Values

Walden Asset Management a Investing for Social Change Since 1975

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Walden Asset Management

A Division of United States Trust Company of Boston

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Phony Numbers and Active Investors

As if the bursting of the Internet bubble, the tragic terrorist attacks, and the recession were not enough for the stock market to absorb, misleading, sometimes fraudulent financial reporting has added to the market's woes in recent months, leaving the public in turmoil about the very integrity of the market system. After all, if investors cannot rely on companies to stay faithful to "generally accepted" principles of reporting, how can they make intelligent investment judgments? Indeed, can markets function without a reporting system in which investors have confidence?

I believe there are at least four reasons why we have reached this predicament. 1) The bull market offered huge rewards to corporate executives who successfully misled investors. Here we should include Wall Street's so-called analysts, many of whom have revealed themselves to be cheerleaders for companies with investment banking needs rather than methodical researchers. 2) The Generally Accepted Accounting Principles (GAAP) standards themselves failed to keep up with changing financial stratagems either because of the sclerotic system for changing them or the pressure of interested parties to maintain the status quo. 3) Market regulators, particularly the Security Exchange Commission (SEC) and the Federal Reserve, failed to reign in a multitude of questionable practices ranging from accounting for employee stock options to unreported special purpose entities. We can blame bureaucratic overload for some of these failures, but an ideological opposition to enhanced disclosure at the Fed was also a culprit. 4) Investors, both institutional and individual, perhaps out of greed or just wishful thinking and laziness, failed to exercise sufficiently their function as skeptical analysts of corporate reports.

While we need reforms to improve accounting standards and analyst impartiality, and a regulatory approach that makes corporate transparency a priority, I emphasize here the last of these four points: the role investors can play in restoring the health of financial markets. First and foremost, many professional investors have not been the innocent victims of dishonest reporting. True, uncovering instances of outright fraud are beyond the skills of the average investor, but for those paying attention, the signs of misleading practices were plentiful. Indeed, many were clearly reported in the press.

Bill Apfel is a senior portfolio manager and Director of Equity Research. He serves on USTC's Social Planning and Policy Committee.

Consider just a few things that investors should have been howling about. Among my favorites is the recurring "non-recurring loss." When a company has a truly unusual event (a plant lost to an earthquake would qualify), GAAP standards allow it to specify the cost separately, by way of a footnote. This appropriately enables investors to evaluate the company's ongoing results. But when such so-called "non-recurring losses" are reported quarter after quarter, a practice that has become pervasive in recent years, investors should question whether these "special" charges are really just a cost of doing business. One of the largest, most admired, and best performing companies of the bull market used this footnote device a stunning 18 times during 20 reporting quarters! Another quirky product of the bull market was something called "pension income." Plainly reported in financial statements, the earnings of many companies routinely included investment profits made by pension portfolios. While logic suggests that maintaining a plan is an expense, arcane rules actually required this practice even though such gains would never be available to corporate coffers. Some companies twisted the rules to their extreme, employing fanciful forecasts supplied by their auditors to

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About Walden Asset Management

Walden Asset Management is the socially responsive investment division of United States Trust Company of Boston. Walden began offering socially responsive investment services in 1975. We are among the largest and most experienced investment managers specializing in services for individual and institutional investors with social concerns.

For further information, contact Geeta Aiyer at (617) 726-7250.

About This Newsletter

This newsletter is designed to share our thinking about trends and issues in socially responsive investing and to generate dialogue with our readers. We invite you to comment on any article in the newsletter by calling your portfolio manager (617-726-7250) or by writing Heidi Soumerai or Stefanie Haug, co-editors, at the following address: Walden Asset Management, 40 Court St., Boston, MA 02108. FAX: (617) 227-2690.

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Democracy Corporate-Style

The cost of a ticket to a Bon Jovi concert: $100
The cost of airfare to Orlando and admission to Disney World: $738
The cost of democratic public discourse: Priceless

Where can you take in a Bon Jovi concert for free? Where can you and your children shake Mickey Mouse's paw without flying cross-country and paying a whopping admission fee? If you guessed corporate annual meetings, you're right!

