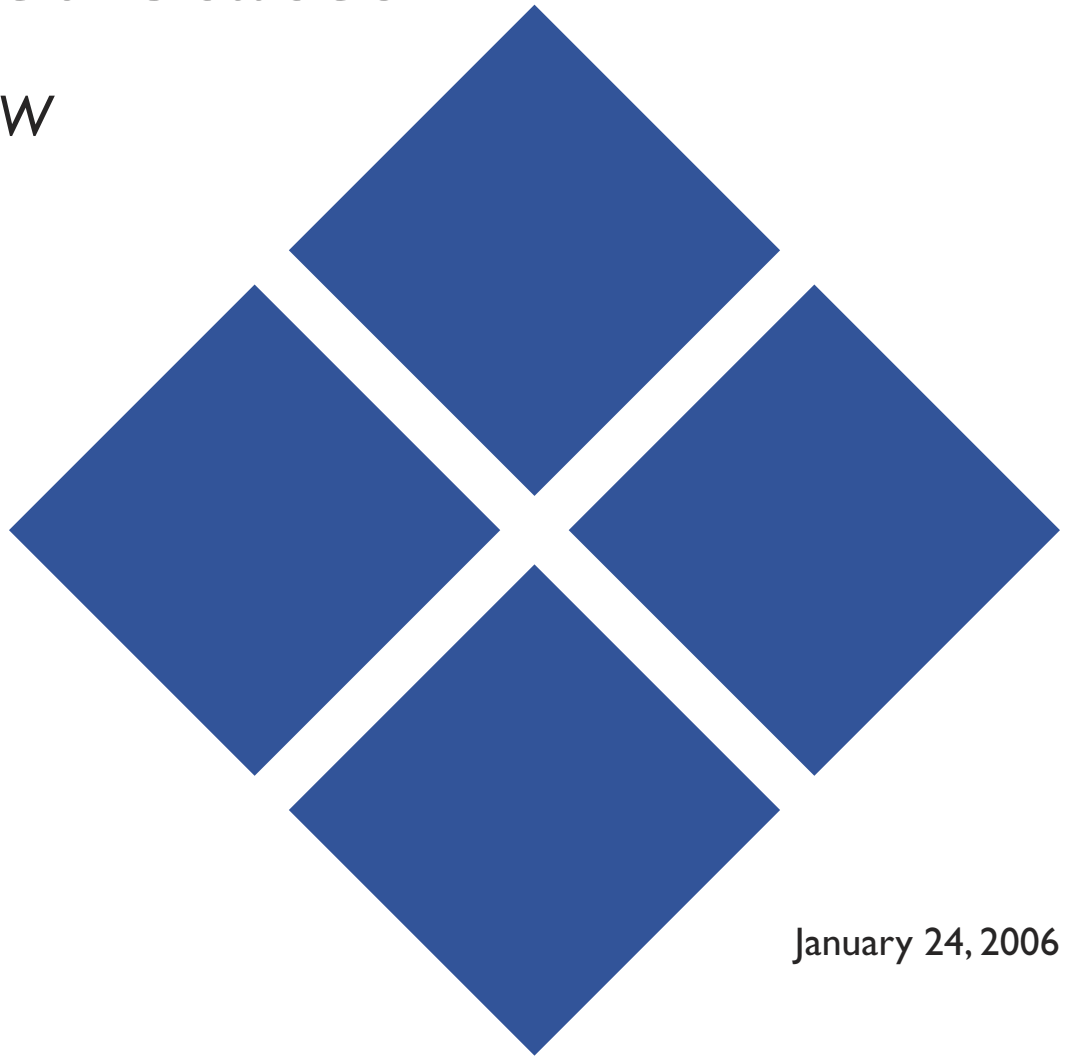


SOCIAL INVESTMENT FORUM

# **2005 Report on Socially Responsible Investing Trends in the United States**

*10 YEAR REVIEW*



January 24, 2006

**SOCIAL INVESTMENT FORUM**  
**INDUSTRY RESEARCH PROGRAM**

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## 2005 Report on Socially Responsible Investing Trends in the United States

*SPECIAL 10-YEAR REVIEW*  
SOCIAL INVESTMENT FORUM

# EXECUTIVE SUMMARY

## 2005 Report on Socially Responsible Investing Trends in the United States • Ten-Year Review

This report marks ten years since the Social Investment Forum published its first biennial report on socially responsible investing (SRI). Over those ten years, socially responsible investment assets grew four percent faster than the entire universe of managed assets in the United States, the 2005 report finds.

SRI assets rose more than 258 percent from \$639 billion in 1995 to \$2.29 trillion in 2005, while the broader universe of assets under professional management increased less than 249 percent from \$7 trillion to \$24.4 trillion over the same period.

### HIGHLIGHTS OF THE 2005 REPORT:

#### Total Socially Responsible Investing Assets

The 2005 Report has identified \$2.29 trillion in total assets under management using one or more of the three core socially responsible investing strategies—screening, shareholder advocacy, and community investing. In the past two years, social investing has enjoyed healthy growth, increasing from \$2.16 trillion in 2003.

#### Share of Total Universe

Nearly one out of every ten dollars under professional management in the United States today—9.4 percent of the \$24.4 trillion in total assets under management tracked in Nelson Information's Directory of Investment Managers—is involved in socially responsible investing.

#### Socially Screened Mutual Funds

Assets in socially screened mutual funds and other pooled products rose to \$179.0 billion in 2005, an 18.5-percent increase over the \$151 billion tracked in 2003. Over the same period,

the number of mutual funds and pooled products tracked increased slightly from 200 to 201. Over the past ten years, mutual funds have been the fastest growing segment of SRI. Assets increased from \$12 billion in 1995—a 15-fold increase to today's \$179.0 billion.

FIGURE A

### Socially Screened Mutual Funds • 1995-2005

	1995	1997	1999	2001	2003	2005
Number of Funds	55	144	168	181	200	201
<b>Total Net Assets</b> <i>(In Billions)</i>	<b>\$12</b>	<b>\$96</b>	<b>\$154</b>	<b>\$136</b>	<b>\$151</b>	<b>\$179</b>

SOURCE: Social Investment Forum Foundation

#### Socially Screened Separate Accounts

With more than \$1.5 trillion in assets, socially screened separate accounts managed for individual and institutional clients constituted the bulk of SRI assets tracked in 2005, including \$17.3 billion managed for individual clients and another \$1.49 trillion under management in institutional client accounts. SRI separate account assets have increased ten-fold from the \$150 billion identified in 1995. Since 2003, institutional client assets have declined somewhat as single-issue screening has waned and institutional investors have preferred to use shareholder advocacy to raise issues of concern, for example, through coalitions such as the Investor Network on Climate Risk, a project of Ceres. Additionally, new institutions are beginning to incorporate screening on the environment, repressive regimes (particularly Sudan), and terrorist states, which will be included in future reports.

## Shareholder Advocacy

Shareholder resolutions on social and environmental issues increased more than 16 percent from 299 proposals in 2003 to 348 in 2005. Social resolutions reaching a vote rose more than 22 percent, from 145 in 2003 to 177 in 2005. Institutional investors that filed or co-filed resolutions on social or environmental issues controlled nearly \$703 billion in assets in 2005, a 57-percent rise over the \$448 billion in assets counted in 2003.

## Community Investing

Assets in community investing institutions rose 40 percent from \$14 billion in 2003 to \$19.6 billion in 2005. Community investing assets have nearly quintupled from the \$4 billion identified a decade ago.

FIGURE B

### Socially Responsible Investing in the US • 1995-2005

(In Billions)	1995	1997	1999	2001	2003	2005
Social Screening <sup>1</sup>	\$162	\$529	\$1,497	\$2,010	\$2,143	\$1,685
Shareholder Advocacy	\$473	\$736	\$922	\$897	\$448	\$703
Screening and Shareholder <sup>2</sup>	N/A	(\$84)	(\$265)	(\$592)	(\$441)	(\$117)
Community Investing	\$4	\$4	\$5	\$8	\$14	\$20
<b>Total</b>	<b>\$639</b>	<b>\$1,185</b>	<b>\$2,159</b>	<b>\$2,323</b>	<b>\$2,164</b>	<b>\$2,290</b>

**SOURCE:** Social Investment Forum Foundation

1. Social Screening includes mutual funds and separate accounts. Since 2003, SRI mutual fund assets have increased (see Section II) while separate account assets have declined (see Section III) as single issue screening has waned and shareholder advocacy increased on the part of institutional investors.

2. Assets involved in Screening and Shareholder Advocacy are subtracted to avoid double counting. Tracking Screening and Shareholder only began in 1997, so there is no datum for 1995.

## Ten-Year Trends

Over the past decade, SRI has become a force within the US financial marketplace.

- ◆ Socially and environmentally screened mutual funds have experienced substantial growth in the number and diversity of products and screens offered.
- ◆ Mainstream money managers are increasingly incorporating social and environmental factors into their investing.
- ◆ A growing number of institutional investors are active owners of the companies in their portfolios, and support for the growing numbers of shareholder resolutions filed on social, environmental and corporate-governance issues rose dramatically over the last ten years. Shareholder advocacy, whether through the proxy process or in direct dialogue with companies, produced tangible changes in corporate policies and practices.
- ◆ Community investing is experiencing significant growth in assets, helping to increase the economic opportunities for lower-income communities and spurring industry developments that are making it easier for a broad range of investors to participate in this expanding field.
- ◆ The globalization of socially and environmentally responsible investing continues to advance through a diversity of developments in different regions around the world, from the largest SRI markets in Canada, Europe, Australia and Japan to the more sophisticated emerging markets of Latin America, South Africa and the Asia Pacific region.



# I. INTRODUCTION:

## The Scope and Scale of Socially Responsible Investing

Today, nearly one out of every ten dollars under professional management in the United States is involved in socially responsible investing. \$2.3 trillion out of \$24.4 trillion are in professionally managed portfolios utilizing one or more of the three socially responsible investment strategies that define socially responsible investing: screening, shareholder advocacy, and community investing.

This report marks ten years since the Social Investment Forum published its first biennial report on socially responsible investing (SRI) trends in the US. In addition to quantifying the state of SRI over the last two years, this report also provides longer-term measurements of SRI's growth and development since 1995.

A decade ago, the 1995 report, *After South Africa: The State of Socially Responsible Investing in the United States*, documented the continued vibrancy of SRI two years after the end of the South African divestment campaign, one of the key catalysts in the recent history of SRI.

At the time \$639 billion—nine percent of the \$7 trillion in total assets under professional management in the US—were identified as being managed according to socially responsible investment criteria.

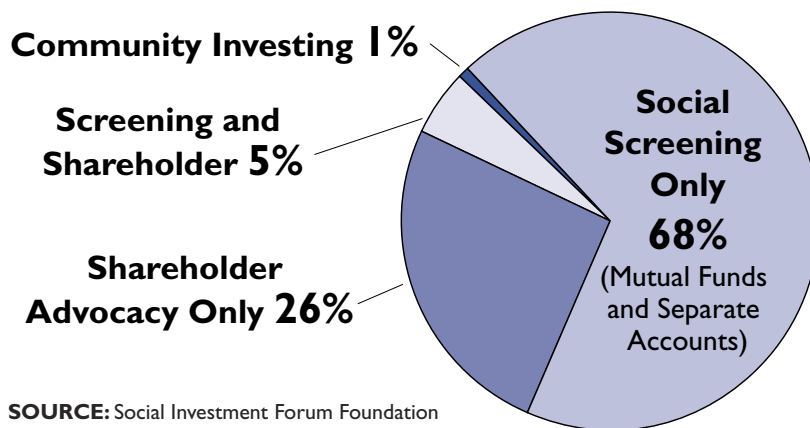
A decade later, socially and environmentally responsible investing, as identified in this year's report, has grown at an average annual rate of 26 percent to reach \$2.3 trillion in total assets under management. Over the last ten years, assets involved in social investing have risen four percent faster than all professionally managed investment assets in the United States. In cumulative terms, the SRI universe has increased more than 258 percent from 1995 to 2005, while the broader universe of assets under professional management in the US has grown less than 249 percent from \$7 trillion in 1995 to \$24.4 trillion in 2005, according to estimates from Thomson Financial/Nelson Information.

### Over the long term, SRI has shown impressive growth in the United States:

- ◆ In 1984, the Social Investment Forum conducted the first industry-wide survey to identify assets involved in social investing and found a total of \$40 billion.
- ◆ In 1995, the year this trends report first appeared on a biennial basis, the Social Investment Forum identified \$639 billion in assets involved in SRI.
- ◆ In 1997, the Social Investment Forum identified \$1.18 trillion in social investing, reflecting substantial growth in social screening and shareholder advocacy.
- ◆ In 1999, Forum research tracked continued rapid growth in social investing, with SRI assets increasing to \$2.16 trillion.

FIGURE 1.1

### Social Responsible Investing in the United States • \$2.3 trillion in 2005



SOURCE: Social Investment Forum Foundation

- ◆ In 2001, SRI assets tracked by this Report had grown to \$2.32 trillion, with socially screened portfolios reaching the \$2-trillion mark for the first time.
- ◆ In 2003, the Social Investment Forum found that social investing assets had remained healthy at \$2.16 trillion, despite an extended market downturn during the previous two years.
- ◆ In 2005, the Social Investment Forum finds that socially responsible investing keep pace with the broader US financial market, growing to an estimated \$2.29 trillion in assets under management.

## SOCIAL INVESTING DEFINED

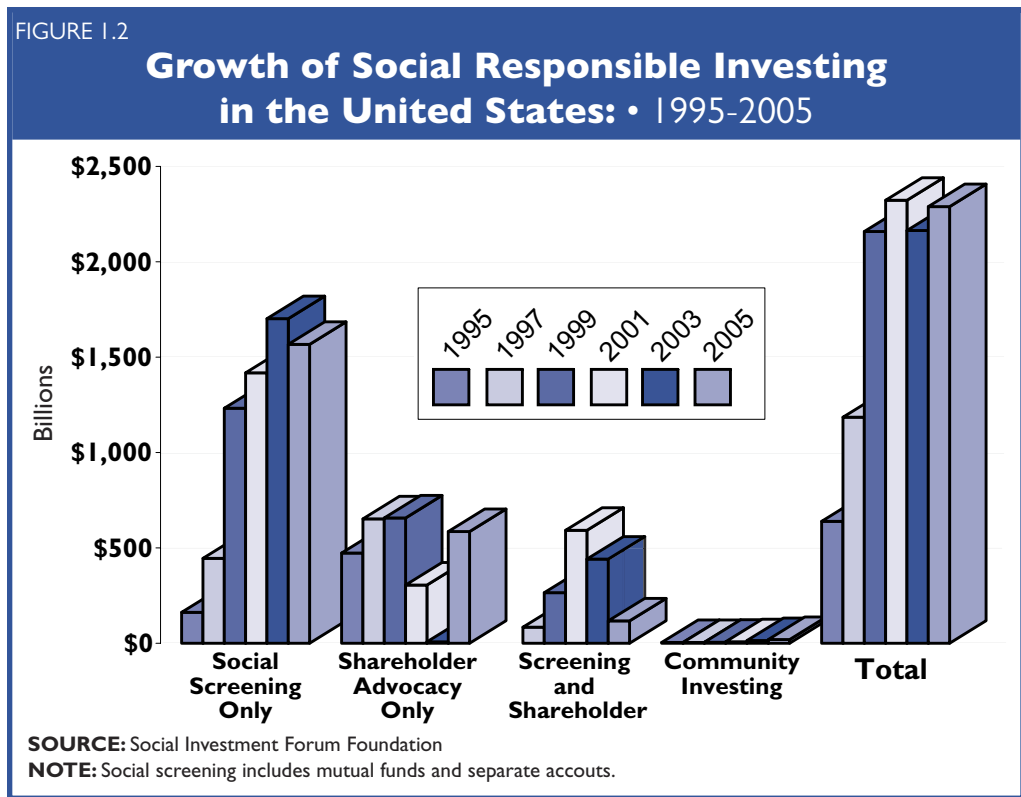
Socially responsible investing (SRI) is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. Social investors include individuals, businesses, universities, hospitals, foundations, pension funds, corporations, religious institutions, and other nonprofit organizations that intentionally put their money to work in ways designed to achieve specific

financial goals, while pursuing a future based on sustainability and the needs of multiple stakeholders, including employees, their families and communities.

Social investing investment managers often overlay a qualitative analysis of corporate policies, practices, and impacts onto the traditional quantitative analysis of profit potential. It is a process of identifying and investing in companies that meet certain standards of Corporate Social Responsibility (CSR). According to the Social Investment Research Analysts Network (SIRAN), a working group of the Social Investment Forum, “CSR includes issues such as environment, health and safety, diversity and human resources policies,

and human rights and the supply chain.” SRI involves evaluating companies on CSR issues, analyzing corporate social and environmental risks, and engaging corporations to improve their CSR policies and practices.<sup>1</sup>

Leading corporate innovators have increasingly come to recognize the concerns of socially responsible investors and stakeholders. Intel Corp.’s CEO Craig Barrett, for example, has acknowledged that his company’s “vision and strategy are to drive increasing sustainability, taking into account not only economic but also environmental, community and workplace performance.”<sup>2</sup> Reflecting CSR’s global scope, the Prince of Wales Business Leaders Forum notes, “Corporate Social Responsibility means open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders.” Whether



described as social investing, ethical investing, mission-based investing, or socially aware investing, SRI reflects an investing approach that integrates social and environmental concerns into investment decisions.

## **SOCIALLY RESPONSIBLE INVESTMENT STRATEGIES**

Socially responsible investing incorporates three strategies that work together to promote socially and environmentally responsible business practices and, in turn, encourage improvements in the quality of life throughout society:

**Screening** is the practice of evaluating investment portfolios or mutual funds based on social and/or environmental criteria. Screening may involve including strong CSR performers, avoiding poor performers, or otherwise incorporating CSR factors into the process of investment analysis and management. Generally, social investors seek to own profitable companies that make positive contributions to society. “Buy” lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world. Conversely, many social investors avoid investing in companies whose products and business practices are harmful to individuals, communities or the environment.

**Shareholder Advocacy** involves actions many socially aware investors take in their role as owners of corporate America. These efforts include dialoguing with companies on issues of social or environmental concern as well as filing, co-filing, and voting on shareholder resolutions. Proxy resolutions on social issues and corporate-governance issues generally aim to improve company policies and practices, encouraging management to exercise good corporate citizenship while promoting long-term shareholder value and financial performance.

**Community Investing** directs capital from investors and lenders to communities that are underserved by traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack. In the US and around the world, community investing makes it possible for local organizations to provide financial services to low-income individuals and to supply capital for small businesses and vital community services, such as affordable housing, child care and healthcare.

## **EVOLUTION OF SOCIALLY RESPONSIBLE INVESTING**

The history of socially responsible investing stretches over centuries. Religious investors from Jewish, Christian, and Islamic faiths and many indigenous cultures have long married morals and money, giving careful consideration to the way economic actions affected others around them and shunning investments that violated their traditions’ core beliefs. In the American colonies, Quakers and Methodists often refused to make investments that might have benefited the slave trade, for example, and the earliest formalized ethical investment policies avoided so-called “sin” stocks—companies involved in alcohol, tobacco, or gambling. Indeed, the first fund to incorporate such sin-stock screening was the Pioneer Fund, opened in 1928 and screened since 1950 to meet the needs of Christian investors seeking to avoid involvement in precisely such industries of vice. The fund continues to exclude tobacco, alcohol, and gambling industries from its portfolio to this day.

Socially responsible investing (SRI) in its present-day form, however, arose in the aftermath of the social and cultural upheaval of the 1960s, an outgrowth of the civil-rights, feminist, consumer, and environmentalist movements and protests against the Vietnam War, which

raised public awareness about a host of social, environmental, and economic problems and corporate responsibility for them. Religious organizations and institutional investors remained very much at the forefront of these concerns about corporate social responsibility, and it was in the 1970s that the Investor Responsibility Research Center (IRRC) and the Interfaith Center on Corporate Responsibility (ICCR) came into being. The Council on Economic Priorities began rating companies on social and environmental performance in 1969, and shareholder advocates turned to the proxy-resolution process to raise issues of concern at annual company meetings.

## **SOCIAL SCREENING: FROM AVOIDANCE TO ACCOUNTABILITY**

The desire to avoid investments in companies with poor social and environmental records and to promote greater corporate accountability inspired the founders of the first modern socially responsible mutual funds. In the early 1970s, they created portfolios with a more comprehensive array of social and environmental criteria. The Pax World Fund, founded in 1971, and the Dreyfus Third Century Fund, opened the following year, were the first such social funds to avoid sin stocks, nuclear power and military defense contractors and to consider labor and employment issues. Both remain open to investors today, though under slightly different names.

The anti-apartheid campaigns of the 1980s provided a galvanizing moment in the history of SRI, as social investors and institutions divested their portfolios of companies doing business in South Africa as a protest against the regime's system of racial inequality or led resolutions with companies with operations there. Environmental catastrophes at Chernobyl and Bhopal and the Exxon Valdez oil spill served as flashpoints for investor concerns over pollution and corporate responsibility.

As a practice based on values and moral principles, avoidance screening became one of the basic strategies of social investing. Today, values-based avoidance screening continues to play an important role in SRI, but new screening issues have also emerged, and SRI strategies continue to evolve. Social investors now also employ portfolio screening to select companies with positive attributes for investment. This practice is based on the identification of companies that meet or exceed certain standards for corporate conduct, or stand out as “best in class” in an industry. Positive screening is based on the principle that investors actively seek to support companies whose social and environmental records are consistent with good corporate citizenship. Motivated by a desire to set standards for, and improve, corporate social and environmental performance, social investors use such positive screening techniques to identify companies with competitive advantages over their peers, many of which may be intangible in nature. Positive screening also provides a means for regular monitoring of companies that are chosen for inclusion within a portfolio.

The issues that social investors use as screens—both positive and negative—evolve over time. Divestment from companies in South Africa obviously faded after the end of Apartheid. Analogous concerns about human rights and repressive regimes have led socially aware investors to look closely at companies facing social, political, and reputational risks due to their international operations. For example, some social investors have screened out companies doing business in Burma, the Sudan, or other states with poor track records on labor standards and human rights or where conflict, civil strife, terrorism, or pandemic diseases are daily realities of the business climate. Concerns among investors over the risks associated with climate change have broadened the scope of environmental screening to encompass much more than mere compliance with environmental protection regulations.

How companies disclose their social and environmental impacts, risks, and performance and whether they use reporting standards and benchmarks or adhere to codes of conduct in areas such as human rights, supply-chain management, and genetically modified organisms (GMOs) or other biotechnology, have all become questions social investment analysts now routinely ask of the companies. Whether in the US or abroad, human rights, equal opportunity, labor relations, environmental protection, consumer-product safety, and community impact have become issues of concern for socially responsible investors who expect from the companies in which they invest both positive financial returns and strong social and environmental performance.

While often incorporated into conventional financial analysis, corporate governance has now also become a criterion for evaluation by many in the SRI community as well, particularly in the wake of corporate scandals at companies with poor governance policies and practices. Indeed, among corporate leaders, academic researchers, and even mainstream money managers, there is a growing realization, rooted in empirical research, that enterprises that adopt sustainable business practices will be more competitively situated to deliver stronger returns and long-term shareholder value. The emergence and evolution of different types of screening over time reflect the social investors' roles not only in promoting stronger corporate citizenship and social responsibility but also in building long-term wealth for companies, their shareholders, their stakeholders, and the communities in which they do business.

## **CONVERGING STRATEGIES: ACTIVE OWNERSHIP AND COMMUNITY IMPACT**

In the past ten years, there has been a dramatic rise in the number of social investors who use avoidance and positive screens as one part of a broader SRI agenda. By using strategies of shareholder advocacy and community investing as well as screening, SRI practitioners can hold companies even more deeply accountable for their social and environmental practices and foster sustainable development in financially underserved communities. Many portfolio managers and advisers now dedicate a percentage of their portfolios to community investing institutions. And social investors in mutual funds, pension funds, and other portfolios are also becoming active in shareholder advocacy in record numbers, by filing resolutions or engaging in dialogue to pressure companies to become more responsible on a particular social, environmental, or corporate-governance issue.

