that is bringing new life to the community.

To date, the Initiative has committed $6.2 million in grants and loans to finance seven supermarket projects with a total of 833 new jobs and approximately 240,000 square feet of new retail space.

Investing with TRF

Trillium Asset Management's (TAMC) Investment Management Committee added TRF to its list of approved Community Investments in 1992. On behalf of our clients, TAMC will make investments in TRF of at least $5,000 for a minimum term of three years.

Community Investment Profile™ *

Randy Rice

Geographic Impact:

Mid-Atlantic Region, U.S.

Lending Focus:

Housing and Community Development

Financial Indicators

Finances as of 6/30/05 (in 000's)

Total Assets	93,236
Total Liabilities	69,862
Total Net Assets	23,374
Allowance for Losses	1,085

***Based upon the Community Investment Profiles information service of Calvert Social Investment Foundation (not meant as investment advice).**

Nailing Down Staples' Forest Commitments

Shareholder Activism

Steve Lippman

The company has boosted the average of post-consumer content by weight of its overall sale of paper products from about 9 percent when it made its commitment three years ago to 20 percent last year and 28.5 percent now, and hopes to soon meet and surpass its 30 percent goal.

November marked the three-year anniversary of major new environmental commitments Staples made to reduce its impacts on forests around the world. These included a pledge to triple the amount of post-consumer recycled paper it sells and to phase out the sale of products coming from endangered forests. Having played a role in gaining these important commitments, Trillium Asset Management has monitored the company's progress in meeting those goals. Based on our latest conversations with both the company and some of the leading environmental groups that pressed the company to act on forest protection, we see tremendous progress in many areas. There are also some continuing challenges in figuring out how Staples can work systematically to protect endangered forests around the world.

Staples has made dramatic progress in meeting a target it set to have an average of 30 percent post-consumer recycled content across all the paper products it sells. The company has boosted the average of post-consumer content by weight of its overall sale of paper products from about 9 percent when it made its commitment three years ago to 20 percent last year and 28.5 percent now, and hopes to soon meet and surpass its 30 percent goal. The company now makes many Staples brand products available only with recycled content, with no non-recycled alternatives available.

The company has also engaged in a number of innovative pilot projects, from protecting forests from illegal logging in Indonesia to promoting more responsible forest management practices among small landowners in the Southern United States. At the same time, Trillium Asset Management and some environmental groups are encouraging the company to work more systematically to meet its endangered forest commitment.

"When we identified a source of Staples products from endangered forests in Canada's Boreal region, the company took action in its supply chain to address the problem," said Aaron Sanger, Director of the Corporate Action Program at environmental group ForestEthics. "To phase out of all products from endangered forests, Staples will have to develop a comprehensive system that identifies all of its sources for these products."

Kelly Sheehan, Campaign Director with Dogwood Alliance, told us, "We applaud the progress Staples has made to reach an average of 30 percent post-consumer recycled content for all the paper products it sells. We are expecting to see similar progress soon on the company's commitment to phase out of all products from endangered areas such as the Cumberland Plateau in the U.S. South." While encouraging the company to do more, these groups generally praised Staples' leadership in its sector, noting that competitor OfficeMax has yet to adopt an environmental procurement policy to address forest protection.

The company has been tackling lots of other environmental issues in addition to forest issues, such as electronics recycling and energy conservation. Staples has made significant efforts to reduce its impact on climate change through energy conservation and using more renewable energy. Staples was an early member of the Green Power Market Development Group, a coalition of companies working to boost demand for renewable power through purchasing commitments. Currently, ten percent of the electricity Staples buys meets the Green E certification standard for renewable energy. As pilot projects, the company has also installed solar panels and even experimental wind turbines on a few of its stores to generate power. Overall, the company has committed to reducing its total greenhouse gas emissions from its power use, fleet vehicles, and business travel to seven percent below 2001 levels by 2010, even as it opens new stores and its business grows.