Rather than addressing growing controversies about Latin American labor and questions about lowering the pay-for-performance hurdles that guide its CEO compensation, Coca-Cola filled its Madison Square Garden annual meeting with the live music of Jon Bon Jovi and Wynton Marsalis. When the two-hour entertainment extravaganza ended, there was only 30 minutes left for presentation and discussion of the three company resolutions and four shareholder resolutions on the company's ballot.

Mickey Mouse greeted shareholders entering Disney's annual meeting in Hartford, Connecticut. Mickey, joined by Peter Pan and Belle from Beauty and the Beast later danced through the midst of the annual meeting. As Disney's Chief Financial Officer gave his report, which quietly mentioned the company's loss last year and layoff of workers, huge 30-foot screens played highlights of Monday Night Football and NYPD Blue. For those interested in corporate governance, they had a 20-minute "feature presentation" tagged onto the end of a two and a half-hour commercial.

EMC Corporation went so far as to lead an effort in Massachusetts to change the state's business law to allow companies broadcasting their annual meeting over the internet to dispense with their in-person annual meetings all together. Activists and social investors, including Walden and United for a Fair Economy, caught wind of the bill and succesfully organized to block it only hours before its final passage. Subsequently, EMC did successfully appeal to the SEC for permission to exclude a shareholder proposal asking the company to commit to in-person annual meetings. The SEC ruled that whether or not to hold in-person annual meetings was a matter for management alone to decide. On the other hand, EMC's annual meeting yielded some historic changes. (See page 6.)

Scott Klinger is co-director of the Responsible Wealth project of United for a Fair Economy, where he coordinates shareholder activism on CEO pay and corporate governance issues.

Other firms impeded democratic dialogue by moving their annual meetings to faraway venues. Morgan Stanley moved its to London, England; Household International to London, Kentucky; two hours from the nearest commercial airport. Household faces a growing public outcry over its predatory lending practices. They run such a tight ship at Household that they couldn't afford Garth Brooks as a distraction and had to hang out in the countryside instead.

Not all companies have sought to deflect questions of corporate social responsibility. Sanford Weill, CEO of Citigroup, stood on a bare stage at Carnegie Hall adorned only by a single Citigroup banner. In stark contrast to Disney and Coca-Cola, more than two hours of Citigroup's annual meeting was devoted to discussion of substantive issues of corporate governance and social responsibility. No shareholder was rushed and all questions were taken. Mr. Weill's remarks on the state of the business took ten minutes.

How can social investors encourage corporations to partake in open public dialogue? First, social investors can insist that annual meetings remain a venue for open dialogue and exchange. They can praise companies like Coca-Cola for their openness to private dialogue, but they also should hold such companies accountable when they fail to meet the mark of open, public discourse. Second, social investors should be vigilant against attempts to banish annual meetings to cyberspace. Lastly, social investors should begin to assess a corporation's role in democratic society: how does it use its political influence through lobbying and campaign gifts, and how does it promote open debate of its policies and practices in the public realm, including the annual meeting.

— S.Klinger

Haa Yakaawu Financial Corporation

Creating a Housing Market For Low-Income Homebuyers

"Haa Yakaawu" is a word used by the Tlingit Indians of Alaska for a person who represents you during a trade or commerce oriented transaction.

Christine's story reads like a novel: a single mother of four children, earning $28,000 a year as a child care technician, and living in a 1960s vintage two-bedroom trailer with rotted walls and floors and a roof that were ready to fall apart. She regained hope when the local Indian tribe notified her that she qualified for a $15,000 grant toward a new home. The bad news was that her credit history would eventually prevent her from qualifying for a mortgage loan from a bank.

Haa Yakaawu Financial Corporation (HYFC) came to Christine's aid. HYFC's mission is "to increase homeownership for the under-served populations (Alaska Native, rural, and low-income) of Southeast Alaska." Based in Juneau, Alaska, HYFC serves 21 rural communities spread over a mountainous area roughly the size of Pennsylvania with a total regional population of 72,000. Fourteen of the communities have populations smaller than 1,000. Only boats or airplanes can reach all but two of the communities, and only eight have commercial banks. Despite geographic and economic challenges, HYFC has closed 170 mortgage or home improvement loans totaling $8.3 million since inception (1997), with 90 percent serving low-income borrowers and 93 percent serving Alaska Native borrowers.

