

Social Investment Forum

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# **2003 Report on Socially Responsible Investing Trends in the United States**

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SIF Industry Research Program

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## **Table of Contents**

Executive Summary .....	i
<b>Section I: <i>The Scope of SRI</i></b> .....	<b>1</b>
<b>Section II: <i>Socially Screened Portfolios</i></b> .....	<b>7</b>
Separate Accounts .....	8
Mutual Funds .....	9
<b>Section III: <i>Shareholder Advocacy</i></b> .....	<b>13</b>
Social and Crossover Resolutions .....	17
Corporate Governance Resolutions .....	19
<b>Section IV: <i>Community Investing</i></b> .....	<b>23</b>
<b>Section V: <i>Global Trends in SRI</i></b> .....	<b>30</b>
<b>Section VI: <i>Methodology</i></b> .....	<b>34</b>
<b>Section VII: <i>About the Publishers</i></b> .....	<b>39</b>
<b>Appendix 1: Screening Glossary</b> .....	<b>42</b>
<b>Appendix 2: Mutual Funds Competitiveness</b> .....	<b>44</b>
<b>Appendix 3: Quantitative Studies in SRI 2001-2003</b> .....	<b>47</b>
<b>Appendix 4: Socially Screened Mutual Funds</b> .....	<b>50</b>
<b>Appendix 5: Institutions Applying Social Screens</b> .....	<b>53</b>
<b>Appendix 6: Sponsors and Co-Sponsors of Shareholder Resolutions</b> .....	<b>58</b>

### **2003 Report on Socially Responsible Investing Trends in the United States**

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# 2003 Report on Socially Responsible Investing Trends in the United States

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## **Executive Summary**

Socially and environmentally responsible investing in the United States has proven remarkably robust during 2001 and 2002 despite sluggish market conditions that have resulted in a downturn in assets in the wider investment universe. Most notably, socially screened portfolios counted by this Report **grew seven percent**, while the broader universe of professionally managed portfolios fell four percent.

Highlights of the *2003 Report on Socially Responsible Investing Trends in the United States* include:

### **TOTAL SRI ASSETS.**

A total of **\$2.16 trillion in assets** was identified in professionally managed portfolios using one or more of the three core socially responsible investing strategies – screening, shareholder advocacy, and community investing.

### **SHARE OF TOTAL UNIVERSE.**

More than **one out of every nine dollars** under professional management in the United States today is involved in socially responsible investing. The \$2.16 trillion managed by major investing institutions — including pension funds, mutual fund families, foundations, religious organizations, and community development financial institutions — has remained stable, accounting for 11.3 percent of the total \$19.2 trillion in investment assets under professional management in the United States, nearly equal to 2001.

### **IMPRESSIVE GROWTH — TODAY AND OVER TIME.**

From 1995 to 2003, since the inception of the Forum's publication of biennial Trends Reports, assets involved in social investing, through screening of retail and institutional funds, shareholder advocacy, and community investing, have grown **40 percent faster** than all professionally managed investment assets in the U.S. Investment portfolios involved in SRI grew by more than 240 percent from 1995 to 2003, compared with the 174 percent growth of the overall universe of assets under professional management over the same time period.

### **SCREENED PORTFOLIOS.**

Total assets under management in portfolios counted by this Report employing one or more social screens rose seven percent between 2001 and 2003, while the broader universe of all professionally managed portfolios fell four percent during the same time period. A total of \$2.14 trillion in socially screened portfolios was identified, up from the \$2.01 trillion reported in 2001. Of the \$2.14 trillion in socially screened portfolios, \$1.99 trillion are found in separate accounts (portfolios privately managed for individuals and institutions) and \$151 billion reside in mutual funds.

### **MUTUAL FUNDS.**

Assets in socially screened mutual funds identified by this Report grew by 11 percent, to **\$151 billion**, up from \$136 billion in 2001. Socially responsible mutual funds counted by this Report increased in

number to **200 funds** in 2003, up from 181 in 2001, 168 in 1999, and 139 in 1997. **In terms of attracting investor assets, socially screened mutual funds grew on a net basis in 2002 while the rest of the mutual fund industry contracted.** According to Lipper, socially responsible mutual funds saw net inflows of \$1.5 billion during 2002. Over the same time, U.S. diversified equity funds posted outflows of nearly \$10.5 billion.

### **SEPARATELY MANAGED, SCREENED ACCOUNTS.**

Assets in socially screened separate accounts **grew by seven percent** since the *2001 Report on Socially Responsible Investing Trends in the United States*. Separately managed accounts climbed to \$1.99 trillion in 2003, as compared with \$1.87 trillion in 2001, \$1.34 trillion in 1999, and just \$433 billion in 1997.

### **SHAREHOLDER ADVOCACY.**

Between 2001 and 2003, **shareholder advocacy activity increased by 15 percent**, growing from 269 resolutions tracked by this Report filed in 2001 to 310 in 2003. Likewise the average percentage of votes received on these resolutions has increased from 8.7 percent in 2001 to 11.4 percent in 2003. Of the \$2.14 trillion in all socially screened portfolios, \$441 billion are in portfolios controlled by investors who are also involved in shareholder advocacy on various social and environmental issues.

### **COMMUNITY INVESTING.**

Community investing **climbed 84 percent** between 2001 and 2003. Assets held and invested locally by community development financial institutions (CDFIs) based in the United States totaled \$14 billion in 2003, up from \$7.6 billion in 2001.

### **INTERNATIONAL TRENDS.**

Socially responsible investing is growing globally. From the screening and shareholder advocacy of U.K. pension funds to a multitude of small-scale community investing initiatives reaching millions throughout Asia, a wide array of socially responsible investment products are now available in more than 21 countries.

