Fall 2002
VOLUME 11, No. 3

# Values

Walden Asset Management a Investing for Social Change Since 1975

Trust in Tatters 1
Don't Abandon Stocks! 2
Cutting Edge Companies 3
Social Research and Action 4
Neighborhood Trust 6
Letter to NYSE 7
A Fond Farewell 8

**Walden Asset Management**

*A Division of United States Trust Company of Boston*

40 Court Street
Boston, MA 02108
Tel: (617) 726-7250
Fax: (617) 227-2690
www.waldenassetmgmt.com

## TRUST IN TATTERS

*Can corporate governance reforms rebuild public confidence in corporate America?*

Shareholders in corporate America have been forced to realize what social investors have known for years: Inattentive investors provide latitude for irresponsible management. Integrity, ethics, honesty, and corporate responsibility—words intimately linked to today's corporate scandals—are concepts that have been embraced by social investors since the first shareholder resolution in 1971 brought pressure against apartheid. How a company is governed, its board structured, and committees organized are vital mechanisms in holding management accountable to higher standards.

Once representing a fragment of the investor community, shareholder advocates now frequently gain over 50 percent of the proxy vote on governance issues. Considering how heavily the proxy voting process tilts toward management, we view such support as an amazing triumph for shareholder advocacy.

In fact the difficult current environment provides a historic opportunity for investors to demonstrate the clear links between good corporate governance and accountability and positive corporate social responsibility. The owners of companies must take a leading role in ensuring that their agents (i.e. management) work responsibly to achieve the goals of the owners. To rebuild public confidence, businesses will need to look beyond corporate governance reforms and look at ways to be responsive to the social and environmental bottom line as well.

Walden's approach illustrates the integrated analysis needed by investors. We must and do perform work to protect the integrity of the marketplace. Misleading earnings reports, biased analysts' reports, the near-sighted drive for quarterly returns, and skyrocketing executive pay packages betray trust and compromise investors' goals. How, for example, can we invest with integrity when we have to be skeptical of the very financial reports management provides?

*Tim Smith is the Director of Socially Responsive Investing at Walden. Tim provides leadership on corporate governance and corporate social responsibility.*

Walden's voice along with those of other social investors is key to blending the worlds of corporate governance and social responsibility. We must vigorously pursue reforms both directly with companies and through public policy.

### *Walden's Program*

**Proxy Voting.** For well over a decade Walden has been examining closely all corporate governance and social issues that appear on company proxies, making sure that we vote our clients' shares according to standards of best practice. Not only have we supported specific proxy initiatives on enhancing board composition and procedures, for example, but we have also been withholding support for *any* director slate without a *majority* of independent members or without women and minorities represented.

**Company Dialogue.** Walden recently wrote to 60 portfolio companies that elect directors in small classes (staggered Boards) to urge them to have all board members elected annually, thus making them more accountable to shareholders. We sent letters to targeted companies with below-optimal thresholds for independence and diversity as well. We expect this work to lead to more comprehensive discussions with several companies.

*(continued on page 7)*

### 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.*

### 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.*

**Contributors:**
*Steven Heim*
*Lucretia Lyons (summer intern)*
*Stephen Moody*
*Ken Scott*
*Timothy Smith*
*Heidi Soumerai*
*Jane White*

**Copy Editor:**
*Sandy Kendall*

**Layout:**
*Deborah Casey*

# Don't Abandon Stocks!

The 17.6 percent decline in the U.S. stock market in the third quarter brought the year-to-date loss to 28.2 percent, an amount greater than any calendar year loss since 1937. This year's decline follows losses of 9 and 12 percent in 2000 and 2001, making the last three years the worst three-year period in the stock market since the Depression. For some time now, the paramount questions for investors have been: Why is this happening? Are we at the bottom? Or, should we move assets into bonds?