In Christine's case, after ten months of credit and personal finance counseling, HYFC was able to qualify her for a small home loan to purchase a brand new three-bedroom home. Christine sold her trailer and used the proceeds to pay off all of her bad debt. An HYFC affiliate constructed a moderately priced modular home to fit her needs. HYFC provided a generous financing package to ensure that her payments were affordable.

HYFC prides itself on providing subsidized loan programs, down payment assistance, credit counseling, and combining several low-income housing programs all under one roof. When HYFC started out in 1997, its loan officers were able to fit all the pieces together and qualify many families for home loans. But that was only half of the picture.

The other half entailed finding affordable homes in an area that ranks in the top 15 percent of the nation's most expensive housing markets. The only homes in the price range for low-income borrowers are quite old or require repairs. Low-income borrowers living in these homes face the subsequent challenge to finance repairs. The dilemma is clear: Families face living in sub-standard or unsafe housing, and HYFC runs the risk of having insufficient collateral value to cover its mortgage loan.

Partnering with other organizations to provide low-cost, high-quality modular homes is one answer, as in Christine's case. However, land is scarce and often expensive to develop in many Southeast Alaska communities. HYFC's only other option is to work with the existing units. HYFC and the local tribe developed a program whereby the real estate arm of the tribe buys the homes and conducts all the necessary repairs (e.g. new furnace, new carpet, removal of wood rot, etc.). Then borrowers approved for one of HYFC's home loan programs select from this inventory of newly renovated homes. The process has proven to be popular and successful. Under this arrangement, HYFC has closed 20 loans since 1999, valued at $3.3 million. HYFC's delinquency ratios are on a par with the rest of Southeast Alaska's market.

By finding ways to create a pool of livable homes through renovation and to make all homes affordable to clients like Christine, HYFC takes that extra step other housing and lending institutions often avoid. Doing so is a risk and a challenge. HYFC's reward is watching members of an under-served segment of the population receive their first real opportunity for affordable housing and financial independence.
– R.Worl

For more information about HYFC, please contact Ricardo Worl, Loan Program Manager, at (907) 780-6868 or rworl@thrha.org.

Through our Community Development Investment Service, Walden clients have invested over $7 million in community development banks, credit unions, and loan funds. We are pleased to have included Haa Yakaawu Financial Corporation in this service.

HYFC Loan Manager Ricardo Worl with a first-time home owner in front of her new house. HYFC's mortgage buy-down program creates affordable homes in Juneau's unaffordable housing market.

Mercury on the Wing: The Evolution of a Shareholder Campaign

The tools of the socially responsive investor are the tools of any activist: letters, phone calls, public education, participation in public policy, press releases, and coalition building. Investors have one additional tool of last resort: the shareholder resolution. Walden has employed all these tactics, with significant success thus far, in our efforts to reduce the devastating impacts of mercury pollution. This story traces the evolution of a Walden shareholder campaign.

Research First

What are the concerns surrounding mercury pollution? Waste incinerators emit mercury when they burn mercury thermometers and other waste that has been improperly disposed of. Power plants that burn fossil fuels also emit mercury. This airborne mercury pollution is deposited in water bodies where it can be transformed into methylmercury, and accumulate in water life. It can then adversely affect the nervous system of those who consume fish. There are other historical sources of mercury pollution as well. The U.S. Centers for Disease Control estimated that 10 percent of women in the U.S. have levels of mercury in their blood that are high enough to cause neurological effects in their offspring. Because of this pollution, 40 U.S. states have advisories for mercury in one or more water bodies, and 11 states have issued statewide mercury advisories.

Inspired by the mandate of the Hippocratic Oath: "First do no harm," the public health coalition Health Care Without Harm (HCWH) began two years ago to encourage retail pharmacy chains to phase out mercury thermometers voluntarily, in favor of solar digital thermometers and other proven, cost-effective alternatives. Many pharmacies agreed. Rite-Aid was the first large chain to do so, and set the dominoes falling. With mild pressure, Wal-Mart and Walgreens and others joined in. Unfortunately, several other large pharmacy chains were not responsive to HCWH's requests.