We'll continue to watch Staples' progress on these and other environmental initiatives, push for improvements when needed, and encourage other companies to demonstrate similar environmental leadership.

What We're Doing About Wal-Mart

Clients often ask us what we're "doing about Wal-Mart." There is so much to do about Wal-Mart that paralysis can set in just thinking about the options. Last year, Wal-Mart's proxy ballot contained proposals addressing board independence, stock options, equal employment, public reporting on environmental and social sustainability indicators, political donations, and executive compensation. It was supposed to have been an even busier ballot, but a resolution concerning sales of violent videos was withdrawn, and two others were omitted by the Securities and Exchange Commission, one urging the adoption of renewable sources of energy and another addressing the slaughter methods used by suppliers.

Trillium has never managed a lot of Wal-Mart stock. Despite some recent positive announcements by the company, Wal-Mart has long failed what I sometimes refer to as "the giggle test," let alone our normal screens. You know all the reasons – lousy pay, unpaid overtime, poor health benefits, the "big box" format that eats local businesses for breakfast, a history of sweatshop scandals – the list is as long as the line outside a Wal-Mart the day after Thanksgiving. Nonetheless, we do manage some Wal-Mart stock in client portfolios because the clients acquired it prior to our fiduciary relationship. Such an opportunity!

Did I mention the largest class-action sex discrimination suit in history? *Dukes v. Wal-Mart* represents more than 2 million current and former women employees who claim that the retailer systematically denied them equal pay to men and promotions. One study reports that in 2001, women held only one third of managerial positions, even though the workforce was more than two thirds female.[1] This stuff is not always subtle. One *Dukes* petitioner testified that she was told she could not join a management training course until she could prove herself capable of repeatedly lifting 50 pound bags of dog food, *and* that she'd have to move immediately to Alaska.

Even before *Dukes* was filed in 2001, members of the Interfaith Center on Corporate Responsibility were concerned enough about Wal-Mart's equal employment record to file shareholder proposals asking for public disclosure of comprehensive equal employment data. Private employers subject to the 1964 Civil Rights Act with more than 100 employees must file the EEO-1 form with the U.S. Equal Employment Opportunity Commission. The form breaks down the workforce into nine categories from 'Officials & Managers' at the top to 'service workers' on the lower rung of the ladder, and by sex, race and ethnicity. Social investors request this information so that we can compare company data over time and assess how well the company is meeting its equal employment goals, and how they look compared to others in their industry and to the demographics of the regions they operate in.

I wish I had a dime for every time a corporation told me that they didn't want to release the data because the EEOC's job categories don't correspond well enough with their own, so they might look worse than they really are. What's to prevent them from explaining that with some accompanying text and additional data? Nothing.

Trillium has co-sponsored various EEO-related resolutions at Wal-Mart for over ten years. Since the *Dukes* lawsuit was filed, the level of support among shareholders for the data disclosure proposal has risen every year, from 11% in 2002 to nearly 19% this year (pretty high for a non-governance resolution).

We also joined a small group of shareholders who paid a visit to the Bentonville headquarters in 2002 to meet with Wal-Mart executives about the EEO policy's lack of nondiscrimination protections for lesbian, gay, bisexual and transgender employees. (The reports are true – the corporate offices are decidedly downscale.) The next year, Wal-Mart did upgrade its nondiscrimination policy to include a specific reference to 'sexual orientation.' It's a start.

Shareholder Activism

Shelley Alpern

Trillium has co-sponsored various EEO-related resolutions at Wal-Mart for over ten years.

Strategic View: Can There be a Socially Responsible HedgeFund?

By Adam Seitchik, CFA

Hedge funds are a mystery to most people, starting with the name. A "hedge" sounds like something to reduce risk. Yet some hedge funds make headlines for providing exceptional returns, and it is an iron-clad law of finance that high returns have a dark side: high risk. This was notoriously demonstrated "when genius failed" at the Long Term Capital Management (LTCM) hedge fund in 1998 – almost bringing the entire global economy down with it.