*The Technology Bubble*

Among several reasons for the market decline, the most well known is the correction of the extreme overvaluation that had developed from 1995 to 1999. The market (as measured by the S&P 500) had an average annual return of 28.5 percent for the five years ending in 1999, by far the highest five-year return the stock market has ever recorded. These returns were achieved with an average annual earnings growth rate of 9 percent and an increase in the market's price/earnings ratio (the measure by which those earnings were valued) from 14 to 29 times - led by even more dramatic changes for the S&P 500 technology sector.

*Jane White is a portfolio manager. She is also an active member of the Community Development Investments team.*

Through early 2000, the economy was thought to be in a virtuous cycle of strong growth, low inflation, and rapid productivity gains. The technology sector, previously considered to be made up of manufacturers and providers of capital goods subject to cyclical forces, was thought to have entered a new era of continuous growth, as investment in the Internet would continue uninterrupted well into the future. But capital spending on technology slowed, then virtually stopped, and the economy entered a recession in March 2001. The high p/e ratios in the market required strong earnings growth; those in technology required astronomical growth. Stalled or declining earnings resulted in falling stock prices. In 2000 and 2001, stock price declines were confined pretty much to technology and related sectors, while the rest of the market held up fairly well.

*The Economy's Impact*

The mild 2001 recession was a second factor in the continuing market decline. The recession was limited, as low interest rates maintained by the Fed kept the housing and auto markets fairly strong. More recently, while employment remains reasonably healthy, consumer spending has moderated - and with it overall GDP growth - to the point where employment gains and a strong recovery in corporate profits are unlikely near-term. The risk that the economy may slip back into recession has increased over the past several months, and this unease has weighed heavily on the market.

*Fraud and Abuses Revealed*

With the valuation adjustment essentially complete, and coincident with early signs that the economic recovery was faltering, news of corporate fraud and extraordinary abuses by managers at Enron, Arthur Andersen, WorldCom, Tyco, and elsewhere contributed to a growing lack of confidence in the financial markets. Since then, earnings of company after company have come into question amid revelations of special accounting items, unrealistic pension assumptions, and misleading option accounting. As a result, this year's market decline has been felt well beyond the technology and related sectors. While we are seeing examples of swift enforcement and are reassured by much-needed legislative, regulatory, and corporate governance changes, it may take time and continuing progress on these issues for the stock market to recover.

*September 11 Changed the World*

Now that we have passed the anniversary of the terrorist attacks, the real and possible effects beyond the absolute shock of the events themselves are coming into focus. Consumer spending behavior has changed; how enduring this will be we don't know. The airline, hotel, and restaurant industries are feeling the impact of reduced travel. The impact of added security costs is being felt well beyond the airline industry, as a visit to almost any office building will demonstrate. The cost of fighting the war on terrorism is already visible in the federal budget. The possibility of war with Iraq underscores the risk that deficit spending may lead to inflation in the next few years.

*Have We Reached Bottom?*

We all know there isn't an easy answer. The possibility of further terrorism, compounded by the threat of a war, is surely a factor in the market's current volatility. What keeps us from being more aggressive buyers of stock just yet, however, is the real possibility that currently languid GDP growth will prove insufficient to support the corporate profit recovery

*(continued on next page)*

# Cutting Edge Companies

## Hydrogenics Corporation

*This column highlights companies in the business of providing solutions to social and environmental challenges. Featured companies are typically held in the SmallCap Innovations portfolios offered to Walden's clients.*

In order to power economic growth - and more sport utility vehicles - the U.S. Department of Energy (DOE) projects that U.S. energy consumption will increase 1.5 percent per year over the next decade. This is despite legislated reductions in energy use by appliances and electric motors. With this increased demand, and ongoing concerns regarding global energy supplies, energy conservation and alternative energy sources merit attention.

DOE expects solar and wind energy to have the fastest growth among alternative energies serving electricity markets. However, many consider fuel cells a possible replacement for the internal combustion engine. Fuel cells generate electricity electrochemically, that is, without combustion. They use hydrogen or natural gas as a fuel source, and are more efficient than internal combustion engines, thus using less energy. Moreover, fuel cells emit less air pollution, a significant boost to air quality.