**FIGURE 1:  
SUMMARY OF SOCIALLY RESPONSIBLE INVESTING IN THE U.S.**

*Socially responsible investing embraces three strategies:  
**screening, shareholder advocacy, and community investing.***

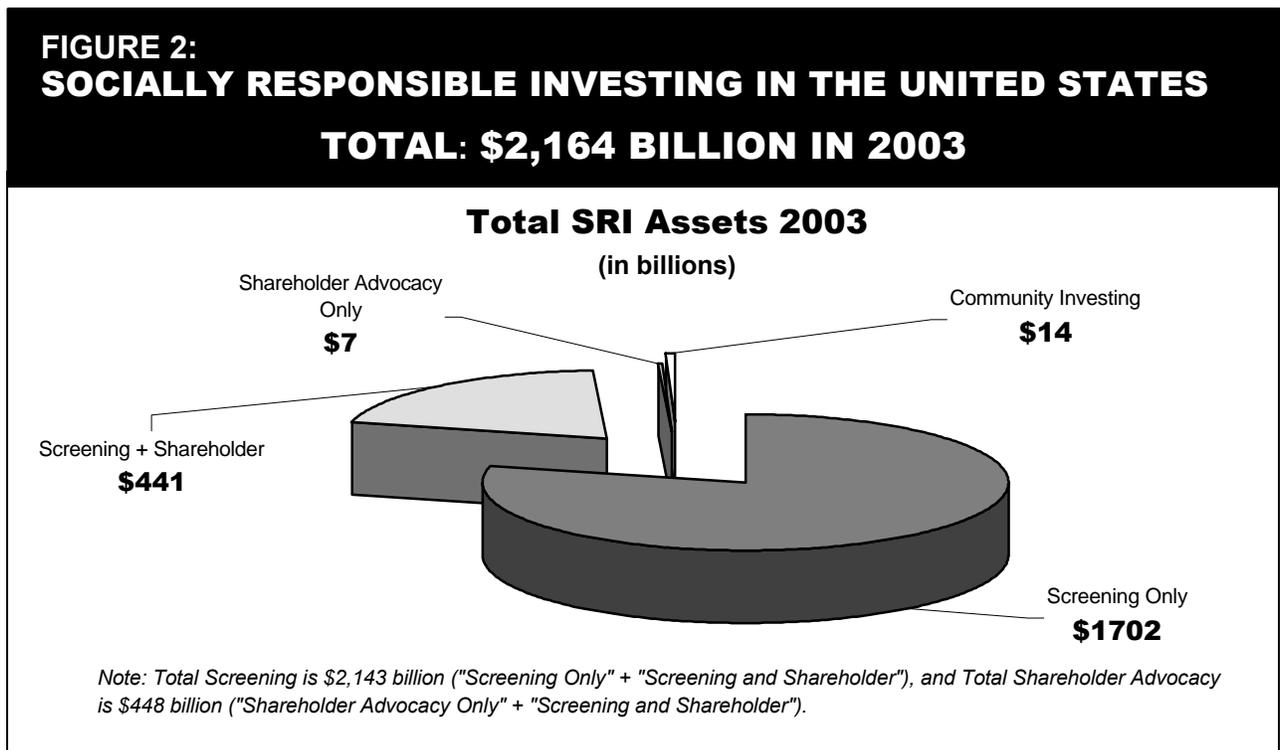
	<b>1997</b> (\$billions)	<b>1999</b> (\$billions)	<b>2001</b> (\$billions)	<b>2003</b> (\$billions)
Total Screening	\$529	\$1,497	\$2,010	\$2,143
Total Shareholder Advocacy	\$736	\$922	\$897	\$448
Both Screening and Shareholder *	(\$84)	(\$265)	(\$592)	(\$441)
Community Investing	\$4	\$5	\$7.6	\$14
<b>Total</b>	<b>\$1,185</b>	<b>\$2,159</b>	<b>\$2,320</b>	<b>\$2,164</b>

\* Some social investment portfolios conduct both screening and shareholder advocacy. These assets are subtracted out of the total to avoid double counting.



## The Scope of Socially Responsible Investing in the United States

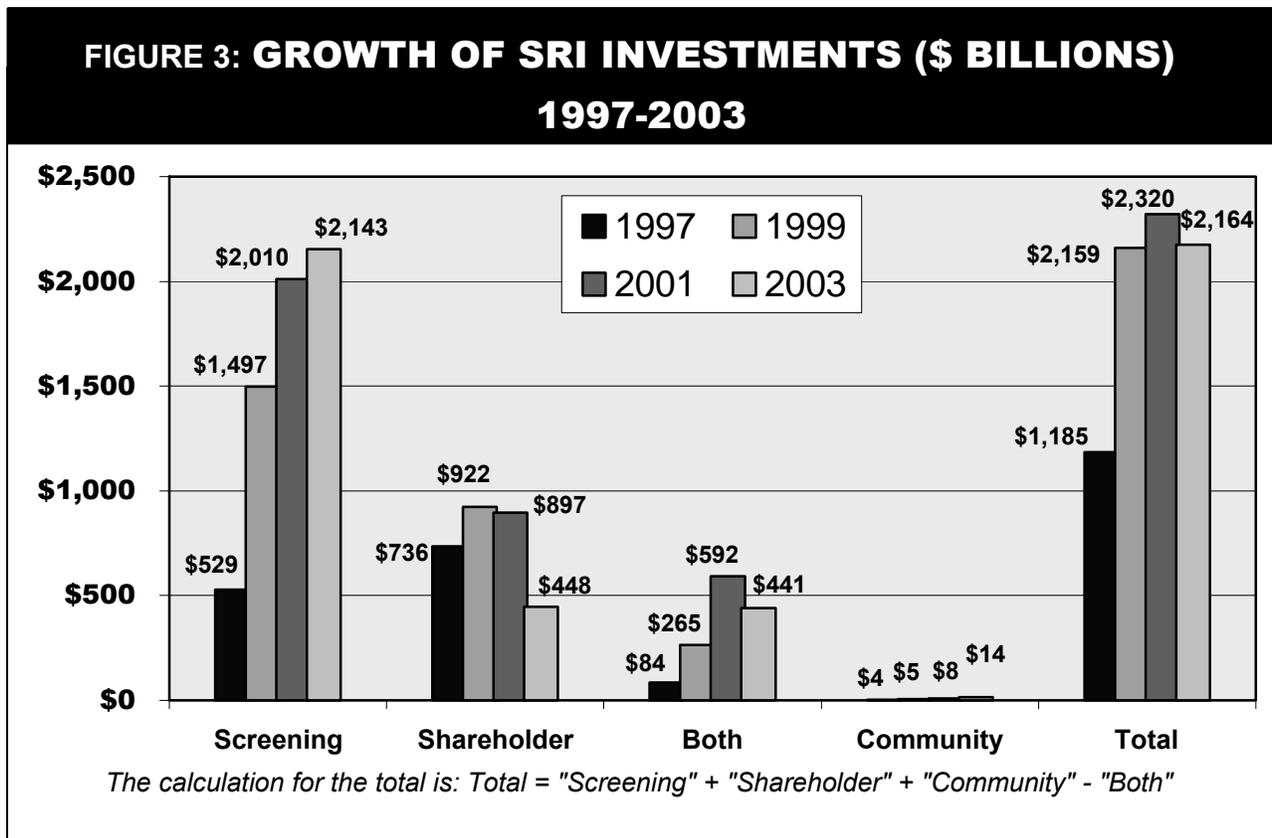
Despite the economic recession and continued market sluggishness over the past two years, socially and environmentally responsible investing remains a strong and growing force in the investment industry. Today, more than one out of every nine dollars under professional management in the United States is involved in socially responsible investing. Over 11 percent<sup>1</sup> of all investment assets under professional management in the U.S. — \$2.16 out of \$19.2 trillion — are in professionally managed portfolios utilizing one or more of the three socially responsible investment strategies that define socially responsible investing in the U.S. — screening, shareholder advocacy, and community investing.