Enter Walden

Walden first tried phone calls and letters to encourage a number of pharmacy chains that were held in client portfolios to phase out mercury thermometer sales. We also wrote to thermometer manufacturer Becton Dickinson. There were some successes. Unfortunately, several companies resisted or did not respond to our communications. In late 2000, Walden filed shareholder resolutions with CVS and Longs Drug Stores when they did not commit to a phase-out. Walden withdrew its resolutions when both companies agreed to phase out.

Mercury Man explains the global impacts of mercury at a Health Care without Harm event.

We issued a press release to praise their decisions but also to identify holdouts, such as Kroger, Cardinal Health and Safeway, hoping that questions from reporters would add pressure. Safeway and the New York City chain Duane Reade noted that they were phasing out mercury thermometers after receiving calls from Wall Street colleagues whom Walden had contacted. While most Walden clients owned neither Safeway nor Duane Reade, the momentum generated by successive phase-outs, in addition to the positive environmental impact, puts pressure on more recalcitrant companies.

We do not automatically resort to shareholder resolutions. For example, we believed, based on past experience, that a resolution would not necessarily be successful with the large supermarket company Kroger, whom we had already pressured with letters and in press releases. Therefore Walden assembled a coalition of religious institutional investors and colleagues in the socially responsive investment community to send a letter *together* asking Kroger to phase out mercury thermometers. Kroger began phasing out mercury thermometers a few weeks after receipt of a second letter from the coalition. In late 2001, Walden also successfully withdrew a resolution with J.C. Penney, which owns the Eckerd pharmacy chain. Walden estimates that as of May 2002, 71 percent of chain pharmacy stores have phased out sales of mercury thermometers.[1]

Partnering for Success

In addition to its standing as shareholders, a.k.a. owners of corporations, other factors also favor Walden on this campaign. Foremost is the groundwork laid by HCWH, including its

(continued on next page)

willingness to provide Walden with substantive technical assistance, and the ongoing mercury reduction efforts by dozens of HCWH members. A second factor is that the action is relatively easy and cost-effective for most companies to implement. A third factor is momentum. Each company that seeks to avoid the dubious distinction of being the largest pharmacy chain not to have committed to phase out mercury thermometers puts pressure on the next.

Momentum works in the opposite direction, *from the bottom up*, in the political arena. Local councilmembers Marjorie Decker in Cambridge and Mickey Roache in Boston led those cities to restrict sales of mercury thermometers. Undoubtedly, their efforts made it easier for Representative James Marzilli to encourage his colleagues in the Massachusetts House of Representatives to pass legislation at the state level. According to the public health group Mercury Policy Project, eight U.S. states have recently passed legislation that restricts the retail sale of mercury thermometers. This likely makes the work of U.S. Senator Susan Collins easier as she encourages passage of a federal bill restricting mercury. Walden and HCWH testified in favor of the Cambridge and Massachusetts legislation, and wrote to Senator Collins in support of her bill. Certainly these activities in the legislative arena help motivate voluntary corporate actions

Pressing Ahead

The challenge now for Walden clients and staff is to carry this momentum to other sources of mercury pollution. We expanded our mercury reduction campaign this year by taking advantage of HCWH's expertise in working with hospitals. In early 2002, Walden withdrew a shareholder resolution at HCA, the largest private hospital chain, when that company agreed to phase out the use of mercury-containing thermometers and blood-pressure devices by 2005.

In May 2002, Walden filed a shareholder resolution against Cardinal Health, which may be the largest distributor of mercury-containing medical devices. In addition, Cardinal Health's Medicine Shoppe pharmacy franchise is currently the largest pharmacy chain not to have committed to a mercury thermometer phase-out. Walden and HCWH still need to pressure smaller pharmacy chains and other health care facilities and distributors to phase out. However, the health care sector accounts for only about 10 percent of mercury emissions. Future targets, now on the radar screen of the Mercury Policy Project and other regulators and environmentalists, may include electric utilities, and electronics and consumer products companies that make products containing mercury, such as Honeywell's thermostats, or GM's auto switches.
—K.Scott

[1] Walden has compiled a status report for HCWH to track pharmacies' progress in phasing out thermometers. See http://www.noharm.org/ index.cfm?page_ID=26.