Currently, fuel cells can only compete cost-effectively for use in emergency back-up and uninterrupted power supply applications. General Motors (GM) anticipates that commercialization in autos may happen by 2010, assuming improvements in technology, infrastructure, and economies of scale. Hydrogenics Corporation, a member of GM's alliance of fuel cell commercialization companies, aims to facilitate commercialization by the world's fuel cell makers. Hydrogenics is a market leader in the design and manufacture of automated test stations for proton-exchange membrane (PEM) fuel cells.

While PEM fuel cells are less efficient than other fuel cell technologies, they operate at lower temperatures, thus allowing for quicker start-up and use in a range of auto and residential applications. Hydrogenics' test stations simulate and monitor the effect on fuel cell performance of different operating parameters, such as temperature and contaminants. GM and other auto and fuel cell makers around the world use this data to improve the design and manufacture of fuel cell systems.

Using the R&D knowledge gained in developing its test stations, Hydrogenics is also developing PEM fuel cell systems. In September 2002, Hydrogenics completed a two-month trial of its 25-kilowatt back-up fuel cell power generator at a Nextel Communications cellular tower site in California. The system operates for up to two hours through a power outage. Hydrogenics aimed to show the benefits of fuel cell system over competing lead-acid battery and diesel generation systems.

Continued success by Hydrogenics and its peers has the potential to significantly reduce energy consumption and improve air quality. –K.Scott

*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.*

## Don't Abandon Stocks!

*(continued from previous page)*

necessary to turn this market around; we may well see further near-term declines.

Yet, equity valuations based on corporate earnings power are more than reasonable particularly at current low interest and inflation rates. We are also reassured by the impact that enhanced scrutiny of management, boards, and accountants and recent aggressive prosecution of offenders is having on financial reporting. Whether moderating GDP growth leads to a recurrence of recession in the short term or not, there is little question in our minds that stocks will perform much better than bonds over the longer term. We are comforted enough by these factors to maintain current equity holdings in balanced accounts, confident in the longer-term prospects of the quality companies that we emphasize, while we await visible evidence of renewed economic momentum. – J.White

# Social Research and Action

*Heidi Soumerai is director of Walden's social research group. She also co-chairs our Social Planning & Policy Committee.*

*Steven Heim is a social research analyst. Since 1994, he has also worked closely with Rural Vermont, a family farm and environmental advocacy group.*

Against the backdrop of corporate deception, misconduct, and fraud encountered nearly daily in the news, there are reasons for optimism. Indeed, many companies with which Walden is working are demonstrating genuine progress on a variety of corporate governance and social issues.

Long a focus of our advocacy efforts, **EMC** has converted words into action with the appointment of an independent woman to its board of directors this summer. Previously, EMC's board was insider-controlled and exclusively the realm of white men. Earlier this year Walden co-led two shareholder resolutions at EMC, the company's first shareholder-sponsored ballot items, on increasing board diversity and board independence. The first garnered support from about one third of investors; the latter *passed* with 56 percent of the shareholder vote! EMC has committed to adding still another independent director in coming months.

Walden withdrew a shareholder resolution at **Cardinal Health** when it committed to phase out the sale of mercury-containing medical devices. Mercury is a neurotoxin that has particularly hazardous impacts on developing fetuses and young children. Cardinal agreed to phase out the distribution of mercury thermometers to its Medicine Shoppe pharmacy chain. With this commitment, Walden estimates that more than 85 percent of pharmacy chain stores have phased out mercury thermometers or are in the process of doing so. We are encouraged by the recent passage of a U.S. Senate bill (S. 351) that would phase out sales of mercury thermometers and hope for companion legislation by the House.

Even though **IBM** appealed successfully to the Securities and Exchange Commission (SEC) to block a shareholder resolution co-filed by Walden on computer recycling, the company met with us and other investors to convey its strong commitment to this issue. IBM described its efforts to recover most of its leased computers and in-house equipment and reported that commercial customers often use third parties for recycling their equipment. IBM also has a unique program for consumers to pay $30 to have their computers recycled. All in all, we believe that a majority of IBM's end-of-life inventory is recycled. Walden is encouraging IBM to analyze just how much is recycled and to set a goal, as well as to monitor the standards and practices of its commercial recyclers.

