



Socially Responsible Investing: Making a Difference

February 2006 CSRI Training
Presentation

*Socially Responsible Investing:
“Making a Difference with Ideals, Impact, and Involvement”*

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Presenters:



Tim Blackwood, BA, MA, JD.

- UUA CSRI Committee member since 2003
- Retired criminal prosecutor.
- First Unitarian Church San Jose
- tim@timblackwood.com 408-244-8580

The Rev. Sydney Morris, M.Div.

- UUA CSRI Chair
- Parish Minister, Keweenaw UU Fellowship
- Founding and current Board Member, Calvert Group
samorris@uuma.org

Socially Responsible Investing: an act of faith



- All of the 7 principles of our Unitarian Universalist Association are brought to the marketplace of our everyday economic practices
- 2005 Study/Action UUA issue: articulating a liberal morality

Ideals: Investment Screening



- What we choose to buy and where we choose to invest loudly proclaims our ideals. This seminar will help us develop standards and wend our way through the grey areas. A special focus will be HOW TO discern the choices in mutual funds investing.
- Goals: learn concrete steps to get strategies implemented in your personal life or within your congregation

A Process of Discernment



- *Are you interested in learning to identify and implement your personal values when making decisions about your money?*
- *Is your church/fellowship/society/organization willing to consider it's values in regard to decisions about it's money?*



Overview

- What is SRI*?
- One strategy: screening*
- How to get started/why do it?
- Practical help/Resources

* See glossary

Some SRI History



- Late 1700's religious investors in U.S. refused to invest in alcohol, gambling and tobacco companies.
- 1928: Pioneer Group creates a "sin" screen that is used to screen out same three products.
- 1960's: Students pressure universities to divest companies that have South African operations. First divestment by a religious group is the Episcopalians.

UUA's SRI History



- 1967: GA* statement of conscience to use stock ownership “as an effective instrument for promoting social justice.”
- 1968: UUA Investment Committee adopts policy:
 - “Consider the effects on society of major productions & services...as well as other management policies of corporations on the ethical and moral issues of our day
 - Reject or minimize investments in companies considered to have and adverse effect
 - Avoid investments in companies whose major business is the manufacture of war materiel...
 - And whose major business is based upon segregation of the races or the exploitation of the poor or deprived...”

Source: The Register-Leader, January, 1968



UUA's SRI History, con't

- 1970's: GA passes three SRI* statements of conscience: Endowment Funds; UUA Investments; Infant Formula
- 1980's: GA passes statements of conscience on:
 - Divestiture of South African companies
 - Social Investment and Corporate Responsibility (1981)
 - Housing – Business Resolution (1984)
 - Interfaith Action for Economic Justice (1985)
 - Shell Boycott (1986)
 - Housing for the Homeless (1988)

UUA General Assembly SRI Statements of Conscience



1990's

- A Job, A Home, A Hope (1995)
- Support for Non-Discriminatory Corporate and Other Business Policies (1997)
- Adequate wages, employee health care
- Toxic Threats to Children [CERES*] (1997)

2000's

- Economic Globalization Resolution (2003)
- Resolution on Corporate Governance (2005)

2000: Your sponsor is born. (Commercial break)



Committee on Socially Responsible Investing formed by UUA Board

Relevant duties:

- To review & assist the UUA in implementing its Investment Guidelines
- To communicate SRI policies and activities

Investment Screening Goals



- Make money
- Make a better world (socially and environmentally)
- AKA: The double (triple) bottom line
- Negative Ned Naysayer: “But you can’t have your cake (reasonable financial returns) and eat it too (create positive social change)!!”

Corporate SR Pays Off



- A statistically significant association between corporate social performance and financial performance exists, which varies from highly positive to modestly positive.

Business Ethics, Winter 2004



- Environmentally responsible companies are superior performers; this differential cannot be explained by differences in market sensitivity, investment style, or industry specific factors.