<sup>1</sup> The robust representation of SRI assets has remained steady as a percentage of the total universe of assets under professional management. In 2001, SRI assets accounted for 11.66 percent of the total invested market; in 2003, SRI assets represent 11.27 percent of the total market.

Social investing is growing rapidly 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 first year the Forum began conducting this survey on a biennial basis, assets involved in SRI stood at \$639 billion.
- In 1997, the Forum found that social investing had grown to \$1.18 trillion, led by substantial growth in social screening and shareholder advocacy.
- In 1999, the Forum found that social investing experienced continued rapid growth, nearly doubling from 1997 to reach \$2.16 trillion.
- In 2001, SRI assets had grown to \$2.3 trillion, with socially screened portfolios reaching the \$2 trillion mark for the first time.
- In 2003, the Forum finds social investing assets have remained healthy at \$2.16 trillion, despite an extended market downturn during the past two years.
- From 1995 to 2003, since the inception of the Forum's publication of biennial Trends Reports, assets involved in social investing, through screening of retail and institutional funds, shareholder advocacy, and community investing, have grown 40 percent faster than all professionally managed investment assets in the United States. Investment portfolios involved in SRI grew by more than 240 percent from 1995 to 2003, compared with the 174 percent growth of the overall universe of assets under professional management over the same time period.



## **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. It is a process of identifying and investing in companies that meet certain standards of Corporate Social Responsibility (CSR) and is increasingly practiced internationally. As the Prince of Wales Business Leaders Forum explains: “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.

Social investors include individuals, businesses, universities, hospitals, foundations, pension funds, corporations, religious institutions, and other nonprofit organizations. Social investors consciously put their money to work in ways designed to achieve specific financial goals while building a better, more just and sustainable economy. Social investing requires investment managers to overlay a qualitative analysis of corporate policies, practices, and impacts onto the traditional quantitative analysis of profit potential.

## **Socially Responsible Investment Strategies**

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

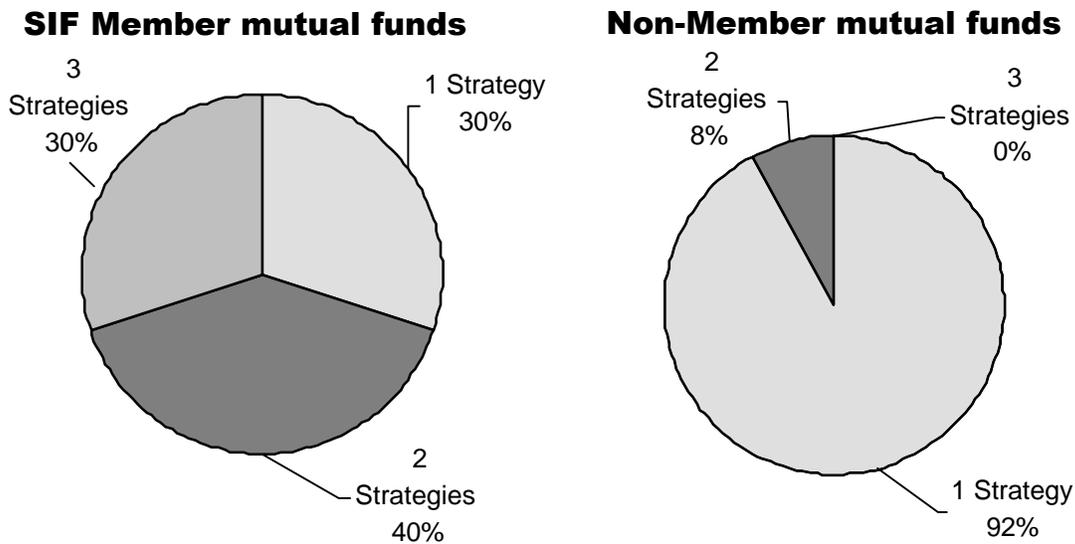
- ***Screening*** is the practice of including, excluding, or evaluating publicly traded securities from investment portfolios or mutual funds based on social and/or environmental criteria. Generally, social investors seek to own profitable companies that make positive contributions to society. “Buy” lists include enterprises with above average to best in class employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world. Conversely, they avoid investing in companies whose products and business practices are harmful.
- ***Shareholder Advocacy*** describes the actions many socially aware investors take in their role as owners of corporate America. These efforts include dialoguing with companies on issues of concern, as well as filing, co-filing, and voting on proxy resolutions. Proxy resolutions on social issues and corporate governance issues are generally aimed at influencing corporate behavior toward a more responsible level of corporate citizenship, steering management toward action that enhances the well-being of all the company’s stakeholders in alignment with improving financial performance over time.
- ***Community Investing*** is capital from investors 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 not have. In the U.S. 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 child care, affordable housing, and healthcare.