Two widely followed annual analyses on best corporate practices have been released in recent months, *Working Mother*'s "100 Best Companies for Working Mothers" and *Fortune's* "Best Companies for Minorities." Twenty-two companies commonly held in the portfolios of Walden clients were recognized as leaders on work/life policies and programs and for advancing women in management by *Working Mother*. These included 5 of the top 10: **Bank of America**, **Bristol-Myers Squibb**, **Colgate Palmolive**, **Fannie Mae** and **IBM**. Thirteen of *Fortune's* top 50 firms for hiring and advancing minority employees are also widely held in Walden client portfolios. Led by African-American chief executive Franklin Raines, Fannie Mae ranks best in both groups and is an inspiring model of what can be achieved when companies are determined to shatter barriers to advancement. Fully 40 percent of Fannie's top-earning employees (highest quintile) are women, and 20 percent of the 50 highest paid are people of color. Also, one third of Fannie Mae's 18-member board of directors are women or people of color.

### A New Direction

Walden is working closely with the Interfaith Center on Corporate Responsibility (ICCR) to learn more about how multinational companies with operations in Africa are responding to the HIV/AIDS pandemic. In South Africa alone, one in five people between the ages of 15 and 49 may carry the AIDS virus, according to UNAIDS, a coalition of six United Nations agencies. Companies in South Africa are under pressure from health officials worldwide to provide medicines to infected employees and to

# Beyond Our Shores

Overseas, where filing proxy resolutions is often not practical, Walden continues to find opportunities to express our clients' concerns via representation at the annual general meetings (AGM) of stockholders. Walden spoke at the AGMs of **J. Sainsbury** and **Pinault-Printempt-Redoute SA (PPR)**, after stakeholders asked for Walden's help to initiate dialogue with them regarding their U.S. operations.

At the May meeting of French conglomerate PPR, Walden questioned management about reports of serious anti-union activities at its Brylane distribution facilities in Indiana. These allegations are in contrast to PPR's reputation for fair labor practices in France and its unionized Massachusetts warehouse. We encouraged PPR to meet with the union (UNITE) and resolve the issues. Walden also called for PPR to use independent monitoring of its overseas vendors. More recently Walden participated in an investor forum on PPR organized by the AFL-CIO. In July PPR responded that the allegations against it were unsubstantiated by government agencies and that its Brylane management is willing to meet with UNITE.

At Sainsbury's July AGM, Walden encouraged the company to meet with Greenpeace and other U.S. stakeholders on the issue of genetically engineered foods. Sainsbury, a leading UK supermarket retailer, owns Shaw's Supermarkets in the northeastern U.S. Shaw's has been a target of a consumer campaign asking the supermarket to remove genetically engineered ingredients from its private label foods. Sainsbury in 1999 announced a similar policy for its UK operations but has insisted that the vast majority of its U.S. customers are unconcerned about the issue.

For several years Walden has been part of a leadership team of investors putting pressure on **BP** over environmental issues including drilling in the Arctic National Wilderness Refuge (ANWR). Walden has participated in two shareholder resolutions at BP. Soon after the 2002 BP AGM and the congressional vote this spring against opening ANWR, Walden urged BP to meet to discuss outstanding issues in depth. The result was a "stakeholder meeting" held in New York City with four BP staff and 20 stakeholder groups including investors, foundations, environmentalists, and human rights organizations.

Walden's Tim Smith co-chaired the meeting on behalf of the stakeholders. On the agenda were the environment, human rights, corporate governance, and transparent reporting. The conversation was constructive and detailed. Walden and its environmental allies urged BP to withdraw from Arctic Power, the industry lobbying group for drilling in ANWR, and to state publicly that it has no intention to open the refuge to future drilling. The participants agreed that the issues were heard and insight gained into BP's policies, decision making-processes, and challenges. We agreed to future meetings.