Financial Analysts Journal, Mar/Apr 05

Social Investment Forum



- Over 75% of socially responsible funds get top ratings by Morningstar* and Lipper*
- Of 21 socially screened funds with more than \$100 million in assets, 16 received top ranking from Lipper or Morningstar or both
- 13 socially screened funds earned an A or B ranking from Lipper based on one- and/or three-year total returns in their investment categories
- 12 received 4 or 5 star (top two) ratings from Morningstar

News Flash: **WASHINGTON, D.C., Jan. 24, 2006**



- SRI assets grew faster than the entire universe of managed assets in the United States during the last 10 years, according to the Social Investment Forum's fifth biennial report on SRI trends. Total socially responsible investment assets rose more than 258% from \$639 billion in 1995 to \$2.29 trillion in 2005, while the broader universe of assets under professional management increased less than 249% from \$7 trillion to \$24.4 trillion over the same period.

How does Investment Screening make a better world?



- Your choices contribute to a company's reputation, value and future. Your investment dollars can increase the stock price thus, e.g., making it easier for the company to obtain higher loans.
- Environmentally responsible behavior protects our planet.
- Socially responsible behavior protects humanity.
- You support sustainable behavior, and refrain from participating in egregious behavior.
- Investing in sustainable companies gives you a more stable portfolio.
- The work of deciding (doing social research) promotes honesty and transparency.

The Current UUA Investment Screening Standards Guidelines



- Screening can reflect our values and guide us in our investments.
- Negative screens can create a “do not buy” list e.g. no tobacco; or companies to avoid.
- Positive screens can provide lists of things we should buy; proactive; companies to favor.
- Available on the web at <http://www.uua.org/finance/sri/investing/screening.html>

UUA Stock Investing Values: Community Impact



Avoid companies that:

- Fail to maintain *good* Community Reinvesting Act (CRA)* ratings
- Engage in predatory lending practices
- Lack *regard* for community issues (pollution, land use)

N.B.: This and next 7 slides are aimed at *companies* and not *mutual funds*. However, they are sources for your discovering mutual fund investing values

UUA Stock Investing Values: Community Impact



Favor companies that:

- Have "*outstanding*" CRA rating
- *Good* accountability with communities and the public
- *Strong* economic development programs (women and minorities)
- *Innovative* community involvement (sabbaticals, volunteers)
- Fully disclose charitable giving/political activities (Part of corporate governance)

UUA Stock Investing Values: Environmental Impact



Avoid companies with:

- *Serious* environmental violations
- *Negligent* handling of environmental problems
- *Major* environmental disasters
- Global *destructive* practices (rainforest, ozone)
- Non-discloser of environmental information
- *Poor* performance in *dirty* industry.

UUA Stock Investing Values: Environmental Impact



Favor companies with:

- *Reduced* waste and conservation of natural resources
- *Innovative* programs to reduce use of energy, water, land
- *Good* compliance record
- *Strong* environmental management systems
- *Commitment* to standardized environmental reporting

UUA Stock Investing Values: Customer Impact



Avoid companies with:

- *Significant* weapons production
- Nuclear weapons production
- Tobacco products
- Unhealthy products
- *Misleading or irresponsible* marketing, including stereotypical depictions of women or minorities

UUA Stock Investing Values: Customer Impact



Favor companies that:

- Have *safe* and *useful* products of good quality
- *Responsible* pricing and marketing practices
- *Good* product safety concerns

UUA Stock Investing Values: Employee Impact



Avoid companies that:

- Have a *pattern* of NLRB* cases
- Are on the AFL-CIO* boycott list
- Are *egregious* OSHA* offenders
- Are directly involved in violations of basic human rights
- Use forced labor, child labor, sweatshops

UUA Stock Investing Values: Employee Impact



Favor companies with

- Above average number of women and minorities in workforce
- *Strong* awareness of affirmative action, diversity, antiracism
- Nondiscrimination policies that include sexual orientation
- *Positive* union relations
- Above average compensation and benefits

UUA Stock Investing Values: Employee Impact



Favor companies with:

- Demonstrated commitment to *work-life balance*
- *Strong* emergency and safety programs
- Explicit standards for their own and vendors' facilities here and abroad
- Transparency on workplace issue challenges
- Performance-based executive compensation that reflects executive compensation's impact on all stakeholders.