## SRI Leaders in Action

The Social Investment 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. The Forum's members are the pioneers of socially responsible investing. These members were not only instrumental in the inception of the SRI industry, but, as more and more money managers have adopted social investing strategies, remain in the leadership position in driving innovation in socially responsible investing.

The Forum identifies three strategies in socially responsible investing: screening, shareholder advocacy, and community investing. Mutual funds, for example, using multiple SRI strategies are predominately Forum members. Forty percent of member funds use two strategies, and 30 percent of member funds use three strategies (as compared with eight percent of non-member funds employing two strategies and zero percent employing three strategies).

**FIGURE 4: SRI LEADERSHIP  
AS SHOWN BY NUMBER OF STRATEGIES USED**



*\* The three SRI Strategies are screening, shareholder advocacy, and community investing.*

## **Evolution of Socially Responsible Investing**

The history of social investing stretches back many hundreds of years and is rooted in Jewish, Christian, and Islamic traditions. For centuries, many religious investors whose traditions embrace peace and nonviolence have actively avoided investing in enterprises that profit from products designed to harm or kill fellow human beings. Many avoid the “sin” stocks – those companies in the alcohol, tobacco, and gaming industries. The modern roots of social investing trace through many civil liberty and civil rights campaigns of the previous century, most notably during the impassioned political climate of the 1960s. During that decade, a series of social and environmental movements, from civil rights and women’s rights to the anti-war and anti-nuke movements, served to escalate awareness around issues of social responsibility. These concerns also broadened to include management and labor issues.

Over the past 20 years, the Bhopal, Chernobyl, and Exxon Valdez incidents, along with vast amounts of new information about global warming, ozone depletion, and the concomitant risks to life on the planet, have brought the seriousness of environmental issues to the forefront of social investors’ minds. Having protested discrimination in South Africa, investors also began to look more deeply at the employment practices of companies in the United States. Most recently, issues of human rights and healthy working conditions in factories around the world producing goods for U.S. consumption have become rallying points for investors who expect both good financial performance and good social and environmental performance from the companies in which they invest.

### **Avoidance screening**

In the 1970s and 1980s, the first social investors were focused on tailoring portfolios to a particular set of values by avoiding investments in companies that violated those values. For example, Pax World Fund – considered the first SRI mutual fund – avoids investments in weapons contractors. The fund was founded in 1971 to offer an option to investors opposed to militarism and the Vietnam war. In the 1980s and early 1990s, social investors supported the anti-apartheid movement by divesting from companies doing business in South Africa. As a practice based on values and moral principles, avoidance screening became one of the basic strategies of social investing. Today, avoidance screening linked to a particular value continues to play an important role in SRI, even as new screening issues emerge and strategies evolve.

### **Positive screening**

Social investors 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 wish to actively support companies whose social and environmental records are consistent with good corporate citizenship. This strategy is motivated by the desire to set standards for, and improve, corporate social and environmental performance. The screens are used to eliminate some companies from consideration and to monitor those companies that are selected for the portfolio.

### **Emerging screens**

The issues that social investors use as screens – both positive and negative – evolve over time. For example, divestment from South African companies is no longer an active screen since the end of apartheid. However, climate change and environmental management systems, human rights and

supplier codes of conduct, and genetically modified organisms (GMOs) have developed into increasingly common social screens. Corporate governance, while often used as a factor for consideration in investment decisions, is likely to materialize as a formal SRI screen in the near future. The concept of “sustainability” is another emerging screen type increasingly developed among fund companies and portfolio managers. There is a growing realization among corporate leaders and academics that the adoption of principles of sustainability can offer substantial long-term investor value. The development and evolution of screen types over time reflects the value of social investment as a tool for bringing various stakeholders issues of concern to the attention of corporations.

### **Convergence of strategies**

In recent years, there has been a rise in the number of SRI investors employing avoidance and positive screens combined with shareholder advocacy. Increasingly, multiple SRI strategies are used in concert by an ever-widening group of social investment practitioners. Many portfolio managers and advisers go beyond social screening to invest a percentage of their portfolios into community development financial 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 or corporate governance issue.

Practices of socially responsible investing and corporate social responsibility are both converging and complimenting each other, as investors and consumers become more aware that social and environmental issues are critical to the long-term sustainability of corporations. One of the fundamental objectives of social investment is to achieve a higher level of accountability of corporations to all their stakeholders, including shareholders. 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. The focus on these issues to help resolve the crisis of confidence facing corporations gives credence to the principles and practices of SRI. Issues now occupying mainstream consciousness – corporate governance, transparency, accountability, and greater disclosure of information – have always been central to the practice of social investing.

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**The following sections of this report detail the dimensions of the growth of all three components of social investing in the United States, as well as the rise and development of socially responsible investing internationally. The final section of the report describes the study’s methodology and provides additional information about social investing and the Social Investment Forum.**

## Socially Screened Portfolios Continue to Grow Despite Overall Market Sluggishness

Total assets under management in portfolios employing one or more social screens counted by this Report grew by seven percent, from \$2.01 trillion in 2001 to \$2.14 trillion in 2003. By contrast, the universe of all professionally managed investment assets fell by four percent over the past two years. According to the *2003 Nelson's Directory of Investment Managers*, there is currently a total of \$19.2 trillion in investment assets under management in the U.S., compared to \$19.9 trillion in 2001.

