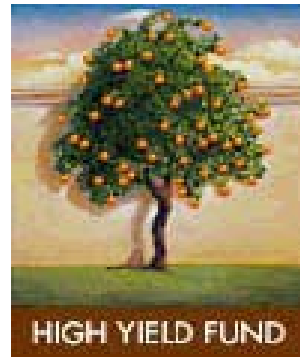


Agents of Accountability in Business

Corporate Governance & Social Investors



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Seoul Plaza Hotel
June 17th, 2003

Road to Accountability **Rebuilding Confidence**



Overview of the Post Bubble Period

Factors in the Loss of Investor Confidence

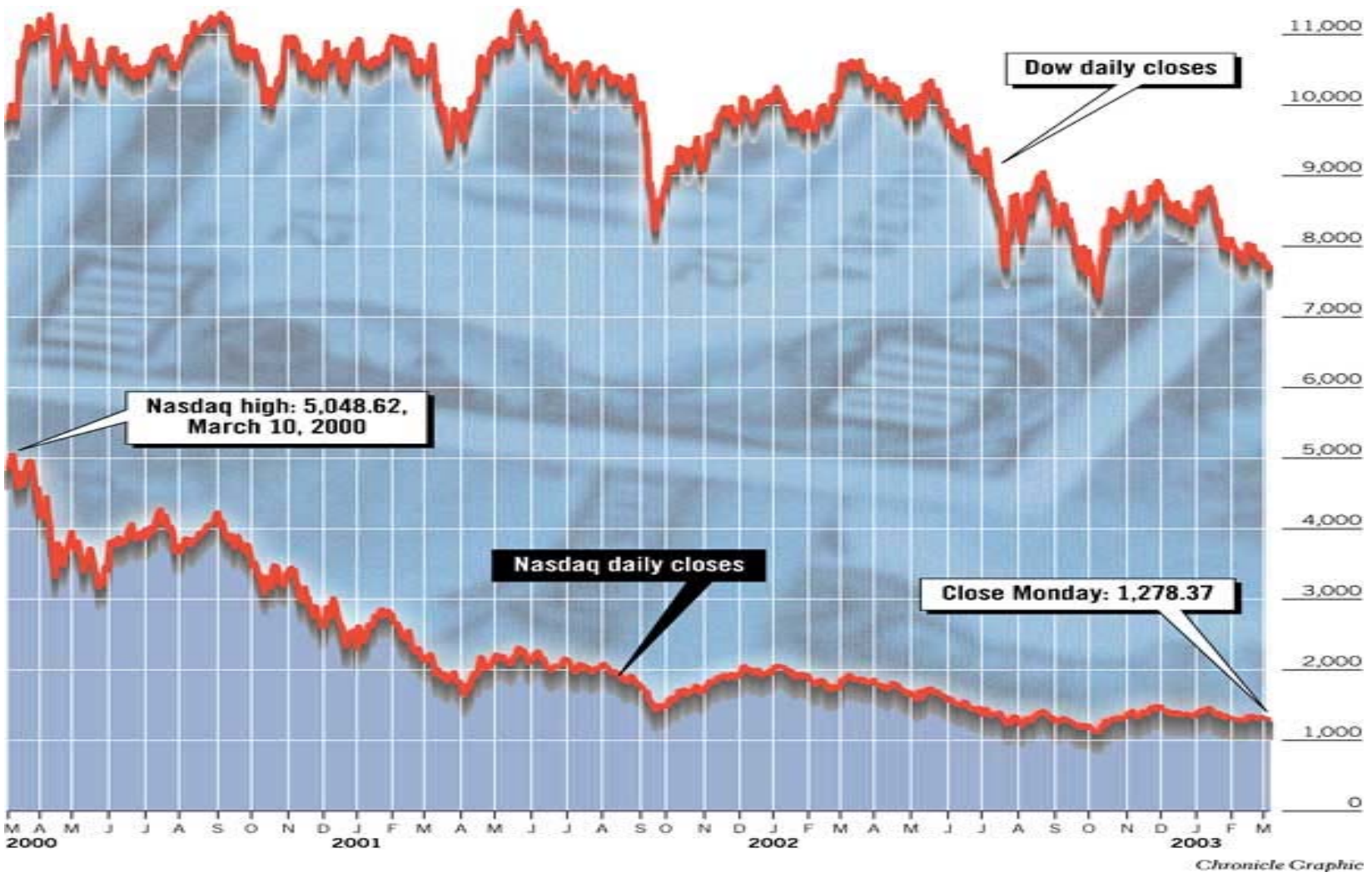
Social Investors Approach to Promote Change