One of the fundamental objectives of social investment is to achieve a higher level of accountability of corporations to all their stakeholders. For decades, social investors have sought greater transparency and disclosure from companies by screening portfolios, filing resolutions, and engaging in dialogue. The many corporate scandals of recent years have resulted in reforms that require more transparency and disclosure. Recent focus on addressing the crisis of confidence facing corporations has given affirmation to these principles and practices. Issues now occupying mainstream consciousness—corporate governance, transparency, accountability, and greater disclosure of information—have long been central to the practice of social investing.



## II. Socially Screened Mutual Funds

There are two categories within the universe of socially screened portfolios—screened mutual funds, described below, and socially screened separate accounts—detailed in section III. The socially screened mutual funds described in this section include a variety of funds screened on one or more social or environmental criteria. These funds are made available to investors primarily as mutual funds, whether directly through the share classes of open-end investment companies or indirectly through variable annuities. This section also includes information on other pooled products similar to mutual funds but typically reserved for specific institutions or other accredited investors.

**Key trends in the growth of socially and environmentally screened funds include the following:**

- ◆ Screened funds, available in more than 370 share classes, represented \$179.0 billion in total net assets at the outset of 2005, a record high and an 18.5-percent increase over the \$151 billion counted in 2003.<sup>3</sup>
- ◆ 201 mutual funds and other pooled products were screened on at least one social or environmental factor in 2005, a slight increase from the 200 funds included in the 2003 report and a substantial rise from the 55 first identified in 1995.
- ◆ Over the past ten years of this study, assets in screened funds increased from \$12 billion in 1995 to \$179 billion today—a 15-fold increase.

### TYPES OF SCREENED FUNDS

Of the total screened fund universe of \$179 billion in assets, the Forum identified \$160 billion in 173 socially screened open-end investment companies, available in more than 370 different share classes. \$148.4 billion were held in 151 socially screened mutual funds available directly through retail and institutional share classes, and \$11.3 billion in 22 mutual funds that underlie variable annuity products.

An additional \$19.4 billion in total net assets were held in 28 other socially screened pooled products, ranging from closed-end funds and unit investment trusts to other commingled investment vehicles managed primarily for institutions and high net-worth individuals.

### FUND SCREENING

Based on the survey of the entire universe of 201 socially screened funds in the US, the Social Investment Forum has found that **Tobacco** remains the most commonly applied social screen, affecting the investment management of 162 funds with \$159 billion in total net assets, or more than 88 percent of the total assets in the socially screened fund universe.

**Alcohol** and **Gambling**, the two other traditional “sin” stock categories, are screens used by more than half of all socially screened funds. Alcohol is a screening criterion in the management of 121 funds with more than \$134 billion in total net assets, affecting 75 percent of all

FIGURE 2.1

### Socially Screened Mutual Funds 1995-2005

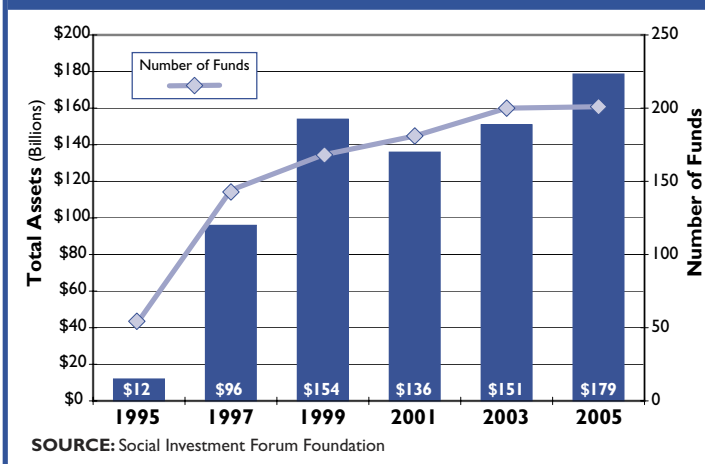


FIGURE 2.2

### Types of Socially Screened Funds 2001-2005

	2001	2003	2005
<b>Mutual Funds</b>	154	178	151
<b>Variable Annuities</b>	13	11	22
<b>Other Pooled Products</b>	14	11	28
<b>TOTAL</b>	<b>181</b>	<b>200</b>	<b>201</b>

SOURCE: Social Investment Forum Foundation

FIGURE 2.3

### Assets of Socially Screened Funds 2001-2005

(In Billions)	2001	2003	2005
<b>Mutual Funds</b>	\$111	\$127	\$148
<b>Variable Annuities</b>	\$7	\$2	\$11
<b>Other Pooled Products</b>	\$18	\$22	\$19
<b>TOTAL</b>	<b>\$136</b>	<b>\$151</b>	<b>\$179</b>

SOURCE: Social Investment Forum Foundation

assets in socially screened funds. Gambling is a factor used in screening 116 funds with \$41 billion in total net assets, or roughly 23 percent of all assets in socially screened funds.

**FIGURE 2.4**  
**Most Prevalent Screens in Social Funds • 2003-2005**

	(In Billions)	Assets
<b>1. Tobacco</b>		<b>\$159</b>
<b>2. Alcohol</b>		<b>\$135</b>
<b>3. Gambling</b>		<b>\$41</b>
<b>4. Defense/Weapons</b>		<b>\$34</b>
<b>5. Community Relations</b>		<b>\$32</b>

SOURCE: Social Investment Forum Foundation

**Defense/Weapons, Community Impact, the Environment, Labor Relations, Products and Services, and Equal Employment Opportunity (EEO)** are commonly used screens, applied across 15-20 percent of the assets in socially screened funds. One hundred funds with \$34 billion in assets employ screens related to military contracting, defense, or weapons. The Environment is a screening factor for 95 funds with more than \$31 billion in total net assets. Forty percent of all socially screened funds, with \$32 billion in assets, incorporate criteria related to corporate community impacts, while labor concerns are screened by 93 funds with more than \$31 billion. Screening on products and services, which includes issues such as consumer-safety concerns, affects 90 funds with more than \$28 billion in assets, while EEO and workplace diversity issues are screened by 78 funds with more than \$27 billion in assets.

**Human Rights, Faith-Based** screening, **Pornography**, and **Animal Testing** are specialty-use screens, affecting 5-10 percent of socially screened fund assets. The Forum identified 59 funds with more than \$11 billion in assets that incorporate human-rights screening criteria into their investment management. More than \$12 billion is managed in 55 funds with faith-based screening criteria, which seek to address the various concerns of a diverse array of religious investors from Catholic, Protestant, or Islamic backgrounds. Fifty-six funds with \$12 billion in assets use pornography screening criteria. One quarter of all socially screened funds with

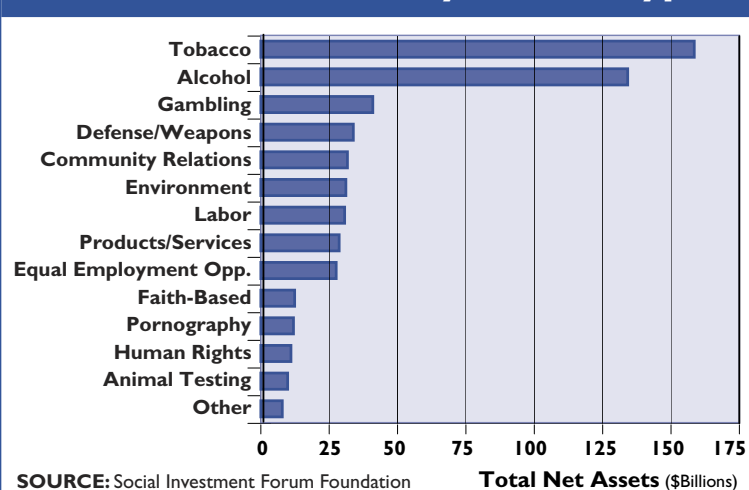
nearly \$10 billion in assets take animal welfare into consideration as part of their screening process.

Less than a quarter of socially screened funds, with less than five percent of the SRI fund universe's total assets, incorporate "Other" screens. Among the other screens used are abortion; various healthcare, biotechnology, and medical-ethics issues; youth concerns; anti-family entertainment and lifestyle; and excessive executive compensation.

Figure 2.5 details the types of screens used in the universe of socially screened funds, measured by the total fund assets affected by their application. It is important to note that funds typically apply screening across a variety of issues, not in isolation.

*For more detailed definitions of the social screens used by mutual funds, see Appendix 1.*

**FIGURE 2.5**  
**Mutual Fund Assets by Screen Types**



SOURCE: Social Investment Forum Foundation

## SCREENING FREQUENCY

The number of social screens used often serves as an indicator of the level of intensity with which a fund family embraces social investing. As Fig 2.6 shows, 75 percent of socially screened funds use multiple screens, with only a quarter screening on only a single social issue.<sup>4</sup> Of these funds employing multiple screens, 15 percent use two to four social screens, while a majority of socially responsible funds (64 percent of all screened funds and 85 percent of multiple-screening funds) incorporate a more comprehensive array of five or more social and environmental factors into their screening processes.

Funds that use more than five social screens are typically identified as trend-setting industry

leaders, particularly when they complement their comprehensive screening techniques with the key SRI strategies of shareholder advocacy and community investing.

## FUND FLOWS

Market analysis of mutual-fund asset inflows and outflows shows that screened funds typically attract and retain investor assets longer than non-screened funds. According to Lipper, a Reuters Company, socially responsible mutual funds saw total net inflows of more than \$5 billion in 2003 and 2004. In 2004, while fixed-income mutual funds experienced outflows of more than \$21 billion, socially responsible fixed-income funds retained funds and saw net inflows of \$230 million.

This trend reflects SRI investors' loyalty and their long-term orientation to value creation, as illustrated in Figure 2.7, and confirmed by recent academic research on mutual-fund attributes and investor behavior.<sup>5</sup>

## KEY TRENDS IN THE GROWTH OF SCREENED FUNDS

### Pluralism and Diversity

The broad range of social screens used by SRI mutual funds provides socially responsible investors with a wide array of investment options to meet their specific concerns, from both financial and social standpoints. SRI funds now come in a variety of investment styles, from pioneering large-cap, domestic equity index funds to more recent small-cap and international offerings. The year 2005 witnessed the creation of the first socially screened Exchange-Traded Funds (ETFs), and socially screened indexes and international funds have also proliferated. Religious investors from Catholic, Protestant and Islamic faiths have a variety of options that meet faith-based concerns. Environmentally conscious investors have a number of green mutual fund options, and numerous funds now concentrate on labor, equal employment and other workplace issues.

### Deploying Multiple Strategies: Active Ownership and Community Investing

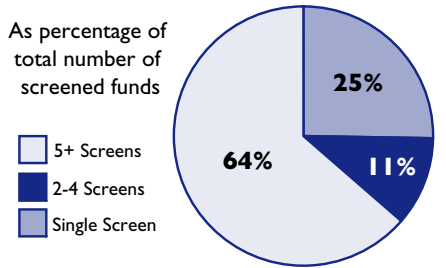
One feature that clearly sets many socially screened mutual funds apart from their conventional peers is the added value that they provide socially conscientious investors through shareholder advocacy and community investing. Although social screening is a strategy distinctly measured in this report, socially responsible mutual funds are often engaged in multiple strategies to promote corporate social responsibility and sustainable community development.

More than 50 of the socially screen funds included in this report are from fund families or managed by investment advisers that routinely file shareholder resolutions on

FIGURE 2.6

### Screening Frequency in SRI Funds

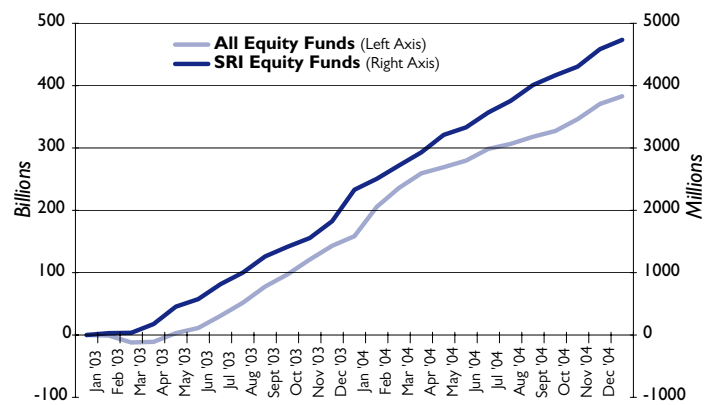
As percentage of total number of screened funds



SOURCE: Social Investment Forum Foundation

FIGURE 2.7

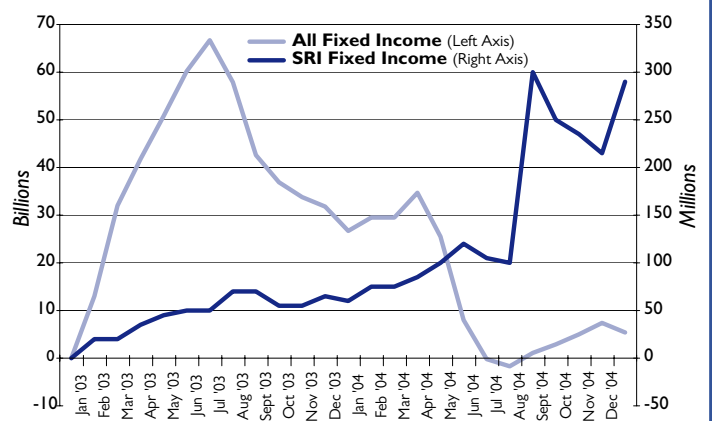
### Accumulated Mutual Fund Asset Flows Equity Funds, 2003-2004



SOURCE: Lipper, A Reuters Company; Social Investment Forum Foundation analysis.

FIGURE 2.8

### Accumulated Mutual Fund Asset Flows Fixed Income Funds, 2003-2004



SOURCE: Lipper, A Reuters Company; Social Investment Forum Foundation analysis.

social and environmental issues, and many other funds are actively engaged in direct dialogue with companies over matters of corporate social responsibility.

Additionally, screened funds on the whole tend to vote their proxies more actively in favor of shareholder resolutions on social and environmental issues than their unscreened peers. In an April 2005 report *Mutual Funds, Proxy Voting, and Fiduciary Responsibility*, the Social Investment Forum Foundation found that SRI funds as a group tend to have more in-depth proxy guidelines. The report also found that SRI funds, in addition to widely supporting social issues on the proxy ballot, also backed more corporate governance resolutions than their conventional peers by a 2-to-1 margin.<sup>6</sup>

Finally, many SRI funds distinguish themselves from their conventional peers by dedicating a portion of their assets to community investing in order to infuse badly needed capital into underserved communities in the US and around the globe. Fourteen mutual fund families included in this report now regularly include products of community investment institutions among their cash and fixed-income holdings.

### III. Socially Screened Separate Accounts

Screened separate accounts are one of the two major categories of screened portfolios, for details on the other, mutual funds, see section II. For the first time in its trends reporting, the Social Investment Forum presents more in-depth data and analysis of socially screened separate accounts in this tenth anniversary of the report, based on newly enhanced surveying of money managers and institutional investors.

The assets of screened separate account portfolios that are privately managed on behalf of institutions and individuals have grown ten-fold from \$150 billion reported in 1995 to \$1.51 trillion a decade later. Of the \$1.51 trillion in separate accounts, \$17.3 billion have been identified as held in separately managed accounts for personal clients, primarily high-net-worth individuals. The balance of socially screened separate accounts, \$1.49 trillion, is managed for institutions, making institutional investor accounts the largest segment of the socially responsible investing universe. Since 2003, the total assets tracked in socially screened separate accounts declined from \$1.99 trillion, as single-issue screening on issues such as tobacco waned and institutional investors embraced their roles as staunch shareholder advocates.

FIGURE 3.1

#### Socially Screened Separate Accounts • 1995-2005

<i>(In Billions)</i>	<b>1995</b>	<b>1997</b>	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
<b>Social Separate Accounts</b>	<b>\$150</b>	<b>\$433</b>	<b>\$1,343</b>	<b>\$1,870</b>	<b>\$1,992</b>	<b>\$1,506</b>

#### THE HIGH NET-WORTH MARKETPLACE

A key component of the socially screened separate accounts are personal investment portfolios managed for high net-worth individuals by money managers.

The growth in SRI has led to a sea change in investing perspectives among money managers. For example, more than one third of US investment managers recently surveyed by Mercer Investment Consulting responded that social or environmental factors will become an increasingly common component of mainstream investment management over the next decade.<sup>7</sup> Several prominent investment firms and organizations not typically associated with SRI, including Goldman Sachs, UBS, Merrill Lynch, and the World Economic Forum, have joined with long-standing social investing firms in acknowledging the impact that environmental issues and corporate social responsibility can have on businesses in which they invest. According to Nelson Information's Directory of Investment Managers, more than 600 money managers now provide some form of socially screened investment offering.

As social and environmental investment analysis joins the financial mainstream, measuring money managers' involvement in screening will become an increasingly important dimension of SRI trends analysis. Based on a survey of more than 100 US-based asset managers and investment advisers with more than \$700 billion in total combined assets under management, the Social Investment Forum has identified \$17.3 billion in assets held in socially screened accounts managed for individual clients, representing three percent of the \$576.1 billion identified by the Money Management Institute as held in separately management accounts (SMAs).<sup>8</sup> Survey respondents, which ranged from some of the largest mainstream asset managers with social screening capabilities to small boutique firms and financial advisers focused

on SRI, managed on average 6.5 percent of their total assets for socially or environmentally concerned clients.

## INSTITUTIONAL INVESTORS

The largest segment of screened managed accounts are portfolios that are privately managed on behalf of institutions. These institutional investors range from public pension funds with more than \$100 billion in socially screened assets to small nonprofit organizations with less than \$100,000 in screened assets under management. They also included corporations, state and municipal governments, religious organizations, hospitals and healthcare plans, college and university endowments, foundations, trade unions and Taft-Hartley plans, and other institutions with social or environmental concerns incorporated into their investment policies and practices.

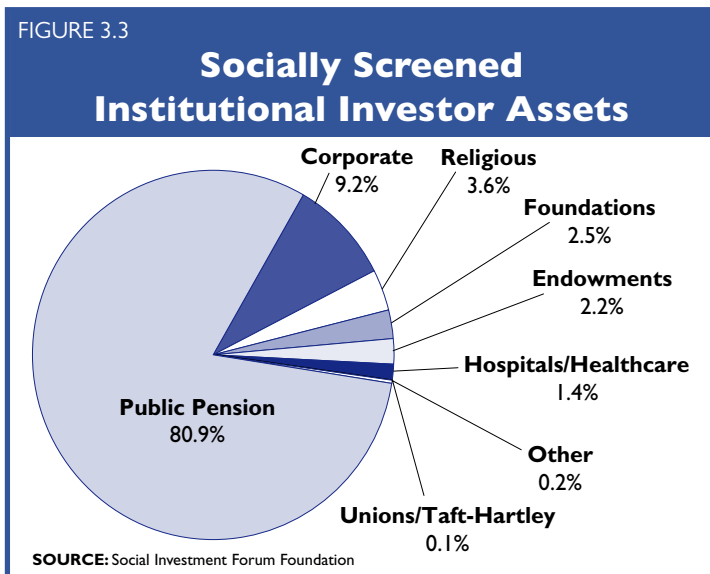
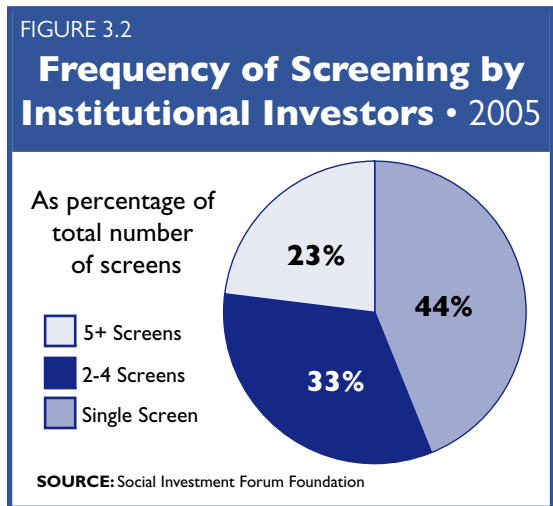
Based on responses from more than 250 institutions, \$1.49 trillion in investment assets are held in the socially screened accounts of institutional clients. A majority of institutions surveyed (56 percent) uses multiple social or environmental criteria in their investment management, while less than 44 percent use only a single screen. Twenty-three percent of institutions surveyed use five or more criteria, while one-third incorporate from two to four criteria.

Among screens used by institutions, as with socially screened mutual funds, Tobacco remains by far the most commonly applied social criterion, affecting more than \$800 billion in institutional investment assets. However, a number of institutions that previously restricted tobacco-related securities from their portfolios in the late 1990s or earlier in the decade have subsequently discontinued tobacco screening. Several institutions indicated that they had phased out tobacco screening in light of major multi-state settlements with the tobacco industry.

Beyond tobacco, the most prevalent social screening criteria used by institutions, on an asset-weighted level, diverged considerably from the most common screens incorporated into mutual funds' investment policies and practices. Whereas the other traditional "sin stock" screens of alcohol and gambling were the second and third most commonly employed screens by mutual funds, the MacBride Principles related to fair hiring in Northern Ireland, Human Rights, the Environment, and Equal Employment Opportunity ranked among the top social concerns incorporated into institutional investors' investment policies, as the nearby figure shows.

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States and localities predominate among institutions applying social or environmental criteria to their investment portfolios, primarily public pensions and employee retirement systems. More than 80 percent of all assets socially screened for institutional clients are managed for public retirement systems or other state and local investment pools. More than 20 states and municipalities now also provide comprehensively screened socially responsible investing options in their retirement plans, as do several 529 educational savings programs in California, the District of Columbia, Pennsylvania and Texas.



### Public Pensions: Largest Segment of Institutional Investors

States and localities predominate among institutions applying social or environmental criteria to their investment portfolios, primarily public pensions and employee retirement systems. More than 80 percent of all assets socially screened for institutional clients are managed for public retirement systems or other state and local investment pools. More than 20 states and municipalities now also provide comprehensively screened socially responsible investing options in their retirement plans, as do several 529 educational savings programs in California, the District of Columbia, Pennsylvania and Texas.

Tobacco, the MacBride Principles, and repressive regimes are the most common criteria used by public pensions. Although there has been a gradual retreat from tobacco screening by public pensions, new screening practices are taking hold. During 2005 state legislatures in Arizona, Illinois, Louisiana, Oregon and New Jersey passed legislation related to public investments in companies with operations in the Sudan, while Missouri instituted a new policy related to companies that are “terrorist-linked.” Because none of these policies affected investments at the beginning of 2005, they are not presently reflected in this Report’s asset count, but upon confirmed implementation, they will likely be included in future reports. Similar bills related to Sudan or other repressive regimes and terrorist states are pending before a dozen state legislatures.

Likewise, as concern about the risks associated with climate change have grown among institutional investors, several state and city treasurers and comptrollers, from Connecticut, New York state, New York City, California, Maine, Iowa, Kentucky, Maryland, Massachusetts, New Jersey, New Mexico, North Carolina, Oregon, and Vermont, have joined other institutional investors in the Investor Network on Climate Risk (INCR), a program of Ceres. Although not only participants in INCR may be screening their investments on environmental factors-many prefer to use shareholder strategies to voice their concerns-several prominent public retirement systems, including California (CalPERS and CalSTRS), Vermont and Maine, have recently agreed to implement innovative environmental investing mandates on portions of their portfolios in response to precisely these issues. Several other leading state and municipal retirement systems are exploring similar programs.<sup>9</sup> As the programs are implemented and confirmed, they will be reflected in the asset counts of this report in the future.