The term hedge fund originally related to selling "short" some stocks while buying others, thus reducing the risk of market exposure. Now the term is used for all sorts of unregulated funds that invest using unconventional strategies. The activities of hedge funds remain murky, as funds can escape the usual level of U.S. Securities and Exchange Commission (SEC) scrutiny by restricting their customers to "accredited investors." These include institutions and wealthy individuals that meet certain financial requirements.

What are the ethical problems with hedge funds? Oh, where to begin! Probably with over-promising and under-delivering. While the industry publishes very attractive return statistics, academic studies cite widespread problems with "backfilling" data and "survivorship bias." One academic paper found that these pervasive data problems inflate hedge fund index returns by as much as 8-9% *per year*.

The second problem with hedge funds is the financial terms. Skeptics say a hedge fund is "a compensation scheme masquerading as an asset class." The typical fund charges 1-2% of assets *plus* takes 20% of the return. Some hedge fund managers make over $100 million per year.

Problem three lies in some of the investments themselves. Esoteric, clever and undisclosed strategies have a good chance of providing high returns. However, the lack of scrutiny of hedge funds provides plenty of room for dodgy behavior. Take just the latest example from the headlines, Millennium Partners, which has reported 17% annualized returns since 1990. Without acknowledging any wrongdoing, the firm has agreed to a $180 million settlement over an elaborate scheme it had developed to trade in and out of mutual funds.

This hedge fund figured out a way to avoid the usual restrictions on mutual fund trading. The long-term, largely middle class investors in the mutual funds subsidized Millennium's profits, as inflows and outflows from the strategy created transaction costs borne by mutual fund shareholders. The strategy was esoteric, secretive and apparently profitable. I also think it was inherently unethical.

In theory, it would be possible to provide a responsible hedge fund, but for me this would require going well beyond the basics of what companies were placed in the portfolio. First, the fund would have a transparent strategy that involves no unethical conduct. Second, its fee structure would make a radical break with the norm in the industry: if profits are going to be shared, then the basic fee should be reduced. Also, substantial profit sharing should only be for that portion of returns that relates directly to the manager's skill, in excess of a risk-free cash rate or any net exposure to the stock and bond markets.

Hedge fund investing requires significant due diligence, and the general lack of regulatory scrutiny means that much of this work has to be done by the investors themselves. A "fund of hedge funds" offered by an established provider is one way to diversify risk and provide an additional layer of fiduciary oversight. There are now over 7,000 hedge funds, with assets over $1 trillion. The number of funds and their profitability now rival the entire mutual fund industry. Caveat emptor!

Dear Reader (continued)

management has been very slow to acknowledge the downside of being the world's largest company as they cling to the business model developed by Sam Walton forty three years ago.

The issues around Wal-Mart extend well beyond the Main Streets of America. Most of the 1.3 million "associates" are not well paid and have poor health benefits, throwing the cost of health care back on local governments. Many qualify for food stamps, and charges of discrimination abound. In response to increasingly rancorous attacks, Wal-Mart released a speech by CEO Lee Scott (total compensation over $20 million) in late October (www.walmartstores.com). This speech outlined aggressive measures toward "Sustainability". From an Environmentalist's point of view, the speech was very impressive. But only hours later, an internal memo written by the human resources folks at Wal-Mart undid the public relations gains of the Scott speech. The writer(s) suggested that Wal-Mart might change the demographic of its aging associates by requiring all store employees to gather carts from the parking lot. It's not hard to conjure images of portly elderly cashiers huffing and puffing as they wrestle rattling carts through rain and sleet and snow.

Wal-Mart might seem to some like the lair of the devil, but it's more likely a wildly successful, pure capitalist enterprise that has yet to see its true huge self in the context of society and the environment. Given the stakes, those of us who are interested in the welfare of ordinary working people or the environment should stay tuned and stay engaged. Sometimes things do change for the better, after all.

Sincerely,

Joan L Bavaria

Joan L. Bavaria, President
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