In a July meeting attended by Walden, **adidas-Salomon AG** (Adidas) presented its second corporate responsibility report, a comprehensive and detailed look at the company's policies and programs on labor standards and practices. Walden approved Adidas for most international portfolios after it made significant progress in addressing child labor and sweatshop problems that plague the apparel industry. Adidas is involved in independent monitoring of its vendor operations to ensure code compliance and has started developing case studies that evaluate the issue of living wages in certain localities. Walden and its colleagues pressed Adidas to be more transparent. –S.Heim

## Social Research and Action

*(continued from previous page)*

provide preventive education to those who are at risk. Incredibly, investor concern about the human and economic impact of HIV/AIDS has prompted the Johannesburg Stock Exchange to consider requiring listed companies to report infection rates among employees and to detail their initiatives to combat the illness.

Walden wrote dozens of the largest U.S. and global employers in Africa and nearly half have responded to date. In 2001 the **Coca-Cola** Africa Foundation and UNAIDS entered into a three-year partnership. The company provides health care coverage for its employees such as free testing and counseling on a confidential basis and full medical coverage, including antiretro viral drug treatment. AIDS awareness and prevention training are integral components of Coca-Cola's programs. In a groundbreaking partnership, the Coca-Cola Africa Foundation just joined with Coca-Cola's 40 bottlers in Africa to greatly expand the number of employees eligible for anti-retroviral drug and other health benefits. Likewise, the **BP** Africa Region Policy on HIV/AIDS includes education, training, medical help, and counseling. BP collaborates with UNAIDS, regional governments, trade unions, and non-governmental organizations, as well as pharmaceutical companies to increase drug accessibility.

To be sure, we are immersed in a seemingly endless flood of bad news these days. The companies above remind us of continuing progress and give reason for hope. –H.Soumerai

# Neighborhood Trust Federal Credit Union

## Helping Harlem Swing Again

A *Great Day in Harlem*, the famous 1958 photograph of 57 jazz musicians on the steps of a 125th Street brownstone, captured the spirit of a neighborhood that claimed as a distinguishing characteristic the most popular music clubs in New York City. Economic injustice took its toll in the decades to follow; the depression in Harlem lasted until only a few years ago. Now, however, there's talk of building a National Jazz Museum in the area and the Apollo Theater has re-opened its doors. And of special importance to the area's rejuvenation is a financial institution dedicated to assisting residents - among whom average per capita income is $10,000 per year - start their own enterprises, get free of loan sharks, and learn the principles of responsible and strategic money management.

### *Enter Neighborhood Trust*

The Neighborhood Trust Federal Credit Union (NTFCU) opened its doors to the Washington Heights/Inwood community in March 1997 and now claims 4,100 local members and assets of more than $5.2 million. NTFCU reports that one thousand accounts have been opened for fourth- through sixth-graders, totaling $50,542 in savings as part of its "School Banking" program. A traveling teller is deployed to collect deposits - oftentimes of 50 cents each - from schoolchildren to demonstrate the credit union's commitment to the younger generation. Executive Director Justine Zinkin recalls that "before joining NTFCU, half of all members had never had a bank account - many of Neighborhood Trust's initial deposits came from shoeboxes and coffee cans full of cash." When Mark Levine, now Executive Director of Teach for America New York, co-founded the credit union, his recruiting efforts included outreach at neighborhood churches as well as the creation of a tuition payment center for a local parochial school with ties to 500 local families. And according to Ms. Zinkin, 80 percent of the credit union's employees are local residents.

Neighborhood Trust offers accounts with low minimum balance requirements, ongoing education and outreach, and a fully bilingual staff. Its cumulative total of about $1 million in micro-loans has helped members access health care, start and expand businesses, and purchase their first homes. As the second community development credit union in the country to be named a US Small Business Administration lender, Neighborhood Trust directors plan to leverage this distinction in order to make larger loans to neighborhood entrepreneurs.