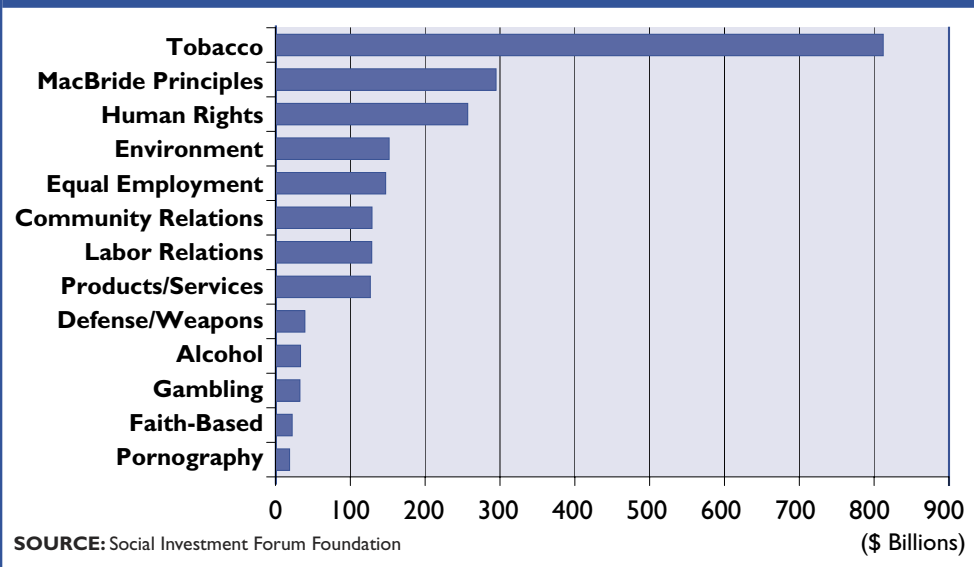
### Other Segments of Institutional Investors

Corporate retirement plans and investment portfolios comprised nearly ten percent of the socially screened assets identified among institutional investors surveyed. Tobacco is the leading screen among corporations, as it is for hospitals and healthcare plans. Non-profit hospitals frequently incorporate criteria related to investments in for-profit healthcare providers, and some religious hospitals use screens related to abortion and contraceptives. More generally, religious organizations, led by members of the Interfaith Center on Corporate Responsibility (ICCR), screen on a wide variety of issues of corporate social responsibility, beyond the traditional sin-stock screens on tobacco, alcohol and gambling. Indeed, among the different types of institutional investors, religious organizations as a whole use the most comprehensive range of socially responsible investing criteria.

Foundations and endowments each hold between two and three percent of the socially screened assets managed for institutional investors surveyed by the Social Investment Forum. In its 2005 endowments survey, the National Association of College and University Business

FIGURE 3.4

### Social Screening by Institutional Investors



Officers (NACUBO) identified 138 colleges and universities with \$28.7 billion in assets that incorporate socially responsible criteria into their endowments' investment policies. Many leading endowments, such as Harvard and Stanford Universities, have recently joined other institutions in selectively divesting from companies with business operations in Sudan.

Assets controlled by some trade unions often incorporate labor friendly investment guidelines. Labor union and Taft-Hartley pension plans represent less than one percent of the screened assets managed for institutional investors surveyed by the Forum. Other institutions such as non-profits typically screen their portfolios on mission-related social or environmental criteria, but their share of the institutional investor marketplace remains comparably small, representing less than one percent as well.

## **RECASTING FIDUCIARY RESPONSIBILITY, MAINSTREAMING RESPONSIBLE INVESTING**

Long the province of ethical, religious, and socially conscious investors seeking to bring together money and morals or to “invest with their values,” social screening has increasingly become an object of interest within the financial mainstream as well.<sup>10</sup> Academic studies continue to explode the myth that social screening inevitably leads to lower financial returns or constrains investing options beyond the acceptable threshold of a prudent fiduciary.

Instead, empirical research has repeatedly confirmed that, when properly managed, risk-adjusted, and controlled for investment style, socially screened portfolios perform comparably to their unscreened peers. Some researchers have even hypothesized a potential “sustainable alpha” effect for portfolios that are incorporating sustainability factors into their portfolio analysis.<sup>11</sup>

Far from compromising fiduciary responsibility, the incorporation of environmental, social, and governance factors into the investment process has increasingly become recognized as an emerging element of fiduciary duty, particularly for investors with long-term horizons and portfolios that have global reach.<sup>12</sup> Incorporating CSR and sustainability into the investment management process provides the added value of social and environmental risk analysis, additional layers of due diligence, and tools for uncovering the “materiality” of often intangible factors that nevertheless shape an enterprise's long-term value and growth.<sup>13</sup>

Recent research has found statistically significant correlations between corporate financial performance and social and environmental performance.<sup>14</sup> In addition to long-standing environmental risks associated with pollution and litigation, many investment analysts and fiduciaries (many involved in groups such as Ceres' program the Investor Network on Climate Risk) are now evaluating the impacts of emergent environmental issues that pose new risks to companies that populate their portfolios. These range from global warming and demands for mitigating greenhouse gas emissions, identified as one of the main sources of climate change, to the growing energy-supply constraints of an era of “peak oil,” as well as the public-relations, or “reputational,” risks companies face when targeted with campaigns and boycotts by non-governmental organizations or consumers demanding greener and more sustainable business practices, products, and services.<sup>15</sup>

These competing demands for the incorporation of social, environmental, and governance factors into investment decision-making—from socially and environmentally concerned retail investors, fiduciaries of mission-driven and long-term institutional investors alike, and influential mainstream investment firms—will continue to drive the growth of socially screened portfolios in the future.

## SOCIAL SCREENING AND SHIFTING STRATEGIES

Taken together, socially screened mutual funds and separate accounts constitute approximately \$1.7 trillion in total assets under management, making social screening the largest component of the SRI universe measured in this report. As this and the preceding sections highlight, mutual funds, money managers and institutional investors are all involved in social screening. The social and environmental issues addressed through screening are multiple, and the application of screening criteria functions in a number of different ways.

As for the marketplace for socially screened portfolios, it includes both socially concerned individual investors at the retail level, from investors in mutual funds to high net-worth individuals with separately managed accounts, as well as a variety of institutional investors, from small non-profit organizations seeking mission-based investment opportunities to some of the nation's largest public pension funds screening according to legislative mandates.

Of the \$1.7 trillion in combined socially screened portfolios, \$179.0 billion have been identified in socially screened mutual funds, variable annuities, and other pooled products, and \$1.51 trillion are held in screened separate accounts managed for individual and institutional investors. Since 1995, the first year the Social Investment Forum began tracking professionally managed assets subject to social screening on a biennial basis, the combined assets held in socially screened portfolios have increased more than ten-fold from \$162 billion. Social screening therefore not only serves as the largest contributor to the SRI universe measured in this report; it has also been one of the fastest growing segments of socially responsible investing over the last decade.

The two major categories of socially screened portfolios—mutual funds and separate accounts—have dynamics of their own. Socially screened mutual funds have experienced impressive asset growth, driven largely by individual investors who have discovered the power and relative ease of aligning their investments with their values. The development of socially screened ETFs in 2005 accelerates this trend. Institutions, for their part, have also increasingly made socially responsible mutual-fund options available to participants in their defined-contribution retirement and college savings plans—a trend that is expected to continue with the decline in the number of defined-benefit pension plans.

While tobacco remains the predominant screen used by institutional investors, it has nevertheless declined in use, accounting in a large measure for the two-year decline in combined screened separate-account assets from \$2.1 trillion counted in 2003 to \$1.7 trillion in 2005. Institutions appear to be shifting their strategies away from single-issue screening on certain issues, such as tobacco, and embracing their role as responsible advocates on pressing concerns such as climate risk and human-rights abuse. Thus, in addition to screening investments according to social and environmental factors, socially responsible investors are also leveraging their assets through shareholder advocacy—another key SRI strategy to which this report now turns.

## IV. Shareholder Advocacy

The last several years have seen record proxy seasons on social and environmental resolutions, highlighting the power of shareholder advocacy as a key strategy for promoting corporate social responsibility in the United States.

Key trends in shareholder advocacy include the following:

- ◆ Shareholder resolutions proposed on social issues and corporate governance issues that cross over into matters of corporate social responsibility increased more than 16 percent since 2003, rising from 299 proposals in 2003 to 348 in 2005. Social-issue resolutions that came to a proxy vote increased more than 22 percent, from 145 in 2003 to 177 in 2005.
- ◆ The total average votes received in support of all social and crossover resolutions in 2003 and 2004 were 11.9 and 11.4 percent, respectively. Preliminary data on the 2005 proxy season show that average total votes in support of social resolutions remain above 10 percent, as of August 31, 2005.
- ◆ Assets controlled by institutional investors that have proposed shareholder resolutions on social, environmental, or crossover corporate governance issues since the 2003 proxy season have increased from \$448 billion to \$703 billion. Of this \$703 billion, more than \$117 billion in assets are also held in socially or environmentally screened portfolios; \$585 billion are controlled by institutions that filed shareholder resolutions on social issues without screening their investment assets according to social or environmental criteria.<sup>16</sup>
- ◆ After surging nearly 60 percent between 2002 and 2003, proposals for corporate governance resolutions continued to climb from 791 proposals in 2003 to 847 in 2004, an increase of more than 7 percent. Since 2003, proposals demanding restrictions on executive compensation have more than doubled, from 64 in 2003 to 158 in 2004, bypassing poison pills and the expensing of options to become the most common corporate governance issue tracked in 2004.
- ◆ The interests of socially responsible investors and more traditional corporate governance advocates have continued to converge since 2003, as major institutional investors have increasingly come to recognize the potential impact of social, environmental, and ethical issues on long-term shareholder value. Alongside social investors, long-term investors such as state and city pension funds and treasurers have particularly led the way in calling for improved shareholder proxy access and fuller disclosure of the risks associated with global warming and climate change or with operations in repressive regimes such as Sudan. Many investors now understand that social, environmental, and reputational risk management is a key dimension of their fiduciary responsibility.

FIGURE 4.1

### Social Shareholder Resolution Activity • 2003-2005

	2003	2004	2005
<b>Resolutions Filed</b>	299	350	348
<b>Resolutions Voted On</b>	145	200	177
<b>Resolutions Withdrawn</b>	105	87	98
<b>Average Votes Received</b>	11.9%	11.4%	10.3%

SOURCE: Investor Responsibility Research Center (IRRC).

NOTE: Based on data as of August 31, 2005.

- ◆ Increasingly, corporations are responding in turn by working cooperatively with investor advocates rather than fighting them on the proxy. As of August 31, 2005, shareholders had withdrawn nearly 100 social policy proposals from the 2005 season, a more than 12 percent increase over all withdrawals in 2004, putting 2005 on pace to become a new record-setting year for shareholder withdrawals. Most withdrawals occurred after

management agreed to address concerns for greater disclosure or other policy changes that shareholders had proposed. Between 2003 and 2004, withdrawals of corporate governance resolutions increased more than 45 percent, from 15.4 percent of the 791 total proposed in 2003 to 21 percent of the 847 proposed in 2004.

## Types of Shareholder Resolutions

**Social Responsibility Resolutions** address company policies, practices, and disclosure regarding issues such as the environment, health and safety, equal employment opportunity, labor standards, military and defense contracting, corporate political contributions, sustainability, tobacco, and animal welfare.

**Corporate Governance Resolutions** generally focus on how the company is governed by addressing board, voting, compensation, and anti-takeover issues, or other proposals seeking to maximize shareholder value. Among the more prominent examples of corporate governance issues include calls for majority elections of the board, proxy voting policies, independent board chairs, separation of the CEO and chair, limitations on consulting by auditors, expensing stock options and awarding performance-based options, restricting executive compensation, and repealing classified boards and takeover provisions known as “poison pills.” Although the assets of corporate governance shareholder proponents are not included in the report, the traditional lines drawn between socially responsible investors and corporate governance advocates have continued to blur on a host of issues that seek to enhance shareholder value.

**Crossover Proposals**, as they are described in this report, include resolutions that involve overlapping corporate governance and social issues. Crossover resolutions address issues such as board diversity and executive pay tied to social benchmarks.

## SHAREHOLDER ADVOCACY: ACTIVE OWNERSHIP FOR CORPORATE ACCOUNTABILITY

Shareholder advocacy involves several types of investor actions taken to improve corporate social and environmental disclosure, policies, and performance and corporate governance. Investors write letters to management, directly engage upper-level executives in dialogue, file shareholder resolutions, vote their proxies on resolutions sponsored by shareholders and management, attend annual meetings and speak on behalf of issues of concern, or, as a last resort, join in class-action lawsuits.

This report focuses primarily on the shareholder resolution process, by quantifying the assets controlled by resolution proponents on social issues and corporate governance “crossover” issues and tracking the shareholder support for social, environmental, and crossover proposals. However, it also recognizes the importance of other forms of active ownership, such as investor engagement with management or the board and conscientious proxy voting, which are more difficult to quantify and are not included in shareholder asset totals in this report but nevertheless are vital to the success of shareholder advocacy as a strategy for promoting greater corporate social responsibility and enhanced corporate governance.

## SHAREHOLDER RESOLUTIONS: PROCESS AND PURPOSE

As owners of the company, shareholders have both a right and a responsibility to take an educated interest in the company’s performance, policies, practices, and impacts. The shareholder resolution process provides a formal communication channel among shareholders, management, and the board of directors on corporate governance and corporate social responsibility. The Securities and Exchange Commission (SEC) regulates the shareholder process.

Shareholder advocacy is open to a wide range of investors. Any shareowner can contact company management, the investor relations department, or the Board about an issue of con-

cern, or join other shareholders in dialogue with corporate executives. However, according to SEC rules, shareholders who wish to file a resolution must demonstrate that they own at least \$2,000 in stock in a given company (or one percent of the company's total stock) one year prior to the deadline for filing proposals. Upon proof of such ownership, shareholder proponents can submit resolutions, which they must keep to 500 words or less. Resolutions can request information from management or ask the company to consider changes in practices or policies. If not successfully challenged at the SEC or withdrawn in light of an agreement, resolutions appear on the company's proxy ballot, where they can be voted on by all shareholders or their representatives either electronically, by mail or at the company's annual meeting. Resolutions must formally be presented at the company's annual meeting in order to be officially voted upon.<sup>17</sup>

Unlike in electoral politics, success in proxy voting is not measured solely through winning a majority vote. Indeed, shareholder resolutions may achieve their goals by only obtaining a relatively small percentage of votes. Managers recognize that many factors limit the number of votes that shareholder proposals can obtain, so even modest support for shareholder resolutions can indicate a much broader climate of concern about company policies and practices. Management and the Board often control large blocks of shares, and all votes default to management if, for example, an individual or institution returns their proxy signed but without votes marked. Many large institutional investors without independent proxy-voting policies automatically vote with management on shareholder proposals. Also, investors who own stocks through mutual funds cannot vote their shares directly since they are voted by the funds. Therefore, even a relatively low vote total can indicate genuine interest among shareholders, stakeholders, the public, and the press.<sup>18</sup> This heightened level of attention to certain issues is often enough to compel management to enter into dialogue and to consider changing its practices or policies.

Since the shareholder resolution process is a key means for individuals, institutions, money managers, and mutual funds to communicate their concerns to the corporations they own, investors have an enormous financial and ethical stake in maintaining a healthy proxy process.<sup>4</sup> Consequently, investors are increasingly forming coalitions not only to file proposals but also to advance policy issues that affect their shareholder rights and their ability to use the proposal process. Over the last several years, socially responsible investors have repeatedly demonstrated that in the public policy arena as well as in the proxy process itself, they are a force to be reckoned with.

## SHAREHOLDER DIALOGUE

In many cases, shareholder advocates can influence corporate policies and practices without introducing a formal resolution on their concerns. Management is often willing to discuss issues with investors out of respect for their status as owners or in the hope of avoiding a formal proposal. The decision to file a shareholder resolution can therefore initiate or intensify fruitful, ongoing dialogue between shareholder proponents and management, which can itself be an effective vehicle for promoting changes within the company. When successful dialogue with management occurs, shareholder advocates often agree to withdraw their resolution instead of presenting it to the company's shareholders through the proxy ballot.

While this report quantifies only those assets controlled by institutional shareholders that propose resolutions, the Social Investment Forum also recognizes that important work is done, much of it behind the scenes, through direct dialogue between shareholders and corporate management. Indeed, dialogue is also routinely pursued by many leading filers among socially responsible investment firms, mutual funds, and institutional investors. However, several SRI

funds or firms, many institutional money managers and many institutional investors engage solely in dialogue with corporate executives as an alternative to filing resolutions. For example, the recently organized Social Investment Research Analyst Network (SIRAN), a working group of the Forum that brings together analysts from more than 30 North American investment firms, research providers, and affiliated investor groups, regularly engages in precisely such direct dialogues with management, as part of the fundamental research they conduct in order to promote corporate social responsibility.

Whether pursued as part of the shareholder resolution process or as an alternative advocacy strategy, shareholder dialogue on social and environmental issues has resulted in significant changes to corporate policies and practices.

## PROXY VOTING

In order for shareholder resolutions to command attention, they need the support not only of their filers and co-filers but also of the many other shareholders who recognize the importance that issues of social responsibility and corporate governance can have on a company's bottom line. Although this report does not seek to quantify the assets controlled by investors who support shareholder resolutions by voting their proxies in a socially responsible manner, it does recognize the importance of proxy voting as a key element of shareholder advocacy. Indeed, resolutions are receiving more votes, in particular for specific governance and cross-over issues,

FIGURE 4.2

### Social Shareholder Resolutions • 2003-2005

Social Issue	Resolutions Proposed			Withdrawn			Voted On			Avg. Votes (%)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Animal Welfare	3	10	27	0	1	7	1	6	17	5.3	3.7	3.3
Board Diversity	12	13	14	5	6	7	7	5	4	27.1	6.9	21.5
Charitable Contributions	28	17	6	2	0	0	7	12	1	7.7	7.2	6.4
Energy	6	4	3	0	0	0	5	4	3	8.1	8.6	6.9
Environment: Mgt/Reporting	25	20	18	7	3	3	12	13	12	11.1	14.73	9.1
GMOs	12	10	12	2	0	2	10	8	10	7	6.6	5.7
Climate change	25	25	35	10	7	17	12	11	11	16.7	14.4	10.8
Equal Employment	31	32	32	17	22	20	12	7	10	23.5	24.7	18.6
Executive Pay & Social Link	9	17	18	2	1	5	5	15	10	9.5	8.3	8.2
Global Labor Standards	31	27	25	11	5	8	18	18	14	11	16.63	11.4
Health: Drug Dev't, Marketing	11	10	8	7	1	0	1	5	7	6.4	6.4	16.6
AIDS Pandemic	13	14	10	11	5	4	2	8	5	8.1	19.73	12.5
Human Rights	15	13	11	2	2	1	10	11	8	9.1	7.8	8.8
Military	11	11	10	2	2	5	9	9	5	5.8	6.5	5.9
Northern Ireland	10	10	6	2	3	1	8	7	4	8.6	9.1	10.4
Political Contributions	5	51	42	0	4	5	5	37	32	5.9	9.1	10.4
Sustainability	15	28	19	10	11	5	4	11	10	24.6	25.1	24.1
Tobacco	24	18	14	9	7	2	15	11	10	8.2	5.8	2.7
Other issues*	12	20	38	6	7	11	2	2	4	8.3	9.8	7.1
<b>Total</b>	<b>299</b>	<b>350</b>	<b>348</b>	<b>105</b>	<b>87</b>	<b>98</b>	<b>145</b>	<b>200</b>	<b>177</b>	<b>11.9</b>	<b>11.4</b>	<b>10.3</b>

**NOTE:** Based on resolutions as of August 31, 2005. Some proposals are also omitted from consideration by the SEC each year. The SEC omitted 49 proposals in 2003 and 2004, while 60 were omitted in 2005.

**SOURCE:** IRRRC

\* "Other issues" include resolutions on job loss and relocation, among other miscellaneous social proposals.

as the importance of proxy voting becomes clearer. Moreover, a growing trend has emerged among institutional investors, money managers, and mutual funds toward establishing more transparent proxy-voting policies in support of resolutions on social and environmental issues. Many mutual funds and institutional investors now publicly feature their proxy-voting policy online. The Forum applauds the many mutual funds and advisers who make their proxy voting information easy to read and understand, going beyond the disclosure requirements in the Securities and Exchange Commission Rule 30b1-4 that went into effect on August 31, 2004.

## SHAREHOLDER RESOLUTIONS AND THE PROPONENTS WHO FILE THEM

Traditionally, shareholder resolutions have focused on either corporate governance or corporate social responsibility, but several issues such as board diversity and linking executive compensation to social performance cross over between social policy and corporate governance. Such overlapping issues are included within this report's analysis of social policy issues, consistent with the reporting by the Investor Responsibility Research Center (IRRC). The Social Investment Forum recognizes the growing convergence between traditional corporate governance advocates and social investors and analyzes trends in corporate governance. However, for the purposes of this report, it does not include the assets of shareholder advocates who propose resolutions solely on pure governance issues in its estimates of the socially responsible investing universe.

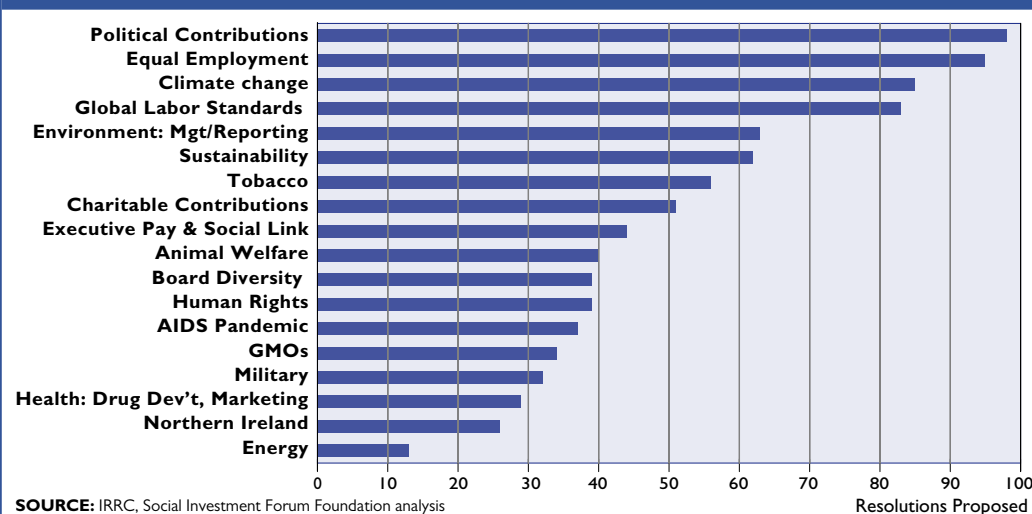
### Social and Crossover Resolutions 2003-2005

In 2005 socially concerned investors such as religious institutions, foundations, mutual funds, social investment managers, public pension funds, trade unions, and non-governmental organizations proposed 348 shareholder resolutions on social or crossover issues, according to data provided by IRRC as of August 31, 2005. The 2005 proxy season is therefore closely tracking

the record-setting 2004 year, when 350 social and crossover resolutions were proposed by shareholder advocates, a 17-percent increase over the 299 shareholder proposals filed in 2003. Among the 213 institutions, money managers, and mutual funds identified by IRRC and the Interfaith Center on Corporate Responsibility (ICCR) as having proposed social or crossover resolutions since 2003, the Social Investment Forum identified \$703 billion in assets under their control, as of December 31, 2004.<sup>20</sup>

FIGURE 4.3

### Leading Social Issues Resolutions • 2003-2005



SOURCE: IRRC, Social Investment Forum Foundation analysis

NOTE: Based on data as of August 31, 2005.

Leading social issues over the last several shareholder cycles have included climate change, sustainability and environmental reporting, corporate political contributions, global labor standards, the HIV/AIDS pandemic in Africa, and equal employment opportunity, especially related to sexual orientation non-discrimination policies. Figures 4.2 and 4.3 document the major social issues addressed in the shareholder resolution process since 2003.