Coke and Pepsi: A Stickier Situation

Walden's dialogue with Coca-Cola Company and PepsiCo is more reflective of the challenges we face as advocates than is the fairly straight-forward campaign against mercury pollution.

For the past two years, Walden has encouraged Coke and Pepsi to use at least 25 percent recycled content in their beverage containers, and to recover 80 percent of used beverage containers. The GrassRoots Recycling Network and other environmental activists have pushed for similar recycling goals. Coke and Pepsi have both agreed to use at least 10 percent recycled content by 2005, a partial victory for concerned stakeholders and the environment.

Unfortunately, both companies have resisted calls to set container recovery goals, despite a precipitous decline in recycling rates. Coke and Pepsi also lobby against container deposit systems, which help recover about 80 percent of beverage containers in the 10 U.S. states where they exist.

Our shareholder resolutions this year at both companies gained only about 5 percent of votes in favor. Institutional investors indicated willingness to support recycling goals, but reluctance to proscribe an 80 percent recovery target. Walden will consider this feedback as it seeks to build peer support on this issue.

Ken Scott is a research analyst and portfolio manager of Walden's SmallCap Innovations portfolios. He also leads shareholder actions on a number of environmental and social issues.

EMC: A Season of Firsts

How many resolutions does it take for a company to see the light and change? Sometimes only one. On May 8, 2002, at the annual meeting for EMC Corporation, a shareholder coalition coordinated by Walden won an astounding 56 percent of the votes in favor of EMC creating an independent board. This resolution, one of two, marked the first time EMC shareholders voted—and successfully voted—on resolutions not sponsored by management. "We're witnessing a piece of EMC history," stated Walden's Tim Smith at the meeting.

Corporate implosions by Enron and its ilk have brought home the significance of good corporate governance. In the past shareholder resolutions on corporate governance issues did not create this much of a stir. In fact, Carol Bowie of the Investor Responsibility Research Center told the *Wall Street Journal* that the EMC vote was "remarkable." She noted that only three out of some 50 similar proposals calling for an independent board won the support of shareholders of American companies between 1996 and 2001.

In EMC's case, the success was even more remarkable given the company's past resistance to change. EMC's board has never been independent; five of the eight directors listed on the 2001 proxy were current or former employees and two others had close business relationships with EMC. While the balance is marginally better today, EMC has been reluctant to talk with shareholders about corporate governance issues at all. Because the resolution is non-binding, the coalition took special pains to get Chairman Mike Ruettgers' public commitment to implement the resolution. Ruettgers also stated he would be open to meeting with the coalition to discuss these and other corporate governance issues.

Stefanie Haug is a socially responsive investment officer and social research analyst. She also leads shareholder initiatives, with a special focus on child labor and human rights.

The second shareholder resolution also garnered significant support with 33 percent of shareholders voting for EMC to diversify its board, currently made up exclusively of white males. Shareholders in attendance at the meeting chuckled when informed that, as part of EMC's argument to the SEC to omit this resolution the company stated that it did have a woman on the Board in the past. What it failed to point out was that she was the wife of EMC's founder, Richard Egan. EMC also argued that its board was diverse, because, "the Directors range in age from 43 to 71…."

As Elizabeth McGeveran, a coalition member representing investment firm Friends Ivory & Sime aptly pointed out to SocialFunds.com, resolutions are a business issue and not a political one where votes are all-important. "If I were a company manager and I had 10, 20, 30 percent of my customer base or my owners telling me the same thing, that would be a red flag. Thirty percent is a big number in business." The votes for these two first-time shareholder resolutions with EMC are even more significant given that EMC's proxy card neglected to include descriptions of the shareowner resolutions or even instructions regarding where to consult the proxy statement for descriptions.

Walden believes that the lights are now on at EMC. The company's statements at the shareholder meeting and subsequent conversations encourage us that the need for positive corporate governance change is on EMC's corporate agenda. —S. Haug

Phony Numbers

(continued from page 1)

generate accounting profits that were unlikely to ever materialize. Plenty of other practices should have raised red flags. Even in the case of Enron, page after page of the company's annual SEC filing documented (if opaquely) the existence of the mysterious entities that hid Enron's true liabilities.