Key components of the growth of socially screened portfolios include:

- Total assets under management in portfolios employing one or more social screens identified by this Report rose by **seven percent** from \$2.01 trillion in 2001 to **\$2.14 trillion** in 2003. Of the \$2.14 trillion in socially screened portfolios, \$1.99 trillion are found in separate accounts and \$151 billion are in mutual funds.
- Assets in socially screened separate accounts also grew by seven percent from the 2001 to 2003. These screened, private portfolios increased to **\$1.99 trillion** in 2003, as compared with \$1.87 trillion in 2001, \$1.34 trillion in 1999, and just \$433 billion in 1997.
- Of the total \$2.14 trillion in socially screened portfolios, **\$441 billion** are in portfolios controlled by investors who are also involved in shareholder advocacy on various social issues.
- The number of mutual funds counted by this report, that use one or more social investment criteria, increased to **200 funds** in 2003, up from 181 in 2001, 168 in 1999, and 139 in 1997. This includes both growth in new funds created in 2001 or 2002, as well as funds not captured in the 2001 Report.
- Assets in socially screened mutual funds totaled **\$151 billion**, 11 percent more than the \$136 billion counted in 2001.

**FIGURE 5: SCREENED PORTFOLIO GROWTH**

<b>Screened Portfolios</b>	<b>1999 (\$billions)</b>	<b>2001 (\$billions)</b>	<b>2003 (\$billions)</b>	<b>% Change 2001-2003</b>
Mutual Funds	\$154	\$136	\$151	+11%
Separate Accounts	\$1,343	\$1,870	\$1,992	+7%
<b>Total</b>	<b>\$1,497</b>	<b>\$2,006</b>	<b>\$2,143</b>	<b>+7%</b>

- In terms of attracting investor assets, socially screened mutual funds grew on a net basis from January to December 2002 while the rest of the mutual fund industry contracted. According to Lipper, socially responsible mutual funds saw net **inflows** of \$1.5 billion during 2002. Over the same time, U.S. diversified equity funds posted **outflows** of nearly \$10.5 billion. Typically, social investors' assets are "stickier" than those of investors concerned only with financial performance. That is, social investors have been less likely to move investments from one fund to another and more inclined to stay with funds than conventional investors.

## **Socially Screened Separate Accounts**

Screened separate accounts — portfolios that are privately managed on behalf of institutions and individuals — enjoyed a seven percent increase in assets identified by this Report from 2001 to 2003. This continues a solid trend of increasing assets since the Forum began tracking these assets in 1995. Assets in separate accounts in 1995 totaled \$150 billion, compared to \$1.99 trillion counted just eight years later.

There is a growing acceptance in the corporate sector that poor management of social, environmental, and ethical issues poses a business risk – one that trustees of pension funds and others are increasingly taking into account. The increase in screened separate accounts can be attributed largely to the growing number of institutions and investors who have been attracted to the field of socially responsible investing. Institutions and individual investors who have placed their money into privately managed socially and environmentally screened portfolios include:

- Religious organizations
- Municipal and state governments
- Unions
- Foundations
- Universities and colleges
- Insurance companies
- Hospitals and hospital systems
- Corporations
- Individuals with professionally managed, customized portfolios

## **Socially Screened Mutual Funds**

Socially responsible mutual funds are mutual funds that include one or more social or non-financial screens. They are available to investors through several routes. Shares in screened mutual funds are available directly to individuals, through variable annuities, or to institutional investors, such as labor pension funds.

From 2001 to 2003, the number of socially responsible mutual funds increased substantially, creating more diversified options for investors seeking screened portfolios. The number of mutual funds utilizing social investment criteria rose by nearly 11 percent to 200 funds in 2003, up from 181 funds in 2001. This includes both growth in new funds created in 2001 or 2002, as well as funds not captured in the 2001 Report.

Assets in socially screened mutual funds identified by this Report grew by 11 percent, to \$151 billion, an increase over the \$136 billion reported in 2001.

**FIGURE 6: SRI MUTUAL FUNDS BY AVAILABILITY**

	Available Directly*		Available within Variable Annuity Plans		Other: Available through Institutions Only**		Total	
	2001	2003	2001	2003	2001	2003	2001	2003
# of Mutual Funds	154	178	13	11	14	11	181	200
Assets (billions)	\$111	\$127	\$7	\$1.8	\$18	\$22	\$136	\$151

\* Funds directly available to the public and through financial advisers and brokers, as well as through many retirement plans.

\*\* Not available directly to the public, except through organizations, such as labor groups, providing these funds.

## **Types of Screens Used**

Based on a direct survey of the entire universe of 200 socially screened mutual funds in the United States, the Social Investment Forum finds that tobacco is the most broadly used screen, applied to \$124 billion in invested assets, over 80 percent of the total socially screened mutual fund universe. Alcohol is also a broadly used screen, employed by over half of the total assets in socially screened mutual funds.