Do it yourself?



- Socially and environmentally screened mutual funds have experienced substantial growth in the number and there are a wide diversity of products and screens offered.
- Social research is a burgeoning field
 - Extensive use of a wide range of resources can track corporate behavior over time: transparency, violations, trends (positive or non-), social audits, dialogues and commitments
 - Note differences in depth and focus of social research

Where to begin?



- Talk with your minister, Social Justice Committee, Financial/Endowment Committee.
- Find competent financial professionals who know the SRI field.
- UUA CSRI & other SRI websites.
(E.g. Interfaith Center Corp Responsibility (ICCR)*
www.iccr.org; check “Issues” at that site for more on values/screens.)

Mutual Funds (MF's) and Screens



- Start with www.SocialFunds.com, left side of home page is MF's Center, click on Fund Descriptions; last column of each MF is Description with indication of screens used.
- Examples: alcohol, tobacco, gambling, pharmaceutical, weapons of mass destruction, gender/racial discrimination, violence in media, maquiladores, sweatshop labor
- Affordable housing, environmental, nuclear energy, diversity, safe/useful products

Other starting points



- www.calvert.com/sri_kwyo.asp. (Know What You Own: look up companies and get a socially researched opinion)
- www.socialinvest.org/areas/sriguide/mfsc.cfm
Provides outline of screens performance for social funds*.
- Financial performance of mutual funds:
www.morningstar.com (free trial period); Is available thru some financial planners.

Consumer Reports, Mar. 05



- Highlights some SR MF's in different categories that have had good financial returns (these all have net assets >\$600m)
- Parnassus Equity Income, PRBLX (large-cap blend)
- Ariel Appreciation CAAPX (mid-cap blend)
- Ariel ARGFX (small-cap value)
- Pax World Balanced PAXWX (asset allocation)

Note: No endorsement/recommendation



The Prudent Person

- Prioritize which screens are most important to you or to the mission of your organization.
- Traditional rules of sound investment:
 - 1) Don't put all your eggs in one basket!
 - 2) If investor has fiduciary* duties they must be followed as well.
- Read the Prospectus*. Watch for changes in investment policy. Look at actual companies owned; you may know something good or bad about them.



Resources

- Business Ethics Annual SRI Mutual Fund Review
http://business-ethics.com/current_issue/winter_2005_sri_pushing_through_a_difficult_year.html
- Social Investment Forum: Compare MF's, screen criteria and financial ratings www.socialinvest.org/areas/sriguide/mfsc.cfm
- Interfaith Center for Corporate Responsibility: www.iccr.org; check "issues" for more info about values/screens.
- www.SocialFunds.com: analysis of SRI MF's
- www.Naturalinvesting.com



Resources

- Screen holdings of MF's against social criteria:
www.calvert.com/sri_kwyo.asp
- Natural Capital Investment
www.responsibleinvesting.org
- Financial performance of mutual funds
www.morningstar.com

SR Mutual Funds with Net Assets over \$600m



- Ariel Mut. Funds www.arielmotualfunds.com
- Calvert Group www.calvertgroup.com
- Citizens Funds www.citizensfunds.com
- Domini Soc. Investments www.domini.com
- Parnassus www.parnassus.com
- Pax World Fund www.paxfund.com

No UUA endorsement/recommendation

Q and A



- Caveat: Socially responsible mutual funds tend to have higher fees than regular funds. The higher fees can be attributed to the additional ethical research that mutual fund managers must undertake. In addition, socially responsible funds tend to be managed by smaller mutual fund companies. Larger fund companies are able to make use of economies of scale, and as such they have fees that are more comparable to other funds.

<http://www.investopedia.com/articles/mutualfund/03/030503.asp>

Post conference Tour



A live internet tour of a good resource