*Children learning about saving money in NTFCU's school banking program.*

### *A Portfolio of Services*

Envisioning a full-scale (and bilingual) financial literacy curriculum, Mr. Levine first created Credit Where Credit Is Due, Inc. (CWCID) as Neighborhood Trust's sponsoring organization. Members can now learn the basics of financial concepts and practices in its Personal Finance workshops. They can participate in the Entrepreneur Training Program, a comprehensive evening curriculum, to get training in and technical assistance with business plans, legal issues, and bookkeeping systems. The Homeownership Education program familiarizes potential first-time homebuyers with the mortgage process. CWCID is also set to launch one of the first youth credit union programs in New York City in partnership with the Harlem Educational Activities Fund.

And who has used these services? Dario Pichardo, for example, who now serves up sancocho stews at Anoranza D'29, his Amsterdam Avenue restaurant. And Darlys Cruz, who was able to expand her Washington Heights child-care center. Hiciano Payano purchased a top-of-the-line video camera for his film production company.

### *Goals for the Future*

Recognizing the largest employment sector in Upper Manhattan is small-scale retail, one cornerstone effort in 2003 will be a small business initiative designed to increase that segment's representation among credit union membership. Ms. Zinkin is especially excited about the potential to expand the credit union's business services, designed to complement several new loan products. With the launch of a major community marketing campaign, she hopes to reach membership of 5,400 and to increase assets to $6 million.

Given its integral role in helping to rejuvenate the Harlem community, Neighborhood Trust keeps alive the spirit of Count Basie's 1936 plea, "All I'm saying is that it won't kill you to swing."
-L. Lyons

a a a

*Through our Community Development Investment Service, Walden clients have invested over $8.1 million in community development banks, credit unions, and loan funds. We are pleased to have included Neighborhood Trust Federal Credit Union in this service.*

question



## Trust in Tatters

***(continued from page 1)***

**Shareholder Resolutions.** Linking corporate governance and social concerns in the proxy proposal process began with Walden's 1994 resolution asking Ametek to create a diverse *and* independent board. In 2002 our two resolutions to EMC on the same topic resulted in a 56 percent vote in favor of board independence and 33 percent for board diversity—a compelling signal that helped move EMC to name an independent woman to its board. We have led several resolutions that addressed policies pertaining to executive compensation. Walden works in coalitions with other institutional investors, such as the State of Connecticut pension funds, in approaching companies on governance issues, thus magnifying our effectiveness.

**Public Policy Initiatives.** The New York Stock Exchange (NYSE) responded to the growing scandals by proposing new standards of corporate governance in an attempt to create new checks and balances on business. Coupled with the passage of the Sarbanes-Oxley bill last July, the NYSE proposals were aimed at recreating a measure of confidence in the market. Walden wrote an extensive letter to the NYSE supporting proposed reforms in corporate governance for NYSE-listed companies and pressing the Exchange to go further. (See accompanying sidebar for highlights of our letter.) The crisis of confidence in corporate America is not simply a distrust of auditors and financial reports; it is also doubt whether companies are telling the truth about environmental matters and social matters, and showing respect for employees, customers, communities, and human rights. Consequently we also asked the Securities and Exchange Commission (SEC) to include disclosure requirements on social and environmental issues. Locally, Walden is involved in a coalition of concerned investors encouraging the pension board of the Commonwealth of Massachusetts to update its proxy voting guidelines to include votes on social responsibility issues. Walden believes strongly in the need to protect the integrity of the financial markets. In concert with others, we will be active in corporate boardrooms and stockholder meetings as well as with reforms proposed by the SEC and NYSE. We can do no other!
–T. Smith

### EXCERPTS FROM WALDEN'S LETTER TO THE NYSE

The goal [of the proposed reforms] is to institute requirements for governance of NYSE companies that will reinforce checks and balances in corporations, thus contributing to a return in confidence in the markets and the corporations in which we invest. The NYSE reforms are an important step in that direction.

In Support of the NYSE Proposals

- Board Independence: Walden is a strong advocate of the recommendation that independent directors must comprise a majority of a board. The widest possible breadth of perspectives on a company's strategy and operations is imperative. The Board must be a thoughtful, independent voice and not a rubber stamp for management recommendations.

- Role of Non-Management Directors: There are a number of companies that require non-management directors to meet without management in regular executive sessions.