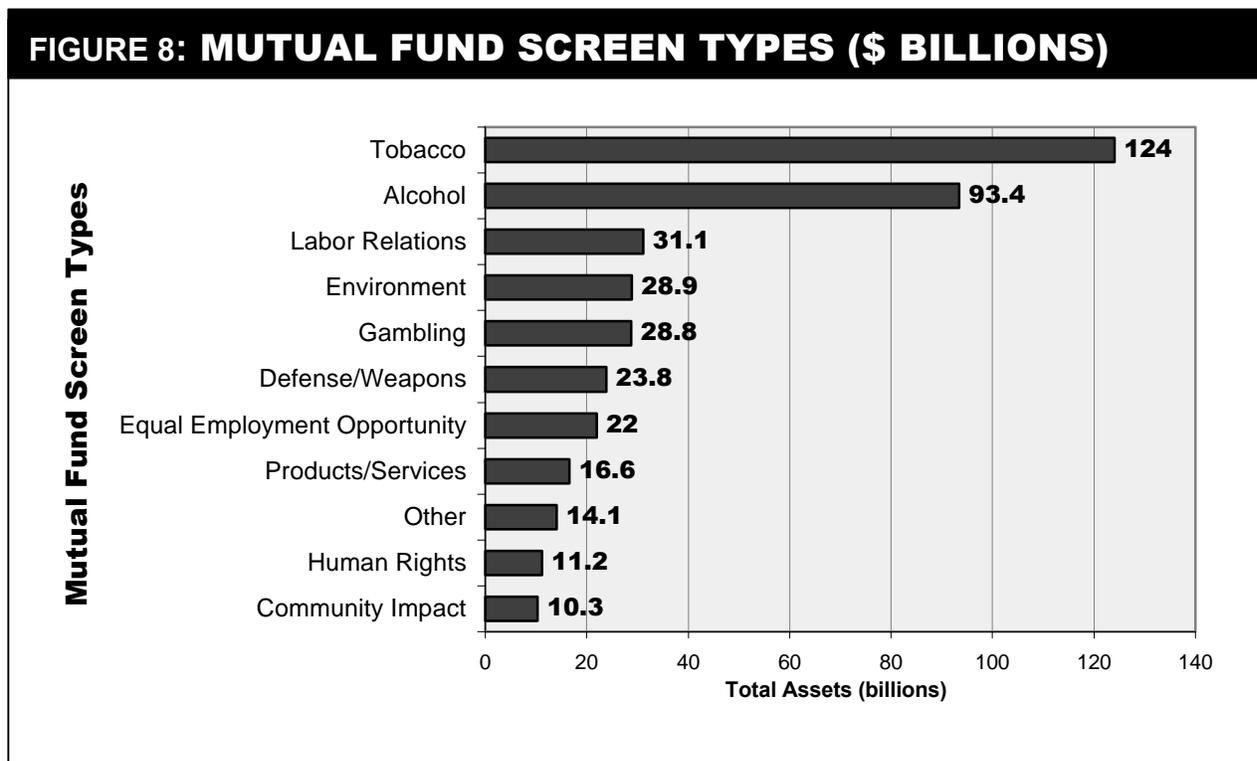
- Labor Relations, Environment, Gambling, and Defense/Weapons are commonly used screens, applied by approximately 20 percent of total socially screened mutual fund assets.
- Equal Employment Opportunity, Beneficial Products and Services, Human Rights, and Community Impact are specialty use screens, employed by less than 15 percent of total screened mutual fund assets.

**FIGURE 7: FIVE MOST POPULAR MUTUAL FUND SCREEN TYPES**

<b>1. Tobacco</b>	<b>\$124 billion</b>
<b>2. Alcohol</b>	<b>\$93.4 billion</b>
<b>3. Labor Relations</b>	<b>\$31.1 billion</b>
<b>4. Environment</b>	<b>\$28.9 billion</b>
<b>5. Gambling</b>	<b>\$28.8 billion</b>

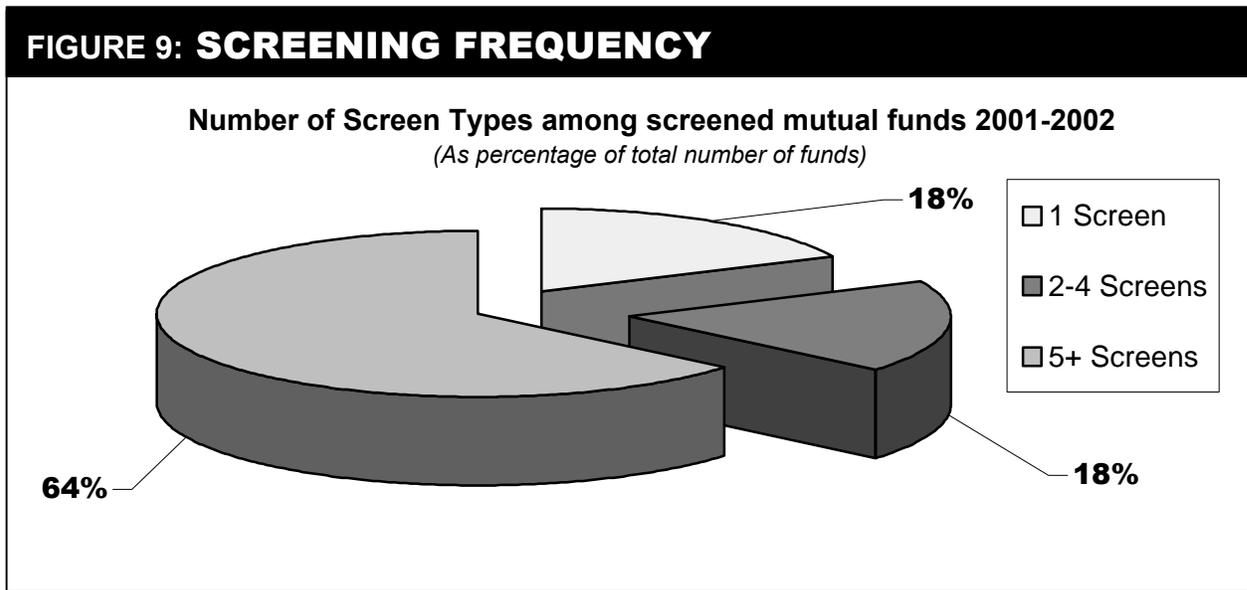
- “Other” screens – which involve less than \$10 billion total in assets (six percent of total assets) – are also considered specialty screens, employed by a minority of funds. Of the group of Other screens, the three screens with the most assets are pornography (\$8.8 billion), animal testing (\$6.6 billion), and abortion (\$6.5 billion). Minor Other screens include: anti-family entertainment (\$0.5 billion), non-married lifestyles (\$0.09 billion), interest-based financial institutions (\$0.05 billion), health care products (\$0.02 billion), pork products (\$0.01 billion), and contraceptives (\$0.005 billion).