## Corporate Governance Resolutions 2003-2005

Since the nearly 60-percent surge in corporate-governance resolutions between 2002 and 2003, corporate-governance issues have continued to generate widespread investor interest and support throughout the proxy process. According to IRRC, shareholders proposed 847 resolutions on corporate-governance issues in 2004, up more than 7 percent from the 791 proposals filed in 2003. Leading issues have included calls for expensing options, repealing poison pills, awarding performance-based stock options, restricting executive compensation, repealing classified boards, and making the board chair independent from management. Preliminary data on the 2005 season highlight growing support on the ballot for issues such as independent board chairs and requirements for majority voting of directors. Figure 4.4 provides a more detailed overview of the status of corporate-governance issues from the 2003 and 2004 shareholder seasons.

FIGURE 4.4

### Key Corporate-Governance Resolutions • 2003-2005

Type of Proposal	Proposed		Withdrawn		Voted On		Average Vote (%)	
	2003	2004	2003	2004	2003	2004	2003	2004
Independent board chair	42	59	9	8	30	36	26.10	28.30
Limit consulting by auditors	29	35	7	16	19	12	16.10	14.20
Increase board independence	8	14	1	0	5	13	27.50	26.10
Majority vote to elect directors	--	14	--	2		12	--	11.80
Cumulative voting	21	24	1	1	20	21	34.10	34.90
Restrict executive compensation	64	158	2	28	36	79	15.40	11.50
Expense option value at time of grant	115	50	27	11	69	34	47.40	53.30
Vote on golden parachutes	21	36	2	8	18	26	57.00	51.80
Cap executive pay	--	15	--	3	--	7	--	7.70
Award performance-based stock options	92	8	24	1	59	5	16.10	40.20
Poison pill	107	100	1	3	84	51	60.00	61.10
Declassify board	63	59	9	11	48	39	63.40	71.60
Eliminate supermajority vote	10	11	1	1	9	7	60.50	75.80
Sell the company/maximize value	4	13	0	1	2	4	3.20	25.10
Other	215	251	38	84	75	99	--	--
<b>TOTAL</b>	<b>791</b>	<b>847</b>	<b>122</b>	<b>178</b>	<b>474</b>	<b>445</b>		

**NOTE:** "Other" includes various other board, antitakeover, and compensation issues. Overlapping issues such as board diversity and pegging compensation to social performance are considered crossover issues, which IRRC tracks as social-policy resolutions.

**SOURCE:** IRRC, Social Investment Forum Foundation analysis

## RECENT SHAREHOLDER SUCCESSES

Changes in corporate policy or practice often require long-term, active engagement by investors with corporate management. Shareowners have played a major role in improving corporate behavior through resolutions, letter writing, and negotiations with management on issues ranging from environmental risk and workplace standards to diversity, human rights violations, and a myriad of corporate governance concerns.

Since withdrawals of shareholder resolutions usually occur once a company has agreed to address concerns raised by investor advocates in pre-vote dialogues, withdrawals can signify the responsiveness of companies to social concerns. Of the 348 shareholder resolutions proposed

on social issues and tracked by IRRC through August 31, 2005, 98 resolutions have been withdrawn by shareholder advocates. This year's withdrawals already represent more than a 12-percent increase over the 87 resolutions withdrawn in 2004. The year 2003 was a record one for social shareholder withdrawals; proponents withdrew 105 of the 299 resolutions proposed on a social issue of concern, more than 35 percent of all social-issues resolutions. The year 2004 proved to be a record year for withdrawals of corporate-governance resolutions. Investors withdrew 178 governance resolutions that year, 21 percent of the 847 proposed in 2004. Of the 791 corporate-governance resolutions proposed in 2003, 122 were withdrawn before coming to a vote on the proxy ballot.

For those social-policy resolutions that do go to a vote on the proxy, the most frequently supported proposals have on average been those addressing issues such as sustainability (consistently the highest, with 24-25 average votes in favor since 2003), equal employment opportunity and board diversity, climate change and other environmental reporting matters, global labor standards, and the HIV/AIDS pandemic. Among governance proposals on the proxy, anti-takeover issues such as eliminating supermajority votes and repealing classified boards and poison pills have consistently won majority approval of shareholders, with votes on average garnering more than 60 percent since 2003. Compensation issues such as golden parachutes and expensing options have also averaged majority support over the last several years, while preliminary data on 2005 from IRRC document a growing trend in the average support for corporate-governance resolutions on board issues such as requiring independent chairs and majority votes to elect directors.

## **HIGHLIGHTS FROM THE LAST THREE SHAREHOLDER SEASONS INCLUDE THE FOLLOWING:**

### **Full Disclosure on Corporate Political Spending**

Corporate political spending has emerged as the most commonly proposed social-issue resolution over the last two years. Fifty-one resolutions were proposed in the 2004 election year, up from only 5 in 2003. Although the presidential campaign cycle clearly played a part in the heightened interest in this issue, shareholder advocates, led by union pension funds and religious investors, have persisted in calling for fuller disclosure of corporate political contributions, with another 42 proposals having appeared as of August 31, 2005 and many more in the pipeline to come. Indeed, so far this year the single highest vote in favor of a social-issue proposal occurred on a resolution calling for disclosure of political spending at Plum Creek Timber Company, Inc., proposed by the Seattle-based SRI money management firm Newground Social Investment. After the company refused to recommend voting against it, as management customarily does on shareholder proposals on social issues, the resolution won the approval of a majority of shareholders, with 56 percent of the vote.

### **Managing Climate Risk**

The second most frequently proposed social-issue resolution targeted the risks associated with the impact of climate change and greenhouse gas emissions, thanks in no small part to growing advocacy on the part of a coalition of state treasurers and pension funds from Connecticut, New York, Maine, and California, on one hand, and social, environmental, and faith-based investors, on the other. Preliminary data on proposals from IRRC document a 40-percent increase in the number of resolutions filed on climate change so far this year, as of August 31, 2005. The years 2003 and 2004 each saw 25 resolutions proposed on climate change; in 2005 the number has jumped to 35, although 17 have already been withdrawn through pre-vote negotiations. On average, climate-change resolutions have consistently garnered more than

FIGURE 4.5

## 25 Highest Votes on Social Policy Resolutions • 2003-2005

	Company	Resolution	Year	Management Opposed?	Vote (%)
1	<b>Coca-Cola Co.</b> Proponent(s): ASC Investment	Review AIDS pandemic's impact on company	2004	No	97.9
2	<b>J. C. Penney Co., Inc.</b> Proponent(s): NYCERS, NYC Teachers, Trillium Asset Management	Adopt sexual orientation anti-bias policy	2003	No	93.3
3	<b>Tyco International, Ltd.</b> Proponent(s): Christian Bros. Investment Service (CBIS)	Review and reduce toxic emissions	2004	No	92.2
4	<b>Cintas Corp</b> Proponent(s): NYCERS	Review/report on vendor standards	2004	No	91.5
5	<b>Fifth Third Bancorp</b> Proponent(s): NorthStar Asset Management	Adopt sexual orientation anti-bias policy	2004	No	62.8
6	<b>Plum Creek Timber Company, Inc.</b> Proponent(s): Newground Social Investment	Report on political donations and policy	2005	No	56.2
7	<b>Cooper Industries</b> Proponent(s): Benedictine Sisters, Domini Social Investments, St. Joseph Health	Issue sustainability report	2003	Yes	44.3
8	<b>Dover</b> Proponent(s): Walden Asset Management, Calvert	Adopt sexual orientation anti-bias policy	2003	Yes	42.8
9	<b>Ryland Group Inc</b> Proponent(s): Calvert	Report using GRI guidelines	2004	Yes	42.2
10	<b>Gentex</b> Proponent(s): Calvert	Commit to/report on board diversity	2003	Yes	39.2
11	<b>Yum! Brands, Inc.</b> Proponent(s): CREA, Trillium, Christus Health, ELCA	Issue sustainability report	2005	Yes	39.1
12	<b>Yum! Brands, Inc.</b> Proponent(s): Trillium, Needmor Fund, CBIS, United Church Christ	Issue sustainability report	2003	Yes	39
13	<b>Emerson Electric Co</b> Proponent(s): Domini, NorthStar, Pride Foundation	Adopt sexual orientation anti-bias policy	2005	Yes	38.9
14	<b>AGCO Corp</b> Proponent(s): Calvert	Report using GRI guidelines	2004	Yes	38.3
15	<b>Apache Corp</b> Proponent(s): Boston Common Asset Management	Report on/reduce greenhouse gas emissions	2004	Yes	37.1
16	<b>Yum! Brands, Inc.</b> Proponent(s): CREA	Issue sustainability report	2004	Yes	32.9
17	<b>CenterPoint Energy</b> Proponent(s): NYCERS, NYC Teachers	Adopt sexual orientation anti-bias policy	2003	Yes	32.2
18	<b>Gilead Sciences, Inc.</b> Proponent(s): Camilla Madden Trust, Catholic Healthcare West	Review AIDS pandemic's impact on company	2005	Yes	31.7
19	<b>Triquent Semiconductor</b> Proponent(s): Maryknoll Fathers and Bros.	Report on involvement in ballistic missile defense	2003	Yes	31.5
20	<b>Anadarko Petroleum Corp</b> Proponent(s): Trillium	Report on/reduce greenhouse gas emissions+	2004	Yes	31.4
21	<b>Cooper Cameron Corp</b> Proponent(s): Calvert	Report using GRI guidelines	2004	Yes	30.4
22	<b>Delphi</b> Proponent(s): Gen. Board of Pensions of United Methodist Church, MCAM, Benedictine Srs.	Review/report on global standards	2003	Yes	30.1
23	<b>Home Depot Inc</b> Proponent(s): Walden, NorthStar, Domini	Report on EEO	2005	Yes	30
24	<b>Exxon Mobil Corp.</b> Proponent(s): NYCERS, Trillium, NorthStar, F&C Asset Management	Adopt sexual orientation anti-bias policy	2005	Yes	29.5
25	<b>Cooper Industries Ltd</b> Proponent(s): Benedictine Srs.	Issue sustainability report	2004	Yes	29.4

NOTE: Based on resolutions as of December 5, 2005.

SOURCE: Investor Responsibility Research Center (IRRC)

ten percent over the last several years, and a resolution proposed by the Midwest Capuchins in 2005 at Exxon Mobil Corp. calling for a report on the company's compliance with greenhouse gas reduction targets in markets that have ratified the Kyoto Protocol to the UN Framework Convention on Climate Change received more than 28 percent of shareholder votes. Even though the United States has failed to ratify the treaty, US businesses with international

operations in countries that have ratified the Protocol face substantial liabilities, so members of investor coalitions such as the Investor Network on Climate Risk (INCR) a program of Ceres, and the Carbon Disclosure Project believe it has become imperative to disclose and manage these risks.

## Sunshine on Corporate Political Contributions

A growing shareholder movement for transparency and accountability in corporate political spending has made impressive progress since its emergence in 2003. Led by the nonprofit Center for Political Accountability (CPA) and numerous institutional investors from the faith-based and labor communities, the recent initiative has created a groundswell of support among socially responsible investors and corporate governance advocates alike. In response to shareholder initiatives in 2004, Morgan Stanley became the first major company to agree to disclose its soft-money political donations and to require board oversight of its political contributions. After productive dialogue with the Service Employees International Union (SEIU), the Adrian Dominican Sisters, Green Century Capital Management and Sisters of Mercy-Detroit, Johnson & Johnson, Schering-Plough, Coca Cola, PepsiCo and Eli Lilly agreed to report their corporate political contributions and to strengthen board oversight of political spending policies; as a result, the shareholder groups either withdrew their resolutions or refrained from filing them.

The dozens of other resolutions on political giving that have come to a vote in 2005 have commanded on average 10.4 percent of shareholder support on the proxy, up from the average 9.1 percent won in 2004, while votes at companies such as Plum Creek Timber Company, Inc., Verizon Communications, and BellSouth Corp. have garnered considerably wider support. According to Bruce Freed, Co-Director of the CPA, some twenty institutional investors, pension funds and leading SRI funds working with the Center are anticipated to file resolutions at more than 50 companies in the 2006 proxy season.

## Reporting on Sustainability and Environmental Impact

On average the resolutions that obtain the highest votes among social issues are those addressing matters of sustainability, beyond the specific issue of climate change. Sustainability proposals have consistently received votes of 24 to 25 percent on average since 2003. In 2005 more than 39 percent of shareholders of Yum! Brands Inc. favored a resolution calling for the preparation of a sustainability report; it garnered even more support than a similar resolution had obtained at the company in 2004. Twenty-seven percent supported a similar resolution at Dean Foods Co. proposed by the New York City pension funds. In response to shareholder pressure, several companies are launching initiatives to enhance the sustainability of their operations. Spurred by dialogue with the As You Sow Foundation and Calvert, Dell and Hewlett-Packard have agreed to the first recycling take-back goals in the computer industry, while Starbucks, in response to concerns raised by As You Sow and the Organic Consumers Association, has agreed not to market genetically modified coffee if it were to be developed.

## Board Diversity: Breaking the Board Room's Glass Ceiling

The second largest vote-getter among social-issue proposals in 2005 was a 47-percent vote by shareholders of Rite Aid, who supported a crossover resolution calling on the company to increase representation of women and racial minorities on its board. Half of the 14 resolutions proposed in 2005 were ultimately withdrawn, while those that went to a vote on the

proxy ballot won higher votes on average than any other social issue, with the exception of sustainability. Although relatively few of these resolutions come to a vote, on average they have done well, with 27 percent average support in 2003 and 21.5 percent so far in 2005.

## Ending Employment Bias, Encouraging Equality

The campaign to end employment bias related to race, gender, and sexual orientation has continued to advance over the last several proxy seasons. Leading withdrawals occurred at companies that agreed to amend their non-discrimination policies to include sexual orientation. Twenty-one of the 22 withdrawals in 2004 were for gay-rights proposals, while 19 of the 20 withdrawals tracked through August 2005 were also related to sexual orientation anti-discrimination policies. Notable votes in support of anti-bias proposals included a 37-percent

support for a resolution at Advance Auto Parts Inc. sponsored by the New York City pension funds; and 29.5 percent in favor of a resolution sponsored by the New York City Employees' Retirement System (NYCERS), Trillium, NorthStar, and F&C Asset Management at Exxon Mobil Corp., a resolution that has consistently received growing shareholder support year after year. Emerson Electric Co. subsequently reversed its policy after a 39-percent vote favoring an anti-bias proposal co-sponsored by Domini Social Investments, NorthStar Asset Management, and the Pride Foundation.

A resolution, co-filed by Walden Asset Management, Domini Social Investments, and NorthStar, calling for disclosure on diversity and equal employment opportunity (EEO) at Home Depot won 30 percent of the shareholder vote in 2005, while shareholders have given increasing support to a resolution repeatedly filed by ICCR members at Wal-Mart, Inc. asking the company to disclose how it intends to break the glass ceiling that has embroiled the company in costly employment litigation. A decade after the federal Glass Ceiling Commission recommended voluntary disclosure of diversity data by publicly traded companies, nearly half of the companies on the Standard & Poor's 100 who responded to a recent survey by the Social Investment Research Analysts Network (SIRAN) admitted that they fail fully to disclose EEO information that they are already required to report to the government. Given such a climate, equal employment opportunity will remain a significant issue of shareholder concern.

### **Demanding Global Labor Standards and Human Rights**

Closely following resolutions on equal employment opportunity have been proposals demanding more transparent forms of supply-chain management that comply with global labor standards and international human-rights norms. Resolutions calling for the adoption of International Labor Organization (ILO) or UN-based codes of conduct won significant minority votes at C. R. Bard Inc. (29 percent) and Bed Bath & Beyond Inc. (22 percent). A repeat proposal filed at The Boeing Co. did even better in 2005 (21 percent) than it had in 2004, when it won only 17 percent of the shareholder vote.

In 2004 an investor coalition of public pensions, social investors, and labor, religious, and human-rights groups, including Amnesty International USA, the New York City Teachers' Retirement System, Boston Common Asset Management, and the AFL-CIO, agreed to withdraw a proposal urging Exxon Mobil to implement a human-rights policy based on the ILO Declaration on Fundamental Principles at Work after the company agreed to uphold the core standards. Similar progress has been made through advocacy and dialogue with Nike and Gap Inc., both of which have recently published reports documenting labor conditions in their vendors' factories abroad. Investor groups continued to engage with Starbucks to encourage it to strengthen its commitment to Fair Trade Certified™ coffee in order to ensure that the coffee farmers from which it sources its beans are able to use sustainable practices and to ensure their employees' living wages and good working conditions.

### **Bridging the "Gap" Between Policies and Compliance**

Nearly a decade after the scandals over sweatshop labor, the public outcries for corporate accountability in manufacturing, and the race to develop and advertise company codes of conducts, Gap Inc. has taken firm steps to assure shareholders that they are serious about corporate social responsibility. In a historic Social Responsibility Report released in 2004, Gap Inc. laid out a frank and comprehensive rating system evaluating factory compliance with their company's code of conduct, and in doing so, faced up to some real problems. This report is the product of dialogue between Gap and a coalition of socially responsible investors, including ICCR, Domini Social Investments, As You Sow Foundation, Calvert and CREA.

For the public, investors, and concerned shareholders, determining levels of compliance is nearly impossible. While companies publish narrative reports on compliance, analysts have lacked the quantitative data necessary for benchmarking and comparison. This report represents a wider trend of growing engagement with stakeholders. Gap's initiative may have effectively curtailed the possibility of "sweatwash," the "orchestrated illusion of humane treatment and fair wages by touting a code of conduct," so prevalent in the late 1990s. In fact, Gap has been credited with leading the way for companies like Nike and a coalition of computer manufacturers to scale up their efforts of codes of conducts and implementation.

## Addressing Global Health Pandemics

Religious investors affiliated with the Interfaith Center on Corporate Responsibility have made global public health pandemics, from malaria and tuberculosis to HIV/AIDS in Africa, a top priority in their shareholder campaigns. After ICCR members successfully won management backing for a resolution asking Coca-Cola Co. to report on the impact that HIV/AIDS was having on its African operations in 2004, shareholders backed the proposal with an historic vote of more than 97 percent. News of Coca-Cola's HIV/AIDS initiative immediately generated pressure on its leading competitor PepsiCo, which quickly agreed to develop a similar program in a dialogue led by Mennonite Mutual Aid (MMA), a faith-based mutual fund company affiliated with both ICCR and the Social Investment Forum. ICCR members have now turned their attention to a host of pharmaceutical companies, from Abbott Laboratories to Bristol-Myers Squibb Co. to Pfizer. Support for repeat resolutions on HIV/AIDS sponsored by the Unitarian Universalist Service Committee at Merck & Co. nearly doubled from 13.6 percent in 2004 to 26.9 percent in 2005, while shareholders of Gilead Sciences Inc. gave even deeper support to a resolution filed by CMT and Catholic Healthcare West, which won more than 31 percent.

## KEY TRENDS IN SHAREHOLDER ADVOCACY

### Mutual Fund Proxy Disclosure

Thanks to groundbreaking regulation adopted by the SEC in January 2003, mutual funds and investment advisers began, as of August 31, 2004, uniformly disclosing how they vote on a host of proxy issues. Investment advisers are now required to disclose voting guidelines and records to clients upon request, while mutual funds must make such disclosures publicly available. In its April 2005 report *Mutual Funds, Proxy Voting, and Fiduciary Responsibility*, the Social Investment Forum Foundation examined these new mutual fund voting disclosure policies and found that SRI funds as a group tend to have more in-depth proxy guidelines. The report also found that SRI funds, in addition to overwhelmingly supporting social issues on the proxy ballot, also backed more corporate governance resolutions than their conventional peers by a 2-to-1 margin.<sup>21</sup>

### Institutional Investors Unlocking the Power of the Proxy

Certain institutional investors—public pensions, faith-based organizations, foundations, and college and university endowments—have led the way in developing rigorous proxy-voting policies. A recent joint publication by Rockefeller Philanthropy Advisors and the As You Sow Foundation, *Unlocking the Power of the Proxy*, has emphasized the value that engaged proxy voting can provide to mission-driven philanthropic foundations. The report highlighted the leadership role in proxy voting played by philanthropies such as the Boston Foundation, the Ford Foundation, the Jennifer Altman Foundation, the Jesse Smith Noyes Foundation, the Nathan Cummings Foundation, the Needmor Fund, the Rockefeller Family Fund, the Shefa Fund, and the William Bingham Foundation.<sup>22</sup> Several of these foundations and others, such as the Tides Foundation, the Funding Exchange, Conservation Land Trust, Needmor Fund, Edward W. Hazen Foundation, Haymarket People's Fund, and Nathan Cummings Foundation also regularly proposed shareholder resolutions on issues of corporate social responsibility. Groups such as the Foundation Partnership on Corporate Responsibility and ICCR provide tools to help foundations and religious investors align their proxy-voting policies with their institutional values.

## Active Endowments

In response to concerned students, faculty, alumni, and other campus stakeholders, colleges and universities have increasingly developed policies and procedures for voting their endowments' proxies on matters of social responsibility. It has been commonplace for colleges to create "advisory committees" on socially responsible investing, composed of representatives from various campus constituencies, who help establish proxy-voting guidelines or make recommendations for voting on specific proxy-ballot initiatives. In addition to long-standing advisory committees formed in the 1970s at schools such as Harvard and Stanford Universities and Williams College, such committees have become increasingly active over the last decade at Brown, Columbia, the University of Pennsylvania, and Barnard, Dartmouth, and Smith Colleges, among others. Not only has Swarthmore College's Committee on Socially Responsible Investing, formed in 1998, provided proxy guidance but, beginning in 2002, it has also initiated some of the only social shareholder resolutions proposed by an endowment since the South African divestment campaign.

Last year's launch of the Responsible Endowments Coalition, a network of students, alumni, and faculty from more than 35 colleges and universities, reflects growing momentum for more socially responsible investing policies on campuses across the country, a trend confirmed by a recent university endowment poll by Goldman Sachs Global Market Institute, which found widespread support among donors for socially responsible investing by their college endowments.<sup>23</sup> The recently created Sustainable Endowments Institute, a special project fund of Rockefeller Philanthropy Advisors, is in the process of developing additional resources to help endowments incorporate sustainability into their proxy-voting policies and practices.

## Public Proxy Voting and the SRI-Corporate Governance Nexus

The last several years have witnessed the emergence of a more engaged, public form of proxy voting, which brings investor engagement with companies out into the open to demand specific changes. This public proxy voting has become especially prominent among long-term institutional investors, such as the fiduciaries of public pensions and Taft-Hartley plans, who are putting companies on notice well ahead of annual meetings of how they will be voting on specific shareholder resolutions. The Council of Institutional Investors and the International Corporate Governance Network have been driving forces behind this form of public proxy voting on corporate governance issues. Corporate governance advocates and social investors are finding converging concerns over issues such as executive compensation, pay disparities, board diversity and glass ceiling issues, declassifying boards, climate risk, sustainability, proxy access and majority voting, ethics oversight, separation of CEO and chair, and general procedures for omitting resolutions.

The Investor Network on Climate Risk (INCR), a program of Ceres, has played a similar role among its many institutional members, which include state and city treasurers and comptrollers, large religious investors, labor funds, and socially responsible investors, who have committed to making their concerns about the financial risks of climate change and global warming heard to the companies they own and the investment advisers who manage their assets. Although some may not file resolutions on issues such as climate change, many have become vocal supporters of such proposals, and their support has provided valuable leverage in pre-vote dialogues and helped generate sustained levels of votes against management on the proxy ballot. On the issue of climate risk, as with so many other areas of social and environmental concern, shareholder advocates are actively leveraging their ownership stakes in corporate America to hold companies accountable for their impacts on affected communities, stakeholders, and the environment.