Shareholder Advocacy

Regulation & Legislation

Further Necessary Reform

3 Years of Losses: Market Performance as of Monday, 3/10/2003



Source: San Francisco Chronicle 3/10/2003
Past performance is not indicative of future results

What Happened to the Bull Market?

2002 News Headlines



“Waste Management Executives are Named in SEC Accusation”

– Washington Post 3/27/2002

“Founder of Adelphia and 2 Sons Arrested”

– New York Times 7/25/2002

“Tyco Admits Using Accounting Tricks To Inflate Earnings”

– New York Times 12/31/2002



Factors in the Loss of Investor Confidence

- **Sell-Side Corruption**
- **Questionable Accounting : Reserves, Pension Accounting, Derivatives**
- **Systemic Problems: Inadequate Regulatory Scrutiny**

Social Investors Approach to Promote Change



- **Portfolio Screening and Dialogue**
- **Affect the Cost of Capital**
- **Shareholder Advocacy in Coalition of Religious, Environmental and Corporate Governance Activists**
- **Political Persuasion**

Shareholder Activism



- **Proxy Vote Disclosure: Pax and Domini are the first mutual fund co.'s to disclose proxy votes on web-site**
- **Board Independence: EMC > 50% of Vote**
- **Labor Issues: Pax dialogue with Bemis**
- **CERES: over 70 companies**
GM, Ford, American Air, Baxter...



Accounting and Accountability

- **Conflicts of Interest: Adelphia**
- **“Cooking the Books”: Xerox**
- **Misleading the Market: Freddie Mac**

What Is Needed to Rebuild Investor Confidence

- **Independent Boards and Independent Committees**
- **Independent Auditors**
- **Separation of Chair and CEO Positions**
- **Consistency in Pension Accounting Standards**
- **Transparency in Derivatives Accounting**
- **More Criminal Penalties for Corporate Crimes**
- **Shareholder and Bondholder Restitution**