The following figures detail the types of screens used by the universe of socially screened mutual funds, according to net assets. It is important to note that social screens usually occur in packages of several screens together; very few screens are used singly. The “Other” category refers to screens with total assets, across all funds, of less than \$10 billion. *For a detailed explanation of the social screens used by mutual funds, see Appendix 1 on page 42.*



## Screening Frequency<sup>2</sup>

- The number of social screens used is often an indicator for the level of intensity with which a fund family embraces social investing. Sixty-four percent of all socially screened mutual funds employ five or more social screens, and nearly 20 percent of funds use two to four social screens.
- Mutual funds that use more than five social screens are typically perceived as the pioneers of the industry, innovating new screening strategies and setting the trends in social investing.



## Key Trends in the Growth of Screened Portfolios

Several factors account for the continuing growth of screened portfolios:

- **Performance:** Despite the U.S. market's sustained downturn over the past two years, socially responsible investing continues to perform competitively and attract new assets. Increasingly, investors are moving assets into screened portfolios as compelling evidence mounts with each quarter that screened funds can achieve competitive performance. The evidence of the competitive performance of socially screened portfolios includes:
  - Socially responsible mutual funds tracked by Morningstar have consistently been more likely to receive the highest rankings from both tracking organizations (four or five stars from Morningstar, and an "A" or "B" ranking from Lipper) than the overall universe of mutual funds.

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<sup>2</sup> In comparing Figure 8 to Figure 9, it is important to note that most SRI mutual funds with multiple screens also tend to have lower net assets.

- ❑ Academic studies continue to find that socially screened portfolios, when compared broadly to their unscreened counterparts, perform as well.<sup>3</sup>
- ❑ Analysis of mutual fund asset inflows and outflows clearly indicates that investors are finding socially screened funds more attractive than other funds. Market analysis shows that screened funds typically attract and retain investor assets longer than non-screened funds. According to Lipper, socially responsible mutual funds saw net **inflows** of \$1.5 billion during 2002. Over the same time, U.S. diversified equity funds posted **outflows** of nearly \$10.5 billion.
- ❑ Socially screened mutual funds have proven to have no average effect on cost. In an analysis using Morningstar data, SRI funds have lower expense ratios than all other funds in 50 percent of all investment categories. *(See Appendix 2 on page 44 for a quantitative comparison of SRI costs to the total mutual fund universe.)*
- **The SRI Spotlight:** In the wake of the corporate scandals of the past few years, there has been an increased media focus on SRI. Investors now want to know that their investment managers are watching company practices, a value that the SRI industry has provided its clients for years. Increased media coverage of SRI, combined with the national focus on corporate governance, board reform, and increased disclosure, has effectively moved SRI issues and performance to the mainstream.
- **Diversification of Objectives:** The dynamic range of social screens used by SRI mutual funds offers a wide array of investment options to meet an equally wide range of investor goals, with nearly 50 percent of funds offering growth or blend products, and the remaining 50 percent in bonds, international funds, value funds, specialty funds, and money market portfolios.

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<sup>3</sup> See Appendix 3, on page 47, for a full listing of all professional academic papers on SRI published between 2001 and 2003.

## Shareholder Advocacy: Strengthening Corporate Governance and Social Responsibility

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Shareholder advocacy continued in 2002 and 2003 to grow as a powerful force for positive change in the behavior and impact of corporate America.

Key shareholder advocacy trends include the following:

- Between January 2001 and June 2003, shareholder advocacy resolution filing increased by 15 percent, rising from 269 social and “crossover” resolutions filed in 2001 to 310 in 2003. This figure does not include resolutions focusing on corporate governance reforms.
- The average percentage of votes received on social and crossover resolutions increased from 8.7 percent in 2001 to **11.4 percent** in 2003.
- The amount of money controlled by investors who are involved in shareholder advocacy decreased from \$897 billion in 2001 to \$448 billion as of June 2003.
  - Of this \$448 billion, **\$7 billion** represents assets that are actively involved in shareholder advocacy, but that do not employ social screens. Most of the decline in assets involved in the shareholder advocacy only category is attributed to the lack of social resolutions filed during the two-year period by the large TIAA-CREF pension funds.
  - **\$441 billion** in assets are both screened and leveraged in shareholder advocacy efforts. While shareholder activity has increased, the decline in assets involved in the both shareholder advocacy and screening category is largely due to the lack of social resolution filing by the large California Public Employees Retirement System Funds during the two-year period.

### Shareholder Resolution Definitions

**Social Responsibility Resolutions** address issues like company policies, disclosures, and practices regarding the environment and toxins, health and safety, race and gender, tobacco, labor abuses, militarism, and human rights. (*Assets counted in the Report*)

**Corporate Governance Resolutions** generally address issues such as confidential voting, repealing classified boards (and creating annual elections of directors), compensation of directors and executives, board composition, severance pay, anti-takeover provisions (poison pills), reincorporation, and the accounting and indexing of stock options. (*Assets not counted in the Report*)

**Crossover Proposals**, as they are described in this Trends Report, incorporate both corporate governance concerns and social policy/corporate responsibility concerns. Crossover resolutions include executive pay tied to social benchmarks, board diversity, or reviews or limits on executive compensation. (*Assets counted in the Report*)