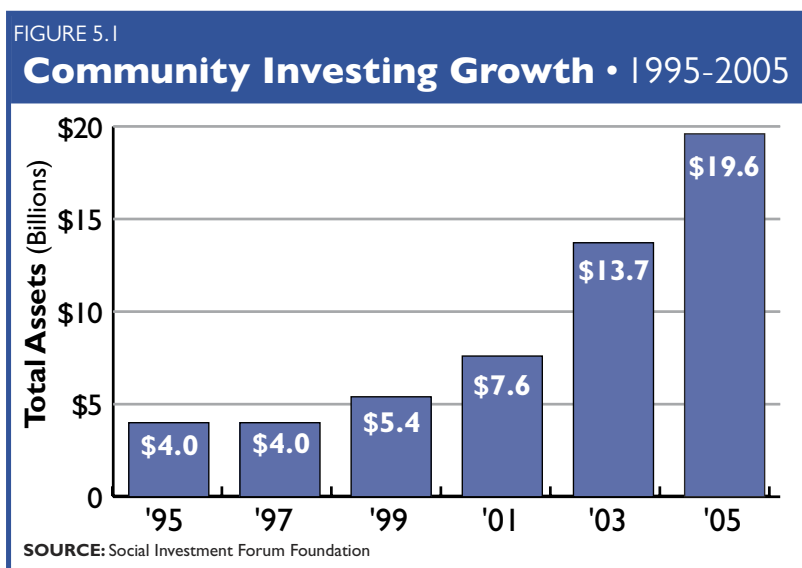
## V. COMMUNITY INVESTING - Increasing Economic Opportunity For All

Community investing—the capital investors direct to communities that are underserved by traditional financial services—continued to grow significantly from 2003 to 2005, expanding by 40 percent over the two-year period. The assets of community investment institutions (CIIs) based in the United States totaled \$19.6 billion in 2005, up from \$13.7 billion in 2003 and from \$4 billion in 1995.

Over the past decade, the community investing measured in this report has grown more than 388 percent, making it one of the fastest-growing segments of socially responsible investing. This growth is due to an increase in the number of CIIs, improved information on the field, and continued increases in assets among all types of CIIs.<sup>24</sup>

**Key components of community investing trends include the following:**

- ◆ Since 1999, the first year this report separately tracked community investing sectors, the assets in Community Development Banks have grown more than 247 percent from \$2.9 billion in 1999 to \$10.1 billion in 2005. Since 2003, assets of Community Development Banks have increased 41 percent from \$7.2 billion.
- ◆ Assets in Community Development Credit Unions grew by 749 percent from \$610 million in 1999 to \$5.1 billion in 2005. In 2003, \$2.7 billion in community development credit unions' assets were identified.
- ◆ Community Development Loan Funds' assets increased 97 percent from \$1.7 billion in 1999 to \$3.4 billion in 2005, growing by \$83 million since 2003. Of this \$3.4 billion in loan fund assets, \$165 million are in international funds that provide or guarantee loans for small business creation and community development abroad.
- ◆ Assets in Community Development Venture Capital Funds have grown 480 percent since 1999, from \$150 million in 1999 to \$870 million in 2005. In 2003, \$485 million were identified in Community Development Venture Capital.



- ◆ Socially responsible investment professionals and institutions continue to lead in channeling money to community investing, including over \$2 billion from Social Investment Forum members.
- ◆ The community investment industry is rapidly developing in terms of investment products, data and information sharing, and other industry innovations that are helping make it easier for a broad range of investors to participate in this expanding field. These developments include Opportunity Finance Network's CARS™ rating system, the CDFI Data Project, and the Social Investment Forum's Community Investing Center.

## COMMUNITY INVESTING DEFINED

Community investing is capital from investors and lenders that is directed to communities that are underserved by traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack. In the US and around the world, community investing makes it possible for local organizations to provide financial services to low-income individuals, and to supply capital for small businesses and vital community services, such as affordable housing, child care, and healthcare.

These local financial service organizations prioritize people who have been denied access to capital and provide them with opportunities to borrow, save, and invest in their own communities. In addition to supplying badly needed capital in underserved neighborhoods, community investment institutions provide important services, such as education, mentoring, and technical support. They also build relationships between families, nonprofits, small businesses, and conventional financial institutions and markets.

## THE FOUR PRIMARY COMMUNITY INVESTING OPTIONS

The community investing industry comprises many types of institutions and initiatives focused on community development in underserved areas in the US and around the world.

The four primary types of community investment institutions (CIIs), whose assets are measured in this report, are also commonly referred to as community development financial institutions (CDFIs):

**Community Development Banks (CDBs)** operate much like their conventional counterparts, but focus their lending on rebuilding lower-income communities. They offer services available at conventional banks, including federally insured savings, checking, certificate of deposit, money market, and individual retirement accounts. The 54 CDBs included in this report represent the largest amount of assets in measured CIIs, at \$10.1 billion.

**Community Development Credit Unions (CDCUs)** are the second-largest type of CII measured in this report, with assets of \$5.1 billion. Over 275 membership-owned and -controlled nonprofit CDCUs serve people and communities with otherwise limited access to financial services. These regulated institutions offer federally insured accounts and other services available at conventional credit unions.

**Community Development Loan Funds (CDLFs)** pool investments and loans provided by individuals and institutions to further community development in specific geographic areas. The 180 CDLFs in this report represent \$3.4 billion in assets, and use this capital to make or guarantee loans to small businesses, affordable housing developments, and community service organizations. While CDLFs are not federally insured, investor money is protected by collateral, loan loss reserves, and the institution or fund's net worth. International funds, which represent a subset of CDLFs with \$165 million among the 18 institutions in this report, focus their lending and equity investments overseas, often providing or guaranteeing smaller loans to entrepreneurs and communities in need.

FIGURE 5.2

### Community Investing Growth By Sector 1999-2005

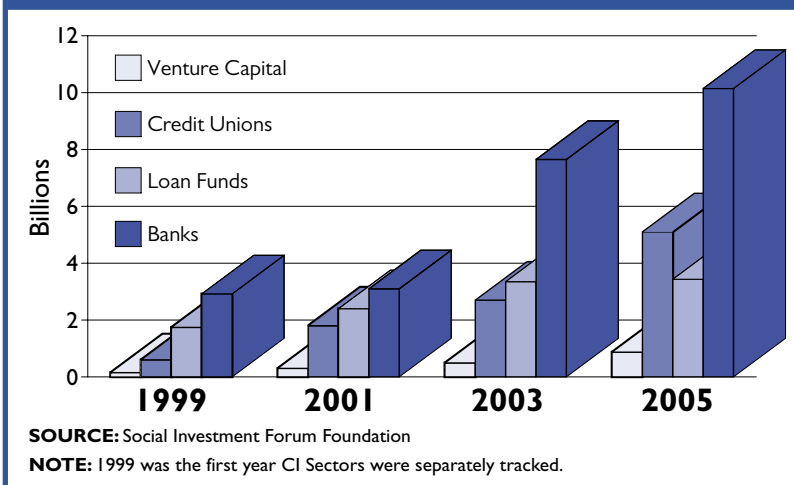
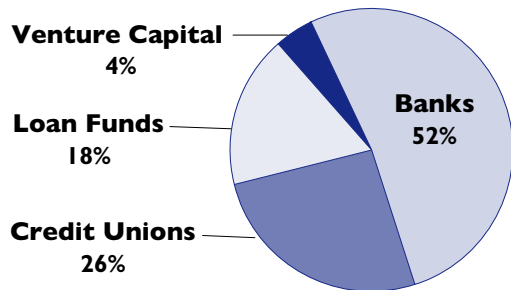


FIGURE 5.3

### Community Investment Institution Sectors • 2005



SOURCE: Social Investment Forum Foundation

**Community Development Venture Capital Funds (CDVCs)** use their \$870 million of capital under management to make equity and equity-like investments in highly competitive small businesses that have the potential for rapid growth. By focusing their investments in geographic areas that traditional venture capital funds have often overlooked, CDVCs create jobs, entrepreneurial capacity, and wealth in disadvantaged communities in the US and abroad.

Investors can place capital directly into any one of the four options above, or they may invest through pooled funds or specialized community investment portfolios. These options spread investors' capital across a number of CIIs and are made available through trade associations and other intermediaries.

## THE IMPACT OF COMMUNITY INVESTING

Community investing arose to support the spectrum of community development organizations working to revitalize distressed communities. Since the 1970s, national and international CIIs have been making loans and investments and creating permanent, positive changes in the poorest neighborhoods in cities, in rural areas, on Native American reservations, and in other places underserved by traditional financial institutions. Economic self-help—the concept of giving a hand up, not a hand-out—and truly empowering the communities served, are at the heart of CIIs' missions. Through providing loans and financial services, as well as mentoring and education, CIIs have helped lower-income families and communities begin to control their own financial destinies.

### Some of the common areas of social impact that CIIs finance and support include:

- ◆ Construction and ownership of affordable housing;
- ◆ Development of small businesses and micro-enterprises;
- ◆ Provision of needed community services, such as child care, education, and health services;
- ◆ Creation of livable wage jobs for low- and moderate-income community residents;
- ◆ Empowering people in international communities to start and expand micro-enterprises;
- ◆ Serving women, minorities, and other economically disadvantaged populations;
- ◆ Opportunities for low-wealth individuals to build assets, including providing financial education, mentoring, and technical assistance; and
- ◆ Supporting businesses and nonprofits that focus on sustainable development, resource conservation, and environmentally beneficial products and services.

CIIs are specifically designed to accept investor capital and carry out community development work, and they possess the expertise of a financial institution and a commitment to serving lower-income communities. CIIs often generate significant impacts from limited investment capital, innovatively connecting underserved populations with the financial services to which they have previously been denied access.

Community investing continues to grow in its geographic reach and its range of beneficiaries. It has enabled Boston residents to build affordable housing and a high school for at-risk youth; Native American communities to regain ancestral lands and start successful businesses; and healthier runs of salmon and trout to be restored in Washington's Chinook Watershed.

Community investing has also provided innovative micro-financing to women in Bangladesh to start their own businesses with little capital or credit; assisted with agricultural development, AIDS prevention, community health, elementary education, emergency response, and civil-society programs in sub-Saharan Africa; and increased employment opportunities and facilitated the growth of new businesses for poor indigenous populations in Bolivia.

While the socially responsible investment strategies of screening and shareholder advocacy focus on promoting corporate responsibility, community investing enables individuals and institutions to invest in local organizations and projects that are creating more sustainable communities around the world. Interfaith religious investors, both large and small alike, have led the way among institutions in committing substantial assets to community investing. Many socially screened mutual funds have integrated community investments into their portfolios, and some funds have made community investing central to their mission by developing community investor pools. Socially responsible financial planners are also educating their clients about community investing opportunities. Thanks to this investor commitment to leveraging the inspiring hard work, skill, and creativity of lower-income people, community investing is making economic opportunity a reality for underserved populations.

FIGURE 5.4

### Assets of Community Investment Institutions • 2005

Community Development Banks	<b>\$10.15 Billion</b>
Community Development Credit Unions	<b>\$5.10 Billion</b>
Community Development Loan Funds <i>(includes \$165 Million in International Funds)</i>	<b>\$3.44 Billion</b>
Community Development Venture Capital	<b>\$870 Million</b>
<b>Total Community Investing Assets</b>	<b>\$19.6 Billion</b>

**SOURCES:** Aspen Institute, Calvert Foundation, CDFI Data Project, Community Development Venture Capital Alliance, National Community Investment Fund, National Federation of Community Development Credit Unions, Opportunity Finance Network, and Social Investment Forum Foundation

## COMMUNITY INVESTING PROGRAM'S SUCCESS

The Social Investment Forum Foundation and Co-op America started the Community Investing Program in 2001 to help spur investment into the community investing field, especially from socially responsible investors. The Program works with institutional and individual investors on overcoming the barriers they face to community investing and educating them about their options. Two key projects that have helped increase the amount of money going to underserved communities and the visibility of community investing are:

### Community Investing Center

The Community Investing Center at [www.communityinvest.org](http://www.communityinvest.org) is a new Web site developed by the Community Investing Program to provide financial professionals with information and resources to make it easier for them to channel more money into community investing. This “one-stop shop” for community investing information includes:

- ◆ Community Investment Database—the most extensive searchable database of CIIs, including detailed social-impact, product, and financial information on over 400 institutions
- ◆ Description of the Community Investment Industry and Products
- ◆ Tools and Resources for Different Types of Investors—including model portfolios and primers for mutual funds, separate account managers, and institutional investors
- ◆ Social Impact Information—including descriptions and data on impact sectors and the Community Investment Impact Calculator
- ◆ Financial and Risk/Return Information—including due diligence information and opportunities for investing in CIIs profiled in the Community Investment Database
- ◆ Community Investing Media and Events

The Community Investing Center is made possible by bringing together community investment professionals to contribute their expertise. Major contributions to the content and resources on the Web site were made by Calvert Foundation, the CDFI Data Project, and the Opportunity Finance Network (formerly National Community Capital Association).

### **1% or More in Community Campaign**

The Community Investing Program launched the 1% or More in Community Campaign in 2001 to dramatically increase the assets devoted to community investing. The goal was to help investors move more than \$10 billion in net new assets into community investing by 2005, thereby tripling the industry that in 2000 was measured at \$5.4 billion. The strategy was to get social investors to shift one percent or more of their investment dollars into community investing, to help financing become available to economically distressed communities and assist lower-income families.



With the release of this report, the 1% or More in Community Campaign has surpassed its initial goal of helping the community investing field grow to \$15 billion by 2005. The Campaign has helped create a strong flow of capital to underserved communities and helped investors see the need to include community investing in their portfolios.

More than 50 Social Investment Forum members have taken part in the Campaign and, as of December 31, 2004, had invested over \$1 billion in net new community investments since the

## **Community Investing in Action**

### **REBUILDING AFTER KATRINA**

Sandra and Alvin LaBeaud and their three sons evacuated from their home in Marrero, Louisiana, 36 hours before Hurricane Katrina made landfall. Seven weeks later, when they returned to their home of 14 years, the back half of the house was missing, the kitchen and living room ceilings had fallen in, the foundation was off, and mold was everywhere. That's where an emergency, six-month, no-interest/no-fee loan from Hope Community Credit Union came through to help the LaBeauds catch up on their mortgage. Fast, emergency bridge loans are just one way HOPE and its sponsor, the nonprofit Enterprise Corporation of the Delta, are responding. HOPE and ECD already had a decade of experience in distressed Louisiana and Mississippi communities when Katrina pushed ashore. Now, they are helping thousands of low-wealth communities and families weather an endless cycle of financial storms as they rebuild.

### **MICROCREDIT, BIG IMPACT**

Corazon Endonela was working in a slipper factory in the Philippine city of Makati earning 6,000 pesos (about \$117 US) per month—hardly enough to support her family of a husband and three children. So Corazon decided to go into business for herself with the help of a loan of 5,000 pesos (less than \$100) from TSPI, a local microfinance institution. Her family is now able to produce 400 pairs of slippers a month, earning a gross income of 37,000 pesos (more than \$700). Oikocredit pools investor dollars and makes loans to TSPI and other microfinance institutions so that they can make credit available to Corazon and thousands of others in over 65 countries.

### **A FAIR VENTURE THAT TASTES GREAT**

John Sage knew he was doing the right thing when he left behind a very successful marketing career at Microsoft and partnered with his friend Chris Dearnley to form Pura Vida Coffee. Pura Vida Coffee sells Fair Trade, organic coffee throughout the United States and uses its resources on campuses, in businesses, and in churches for charitable purposes. Their commitment to children and the environment led John to Underdog Ventures, which develops customized community venture capital funds that work with businesses and investors committed to financial, community, and environmental results. Underdog Ventures worked with Pura Vida to both invest \$200,000 and help promote the philanthropic mission of the company. To date, Pura Vida has donated over \$1 million of cash and committed part of its equity to nonprofits.

Campaign started. These 1% or More Achievers include mutual funds, institutional investors, and financial advisors whose primary focus is not community investing, but who have become leaders in directing money to underserved communities with many going well beyond the one-percent minimum pledge. Now more than \$2 billion is directed to community investing by Social Investment Forum members, up from \$750 million when the Campaign started in 2001. A current list of the 1% or More Achievers is on the Community Investing Center at [www.communityinvest.org](http://www.communityinvest.org).

## COMMUNITY INVESTING INDUSTRY DEVELOPMENT

In addition to the work of the Community Investing Program, the community investment industry is rapidly developing and making it easier for a broad range of investors to participate in this expanding field. While many CIIs have developed innovative programs and products themselves, this Report outlines some of the most important to the broader community investment industry.

**CARS™** (Community Development Financial Institutions Assessment and Rating System), developed by the Opportunity Finance Network, provides a comprehensive analysis of non-depository CIIs—including a rating of impact performance, with an assessment of whether the institution plays a leading role in policy, and a rating of financial strength and performance—to aid investors in their investment decisions. As investors incorporate the CARS™ rating and analyses into due diligence reviews, it will become a recognized benchmark in the community investment field.

**CDARS** (Certificate of Deposit Account Registry Service) is a service of Promontory Interfinancial Network that allows deposits of up to \$20 million in community development banks to receive FDIC insurance. This innovation offers investors a convenient and insured product that supports the lending activities of the bank and earns competitive CD-level rates of return.

**CDFI Data Project (CDP)** is an industry collaborative<sup>25</sup> that ensures access to and use of data to improve practice and attract resources to the community development financial institution (CDFI) field. The CDP increases understanding of community investing by collecting approximately 150 datapoints on operations, financing, capitalization, and outcomes on over 450 CDFIs each year. The CDP produces an annual industry report on the data and provides other products and services such as the CDP dataset and specialized analyses of the CDP data.

**CDFI Fund** is a program of the US Department of the Treasury that was established in 1994 to strengthen CDFIs' ability to provide capital and financial services to underserved communities. The CDFI Fund is the single largest source of financing for CDFIs and provides technical assistance, Native American CDFI development assistance, and financial incentives to banks and thrifts that invest in CDFIs. The CDFI Fund also administers the New Markets Tax Credit Program that is designed to spur more than \$15 billion in investments in CDFIs from individuals and corporations that receive a tax credit for making equity investments in eligible community development entities.

**Community Investment Pools** are designed to make it safe and convenient for individuals and institutions to invest in CIIs by offering registered investment products, portfolio diversification, and professional management. Investors are channeling more than \$150 million to CIIs through these nonprofit Community Investment Pools like Calvert Foundation, MMA Community Development Investment, and the Tzedec Economic Development Fund.

**International Year of Microcredit 2005** was designated by the United Nations (UN) as a year to promote international microfinance, to support microenterprise, and to assess poor and low-income people's access to financial services around the world. The Year has focused attention on the impact and importance of international community investing, particularly its contributions to the UN's Millennium Development Goals. Many of the institutions and initiatives inspired by the Year continue to build more sustainable and inclusive financial sectors by making microcredit and microfinance vital parts of the development equation.

## Innovations in Community Investing

**Calvert Foundation's Community Investment Notes** were recently made available on a trading platform so that they can be transacted like stocks, bonds, and other securities. This removes significant barriers for brokerage firms who want to offer community investing to their clients.

**Community Reinvestment Fund (CRF)** issued the industry's first community development note offering rated by Standard and Poor's. This achievement strengthens CRF's connection to the capital markets while providing funding to small businesses in underserved communities.

**Developing World Markets** structured the world's first and largest cross-border securitization of loans to microfinance institutions. This \$90 million capital raise, the BlueOrchard Microfinance Securitization, enabled microfinance institutions to make an estimated 90,000 small-business loans to low-income individuals and families.

**Trade Associations of CIIs** support the development and growth of CIIs throughout the country, often by providing access to capital, training, and technical assistance. The National Federation of Community Development Credit Unions, for example, has over 200 member credit unions and provides investments, training, technical assistance, consulting, policy work, and grants to help them meet their community development goals. Other trade associations include the Community Development Bankers Association, Community Development Venture Capital Alliance, National Community Investment Fund, and Opportunity Finance Network.

## COMPLEMENTARY ACTIVITIES IN COMMUNITY INVESTING

While this report only tracks and quantifies the assets involved in community development financial institutions (CDFIs), the Social Investment Forum also recognizes a growing number of supporting activities and institutions that are helping to stimulate investment and provide services in lower-income and underserved communities.<sup>26</sup> Each of

these activities has exhibited strong impact on the communities and individuals it serves, and complements the work of CDFIs.

**Community Development Corporations (CDCs)** focus on economic development in low- and moderate-income US rural and urban communities. Their services are more specialized than those of CDFIs and CDEs, as they focus mainly on housing production and job creation. There are thousands of CDCs nationwide, of which more than 700 are tracked by the trade association entity, the National Congress for Community Economic Development (NCCED).

**Community Development Entities (CDEs)** are government-certified domestic corporations or partnerships with a mission of serving lower-income communities and their residents. They differ from CDFIs in that providing financial services is not their main goal, although it is an important part of their mission. CDEs also maintain greater accountability in their work with residents of low-income communities, often by having resident representation on a governing or advisory board to the entity. According to the CDFI Fund, there are more than 2,000 CDEs currently certified and operating in the US.

**Community Development Municipal Bonds (CDMBs)** are securities issued by states, cities, towns, counties, and special districts that have community development as their primary purpose. The interest on CDMBs is generally exempt from federal income taxation and, in some cases, state income taxation.

**The Community Reinvestment Act (CRA)**, established by Congress in 1978, encourages financial institutions to meet the credit needs of their communities in the US, especially

low- and moderate-income (LMI) communities. Every FDIC-insured depository institution is subject to the CRA, and large institutions (those with more than \$1 billion in assets) are subject to the CRA Investment Test, which measures the extent to which these institutions engage in community investing in LMI areas. While the total amount of community investing by banks is not known, the CDFI Data Project reports that banks are the largest contributors of capital to Community Development Loan Funds, and are also active investors in Community Development Venture Capital, Mortgage-backed Securities, Low Income Housing Tax Credits, New Markets Tax Credits, and Community Development Municipal Bonds.

**Economically Targeted Investments (ETIs)** are investments that yield competitive risk-adjusted rates of return while collaterally providing long-term economic benefits to targeted communities, regions, economic sectors, residents, and workers. Among the collateral benefits that ETIs typically stimulate are sustainable job creation and growth, business development, and improvements in infrastructure and affordable housing. Many public pension plans have embraced ETIs as prudent investments that strengthen their local economies and serve the interests of their systems' beneficiaries by supporting local enterprise, developing blighted urban areas, and preventing the outsourcing of local jobs. Some of the states that have actively used ETI strategies in their public pension portfolios include California, Connecticut, Maryland, New York, Washington, and, beginning in late 2004, the Massachusetts Pension Reserves Investment Management Board.

**The Low Income Housing Tax Credit (LIHTC)** is a federal housing program that provides tax incentives for investing in affordable rental housing. Through this program, created within Section 42 of the IRS Code, investors receive a credit against their federal taxes in exchange for providing funds to build or renovate housing at rents within reach of low-income people. Since its enactment in 1986, the LIHTC program has become the primary means of developing affordable housing in the US.

**Targeted Mortgage-backed Securities (MBS)** and Collateralized Mortgage Obligations (CMO) are pools of mortgages to low- and moderate-income individuals that represent the collateral for a security, the cash flow of which is determined by the payment of the individual mortgage loans underlying the security. The Access Capital Strategies Community Investment Fund, CRA Qualified Investment Fund, and Domini Social Bond Fund are leading investment opportunities specializing in this area of community development.

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## VI. Global Trends

As in the United States, investors around the world are using a variety of socially responsible investing (SRI) strategies to accomplish their financial, social and environmental goals. With different definitions of SRI, market factors, cultural concerns, and methodologies for collecting data, it is difficult to make controlled comparisons of social investing on a global scale. Nevertheless, investor involvement in promoting corporate responsibility and providing economic opportunities for underserved populations has clearly become an emerging trend all around the world.