Perhaps even more important than the role investors must assume as skeptical readers of financial statements is the one they must play as owners of the companies in which they invest. Indeed, our market system surely will suffer further if shareholders continue to act more as *speculators* who trade their shares than as *owners* who employ managements to run their companies responsibly. Here the intersection between social investing and shareholder activism generally has been critical. We should all be encouraged that those interested in good corporate governance have joined social investors to demand that boards of directors have the independence necessary to supervise managements. The recent success at EMC Corporation is a case in point. (See above.)

It's true that even a reinvigorated investor class cannot by itself restore fully the confidence the financial markets need. Changes on Wall Street, in accounting standards, and in the focus of regulators are also required. Importantly, the SEC should embrace the role of investors as overseers of corporate managements. After all, big profits to smart investors are not all that is at stake. In the end better functioning markets will make for a greater public confidence in the fairness of our financial system, a prerequisite for stronger, more sustainable economic growth. —B. Apfel

Walden's Leadership Fosters Corporate Change

2002 Proxy Resolution Season

Issue	Companies, Progress, Results
Energy and the Environment: With mounting evidence of climate change and environmental degradation from conventional energy production and distribution, energy companies face rising pressure to adopt more sustainable polices and practices and to respect indigenous rights. Meanwhile research indicates that companies taking steps to address the risks associated with global climate change will benefit from enhanced shareholder value.	Walden co-led an investor coalition that sponsored a shareholder resolution asking London-based **BP** to assess the implications of drilling in environmentally sensitive areas, such as the Arctic National Wildlife Refuge (ANWR). Eleven percent of shareholders supported the resolution. At **Occidental Petroleum**, Walden's resolution seeking a report on global warming emissions got 18.9 percent of the vote, among the highest levels ever for its type. With the United Methodists, we are pressing **Lehman Brothers** to use its controlling investment in **Peabody Energy** to encourage that coal company to reduce its use of water from the Navajo Aquifer, a crucial source of economic and cultural livelihood for the Hopi and Navajo Nations.
Mercury Pollution: Mercury pollution has a significantly adverse impact on public health. A known neurotoxin, mercury disrupts fetal and child brain development and permanently impairs mental abilities. The Environmental Protection Agency reports that combustion of medical wastes such as mercury thermometers is the fourth largest source of mercury pollution.	Walden helped convince **JC Penney** (Eckerd Drug Stores) and **Kroger** to phase out sales of mercury thermometers. This follows similar victories at **CVS**, **Longs Drug Stores** and other retail chains in 2001. Also, hospital chain **HCA** agreed to publicize its commitment to a phase-out to encourage others in the industry to follow suit. Partnering with Health Care Without Harm, Walden leads an investor campaign to curtail the use of mercury-containing medical devices, and has provided expert testimony to city and state legislatures seeking a ban.
Genetically Engineered (GE) Food: Scientific conclusions about the risks and benefits of GE foods are uncertain. Long term safety testing of GE products is inadequate and consumers overwhelmingly want to know if GE ingredients are in their food.	**Yum! Brands** (formerly Tricon Global Restaurants, parent of Taco Bell, Kentucky Fried Chicken, and Pizza Hut) agreed to continue our dialogue; to meet with scientific experts identified by Walden; and to develop a section on its public Web site expressing the company's position on GE food ingredients and encouraging readers to share their views with management.
Recycling Plastic Beverage Containers: Technology exists to reduce plastic waste by using at least 25 percent recycled content in plastic containers. Overall beverage container recovery rates have declined from 50 percent in 1994 to 35 percent in 1999. In "bottle bill" states, rates are 80 percent, but companies oppose such legislation.	Three of four plastic **Coca-Cola** bottles in North America contain 10 percent recycled content, up from one out of four bottles just one year earlier. **PepsiCo** is following Coke's lead, pledging a goal of 10 percent recycled content in its U.S. bottles by 2005. With assistance from the GrassRoots Recycling Network, Walden co-leads a large shareholder coalition seeking more recycled plastic content in bottles, along with a commitment to increase the beverage container recovery and recycling rate.
Diversity/Equal Employment Opportunity: Despite progress in hiring and promoting women and people of color, senior management teams remain largely white and male. Gay men and lesbians also continue to face significant discrimination at work. Increased inclusiveness and transparency on policies, practices, and results will help break glass ceilings and foster a workplace free of discrimination.	**Bemis** and **FleetBoston Financial** committed to public disclosure of detailed EEO information, prompting Walden and co-filers to withdraw resolutions requesting a diversity report at both firms. Approximately 33 percent of voting shareholders supported an **EMC** resolution on board diversity, co-led by Walden and the State of Connecticut. This sent a strong signal to EMC's all white, male board. Walden initiatives helped prompt **Affiliated Computer Services** and **Teleflex** to amend their policies to explicitly bar discrimination based on sexual orientation.
Global Labor Standards and Human Rights: Retailers face growing pressure to ensure that their factories or suppliers do not manufacture products under sweatshop conditions and do not use child or slave labor. Companies are urged to adopt International Labor Organization principles and to implement independent monitoring and reporting. Health and safety in the workplace, payment for overtime worked, and a living wage are part of this discussion.	Walden is leading a large investor coalition asking **Federated Department Stores** to consider Rugmark certification as a means to avoid carrying hand-woven rugs made illegally by children. Federated agreed to arrange and participate in a meeting between Tufenkian Company and Rugmark. Tufenkian supplies over 80 percent of Federated's carpets from Nepal. Rugmark already certifies 70 percent of all hand-made carpet production in Nepal. **Hasbro** Chairman Hassenfeld told us that the 7 percent vote for Walden's global labor standards resolution was "NOT a defeat," and pledged to keep working to improve conditions and meet with concerned investors.
Corporate Governance: Among the most basic tenets of good governance is that corporate boards should be composed of a majority of independent directors.	A non-binding shareholder proposal Walden co-led asking **EMC** to take steps to increase board independence passed! A resounding 56 percent of voting shareholders agreed that this is a priority for EMC. The company stated its intentions to add independent directors.