Shareholder Advocacy: Corporate Governance Proposals



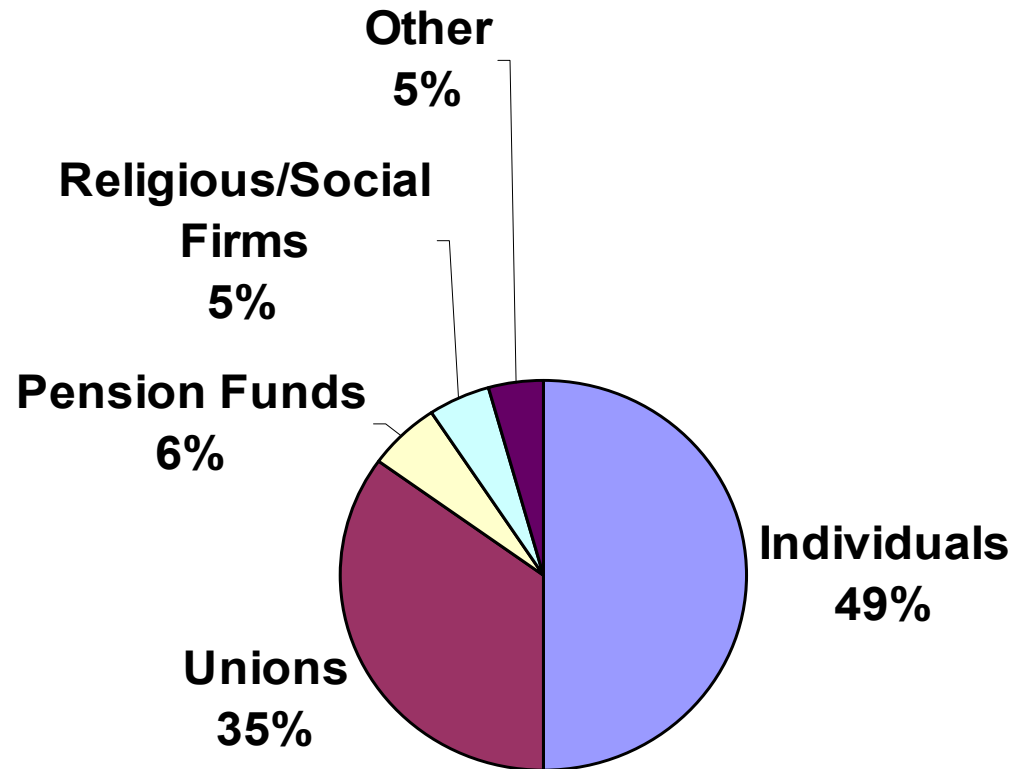
2002

- **Increase Board/Committee Independence**
- **Allow Vote Against Directors**
- **No Auditor Consulting**
- **Director Role in Strategy**
- **Expense Stock Options**
- **Vote on Golden Parachutes**
- **Analyst Independence**

2003

- **Separate COB and CEO Positions**
- **Equal Access to Proxy**
- **Limits on Non-Audit Fees**
- **Adopt Majority Votes**
- **Expense Stock Options**
- **Grant Perf-based Options**
- **Restrict Executive Pay**

Who is Filing These Resolutions?



Proportion of Proposals Filed 2002-2003

Source: Investor Responsibility Research Center

Focus: Restrict Executive Pay

Focus: Separate Chair of the Board and CEO Positions

Focus: Auditor Fees & Independence

Focus: Equal Access to Proxies & Adoption of Majority Vote

Current Regulation



- **Sarbannes-Oxley Act**
 - **CEO certification of financial reports**
 - **Mandatory rotation of audit partners after 5 years**
 - **Code of Ethics for CFOs**
 - **Forfeiture of bonuses**
- **SEC Ruling: Mutual fund proxy voting**

Proposed Legislation



- **Accounting, Compliance & Enforcement Staffing Act (H.R. 658)**
- **Pension & Security Act of 2003 (H.R. 1000)**



Proposed Regulation

- **FASB proposal to require stock option expensing**
- **SEC proposal to allow shareholder nomination of candidates for the Board of Directors**

Focus: Expense Stock Options (& Grant Performance-Based Options)

Further Necessary Reforms



- **Environmental “Governance” Issues: Equator Principles**
- **Social “Governance” Issues: Nike Labor Principles**
- **The Need for Better Reporting (GRI)**

Screens for Corporate Governance Issues



- **Independent Board of Directors**
 - Majority is comprised of Independent Outside (IO) Directors
- **Separation of Chair and CEO Functions**
- **Independent Committees**
 - Audit
 - Nominating
 - Compensation
- **Independent Auditors**

Organizations in Shareholder Activism



- **Interfaith Center on Corporate Responsibility**

www.iccr.org

- **Shareholder Action Network**

www.shareholderaction.org

- **Institutional Shareholder Services**

www.issproxy.com

- **Investor Responsibility Research Center**

www.irrc.org

- **Pax World Funds**

www.paxfund.com

Thanks to Progressive Asset Management for content provided for this presentation



Questions & Answers