



Socially Responsible Investing

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Socially Responsible Investing (SRI)



- **A Recognition That Stewardship of Financial Resources Embraces Broader Moral Concerns.**
- **Incorporation of Ethical, Moral And/or Social Criteria Into the Process of Investment Stewardship.**
- **Alignment of Values of an Organization With Its Investing Process.**



Goals of SRI

- **Incorporate Values in Investing Process**
- **Engage in Dialogue to Espouse Values**
- **Positively Impact Corporate Behavior**
- **Create Societal Benefits**

Growth of SRI In US



- **Over \$2 Trillion in SRI Managed Portfolios –
13% of All US Assets Under Management**
- **57% Screening Only, 31% Active Ownership,
12% Active Ownership and Screening**

Source - Social Investment Forum

SRI Policy Development



- **SRI Community Shares Ideas, Priorities, Strategies**
- **Focus on Long Term Economic and Ethical Benefits**
- **Catholic Perspective – Based on Catholic Values and Consistent With the Bishops' Guidelines**
- **Consensus Agenda Is Adopted**

How Do Most Institutional Asset Management Firms Approach SRI?



- **Restricted List – Stock Screens**
- **Client/Consultant – May Use Vendors for Proxy Voting, Other Services**

Consultiva Advisory Services for Institutional Clients



- **Develop Investment Policy Statement**
- **Advise on Asset Allocation**
- **Integrate Socially Responsible Investment Program – Consistent With Your Values**
- **Selection & Monitoring of Investment Managers**
- **Diversified Funds and Separate Accounts**
- **Reporting & Performance Evaluation**
- **Custody and Safekeeping**

How Does the SRI Community Approach SRI?



- **Active Ownership is Primary Focus**
 - **Corporate Dialogues and Correspondence**
 - **Shareholder Resolutions**
 - **Proxy Voting**
- **Active Ownership Enables Dialogue – Change – Societal Benefits**
- **Stock Screening is Passive – Limited in Scope**

Catholic Bishops of the United States

- SRI Active Ownership Guidelines



"Individual Christians who are shareholders and those responsible within church institutions that own stocks in U.S. corporations must see to it that the invested funds are used responsibly. Although it is a moral and legal fiduciary responsibility of the **trustees** to ensure an adequate return on investment for the support of the work of the church, their **stewardship embraces broader moral concerns**. As part owners, they **must cooperate in shaping the policies of those companies through dialogue with management, through votes at corporate meetings, through the introduction of resolutions and through participation in investment decisions**. We praise the efforts of dioceses and other religious and ecumenical bodies that work together toward these goals." (*Economic Justice for All*, 354, *emphasis added*)

Adopted at the November 1991 NCCB/USCC General Meeting
and published in *ORIGINS* (a CNS Documentary Service)
November 28, 1991, Vol. 21: No. 25
see SRI Guidelines at www.nccbuscc.org/finance/srig.htm.



Socially Responsible Investing

The CBIS SRI Program

- **Emphasis on Quality Managers and Performance Comes First**
- **Stock Screens Typically 5% or Less of Portfolio Companies**
- **SRI Policy Based on Catholic Values – Bishops’ Guidelines - Consensus Views**
- **Primary Focus on Active Ownership – Impact – Societal Benefits**
- **Restriction Criteria – “Companies We Cannot in Good Conscience Profit From”**
 - **Life Ethics**
 - **Pornography**
 - **Tobacco**
 - **Violence**



Socially Responsible Investing CBIS - Asset Managers Interaction

- **SRI Securities Restrictions: An Overlay to Asset Manager's Strategy**
- **Successful Implementation Requires Communication and Monitoring**
- **CBIS Provides Restricted Universe to Managers**
- **Asset Managers Have Internal System to Monitor Purchases/Sales**
- **CBIS Independently Monitors Purchases/Sales for Restricted Securities**

Socially Responsible Investing

CBIS Active Ownership Network



- **Interfaith Center on Corporate Responsibility (ICCR)**
 - **Ecumenical Consortium of 300 Faith-Based Institutional Investors**
 - **Issue Groups Define Areas of Concern for Members**
- **Coalition for Environmentally Responsible Economies (Ceres)**
 - **CERES Principles: Responsible Environmental Stewardship**
 - **Public Reporting by Participating Companies**
- **Investor Responsibility Research Center (IRRC)**
 - **Social Research Organization**
- **Socially Responsible Mutual Funds, Pension Funds, Private Foundations**
- **SRI Community Develops Consensus Agenda**

2002 Socially Responsible Investing Activity



- Voted 915 proxies - companies owned in CBIS U.S. equity funds.
- Engaged in dialogues and filed resolutions with 36 different companies.
- Life ethics, pornography, tobacco, violence and other principled purchasing criteria are diligently monitored.



CBIS SRI Success Stories

- **Citigroup – Predatory Lending Policy Changes**
- **Dupont – Genetically Modified Foods Safety Issues**
- **Baxter International – Phase out of PVC in Medical Devices**
- **Talisman - Canadian Shareholder Rights Legislation Passed**

CBIS SRI Success Stories



- **Human Rights Issues – Working Conditions & Living Wage**
 - **Sears - Developing Policy to Screen Vendors**
 - **Yum! Brands - Resolution Received a 35% Vote**
- **Violence - Handguns**
 - **Walmart – Eliminated Sale of Handguns**
- **Equality – Board Diversity**
 - **CLARCOR – Appointed Woman to the Board of Directors**
- **Corporate Governance – Board Declassification (Annual Elections)**
 - **Gillette – Resolution Received a 63% Vote**
 - **McDonald’s – Agreed to Study Declassifying Its Board**