About our Clients

Walden was pleased to work with **Amnesty International** (AI) to help them file their first shareholder resolution in the organization's history. AI's resolution asked ExxonMobil to go beyond general statements and adopt and implement a specific human rights policy to govern its global business operations. At the annual shareholder meeting on May 29, many moving statements were made, including a presentation by AI's Mort Winston and Gary Giscombe. Individuals from Tibet, Indonesia and Columbia, areas where Exxon Mobil's complicity in human rights abuses is under scrutiny, offered additional testimonials.

When the final votes were tallied, approximately 374 million shares were voted in favor of the proposal, representing over $15 billion in shareholder equity. This is a strong show of support for AI's first foray into shareholder activism. The 6.8 percent of the votes are well in excess of the 3% required to reintroduce the proposal at next year's meeting.

As part of their shareholder work to solicit votes on this issue, AI recently published a briefing entitled "Business & Human Rights: A Geography of Corporate Risk," which noted that corporations that adopt human rights standards for their operations significantly reduce the risk of incurring damage to their corporate reputation. (The briefing is available at www.humanrightsrisk.org).

About Us

Tim Smith was elected President and Chair of the Social Investment Forum (SIF). SIF is the national trade association for financial professionals who work to promote the concept, practice and growth of socially responsive investing (www.socialinvest.org). Tim and Walden are honored to expand their leadership role in the important work of social investors and the Forum.

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Also, in June Tim went to China where he was invited to be a lead presenter at the World Trade Organization conference "Ethical Issues in the World Economy." Tim spoke at conferences at two other Chinese cities hosted by city and provincial officials interested in honesty and credibility in the marketplace. Even in China, Enron was a hot topic. Tim addressed the ways in which company Codes of Conduct seeking to dismantle abusive sweatshop practices are a new reality for Chinese companies doing business abroad.

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Steven Heim and **Geeta Aiyer** will soon have a chapter published in an upcoming book edited by Peter Camejo: *The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially*. Expected in mid-summer 2002 by New Society Publishers, the book includes contributions by twelve authors, including consumer advocate Ralph Nader and corporate governance guru Robert G. Monks. Geeta and Steven's chapter is entitled *Crossing the Black Waters: The International Dimension of Socially Responsible Investing*.

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