### KEY GLOBAL TRENDS IN SOCIALLY RESPONSIBLE INVESTING:

- ◆ There is growth in the number of SRI funds, as well as in the diversity of screening techniques
- ◆ Shareholder advocates are increasingly entering into direct dialogues with companies, rather than filing resolutions
- ◆ Emerging market countries are increasingly becoming linked to SRI through the growth of community investing and microfinance
- ◆ Globally there is an increasing awareness of SRI, and demand is growing for information and resources that help drive its development in markets around the world
- ◆ Ten years ago, SRI outside the U.S. was in its early stages; today it is robust and growing around the world.

### CANADA

According to the Social Investment Organization (SIO), SRI has grown 27 percent in two years to CAN\$ 65.46 billion in assets as of June 30, 2004. While the SIO reports overall increased levels of interest in SRI, public pension plans have shown an unprecedented amount of support. As of June 2004, institutional investors were managing CAN\$ 25.4 billion using social or environmental screens or policies. Retail investment increased from CAN\$ 9.9 billion in 2002 to CAN\$ 14.8 billion by mid-2004. Much of the increase is attributed to the growth of alternative energy income trusts.

Shareholder advocacy continues to expand in Canada, and the Canadian Securities Administrators has reformed disclosure requirements requiring all mutual funds publicly to disclose their proxy voting records and policies beginning in 2006.

Community investing is an important aspect of SRI in Canada, growing to CAN\$ 546 million in 2004. In English-speaking Canada, community investing grew from CAN\$ 69 million in 2002 to CAN\$ 158.5 million by 2004.

### EUROPE

With combined assets of more than €360 billion and a diverse range of social investing products and services, Europe has proven itself to be one of the world's most advanced financial markets for SRI. In its most recent survey on institutional involvement in SRI, the European Sustainable and Responsible Investment Forum (EuroSIF) has identified €336 billion in assets that are involved in various forms of social investing, including the kinds of engagement that shapes the landscape of shareholder advocacy. Pension funds play a leading role in SRI, and national patterns have clearly emerged, with UK superannuation schemes often dialoguing

with companies and Dutch pensions employing avoidance screening.

There is also a very intense core of socially responsible investors employing multiple strategies and sophisticated screening on sustainability, social, environmental and ethical factors. In its latest review of socially responsible funds, Avanzi SRI Research identified 375 “green, social or ethical funds” operating in Europe with €24.1 billion as of June 30, 2005, a 27-percent increase over the €19.0 billion tracked in mid-2004. The United Kingdom remains the largest market for socially responsible funds in Europe with €8.0 billion in total assets, followed by France with €3.1 billion, Italy with €2.7 billion, and Sweden with €2.5 billion. A host of socially screened indexes are now available in European financial markets, and European firms and analysts typically lead the way in incorporating environmental, social and governance factors into more mainstream investment management strategies.

## **PACIFIC RIM**

Strong interest among investors and financial professionals is driving the growth of the SRI market in Australia. From June 2004 to June 2005, managed SRI portfolios grew by 70 percent from AUD 4.5 billion to AUD 7.67 billion.<sup>27</sup> The Ethical Investment Association (EIA) has developed the SRI Symbol as a socially responsible seal of approval to assist investors in identifying products and services that employ SRI strategies. The EIA has also played an instrumental role in facilitating Australian legal reforms that help educate investors who wish to pursue social and environmental goals alongside financial returns.

With more than 100 billion yen in a dozen SRI funds, Japan remains Asia’s leading market for SRI. More than a dozen screened funds are also available in Malaysia, where Islamic Shari’a principles have long been incorporated into financial management. Taiwan, Singapore and South Korea have become home to socially screened funds, while Hong Kong has been identified as a ripe market for SRI’s Asian expansion. Microfinance and other types of community investing continue to play a significant role in many Asian countries by providing credit to lower-income entrepreneurs and communities.

## **EMERGING MARKETS**

The International Finance Corporation (IFC) estimates that SRI assets in emerging markets have reached \$2.7 billion. Demand is difficult to gauge in many emerging-market countries, but rapid growth of SRI in Brazil, South Africa, and certain parts of Asia has begun to be well documented. The Association for Sustainable & Responsible Investment in Asia (ASrIA) has highlighted how the foremost barrier to social investors in emerging markets is the lack of credible, standardized data on business practices related to social and environmental concerns. Nevertheless, in the emerging-market context, SRI can play a unique role in promoting sustainable development and tackling difficult supply-chain and environmental issues that are as much concern to US-based social investors as they are within the countries affected.

Community investing continues to play a strong and vital role in many emerging markets around the world. Even in countries where screening and shareholder advocacy have remained relatively limited, the impacts achieved through microfinance and small- and medium-enterprise development have been substantial.

## VII. Methodology

The Social Investment Forum employs a direct survey methodology to identify professionally managed, socially responsible investment assets in the United States. This section describes the data qualification, data sources, and methodology employed for the purposes of this report. It also outlines improvements to the methodology used in the 2005 surveying. Finally, this section identifies social investment assets that are not counted in surveying, providing additional verification that the findings presented in this report remain a conservative statement of the total assets involved in socially responsible investment in 2005.

This report is a quantitative, behavioral study. It seeks to measure professionally managed investment assets that fall within at least one of the three core strategies of socially responsible investing: screening on social or environmental issues; shareholder advocacy; and community investing.

As a behavioral study, the report avoids making qualitative judgments about “socially responsible” intent. Some investors, money managers, and mutual funds included in this study therefore may not consider themselves to be “socially responsible investors” or actively involved in SRI. This study does not attempt to evaluate the qualitative intentions motivating the behavior that this study is designed to identify. If an institution or money manager confirms that it uses at least one of the core SRI strategies, regardless of intent, its assets are included in the report. A study employing a methodology that seeks to identify intentionally motivated socially responsible investing would provide an alternative form of measuring SRI, which is not attempted in the present report.

The research employed in this study is designed to identify assets that qualify as socially responsible investments. Members of the Social Investment Forum are included in the survey, but the survey is not limited to these members. Mutual funds and other institutions and money managers that are not members of the Social Investment Forum can also qualify for inclusion in the survey provided they meet the criteria outlined below.

### WHAT WAS COUNTED

The Social Investment Forum conducted multiple surveys of mutual funds, money managers, and institutional investors involved in screening or shareholder advocacy and also gathered data from third-party providers and numerous trade associations of community investing institutions, investment companies and institutional investors. An institution or money manager was considered to engage in socially responsible investing if its practice included one or more of the following:

**SCREENING.** The institution utilizes one or more social or environmental criteria as part of a formal investment policy as of December 31, 2004. Only that portion of portfolio investment assets actually screened for one or more social issues was credited as such. Each qualifying mutual fund was required to provide written confirmation of social screening when not explicitly incorporated into its prospectus. Institutions and other money managers confirmed social screening either in writing or by interview.

**SHAREHOLDER ADVOCACY.** Qualifying institutions propose, as a sponsor or co-sponsor, shareholder resolutions on social or environmental issues or corporate governance issues that “cross-over” into areas of social responsibility, as defined by the Investor Responsibility Research Center (IRRC). A qualifying institution must have filed at least one social issue resolution over the past three years. If the institution was a sponsor or a co-sponsor, the assets under its management as of December 31, 2004 were included in the shareholder advocacy

segment of social investing. Institutions that engage solely in dialogue or conscientious proxy voting as a shareholder-advocacy strategy were described in the study, but their assets were not included in its aggregation.

**COMMUNITY INVESTING.** The assets, as of December 31, 2004, of US-based institutions qualifying as a Community Development Financial Institution (CDFI) were included in this section of the report. The Social Investment Forum defines a CDFI as a private sector organization that has a primary mission of lending to lower-income communities and engages in finance as its primary activity. This includes US investor money in international funds that channel capital to microfinance institutions and community development projects abroad.

## WHAT WAS NOT COUNTED

Certain assets under management were not counted in this survey. Exclusions were determined in the following manner:

**SOCIAL SCREENING** excludes any institution that says it takes into account social or corporate governance criteria in its investment decisions but lacks a formal policy for doing so or has a policy but does not observe it.

**SHAREHOLDER ADVOCACY** excludes the assets of individual investors who file or co-file a shareholder resolution on a social or environmental issue as well as any institution that:

- ◆ Votes proxies in support of shareholder resolutions on issues of concern to socially responsible investors and has an active social investment committee, but has not sponsored or co-sponsored a resolution in the past three years.
- ◆ Engages in dialogue with corporations, but has not filed or co-filed a resolution in the past three years.
- ◆ Sponsors resolutions that deal solely with corporate governance without any reference to social or environmental issues.

**COMMUNITY INVESTING** excludes the assets of any institution that is not recognized as a Community Development Financial Institution (CDFI), such as community development corporations, community development entities, community development municipal bonds, economically targeted investments, low-income housing tax credits, targeted mortgage-backed securities, and any investments in accordance with Community Reinvestment Act requirements that were not made through a CDFI. Although these were not included in the total asset count, they were covered in the report's narrative. Investments in international funds from government donor agencies (like USAID), international financial institutions, and foreign investors were also not included.

## SURVEY METHODOLOGY

The Social Investment Forum utilizes surveys to determine the total assets involved in various types of socially responsible investments. The direct survey methodology involves many data sources to compile the institutions and investment managers included in the surveying, along with several phases of research:

### Socially Screened Funds

Mutual funds, underlying funds to variable annuity sub-accounts, and other pooled products that have at least one social screen were identified with the assistance of Thomson Financial; First Affirmative Financial Network, LLC; Morningstar, Inc.; Lipper, a Reuters Company; Natural Capital Institute; SRI World Group, Inc., and socialfunds.com; Strategic Insight's Simfund; the Social Investment Forum; and further research in public media sources and fil-

ings with the US Securities and Exchange Commission. All funds were contacted to verify, in writing, screening criteria and total net assets as of December 31, 2004. Funds that were unable to confirm screening policies were not included in this report even if they may have been included in previous reports or have been known to employ social screening without an explicit policy, such as restrictions on tobacco.

### **Separate Accounts: Institutional Investors**

Social Investment Forum research staff started with a pool of over 700 institutions, including 302 identified in Nelson Information's Directory of Plan Sponsors as restricting their investments on social or environmental criteria or otherwise indicating involvement in social screening and more than 400 additional institutions identified through research and with the assistance of the Investor Responsibility Research Center (IRRC), the Interfaith Center on Corporate Responsibility (ICCR), the American Hospital Association, the Council on Responsible Public Investment, KLD Research & Analytics, Inc., and the National Association of College and University Business Officers (NACUBO). Of the more than 540 institutions that were contacted from this pool, more than 250 valid responses were received from CFOs, investment officers, analysts, or executives, who confirmed whether and to what extent social or environmental criteria were incorporated into their institution's investment policies as of December 31, 2004.

### **Separately Managed Accounts: Money Managers**

Two separate surveys of money managers sought to identify assets held in socially screened separate accounts managed for individual clients. The first survey concentrated on Social Investment Forum members, and the second targeted a group of non-member money managers who had indicated in Nelson Information's Directory of Investment Managers that they offered some form of social screening. Additional data on money managers were also provided by KLD Research & Analytics, Inc.

### **Shareholder Advocacy**

The Social Investment Forum research staff started with a list of 213 institutions involved in shareholder advocacy from data provided by the Investor Responsibility Research Center (IRRC) and its Corporate Issues Reporter, the Interfaith Center on Corporate Responsibility's shareholder resolution database and its Proxy Resolutions Book, the Social Investment Forum's Advocacy and Public Policy Program, and other public media sources. From this pool of 213 shareholder proponents who filed or co-filed at least one resolution on a social, environmental, or corporate-governance crossover issue in 2003-2005, 180 proponents were contacted, with 98 providing valid responses to survey requests identifying total assets under their control as of December 31, 2004. The most recent asset information on an additional 28 institutions was obtained through publicly available information such as ERISA 5500 and IRS 990 forms. Resolution tracking data used to compile the charts on the status of social, crossover, and corporate governance shareholder resolutions were provided by IRRC (for more information, please visit [www.irrc.com](http://www.irrc.com)).

### **Community Investing**

Data on community investing used in this report were provided by leading Community Development Financial Institution (CDFI) trade associations, intermediaries and data providers: Aspen Institute, Calvert Foundation, Community Development Venture Capital Alliance, National Community Investment Fund, National Federation of Community Development Credit Unions, Opportunity Finance Network, and the Social Investment Forum Foundation. These organizations were surveyed for the amount of assets managed by the CDFIs in their specific field.

## **Total Assets Under Professional Management in the United States**

To determine the total assets under professional management in the United States, the Social Investment Forum relied upon data provided by Thomson Financial/Nelson Information, based on Nelson Information's Directory of Investment Managers. As of December 31, 2004, \$24.4 trillion were estimated to be under professional management in the United States.

## **QUALITY CONTROL, ELIMINATION OF DOUBLE COUNTING**

Prior to aggregating assets derived from the various research phases, controls are made to avoid potential sources of double counting. Among the many potential sources of double counting that are carefully tracked and eliminated include institutional investors that use mutual funds already counted as part of a socially screened, defined-contribution benefit plan; money managers that manage assets for institutional clients or direct client assets into mutual funds or another asset manager's separately managed account program already included; mutual funds that dedicate a portion of their portfolios to community investments captured in the community investing phase of research; or shareholder resolution proponents that also screen their investments.

Extensive verification was conducted for each section of the report, through cross-checking multiple data sources and individually contacting mutual funds, investment officers at institutions, money managers with separately managed account programs, community investment institutions, and institutions involved in shareholder advocacy.

## **METHODOLOGY IMPROVEMENTS**

The Social Investment Forum conducts these surveys every two years. From time to time, the report and its methodology are enhanced. Enhancements in the 2005 report include the following:

- ◆ Additional layers of due diligence were added to each of the surveys in the social screening phase of research, providing more rigorous methods for data collection, new data points, and further confirmation of data previously accepted from third-party providers. As part of a transition toward complete verification of third-party data, the Social Investment Forum expanded its research efforts to contact more than 540 institutional investors, 180 shareholder resolution proponents, over 200 mutual fund companies, and more than 200 money managers and financial advisors about their involvement in SRI. In previous survey years, third party data were not re-verified.
- ◆ Social Investment Forum surveying provided direct confirmation of investment assets and specific screening types for mutual funds and institutional investors, making possible a variety of new ways of disaggregating institutional involvement in SRI, as presented in section III. A response rate of more than 46 percent of institutional investors surveyed provided the Social Investment Forum with a firm basis for accurately calculating the estimate of \$1.5 trillion in socially screened institutional accounts. If the \$2.3 trillion in screened portfolios identified by third-party sources was used without re-verification, the total assets under management for all socially responsible investing strategies would have risen to \$3.1 trillion.
- ◆ For the first time this year, the Social Investment Forum obtained additional information on socially responsible investing by higher education endowments from the National Association of College and University Business Officers (NACUBO) and the Sustainable Endowments Institute.

- ◆ The Social Investment Forum received new information on socially screened separately managed accounts from several mainstream money managers not included in previous reports. Combined with more rigorous surveying of Social Investment Forum members, these data provided the source of the first quantitative analysis of the high net-worth marketplace of individual investors involved in socially responsible investing, as presented in section III.
- ◆ The Social Investment Forum included additional data from two complementary surveys of money managers and hospitals, collaboratively arranged with KLD Research & Analytics, Inc.
- ◆ The Social Investment Forum revised the assets in community development loan funds identified in the 2003 report to insure no assets in community investor pools were included in this report. Assets in loan funds were adjusted from \$3.6 billion to \$3.4 billion as of December 31, 2002.
- ◆ The Institute for Responsible Investment, affiliated with the Center for Corporate Citizenship at Boston College's Carroll School of Management, provided information on centers conducting research on socially responsible investing and corporate social responsibility (CSR). For more information, please visit [www.bcccc.net](http://www.bcccc.net).

## SPECIAL NOTE ON TIME SERIES

Over time, data collection for these reports has improved, as SRI has grown in participants and acceptance, and money managers and institutions have become more willing both to incorporate social criteria into their investment process and to disclose their screening practices. Growth in SRI therefore has occurred in several ways: through net asset growth, asset appreciation, new portfolios' participation in SRI, and improved counting of the market. For these reasons, we advise against using these data for highly technical time series analysis.

## CONSERVATIVE BIAS: NOTE ON UNDERCOUNTING

The Social Investment Forum believes that the data sources included in this study have led to the identification of the vast majority of the professionally managed assets in the United States that reside in portfolios that meet the study's definition of socially responsible investing. However, there are certain types of social investment assets that this survey is not able to identify, such as the following:

- ◆ Investment assets owned by individuals who directly purchase equity or debt securities of companies according to the individuals' personal social investment criteria. With CSR information readily available to the public and online brokerages' increasingly providing socially screened portfolios for retail investors, individuals can now tailor their own portfolios in a socially responsible way that cannot be readily tracked.
- ◆ The stocks and bonds of responsibly managed companies purchased for individuals through personal stockbrokers, financial planners and money managers who were not surveyed or did not respond to the Social Investment Forum's surveys.
- ◆ The socially screened assets of institutional investors that were not surveyed or did not respond to the Social Investment Forum's surveying.
- ◆ The portfolios of socially responsible investors whose investment assets are managed through the trust departments of banks, law firms, or trust companies.

- ◆ The investment assets of individual investors who file or co-file shareholder resolutions independently.
- ◆ Community investing not made through a Community Development Financial Institution.
- ◆ Assets of socially or environmentally screened hedge funds, venture capital or “double bottom line” private equity, apart from those included as “other pooled products” in the socially screened funds section or as community development venture capital funds in Section V.

In short, there are a number of investors and investment portfolios engaged in socially responsible investing that are currently invisible to the public view. The Social Investment Forum continuously strives to enhance the survey methodology in order to capture these sources. At present, this undercounting of assets involved in socially responsible investing introduces a conservative bias to the survey, and provides confidence that survey results remain a conservative statement of the total assets involved in socially responsible investment in 2005.

## VIII. About the Publishers

The Social Investment Forum Foundation is a national nonprofit organization providing research and education on socially responsible investing. The Forum Foundation provides cutting-edge research on the trends, practice, performance, and impact of social investing.

The Social Investment Forum, Ltd. is a national nonprofit membership association dedicated to promoting the concept, practice, and growth of socially and environmentally responsible investing. The Forum's membership includes over 500 social investment practitioners and institutions, including financial advisers, analysts, portfolio managers, banks, mutual funds, researchers, foundations, community development organizations, and public educators. Membership is open to any organization or practitioner involved in the social investment field.

### FOSTERING SUSTAINABILITY

Socially concerned investors are sensitive to the idea of achieving their financial goals through investments that align with their values. The multiple strategies, which combine to define the concept of socially responsible investing, are important to achieving the multiple goals of social investors.

Social Screening allows socially concerned investors to match their personal or institutional values to their investment decisions. Through social screening, investors include or exclude securities based on the track record of companies on key issues of societal impact, such as environmental performance, the implementation of anti-discrimination and other fair workplace policies, human rights and the exclusion of sweatshop and child labor in the countries in which the companies conduct business, and product impact on the health and safety of consumers (tobacco, gambling, weapons).

Shareholder Advocacy provides concerned investors with a powerful way to communicate directly with corporate management and boards of directors about desired changes in policy and practice.

Community Investing works in local communities where capital is not readily available to create jobs, affordable housing, and environmentally friendly products and services.

### RESOURCES FOR THE MEDIA AND THE PUBLIC

Members of the media and the public can turn to the Social Investment Forum for the following resources:

**Award-winning Web site [www.socialinvest.org](http://www.socialinvest.org):** The Forum's acclaimed Web site includes the Mutual Fund Performance Chart, the Directory of Socially Responsible Investment Services, summaries of the best research on socially responsible investing, and other resources for professionals in finance and the media, researchers, and individual or institutional investors.

**Directory of Socially Responsible Investment Services:** Provides a listing of the leading professionals in the socially responsible investing field, including financial planners; money managers; consultants; community development banks; credit unions and loan funds; social research and education organizations; and shareholder advocacy organizations. Find these professionals by type of service or location. Contact the Social Investment Forum to order a print copy or locate the directory (free) on our Web site: [www.socialinvest.org](http://www.socialinvest.org).

## INFORMATION ON SOCIAL SCREENING:

- ◆ Media Center: Find our latest media releases on mutual fund performance and other socially responsible investing issues.
- ◆ Mutual Fund Performance Chart: Tracks the performance of the leading socially screened mutual funds over a ten-year period and includes a summary of each fund's screens. Find the chart on: [www.socialinvest.org](http://www.socialinvest.org).
- ◆ Research: Find summaries of cutting-edge research on social screening and fiduciary responsibility on our Web site: [www.socialinvest.org](http://www.socialinvest.org).

**INFORMATION ON SHAREHOLDER ADVOCACY:** Find the latest information on shareholder advocacy on our Web site, [www.sriadvocacy.org](http://www.sriadvocacy.org).

- ◆ Current Shareholder Resolutions: Comprehensive information on resolutions filed for the current shareholder season. Find them by issue or by company.
- ◆ Corporate Contacts: E-mail links and sample letters to corporations receiving social shareholder resolutions.
- ◆ Results: Results of recent shareholder votes.
- ◆ News: Latest media involving both corporate governance and social resolution concerns.
- ◆ Shareholder "How to": Information on how to file or vote on a shareholder resolution.
- ◆ Regulatory alerts: Information on regulation affecting investor rights.

**COMMUNITY INVESTING CENTER:** Find the latest information on community investment opportunities and issues on the Forum's Community Investing Center, co-sponsored with Co-op America, in collaboration with the Calvert Foundation and the CDFI Data Project: [www.communityinvest.org](http://www.communityinvest.org).

Information for Institutional Investors: Find resources on mission-related investing, corporate governance, and fiduciary responsibility, tailored to the specific needs of socially responsible institutional investors, at [www.socialinvest.org/institutions](http://www.socialinvest.org/institutions).

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Membership in the Social Investment Forum is open to any company, organization, or practitioner involved in the social investment field. Join by contacting the Forum via phone, mail, or on the Forum's Web site: [www.socialinvest.org](http://www.socialinvest.org).

# Endnotes

## SECTION I: INTRODUCTION

1 See [www.siran.org](http://www.siran.org).

2 See “Corporate Social Responsibility” (Babson College and Walden Asset Management, November 2005), 29.

## SECTION II: SOCIALLY SCREENED MUTUAL FUNDS

3 The growth of socially screened funds tracked by the Social Investment Forum is attributable to many factors, including the growth of existing funds, the development of new funds, and the identification of pre-existing funds that may not have been captured in previous reports, thanks to continual enhancement of the report’s methodology. The Forum tracked \$154 billion in 168 funds in 1999 and \$136 billion in 181 funds during 2001. See Section VII for further details on the report’s methodology.

4 In comparing Fig. 2.6 to Fig. 2.5 above, it is important to note that many SRI mutual funds with multiple screens also tend to have lower net assets.

5 Nicholas P. B. Bollen and Mark A. Cohen, “Mutual Fund Attributes and Investor Behavior,” Working Paper, Owen Graduate School of Management, Vanderbilt University, April 2005.

6 Tracey Rembert, with Aileen Nowlan and Michael Pryce-Jones, *Mutual Funds, Proxy Voting, and Fiduciary Responsibility: How Do Funds Rate on Voting Their Proxies and Disclosure Practices?* (Washington, DC: Social Investment Forum Foundation, April 2005). See also Jackie Cook, *Analysis of Fund Voting Results for 2004-2005: Focus on Shareholder-Sponsored Resolutions* (Portland, ME: The Corporate Library, January 2006).

## SECTION III: SOCIALLY SCREENED SEPARATE ACCOUNTS

7 *SRI: What Do Investment Managers Think?*, Mercer Investment Consulting, March 2005.

8 Due to a variety of factors, this report’s methodology undercounts assets in the separate accounts of high net-worth individuals, making this a conservative count overall. See Section VII for details on the Forum’s survey methodology.

9 See Doug Cogan, *Environment: Global Climate Change, 2005 Background Report - J2*, Social Issues Service (Washington, DC: IRRC, 2005); INCR, *Institutional Investor Summit on Climate Risk: Final Report* (Boston: Ceres, Inc., 2005); and the research note on the growing interest in environmental issues by Michael A. Moran, Abby Joseph Cohen, et al., Goldman Sachs Global Strategy Research, August 26, 2005.