2003 CBIS Dialogues



Company	Dialogues
Abbott Laboratories	Provide access to critical medicine in African nations
ABNO AMRO Holding NV	Mortgage lending practices
AT&T Corp./Comcast	Report on involvement in pornography industry
Baxter	Phase out PVC use in manufacturing of medical supplies
BP	Report on efforts to reduce impact on global warming
ChevronTexaco	Report on human rights standards in Nigeria Report on efforts to reduce impact on global warming
Citigroup	End predatory lending practices Eliminate analyst conflicts and loans disguised as trades Report on environmental and social impact of financial decisions*
Coca-Cola	Report on global corporate standards
Eastman Kodak & Co.	Make Equal Employment Opportunities (EEO) Report available
General Electric	Report on international sourcing standards
GlaxoSmithKline	Provide access to critical medicines in African nations
International Business Machines	Report on international vendor standards
JPMorgan Chase	Report on environmental and social impact of financial decisions

2003 CBIS Dialogues



Company	Dialogues
Kimberly Clark Corp.	Reduce use of chlorine in production processes
May Department Stores	Report on efforts to promote sustainability
Merrill Lynch	Report on environmental and social impact of financial decisions
Moody's	MacBride Principles
Proctor & Gamble	Reduce use of chlorine in production processes
Schering-Plough	Provide access to critical medicines in African nations
Target	Make Equal Employment Opportunities (EEO) Report available
Unocal	Reduce greenhouse gas emissions
Walgreen Corp.	Make Equal Employment Opportunities (EEO) Report available
Wells Fargo	End predatory lending practices
Weyerhaeuser	Reduce use of chlorine in production processes

SRI Performance Experience - CBIS



- **CBIS/Rhumblin Core Equity Index**
+ 11.32% (SRI screens) vs S&P 500 + 11.12%
(1/1/95 to 9/30/03 – 8 yrs)
- **CBIS/Cap Guardian International Equity**
+ 8.37% (SRI screens) vs CG Composite + 8.10%
(1/1/95 to 9/30/03 – 8 yrs)
- **CBIS/Dodge & Cox Value Equity**
+15.60% (SRI screens) vs Dodge Composite +15.62%
(4/1/91 to 9/30/03 – 12 yrs)

All returns are annualized, gross since inception. CBIS returns include impact of SRI screens.



SRI Impact: Gross Annualized Returns

Since Inception

January 1, 1995 to September 30, 2003 (over 8 years)

CBIS/RhumbLine Core Equity Index Fund	+ 11.32%
▪ RhumbLine Commingled Fund	+ 11.31%
▪ S&P 500 Index	+ 11.12%

CBIS/Cap Guardian International Equity	+ 8.37%
▪ Capital Guardian International Equity Composite	+ 8.10%
▪ MSCI EAFE Index	+ 2.68%

April 1, 1991 to September 30, 2003 (over 12 years)

CBIS/Dodge & Cox Value Equity	+ 15.60%
▪ Dodge & Cox Value Equity Composite	+ 15.62%
▪ Russell 1000 Value	+ 11.69%

Notes:

The performance shown is based on the CUIT Core Equity Index Fund, RhumbLine Commingled Index Equity Fund, CUIT International Equity Fund, Capital Guardian International Equity Composite, CUIT Value Equity Fund and the Dodge & Cox Value Equity Composite for the periods ending September 30, 2003.

The index performance is that of the S&P 500, MSCI EAFE and the Russell 1000 Value Index for the periods ending September 30, 2003.

These are gross returns as of September 30, 2003.

Past performance is not indicative of future performance.



SRI Impact: Relative Annualized Returns

Since Inception

January 1, 1995 to September 30, 2003 (over 8 years)

CBIS/RhumbLine Core Equity Index Fund

- vs. RhumbLine Commingled Fund + 0.01%
- vs. S&P 500 Index + 0.22%

CBIS/Cap Guardian International Equity

- vs. Capital Guardian International Equity Composite + 0.27%
- vs. MSCI EAFE Index + 5.69%

April 1, 1991 to September, 2003 (over 12 years)

CBIS/Dodge & Cox Value Equity

- vs. Dodge & Cox Value Equity Composite – 0.02%
- vs. Russell 1000 Value + 3.91%

Notes:

The performance shown is based on the CUIT Core Equity Index Fund, RhumbLine Commingled Index Equity Fund, CUIT International Equity Fund, Capital Guardian International Equity Composite, CUIT Value Equity Fund and the Dodge & Cox Value Equity Composite for the periods ending September 30, 2003.

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Takeaways

- **Active Ownership Is the Key to Achieving Societal Benefits of SRI**
- **SRI Screens Have Not Significantly Affected Investment Returns or Limited Diversification According to Recent Studies and CBIS Experience**
- **Performance and Quality Criteria for Manager Selection/Review Is Same for SRI or Non – SRI Investment Managers**
- **Implementation Requires SRI Managers/Vendors Whose Programs Are Consistent with Your Values and Investment Objectives**

References

- **Christian Brothers Investment Services, Inc. (CBIS)**
www.cbisonline.com
- **Coalition for Environmentally Responsible Economies (Ceres)**
www.ceres.org
- **Interfaith Center on Corporate Responsibility (ICCR)**
www.ICCR.org
- **Investor Responsibility Research Center (IRRC)**
www.IRRC.com
- **Institutional Shareholder Services (ISS)**
www.issproxy.com
- **Social Funds**
www.socialfunds.com
- **Social Investment Forum (SIF)**
www.socialinvest.org
- **United States Conference of Catholic Bishops (USCCB)**
www.nccbusoc.org/finance/srig.htm