- Independence of the Audit, Nominating, and Compensation Committees: We applaud extending the independence rule for the audit committee to these other two Board committees.

- CEO Certification of Investor Information: This rule places a CEO "under oath" and serves as a strong reminder of the repercussions of deceiving the investing public.

- Orientation Program for New Board Members: We support this guideline as it ensures that every new board member will have the chance to familiarize herself or himself with the company's code of business conduct and how it is implemented.

Need for Greater Clarification

- Definition of "Independence": Walden strongly supports board independence but has concerns that the NYSE reform lacks clarity of definition. We urge the NYSE to give thoughtful consideration to the definition of board independence used by the Council of Institutional Investors and Institutional Shareholder Services.

- Code of Business Conduct and Ethics: We believe the implementation of a corporate code of conduct should be a fundamental operating principle at any organization and commend the NYSE on its recognition of the need to formalize such standards. We also encourage all listed companies to incorporate principles of corporate responsibility into corporate governance codes. Companies should adhere to a code of conduct, develop independent monitoring, and provide meaningful transparency and reporting on compliance with the code. The code should deal with a broader scope of issues, including environmental and social practices.

Areas to Consider

- Annual Election of Directors: The NYSE's proposed guidelines do not refer to reforms that support the annual election of Directors. Thus we recommend that the NYSE require that listed companies annually elect all members of the Board.

- In-Person Annual Meetings: Recently, a number of companies have begun to lobby for legislation to hold their stockholder meetings online and do away with a tradition of in-person annual meetings. Thus we recommend that the NYSE include as one of its guidelines that companies be required to continue in-person shareholder meetings even if they *also* opt for online meeting participation.

- Election of Auditors: At present many NYSE-listed companies do not require the election of the Auditors at the annual stockholders meeting. Instead, the Auditors are simply chosen by the Board Audit Committee and confirmed by the Board. As an indication of financial accountability, we believe the NYSE should propose that the Auditors be approved annually by shareholders.

- Board Diversity: Ensuring that a company's board is inclusive and led by a diverse combination of Directors is an issue garnering a good deal of shareholder support. We urge the NYSE to encourage listed companies to elect a diverse Board that includes women and people of color.

*A copy of Walden's letter to the NYSE, and a companion letter to the SEC, are available on request.*

# A Fond Farewell



Change is in the works at Walden. We have begun to realign our business to strengthen our focus on only those investment services that we directly and actively manage. These include domestic, high quality equities within core, growth and value styles; small cap innovations; fixed income; and balanced portfolios. We have decided to exit the sub-advised investment services – international and small cap value management, as well as the international and domestic index assets.

Geeta Aiyer, who brought a great spirit of entrepreneurship with her when we acquired her firm in 1998, intends to continue to manage these products in a new social investment firm beginning next year. Lauren Compere and Steven Heim, both part of Geeta's team that originally developed these products, plan to join her.

*Geeta Aiyer*

It is difficult and sad to say goodbye to Geeta, Steven and Lauren, who have given so much to Walden. Each has brought intelligence, kindness, professionalism, tireless energy, and an infectious excitement about building and leveraging the work and world of social investors. Together, we broke new ground on emerging social investment issues and created novel strategies to effect corporate change. Indeed, we have celebrated many victories along the way. We wish Geeta and her team continued success.

This is not all a farewell. As opportunities arise, Walden hopes to collaborate with Geeta on a variety of social investment issues and corporate advocacy initiatives. We know that our collective voice, including those of other concerned investors, is among our greatest assets and a formidable force for change.

In a newly focused Walden, we will continue to serve our investment clients with professionalism, integrity and excellence at the highest possible level – a commitment that has been the primary engine for our quarter century history of success.

Stephen Moody, Tim Smith, and Heidi Soumerai

Printed on 100% post-consumer recycled paper with soy ink.

Walden Asset Management
40 Court Street
Boston, MA 02108
www.waldenassetmgmt.com

**First Class Mail**
**U.S. Postage Paid**
**Boston, MA**
**Permit No. 50816**