10 Peter Kinder, Steven D. Lydenberg, and Amy L. Domini, *Investing for Good* (New York: HarperBusiness, 1993); and Hal Brill, Jack A. Brill and Cliff Feigenbaum, *Investing with Your Values* (Gabriola Island, BC: New Society Publishers, 2000).

11 Leading recent studies on SRI performance include Wim Vermeir, Eveline Van de Velde, and Filip Corten, “Sustainable and Responsible Performance,” *The Journal of Investing* 14, no. 3 (fall 2005): 94-100; Zakri Y. Bello, “Socially Responsible Investing and Portfolio Diversification,” *The Journal of Financial Research* 28, no. 1 (spring 2005): 41-57; Rob Bauer, Kees C. G. Koedijk and Rogér Otten, “International Evidence on Ethical Mutual Fund Performance and Investment Style,” Working Paper, Maastricht University and Erasmus University Rotterdam, November 2002; and Bernell K. Stone, John B. Guerard, Jr., Mustafa N. Gultekin, and Greg Adams, “Socially Responsible Investment Screening: Strong Evidence of No Significant Cost for Actively Managed Portfolios,” Working Paper, June 2001. See the Bibliography for additional studies on SRI that have appeared since 2003. A fuller

database of quantitative studies on social investing can be found at [www.sristudies.org](http://www.sristudies.org), a project of the Moskowitz Research Program of the Center for Responsible Business at the Haas School of Business of the University of California, Berkeley.

- 12** Jed Emerson and Tim Little, with Jonas Kron, *The Prudent Trustee: The Evolution of the Long-Term Investor* (Oakland, Calif.: The Rose Foundation for Communities and the Environment, September 2005); Peter D. Kinder, “New Fiduciary Duties in a Changing Social Environment,” *The Journal of Investing* 14, no. 3 (fall 2005): 24-39; id., ed., “Resources on Socially Responsible Investing, Corporations and Fiduciary Duties,” Boston, KLD Research & Analytics, Inc., July 2004; George R. Gay and Johann A. Klaassen, “Retirement Investment, Fiduciary Obligations, and Socially Responsible Investing,” *Journal of Deferred Compensation* 10, no. 4 (summer 2005): 34-40.
- 13** Mike Tyrrell and Meg Brown, *Socially Responsible Investment: Crossing the River* (London: Citigroup, Smith Barney, July 2005); United Nations Global Compact, *Who Cares Wins: Connecting Financial Markets to a Changing World* (United Nations, June 2004); and World Economic Forum, *Mainstreaming Responsible Investment* (Geneva, January 2005).
- 14** Marc Orlitzky, Frank L. Schmidt, and Sara L. Rynes, “Corporate Social and Financial Performance: A Meta-Analysis,” *Organization Studies* 24, no. 3 (2003): 403-41; and Nadja Guenster, Jeroen Derwall, Rob Bauer, and Kees C. G. Koedijk, “The Economic Value of Corporate Eco-Efficiency,” Working Paper, Erasmus University Rotterdam, August 2005, available at [www.ssrn.com/abstract=675628](http://www.ssrn.com/abstract=675628), Winners respectively of the 2004 and 2005 Moskowitz Prizes, sponsored by the Social Investment Forum and, since 2005, the Center for Responsible Business at the Haas School of Business of the University of California, Berkeley.
- 15** Duncan Austin and Amanda Sauer, *Changing Oil: Emerging Environmental Risks and Shareholder Value in the Oil and Gas Industry* (Washington, DC: World Resources Institute, n.d.); Roberto Repetto and Austin, *Pure Profit: The Financial Implications of Environmental Performance* (Washington, DC: World Resources Institute, 2000), which focuses on the pulp-and-paper industry; and Austin, Niki Rosinski, Sauer and Colin le Duc, *Changing Drivers: The Impact of Climate Change on Competitiveness and Value Creation in the Automotive Industry* (Washington, DC: Sustainable Asset Management and World Resources Institute, 2003); and InnoVest Strategic Value Advisors, Inc., *Value at Risk: Climate Change and the Future of Governance* (Boston: Ceres, Inc., Sustainable Governance Project, April 2002).

#### SECTION IV: SHAREHOLDER ADVOCACY

- 16** In 1995, the Social Investment Forum identified \$473 billion in assets under the control of institutions involved in Shareholder Advocacy by either filing resolutions or following formal proxy-voting guidelines on social issues. In subsequent reports, only the assets of shareholder advocates that filed or co-filed resolutions have been included, making ten-year comparisons more difficult. While the Social Investment Forum recognizes the importance of proxy voting as well as direct engagement with companies outside of the proxy process, the assets measured in this report are only those of institutions and money managers that formally propose shareholder resolutions on social or environmental issues.
- 17** The company may challenge resolutions, using one of several arguments for exclusion that appear in SEC proxy regulation 14a-8 rules. If the SEC decides in favor of the company, a “No Action” letter is granted, and the company is not required to print the resolution in its annual proxy statement. If, however, the SEC decides in favor of the filing shareholder(s), the corporation must print the entire proposal in the proxy that is mailed to every investor of that company.
- 18** Votes, even majority votes, on shareholder-proposed resolutions are not binding at corporations, unless an amendment to the company by-laws is proposed. Instead, resolutions are advisory, providing input to directors on the position of investors on particular issues. In many cases directors heed these concerns and find ways to make improvements or disclose more information to appease investors when votes become significant enough.

**19** The process and limitations for filing a resolution can be found in SEC Regulation 14a-8, on the SEC web site: [www.sec.gov](http://www.sec.gov). Individual investors who file shareholder resolutions are not included in the Social Investment Forum's surveying of shareholder advocates.

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**20** Note that although most annual meetings occur before August of each year, some do occur in the fall. The assets of shareholder resolution proponents are counted as of December 31, 2004, in order to measure the scale of SRI consistently across all strategies. Because the Social Investment Forum only surveys institutional investors and money managers, not individual investors who file resolutions, this figure remains a conservative estimate of the total assets controlled by shareholder resolution proponents. See the Section VII on Methodology for more details.

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**21** Tracey Rembert, with Aileen Nowlan and Michael Pryce-Jones, *Mutual Funds, Proxy Voting, and Fiduciary Responsibility: How Do Funds Rate on Voting Their Proxies and Disclosure Practices?* (Washington, DC: Social Investment Forum Foundation, April 2005).

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**22** *Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions* (Rockefeller Philanthropy Advisors and As You Sow Foundation, 2004).

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**23** Global Markets Institute University Endowment Poll, Goldman Sachs, January 25, 2005.

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## **SECTION V: COMMUNITY INVESTING**

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**24** See the Methodology section for more details on the institutions included in this section.

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**25** The CDP partners include: Association for Enterprise Opportunity, Aspen Institute, CDFI Coalition, Community Development Venture Capital Alliance, Corporation for Enterprise Development, National Community Investment Fund, National Federation of Community Development Credit Unions, and Opportunity Finance Network.

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**26** Where investments in these complementary activities are channeled through a community development financial institution, the assets are counted in this Report.

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## **SECTION VI: GLOBAL TRENDS**

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**27** Sustainable Responsible Investment in Australia - 2005 Report: p. 5.

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# Appendix I

## SCREENING GLOSSARY

**ALCOHOL:** The exclusion or partial exclusion of companies involved in the production, licensing, and/or retailing of alcohol products, or the manufacturing of products necessary for production of alcoholic beverages, as well as ownership of or by an alcohol company.

**ANIMAL TESTING:** The exclusion of companies involved in animal testing in the research and development or manufacturing of a product.

**COMMUNITY IMPACT:** The inclusion or exclusion of companies based on issues of charitable giving, innovative giving, non-US charitable giving, support for affordable housing, support for education, exceptional volunteer programs, investment controversies, or negative economic impacts.

**DEFENSE/WEAPONS:** The exclusion or partial exclusion of companies that derive a significant portion of their revenues from the manufacture or retailing of firearms or ammunition for civilian use, and military weapons, as well as ownership of or by a firearm or military/defense company. This screen could also include the exclusion or partial exclusion of companies that own or are owned by nuclear power plants.

**EQUAL EMPLOYMENT OPPORTUNITY (EEO):** The inclusion or exclusion of companies based on equality and diversity issues surrounding CEO, board of directors, work/life benefits, women and minority contracting, employment of the disabled, or gay and lesbian policies.

**ENVIRONMENT:** The inclusion or exclusion of companies based on issues of beneficial products and services, energy use, pollution prevention, recycling, hazardous waste, regulatory problems, ozone depleting or agricultural chemicals, substantial emissions, climate change, or environmental management systems.

**GAMBLING:** The exclusion or partial exclusion of companies involved in the licensing, manufacturing, owning and operating, or ownership of or by a gambling company.

**FAITH-BASED:** The inclusion or exclusion of companies based explicitly on religious grounds, generally in reference to the principles of Christian, Jewish, or Islamic faiths, such as exclusions of interest-based financial institutions or pork products based on Islamic Shari'a principles or Catholic concerns related to the "sanctity of life."

**HUMAN RIGHTS:** The inclusion or exclusion of companies based on issues of relations with indigenous peoples, labor rights, and operations in countries with oppressive regimes, such as Burma.

**LABOR RELATIONS:** The inclusion or exclusion of companies based on issues of labor or employee relations programs, cash profit sharing, employee involvement, health and safety, retirement benefits, union relations, workforce reductions, or any major employee relations controversy.

**PORNOGRAPHY/ADULT ENTERTAINMENT:** The exclusion or partial exclusion of companies that derive a significant portion of revenues from the production or distribution of adult entertainment products, owning or operating adult entertainment establishments, or providing adult entertainment programming through cable or pay-per-view services.

**PRODUCTS/SERVICES:** The inclusion or exclusion of companies based on issues of benefits to economically disadvantaged groups, quality programs recognized as exceptional in US

industry, R&D / Innovation leadership in the industry, product safety, marketing/contracting controversy, or antitrust fines or civil penalties.

**TOBACCO:** The exclusion or partial exclusion of companies involved in the production, licensing, and/or retailing of tobacco products, or the manufacturing of products necessary for production of tobacco products, as well as ownership of or by a tobacco company.

### **Other Screens**

The category “Other” is comprised of social screens that represent less than \$10 billion in total assets for all socially screened mutual funds. Below are the screens included in the Other category.

**Abortion:** The exclusion or partial exclusion of publicly traded companies that are involved in the development or manufacture of abortifacients, and often the exclusion of companies that own or operate acute care hospitals or surgical centers.

**Contraceptives:** The exclusion or partial exclusion of publicly traded companies that are involved in the development or manufacture of contraceptives.

**Healthcare Industries:** Particular screen to the Christian Scientist religion, used to exclude all companies in the healthcare industries.

**Anti-family Entertainment:** Beyond the exclusion of companies that derive most of their revenue from adult entertainment, this screen excludes companies deriving a significant portion of their revenue from programs (including their networks and major advertisers) with “significant violence or sexual content.”

**Non-married Lifestyles:** The “exclusion of any company that undermines the sacrament of matrimony,” often including insurance companies that give coverage to non-married couples—both hetero- and homosexual—and companies that give domestic partner health benefits.

## Appendix 2.

### **SOCIALLY RESPONSIBLE INVESTING RESEARCH CENTERS, PROGRAMS AND PROJECTS**

Organizations producing research related to integrating social, environmental and governance issues into investment decisions

**Center for Business Ethics**

*Bentley College*  
Waltham, MA  
[ecampus.bentley.edu/dept/cbe](http://ecampus.bentley.edu/dept/cbe)

**Center for Emerging Domestic Markets**

*The Milken Institute*  
Los Angeles, CA  
[www.milkeninstitute.org](http://www.milkeninstitute.org)

**Center for Responsible Business**

*Haas School of Business at  
University of California*  
Berkeley, CA  
[www.haas.berkeley.edu](http://www.haas.berkeley.edu)

**Center for the Study of  
Fiduciary Capitalism**

*St. Mary's College of California*  
Moraga, CA  
[www.stmarys-ca.edu](http://www.stmarys-ca.edu)

**Institute for Responsible Investment**

*Center for Corporate Citizenship,  
Boston College*  
Chestnut Hill, MA  
[www.bccccc.net/responsibleinvestment](http://www.bccccc.net/responsibleinvestment)

**Natural Capital Institute**

*Sausalito, CA*  
[www.naturalcapital.org](http://www.naturalcapital.org)

**Research Initiative on  
Social Entrepreneurship (RISE)**

*Columbia Business School*  
New York, NY  
[www.riseproject.org](http://www.riseproject.org)

**Social Investment Forum Foundation**

*Washington, DC*  
[www.socialinvest.org](http://www.socialinvest.org)

**The Tellus Institute**

*Corporation 2020*  
Boston, MA  
[www.tellus.org](http://www.tellus.org)

### **ORGANIZATIONS PRODUCING RELATED CSR RESEARCH**

**Center on Corporation,  
Law & Society (CCLS)**

*Seattle University School of Law*  
Seattle, WA  
[www.law.seattleu.edu/ccls](http://www.law.seattleu.edu/ccls)

**Center for Professional and  
Applied Ethics**

*University of North Carolina at Charlotte*  
Charlotte, NC  
[www.uncc.edu/ethics](http://www.uncc.edu/ethics)

**The Corporate Library**

Portland, ME  
[www.thecorporatelibrary.com](http://www.thecorporatelibrary.com)

**Corporate Social Responsibility Initiative**

*Harvard Business School*  
Boston, MA  
[www.hbs.edu/socialenterprise](http://www.hbs.edu/socialenterprise)

**Global CSR and Public Policy Project**

*The Frank Hawkins Kenan Institute  
of Private Enterprise*  
*Kenan-Flagler School of Business*  
*University of North Carolina at Chapel Hill*  
[www.kenan-flagler.unc.edu/KI/](http://www.kenan-flagler.unc.edu/KI/)

**Social Accountability International (SAI)**

New York, NY  
[www.sa-intl.org](http://www.sa-intl.org)

## Appendix 3.

### SOCIALLY AND ENVIRONMENTALLY SCREENED FUNDS

#### Mutual Funds — Screened and Shareholder Advocacy

Calvert Capital Accumulation	\$155,600,000
Calvert Large Cap Growth Fund	\$217,900,000
Calvert Mid Cap Value Fund	\$5,400,000
Calvert New Vision Small Cap Fund	\$296,300,000
Calvert Small Cap Value Fund	\$5,700,000
Calvert Social Index Fund	\$55,400,000
Calvert Social Investment Fund Balanced Portfolio	\$560,600,000
Calvert Social Investment Fund Bond Portfolio	\$224,600,000
Calvert Social Investment Fund Enhanced Equity	\$76,800,000
Calvert Social Investment Fund Equity Portfolio	\$1,077,400,000
Calvert Social Investment Fund Money Market Fund	\$162,800,000
Calvert World Values International Equity Fund	\$335,400,000
The Catholic Equity Fund	\$37,100,000
Citizens 300 Fund	\$7,100,000
Citizens Balanced Fund	\$3,700,000
Citizens Core Growth	\$338,300,000
Citizens Emerging Growth Fund	\$174,900,000
Citizens Global Equity	\$95,600,000
Citizens Income Fund	\$58,200,000
Citizens Money Market Fund	\$91,200,000
Citizens Small Cap Core Growth	\$29,300,000
Citizens Small Cap Value Fund	\$2,100,000
Citizens Ultra Short Bond Fund	\$6,600,000
Citizens Value Fund	\$26,100,000
Domini Social Bond Fund	\$64,000,000
Domini Social Equity Fund	\$1,642,700,000
Green Century Balanced Fund	\$69,900,000
Green Century Equity Fund	\$35,700,000
MMA Praxis Core Stock Fund	\$325,400,000
MMA Praxis Intermediate Income Fund	\$270,100,000
MMA Praxis International Fund	\$138,400,000
MMA Praxis Money Market Fund	\$9,800,000
MMA Praxis Value Index	\$43,200,000

Pax World Balanced Fund, Inc.	\$1,462,200,000
Portfolio 21	\$67,900,000
Sierra Club Equity Income Fund	\$20,200,000
Sierra Club Stock Fund	\$30,400,000
Walden Social Balanced Fund	\$28,400,000
Walden Social Equity Fund	\$46,000,000
Women's Equity Mutual Fund	\$29,300,000

#### Mutual Funds — Screened

AB Funds Trust Capital Opportunities Fund	— —*
AB Funds Trust Equity Index Fund	\$472,000,000
AB Funds Trust Extended-Duration Bond Fund	\$461,000,000
AB Funds Trust Flexible Income Fund	— —*
AB Funds Trust Global Equity Fund	— —*
AB Funds Trust Growth & Income Fund	— —*
AB Funds Trust Growth Equity Fund	\$1,507,000,000
AB Funds Trust International Equity Fund	\$1,185,000,000
AB Funds Trust Low-Duration Bond Fund	\$871,000,000
AB Funds Trust Medium-Duration Bond Fund	\$928,000,000
AB Funds Trust Money Market Fund	\$913,000,000
AB Funds Trust Small Cap Equity Fund	\$485,000,000
AB Funds Trust Value Equity Fund	\$1,405,000,000
AHA Balanced Fund I	\$17,900,000
AHA Diversified Equity	\$89,800,000
AHA Full Maturity Fixed Income Fund	\$30,600,000
AHA Limited Maturity Fixed Income Fund	\$149,400,000
AHA Socially Responsible Equity Fund	— —**
Alger Socially Responsible Growth Institutional Fund	\$1,600,000
Amana Growth Fund	\$43,000,000
Amana Income Fund	\$35,500,000
American Funds Washington Mutual Investors	\$75,870,000,000
American Mutual Fund	\$14,966,000,000
American Trust Allegiance Fund	\$23,000,000
Aquinas Fixed Income Fund	\$46,100,000
Aquinas Growth Fund	\$58,400,000

APPENDIX 3. SOCIALLY AND ENVIRONMENTALLY SCREENED FUNDS

Aquinas Small-Cap Fund	\$7,600,000	New Covenant Balanced Growth Fund	\$314,100,000
Aquinas Value Fund	\$42,800,000	New Covenant Balanced Income Fund	\$125,100,000
Ariel Appreciation Fund	\$3,264,800,000	New Covenant Growth Fund	\$887,100,000
Ariel Fund	\$4,196,600,000	New Covenant Income Fund	\$530,400,000
Ave Maria Bond Fund	\$38,900,000	NOAH FUND Equity Portfolio	\$9,800,000
Ave Maria Catholic Values Fund	\$248,100,000	Parnassus Fund	\$339,900,000
Ave Maria Growth Fund	\$51,600,000	Parnassus Income Trust: California Tax-Exempt Fund	\$25,600,000
Azzad Ethical Income Fund	\$1,400,000	Parnassus Income Trust: Equity Income Fund	\$894,400,000
Azzad Ethical Mid Cap Fund	\$1,200,000	Parnassus Income Trust: Fixed Income Fund	\$38,200,000
Bridgeway Aggressive Investors 1	\$365,700,000	Pax World Growth Fund, Inc.	\$64,900,000
Bridgeway Aggressive Investors 2	\$119,900,000	Pax World High Yield Fund, Inc.	\$52,300,000
Bridgeway Balanced	\$27,600,000	Pax World Money Market Fund	\$20,700,000
Bridgeway Blue Chip 35 Index	\$39,300,000	PIMCO Low Duration Fund III (Socially Sensitive)	\$104,300,000
Bridgeway Large-Cap Growth Fund	\$48,300,000	PIMCO Total Return Fund III (Socially Sensitive)	\$1,462,300,000
Bridgeway Large-Cap Value Fund	\$25,800,000	Pioneer Equity Income Fund	\$923,000,000
Bridgeway Micro-Cap Limited	\$61,900,000	Pioneer Fund	\$7,239,200,000
Bridgeway Small Cap Growth Fund	\$54,300,000	SB Growth and Income Fund	\$1,263,200,000
Bridgeway Small Cap Value Funds	\$41,900,000	Scudder Capital Growth Fund	\$1,200,000,000
Bridgeway Ultra Small Company Fund	\$117,300,000	Scudder Global Fund	\$930,000,000
Bridgeway Ultra Small Company Market Fund	\$806,000,000	Scudder GNMA Fund	\$3,500,000,000
Builders Fixed Income Fund	\$236,800,000	Scudder Growth and Income Fund	\$5,200,000,000
Columbia Young Investor Fund	\$822,000,000	Scudder Small Company Stock Fund	\$178,000,000
CRA Qualified Investment Fund	\$560,200,000	Security Social Awareness Fund	\$17,600,000
Delaware Social Awareness Fund	\$49,000,000	Shepherd Large Cap Growth Fund	\$5,700,000
Domini Money Market Account	\$56,900,000	Smith Barney Social Awareness	\$396,000,000
Dow Jones Islamic Fund	\$22,900,000	SSgA IAM Shares Fund	\$184,700,000
Dreyfus Premier Third Century Fund, Inc.	\$484,000,000	Steward Domestic All-Cap Equity Fund	\$61,900,000
Enterprise Global Socially Responsive Fund	\$14,200,000	Steward Select Bond Fund	\$53,100,000
Fidelity Select Environmental Portfolio	\$13,400,000	Stratton Growth Fund	\$110,300,000
Flex-funds Total Return Utility Fund	\$28,400,000	Stratton Small Cap Value Fund	\$116,500,000
Forward Uniplan Real Estate Investment Fund	\$48,300,000	Summit Apex Series Total Stakeholder Impact Fund	\$5,200,000
GMO Tobacco Free Core Fund	\$360,100,000	Thornburg Limited Term Income Fund	\$386,500,000
IPS Millennium Fund	\$65,900,000	TIAA-CREF Institutional Social Choice Equity	\$141,900,000
IPS New Frontier Fund	\$3,500,000	TIAA-CREF Social Choice Equity Fund	\$119,100,000
MFS Union Standard Equity Fund	\$44,700,000	Timothy Plan Aggressive Growth Fund	\$18,700,000
Morgan Stanley KLD Social Index Fund	\$20,500,000	Timothy Plan Conservative Growth Fund	—*
MTB Social Balanced Fund Institutional	\$2,900,000	Timothy Plan Fixed Income	\$27,900,000
Neuberger Berman Socially Responsive Fund	\$331,900,000		
New Alternatives Fund	\$52,600,000		

Timothy Plan Large/ Mid-Cap Growth Fund	\$40,500,000
Timothy Plan Large/Mid-Cap Value Fund	\$49,900,000
Timothy Plan Money Market	\$3,700,000
Timothy Plan Patriot Fund	\$1,000,000
Timothy Plan Small-Cap Value Fund	\$63,300,000
Timothy Plan Strategic Growth	—* <sup>*</sup>
USAA First Start Growth Fund	\$212,900,000
Vanguard Calvert Social Index Fund	\$346,200,000
Winslow Green Growth Fund	\$47,600,000

### Variable Annuities

Calvert Variable Series (CVS) Social Balanced Portfolio	\$467,900,000
CVS Social Equity Portfolio	\$9,600,000
CVS Social International Equity Portfolio	\$18,700,000
CVS Social Mid-Cap Growth Portfolio	\$69,500,000
CVS Social Money Market Portfolio	\$12,900,000
CVS Social Small Cap Portfolio	\$17,900,000
College Retirement Equities Fund (CREF) Social Choice Account	\$7,001,600,000
Dreyfus Socially Responsible Growth Fund	\$502,500,000
Neuberger Berman Advisors Management Trust Socially Responsive Portfolio	\$21,700,000
SBL Fund Series S (Social Awareness Series)	\$108,900,000
TIAA-CREF Life Funds Social Choice Equity Fund	\$27,600,000
Travelers Series Trust: Social Awareness Stock Portfolio	\$93,800,000
EQ Advisors Trust EQ/Calvert Socially Responsible Portfolio	\$47,300,000
Lincoln VIP Social Awareness Fund	\$1,153,800,000
Maxim Ariel Midcap Value Portfolio	\$469,200,000
Maxim Ariel Small-Cap Value Portfolio	\$634,600,000
The Timothy Plan Portfolio Variable Series: Conservative Growth	—* <sup>*</sup>
The Timothy Plan Portfolio Variable Series: Strategic Growth	—* <sup>*</sup>
The Timothy Plan Small-Cap Variable Series	\$5,600,000
VALIC Company I Social Awareness Fund	\$415,000,000
VALIC Company II Socially Responsible Fund	\$94,000,000
Wilshire Variable Insurance Trust Socially Responsible Fund	\$80,300,000

### Other Pooled Products

Access Capital Strategies Community Investment Fund	\$377,400,000
Alger Socially Responsible Growth Equity Composite Portfolio	\$109,400,000
Delaware Pooled Trust--The Labor Select International Equity Portfolio	\$501,300,000
TCW CoGeneration and Infrastructure Strategy	\$350,000,000
AFL-CIO Housing Investment Trust (HIT)	\$3,666,000,000
AFL-CIO Building Investment Trust (BIT)	\$1,902,400,000
BUILD Fund of America	\$78,400,000
BUILD Fund of Illinois	\$16,700,000
BUILD Fund of Indiana	\$15,700,000
BUILD Fund of Michigan	\$80,000,000
BUILD Fund of Ohio	\$13,500,000
Comerica SDA Large Cap Equity Index Fund	\$249,300,000
Comerica SDA Small-Mid Cap Equity Index Fund	\$139,600,000
Comerica SDA Total Bond Market Index Fund	\$125,300,000
ERECT Fund I	\$98,700,000
ERECT Fund II -- Equity	\$25,400,000
ERECT Co-Participation Fund	\$14,300,000
IBEW-NECA Equity Index Fund	\$4,300,000,000
KPS Special Situations Fund, LP, and KPS Supplemental Fund, LP	\$210,000,000
KPS Special Situations Fund II	\$404,000,000
Multi-Employer Property Trust	\$4,210,000,000
Prudential America Fund	\$315,000,000
TRUE Fund Small Cap	\$20,000,000
ULLICO Separate Account "J for Jobs"	\$2,133,700,000
ULLICO Separate Account P	\$10,600,000
ULLICO USA Realty Fund	—* <sup>*</sup>
Massachusetts Green Energy Fund, LP	\$15,000,000

\* The assets of "funds of funds" are not included in order to avoid potential double counting.

\*\*A new fund formed in 2004 and open to investors at the beginning of 2005 but with no reported assets as of December 31, 2004.

# Appendix 4.

## MONEY MANAGERS AND ADVISORS EMPLOYING SOCIAL SCREENING

### Money Managers Applying Social Screening

Allegheny Financial Group, Ltd.

Arbor Capital Management

Ariel Capital Management, LLC

Aline Autenrieth, *Progressive Asset Management/Financial West Group, Inc*

Janet Barr, *American Express Financial Advisors*

Richard Barr, *First Affirmative Financial Network, LLC (FAFN)*

Becker Capital Management

Ben Bingham, *Legg Mason Wood Walker, Inc.*

Jonathan Block, *A. G. Edwards & Sons, Inc.*

Blue Marble Investments, LLC

Jon Blum, *Merrill Lynch*

Bob J. Bollinger, *Bollinger Financial Advisory, Inc.*

Boston Common Asset Management

Tim Braun, *MMA Goshen*

Brenner, McDonagh & Tortolani

Calvert

Capital Guardian Trust Company

David Carris, *Merrill Lynch*

Cavanaugh Capital Management

Christian Brothers Investment Services, Inc.

Citigroup Asset Management,  
Social Awareness Investment Program

Citizens Advisers, Inc.

Clean Yield Asset Management, Inc.

David Crocker, *Smith Barney*

Gordon T. Dale, *Morgan Stanley*

David J. Greene & Company, LLC

Denver Investment Advisors

Cherie Giessman DiNoia, *Shelby Financial Group Inc.*

Bob Dreizler, *Protected Investors of America*

Dreyfus Corp. (Mellon)

Estabrook Capital Management

Steve Fahrner, *Progressive Asset Management*

Michael J. Federico

FinArc, LLC

First Affirmative Financial Network, LLC (FAFN)

Flippin, Bruce & Porter

Winnie Forrester, *Wachovia Securities*

Dena Shapiro Frenkel,  
*American Express Financial Advisers, Inc.*

Ron Freund, *The Social Equity Group*

Gabelli Asset Management

Greg Garvan, *Money with a Mission*

Generation Investment Management LLP

Great Lakes Advisors

Susan S. Hansen, *Hansen's Financial Services*

Harrington Investments, Inc.

Justin Harris, *KMS Financial Services, Inc.*

The Haverford Trust Company

Heartland Financial USA, Inc.

Dave A. Horan, *Piper Jaffray & Co.*

Pamela Hughes, *Merrill Lynch*

JAG Advisors

Kimberly Kiel, *First Affirmative Financial Network, LLC (FAFN)*

Jane Kay Kolinsky, *Wachovia Securities*

Kay E. Kramer, *Kramer Lothrop Brewer Financial*

Eric Leenson, *Progressive Asset Management*

Legg Mason Investment Counsel

Michael Lent, *Progressive Asset Management*

Leonard Financial, Ltd., *Center for Responsible Investing*

Light Green Advisors

Lindsay LLC/The Water Portfolio LP

Loring, Wolcott & Coolidge

Andy R. Loving, *Just Money Advisors*

Sylvia L. Matteson, *Financial Freedom Associates*

Gary Matthews, *First Affirmative Financial Network, LLC (FAFN)*

Shelly McFarland, *RBC Dain Rauscher*

Mellon Equity Associates, LLP

Mennonite Mutual Aid

David L. Meucci, *Protected Investors of America*

Miller/Howard Investments, Inc.

Ryan Miracle, *Linsco/Private Ledger*

Mission Management & Trust Co.	Roxbury Capital Management, LLC
Celia Mueller	John Severy-Hoven, <i>Oracle Financial Planners, LLC</i>
Natural Investment Services Inc.	SKBA Capital Management
Nelson Capital Management	Eric Smith, <i>First Affirmative Financial Network, LLC (FAFN)</i>
Neuberger Berman, LLC, A Lehman Brothers Company	State Street Global Advisors
Newground Social Investment	Stonebridge Capital Advisors
Northern Trust Global Investments	Susan K. Taylor, Just Money Advisors
NorthStar Asset Management, Inc.	TCW Group
Pax World Management Corp.	Richard Torgerson, <i>Progressive Asset Management</i>
Thomas H. Payne, <i>Commonwealth Financial Network</i>	Trillium Asset Management Corp.
Piper Jaffray & Co., Philanthropic & Social Investment Consulting	Walden Asset Management, A Division of Boston Trust & Investment Management
Principle Profits Asset Management, Inc.	Michele Weber, Edward Jones
Progressive Asset Management	Barry Wind, <i>Progressive Asset Management</i>
Progressive Investment Management Corp.	Winslow Management Company
Thomas F. Ray, <i>Brookstreet Securities Corporation</i>	Catherine Woodman, <i>Protected Investors of America</i>
Rosemary Y. Reed, Delta Financial Group, LTD	
Reynders, McVeigh Capital Management, LLC	
Phil Richman, A. G. Edwards & Sons, Inc.	
Rinehart & Associates	
Rockefeller & Co., Inc.	

**NOTE:** Rather than serving as a comprehensive list of asset managers and investment advisers applying social screening to their client portfolios, this appendix includes only those money managers and investment advisers with screened client assets under management who responded to the Social Investment Forum Foundation's 2005 trends surveying.

# Appendix 5

## INSTITUTIONS INVOLVED IN SOCIAL OR ENVIRONMENTAL INVESTING

ACLU Foundation of Northern California	California State University, San Luis Obispo
Adrian Dominican Sisters	California Wellness Foundation
Adventist HealthCare	Cambridge (MA) Retirement System
Alaska Permanent Fund	Catholic Health Initiatives
AMA Foundation	Catholic Healthcare Partners
American Baptist Churches USA, American Baptist Home Mission Society	Catholic Healthcare West
American Heart Association	Catholic Relief Services
Amesbury Town (MA) Retirement System	Catholic University of America
Annuity Board of the Southern Baptist Convention	Changemakers
Arcata (CA), City of	Charles Stewart Mott Foundation
Assemblies of God Financial Services Group	Chelsea (MA), City of
Atlantic Health System	Church of the Brethren Benefit Trust
Attleboro (MA) Contributory Retirement System	Clark University
Baltimore Elected Officials' Retirement System, City of	Columbia University
Baltimore Employees' Retirement System, City of	Congregation of Divine Providence, San Antonio (TX)
Baltimore Fire & Police Employees' Retirement System, City of	Congregation of the Sisters of St. Joseph of Peace
Barnstable County (MA) Retirement System	Connecticut Retirement Plans and Trust Funds, State of
Baylor College of Medicine	Contra Costa County Employees' Retirement Association
Belmont (MA) Contributory Retirement System	Dartmouth College
Berkeley (CA), City of	DC College Savings Plan
Boston (MA) Trust Funds	Diocese of Brooklyn
Boston Foundation	Dominican Sisters of Hope
Boulder (CO), City of	Dominican Sisters of Oxford
Brainerd Foundation	Dominican Sisters of Springfield (IL)
Brockton (MA) Contributory Retirement Program	Dominican Sisters of St. Mary of the Springs ( <i>Columbus Dominicans</i> )
Brookline (MA) Retirement System	Duke University
Brown University	Dukes County (MA) Retirement Board
Bullitt Foundation	Earlham College
Burlington (VT) Employees' Retirement System	Episcopal Church Pension Fund
California Pooled Money Investment Account	Evangelical Lutheran Church in America, Board of Pensions
California Public Employees' Retirement System	F. B. Heron Foundation
California State Savings Plus	Falmouth (MA) Retirement System
California State Teachers' Retirement System	Federal Home Loan Mortgage Corporation
California State University, Dominguez Hills	Federal Reserve System Employees Retirement Plan
California State University, Long Beach	Fitchburg (MA) Retirement System
California State University, Monterey Bay	Florida State Board of Administration

Francis Family Foundation	Mutual of Omaha
Franklin (MA) County Retirement System	Nathan Cummings Foundation
Friends Fiduciary Corporation	The Nature Conservancy
The Funding Exchange	Nebraska Investment Council
Gloucester (MA) Contributory Retirement System	New England Yearly Meeting of Friends Pooled Fund
Golden State ScholarShare College Savings Trust	New Jersey Division of Investment
Gonzaga University	New York City Employees' Retirement System
Hampshire County (MA) Retirement System	New York State Common Retirement Fund
Harvard University	Norfolk County (MA) Employees Retirement
Haverhill (MA) Retirement System	North Adams (MA) Contributory
Henry J. Kaiser Family Foundation	Oklahoma School Land Trust
Humboldt State University	Omaha Construction Health & Welfare
Illinois Wesleyan University	Oneida Trust Committee
The Impact Fund	Partners Healthcare System, Inc.
International Brotherhood of Teamsters	Pennsylvania Tuition Account Program
Jessie Smith Noyes Foundation, Inc.	Philadelphia Board of Pensions and Retirement, City of
Jewish Voice for Peace	Plymouth County (MA) Retirement
The John E. Fetzer Institute	Presbyterian Church (USA) Board of Pensions
Johns Hopkins University	Quincy (MA) Retirement System
Kaiser Permanente	Robert Wood Johnson Foundation
Kaiser Permanente Foundation	Rochester Minnesota Franciscans ( <i>Academy of Our Lady of Lourdes</i> )
Kansas Health Foundation	The Rose Foundation for Communi- ties and the Environment
Lawton Chiles Endowment Fund	Rudolf Steiner Foundation
Los Angeles County Employees' Retirement Association	Samford University
Louisiana Baptist Foundation	San Francisco Employees' Retirement System, City & County of
Marisla Foundation	The San Francisco Foundation
Maryknoll Fathers and Brothers ( <i>Catholic Foreign Mission Society of America</i> )	San Francisco State University
Maryknoll Sisters	San Jose State University
Massachusetts Pension Reserves Investment Trust Fund	Scherman Foundation
Massachusetts Public Employees' Retirement Administration Commission	School Sisters of Notre Dame of St. Louis
Medford (MA) Retirement System	Sierra Health Foundation
Memorial Sloan-Kettering Cancer Center	Sisters of Charity of Leavenworth Health System
Mercy Investment Program, Inc.	Sisters of Charity of St. Vincent de Paul (NY)
Mertz Gilmore Foundation	Sisters of Mercy Health System
Messiah College	Sisters of Mercy, Regional Community of Burlingame (CA)
Metro Water Reclamation District Retirement Fund (Chicago)	Sisters of Notre Dame de Namur-California Province
Milwaukee, WI, City of	Sisters of Saint Francis Health Network
Ministers and Missionaries Benefit Board, American Baptist Churches USA	Sisters of St. Francis of Philadelphia
Minnesota State Board of Investments	Sisters of St. Joseph of La Grange (IL)
Mount St. Scholastica, Inc. (Benedictine Sisters)	Sisters of St. Joseph of Wheeling (WV)

APPENDIX 5. INSTITUTIONS INVOLVED IN SOCIAL OR ENVIRONMENTAL INVESTING

Sisters of the Holy Cross, Inc.	University of Vermont
Sisters of the Sorrowful Mother Ministry	University of Washington
Southcoast Health System	University of Wisconsin
Southeastern Regional Medical Center	Ursuline Sisters of Tildonk, US Province
Southern Maine Medical Center	The Vermont Community Foundation
Spelman College	Vermont, Office of the State Treasurer
St. Mary's Institute of O'Fallon ( <i>Sisters of the Most Precious Blood</i> )	Washington County Employees' Retirement Fund (PA)
Stanford University	Wayne State University Foundation
State of Michigan Retirement Systems	West Springfield (MA) Retirement System
Sterling Heights Police & Fire Retirement System	Westfield (MA) Contributory Retirement
Swampscott (MA), City of	Weymouth (MA) Contributory Retirement
Taunton (MA) Retirement System	Wheaton College
Texas Tomorrow's College Investment Plan	The William Bingham Foundation
Tides Foundation	William Casper Graustein Memorial Fund
Unitarian Universalist Association	Williams College
Unitarian Universalist Service Committee	Woburn (MA) Retirement System, City of
United Church Foundation, Inc.	
United Church of Christ (UCC) Pension Boards	
United Methodist Church General Board of Pension and Health Benefits	
University of California System, Office of The Treasurer of The Regents	
University of California, San Diego Foundation	
University of Michigan	
University of St. Thomas	

**Note:** In order to avoid potential double counting, institutions involved in social investing that direct their investments into socially screened mutual funds already included in Section II are included in the list above, but those assets invested in socially screened funds are not included in the measurements of institutional investor screening assets found in Section III. This includes institutions that provide socially responsible mutual fund options in a defined-contribution pension plan, for example, or that otherwise incorporate screened funds into their investment portfolios.

## Appendix 6

### SHAREHOLDER RESOLUTION PROPONENTS 2003-2005

Adorers of the Blood of Christ	Congregation of Sisters of the Servants of the Immaculate Heart of Mary
Adrian Dominican Sisters	Congregation of St. Joseph of Carondelet, St. Paul Province
AFL-CIO	Congregation of the Holy Cross, Southern Province
Amalgamated Bank LongView Funds	Congregation of the Passion, American Province
American Baptist Churches USA ( <i>American Baptist Home Mission Society</i> )	Congregation of the Passion, East
American Federation of State, County & Municipal Employees (AFSCME)	Congregation of the Passion, West
Amnesty International USA	Congregation of the Sisters of Charity of the Incarnate Word, Houston
Arizona Safe Energy Coalition	Congregation of the Sisters of St. Joseph of Brighton
As You Sow Foundation	Congregation of the Sisters of St. Joseph of Peace
ASC Investment Group	Conservation Land Trust
Benedictine Sisters Charitable Trust	Convent Academy of the Incarnate Word ( <i>Sisters of the Incarnate Word, Corpus Christi, Texas</i> )
Benedictine Sisters of Mount St. Scholastica	Daughters of Charity of St. Vincent de Paul
Benedictine Sisters of Mt. Angel	Dentistry for Children and Adolescents
Benedictine Sisters of the Monastery of St. Gertrude	Diocese of Brooklyn
Benedictine Sisters, Boerne, Texas	Domini Social Investments
Bon Secours Health System Inc.	Dominican Sisters of Great Bend, KS
Boston Common Asset Management	Dominican Sisters of Hope
Breast Cancer Action	Dominican Sisters of Oxford, MI
Brothers of Holy Cross, Eastern Province	Dominican Sisters of Saint Catharine of Siena, KY
Calvert	Dominican Sisters of San Rafael, CA ( <i>Congregation of the Most Holy Name</i> )
Camilla Madden Charitable Trust	Dominican Sisters of Sparkill, New York ( <i>Sparkill Dominicans</i> )
Catholic Funds	Dominican Sisters of Springfield, Illinois
Catholic Health Initiatives	Dominican Sisters of St. Mary of the Springs, Columbus, OH ( <i>Columbus Dominicans</i> )
Catholic Healthcare West	Dominican Sisters, Congregation of Holy Cross
Center for Reflection, Education and Action	Edward W. Hazen Foundation
Central Laborers' Pension Fund	Episcopal Church ( <i>Executive Council, Domestic and Foreign Missionary Society</i> )
Christian Brothers Investment Services	Eucharistic Missionaries of St. Dominic
CHRISTUS Health	Evangelical Lutheran Church in America, Board of Pensions
Church of the Brethren Benefit Trust	F&C Asset Management
Citizens Advisers Inc.	First Parish In Cambridge-Unitarian Universalist
Citizens' Environmental Coalition	Franciscan Sisters of Mary, St. Louis, MO
Clean Yield Group	Funding Exchange
Communication Workers of America (CWA)	
Community Church of New York	
Community Reinvestment Association of North Carolina	
Congregation of Divine Providence, San Antonio, Texas	
Congregation of Sisters of St. Agnes	

Glenmary Home Missioners ( <i>HomeMissioners of America</i> )	Northwest Women Religious Investment Trust
Global Exchange	Ohio Public Employees' Retirement System (OPERS)
Grand Rapids Dominicans	Oneida Trust Committee
Green Century Funds	Paper, Allied Industrial, Chemical & Energy Workers International Union (PACE)
Harrington Investments	Pax World Balanced Fund
Haymarket People's Fund	People for the Ethical Treatment of Animals (PETA)
Human Life International	Premonstratensian Fathers
Immaculate Heart Missions, Sisters of Monroe, MI	Presbyterian Church (USA)
Interfaith Center on Corporate Responsibility	Pride Foundation
International Brotherhood of DuPont Workers	Progressive Asset Management
International Brotherhood of Electrical Workers (IBEW)	Progressive Investment Management
International Brotherhood of Teamsters	Providence Trust
Jessie Smith Noyes Foundation	Province of St. Joseph of the Capuchin Order ( <i>Midwest Capuchins</i> )
Jewish Voice for Peace	Rainforest Action Network
Justice Organizers, Leadership & Treasurers (JOLT) Coalition	Religious of the Sacred Heart of Mary
Laborers' International Union of North America (LIUNA)	Rochester Minnesota Fransiscans ( <i>Academy of Our Lady of Lourdes</i> )
Lemmon Foundation	Rockefeller and Co.
Manhattan Country School	Roxbury Capital Mgmt.
Marianist Province of the United States	School Sisters of Notre Dame Co- operative Investment Fund
Maryknoll Fathers and Brothers ( <i>Catholic Foreign Mission Society of America</i> )	School Sisters of Notre Dame of St. Louis
Maryknoll Sisters	School Sisters of Notre Dame, Milwaukee
Max and Anna Levinson Foundation	School Sisters of St. Francis, Milwaukee
Medical Mission Sisters	Servants of Mary of Ladysmith, WI
Mercy Investment Program	Service Employees International Union (SEIU)
Minnesota State Board of Investment	Sheetmetal Workers International Association
Missionary Oblates of Mary Immaculate	Sierra Club
MMA (Mennonite Mutual Aid)	Sierra Club Funds
Nathan Cummings Foundation	Sinsinawa Dominicans
National Legal and Policy Center	Sisters of Charity of Cincinnati
Needmor Fund	Sisters of Charity of Nazareth, KY
New England Yearly Meeting of Friends Pooled Fund	Sisters of Charity of St. Elizabeth, NJ
New York City Board of Education Retirement System (BERS)	Sisters of Charity of St. Vincent de Paul, New York
New York City Employees' Retirement System (NYCERS)	Sisters of Charity of the Blessed Virgin Mary, Dubuque
New York City Fire Dept. Pension Fund	Sisters of Loretto-CO
New York City Police Dept. Pension Fund	Sisters of Loretto-MO
New York City Teachers' Retirement System (TRS)	Sisters of Mary Reparatrix, US Province, NY
New York State Common Retirement Fund	Sisters of Mercy of the Americas-St. Louis Region
Newground Social Investment	Sisters of Mercy Regional Community of Detroit Charitable Trust
NorthStar Asset Management	Sisters of Mercy, Merion, PA

Sisters of Mercy, Regional Community of Burlingame, CA	Society of Jesus, Oregon Province
Sisters of Notre Dame de Namur-Boston Province	Society of Jesus, Wisconsin Province
Sisters of Notre Dame de Namur-California Province	Society of St. Ursula, Rhinebeck, NY
Sisters of Providence, Mother Joseph Province	Society of the Holy Child of Jesus
Sisters of St. Dominic of Caldwell, NJ	Southwest Organizing Project
Sisters of St. Dominic, WI ( <i>Racine Dominicans</i> )	St. Joseph Health System
Sisters of St. Francis of Assisi	St. Mary's Institute ( <i>Sisters of the Most Precious Blood</i> ), O'Fallon, Missouri
Sisters of St. Francis of Dubuque, Iowa	State of Connecticut Treasurer's Office
Sisters of St. Francis of Philadelphia	State of Maine, Office of the Treasurer
Sisters of St. Joseph Charitable Trust	Swarthmore College
Sisters of St. Joseph of Carondelet of Albany, NY	Tides Foundation
Sisters of St. Joseph of Carondelet, St. Louis Province	Trillium Asset Management
Sisters of St. Joseph of La Grange, IL	Trinity Health
Sisters of St. Joseph of Springfield	Trowel Trades S&P 500 Index Fund
Sisters of St. Joseph of Wheeling, WV	Unitarian Universalist Association
Sisters of St. Joseph, Nazareth	Unitarian Universalist Service Committee
Sisters of St. Joseph, Philadelphia	United Association S&P 500 Index Fund
Sisters of the Blessed Sacrament	United Brotherhood of Carpenters and Joiners of America (UBC)
Sisters of the Holy Cross of Notre Dame, Indiana	United Church Foundation, Inc.
Sisters of the Holy Name, California Province	United Church of Christ Board For Pension Asset Mgt. (UCC)
Sisters of the Holy Names of Jesus and Mary of Oregon	United for a Fair Economy/Responsible Wealth
Sisters of the Holy Names of Jesus and Mary, Washington Province	United Methodist Church-General Board of Pension & Health Benefits
Sisters of the Holy Spirit and Mary Immaculate	United Methodist Church-Women's Division
Sisters of the Humility of Mary	United Senior Action of Indiana
Sisters of the Incarnate Word and Blessed Sacrament	United States Public Interest Research Group (US PIRG)
Sisters of the Sorrowful Mother, Wisconsin	Ursuline Provincialate, Eastern Province
Society of Jesus, California Province	Ursuline Sisters of Louisville
Society of Jesus, Chicago Province	Ursuline Sisters of Tildonk, US Province
Society of Jesus, Detroit Province	Walden Asset Management
Society of Jesus, Maryland Province	Wisdom Charitable Trust
Society of Jesus, Missouri Province	Women's Equity Mutual Fund
Society of Jesus, New England Province	
Society of Jesus, New Orleans Province	
Society of Jesus, New York Province	