- Between 2001 and 2003, the number of **corporate governance resolutions** grew dramatically. While the Social Investment Forum does not include corporate governance resolutions in the 2003 total asset count, corporate governance proposals tracked for this report involved shareholder assets worth nearly \$900 billion. From 2001 to 2002, corporate governance resolutions climbed from 465 to 499, a 7.3 percent increase. And from 2002 to August 1, 2003, such proposals escalated by 49.5 percent, surging from 499 to 746. Executive pay resolutions alone climbed by over **200 percent**. As the issues addressed by corporate governance filings continue to attract shareholders who have historically filed social resolutions, governance resolutions will almost certainly become an important SRI strategy in the years ahead.
- Advocacy in the area of shareholder rights and improved governance has achieved impressive results in the past two years: the Sarbanes-Oxley Act, the new Securities and Exchange Commission rule on proxy voting disclosure by mutual funds and money managers, and the New York Stock Exchange and NASDAQ’s proposed listing requirements have all advanced investor advocacy on a number of fronts:
  - ❑ The Sabanes-Oxley Act of 2002 seeks to improve auditor independence, enhanced financial disclosures, disclosure of conflicts of interest, and the accountability of top executives, among other issues. The Act also establishes a public accounting oversight board, now commonly referred to as the PCAOB.
  - ❑ On January 23, 2003, the SEC mandated disclosures by mutual fund companies and investment advisers of their proxy voting guidelines, voting policies and procedures, and actual votes cast on behalf of clients or fund investors. Initial disclosure of these votes will take place by August 31, 2004. A significant number of SRI firms have been leaders in voting disclosure since 1999.
  - ❑ NYSE and NASDAQ Proposed Listing Standard Reforms: Since the summer of 2002, the New York Stock Exchange and NASDAQ have proposed a number of new requirements for companies listing on these exchanges. Proposed reforms include mandating a majority of independent directors on board committees.

<b>FIGURE 10: SOCIAL AND CROSSOVER SHAREHOLDER RESOLUTION ACTIVITY: January 2001- June 2003</b>			
	<b>2001</b>	<b>2002</b>	<b>Jan-June 2003</b>
<b>Resolutions Introduced</b>	269	292	310
<b>Resolutions Voted On</b>	160	159	95 <sup>4</sup>
<b>Average Percentage of Votes</b>	<b>8.7%</b>	<b>9%</b>	<b>11.4%</b>

<sup>4</sup> While this chart appears to show a decline in “Resolutions Voted On,” the third time period only covers January – June 2003, whereas the other time periods cover full years 2001 and 2002.

## **Shareholder Advocacy: Rights and Responsibilities in Advancing Corporate Accountability**

Shareholder advocacy involves several types of investor actions taken to improve corporate practices regarding executive compensation, governance, social and environmental policy, and labor rights issues. Investors often write letters to management; initiate negotiations (dialogue) with top executives; file shareholder proposals (resolutions); vote proxy ballots regarding shareowner- and executive-proposed resolutions; attend annual meetings and speak on behalf of an issue; or, as a last resort, join in class action legal suits. This Report focuses primarily on resolution filings, and the actual shareholder support for social, environmental, and crossover proposals.

## **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 between shareholders, management, and the board of directors on corporate governance and social responsibility issues. The Securities and Exchange Commission (SEC) regulates the shareholder process.

Shareholder activism 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 concern, or join other shareholders in dialogue negotiations with corporate executives. However, according to SEC rules, shareholders who want to file a resolution must own at least \$2,000 of stock in a given company (or one percent of the company's total stock) one year before the proposal filing deadline, have proof of such ownership, and keep their proposal 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, resolutions appear on the company's proxy ballot and are voted on electronically, by mail, or at its annual meeting by all shareholders or their representatives. Resolutions must be formally presented at the company's annual meeting in order to be officially voted upon.<sup>5</sup>

When shareholder resolutions are presented to shareholders, proxy voting is different from electoral politics. Success is not measured solely through the attainment of a majority vote. In fact, a shareholder campaign may achieve its goals having only obtained a relatively small number of votes. Managers know that there are a number of factors that often limit the votes attained. If an individual or institution sends their proxy back to management, signed but without votes marked, the votes default to management. Many large institutional investors automatically vote with management regarding shareholder proposals. Also, investors who own stocks through mutual funds do not have the ability to vote their shares directly. Therefore, even a relatively low-

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<sup>5</sup> The company, however, may challenge such 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 does not have 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.

vote total can indicate real, and increasing interest among shareholders, the public, and the press.<sup>6</sup> This combined level of attention is often enough to encourage management to enter into dialogue and to consider changing its practices or policies.

## **Shareholder Dialogue**

In many cases, shareholder advocates do not even need to formally introduce a resolution for their concerns to have an impact. Most often this occurs because management, knowing that investors have access to the shareholder resolution process, agrees to discuss issues with investors out of respect for their ownership status or in the hope of avoiding a formal proposal. Thus, the decision to file a shareholder resolution can initiate or intensify fruitful, ongoing dialogue between shareholder proponents and management, an effective way to encourage 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 the Forum has historically included the assets of shareholders involved in filing social resolutions, it is important to recognize that much important work is done through both the dialogue and resolution process, much of it behind the scenes. Among SRI companies, the leading filers are also the firms undertaking dialogue. However, several institutional investors, such as Dreyfus Corporation and Parnassus Funds, engage solely in dialoguing with corporate executives, as an alternate strategy to filing resolutions.

It is important to note that many current dialogues on social and environmental issues began as resolutions and matured into good faith dialogues with companies, which resulted in significant changes to corporate policies.

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<sup>6</sup> Votes, even majority votes, on shareholder-proposed resolutions are not binding at corporations, unless an amendment to the company bylaws is proposed. Rather, resolutions are advisory, and act as 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.

## **Types of Shareholder Resolutions and Who Files Them**

The shareholder resolution process is used by individuals and by some of the nation's largest institutional investors, such as public pension funds, labor funds, socially responsible mutual funds, money managers, and religious shareowners.<sup>7</sup> Investors have an enormous financial and ethical stake in a healthy shareholder resolution process, as it is a key means for investors to communicate their concerns to the corporation. Consequently, investors are increasingly forming coalitions to not only file proposals, but to advance policy issues that generally affect their shareholder rights and ability to use the proposal process.

Traditionally, shareholder resolutions have been divided into two categories: corporate governance and corporate social responsibility. But this distinction has become increasingly blurred. Therefore, an emerging third category of "crossover" resolutions is being tracked.

- **Social Responsibility Resolutions** address issues like company policies, disclosures, and practices regarding the environment and toxins, health and safety, race and gender, tobacco, labor abuses, militarism, and human rights.
- **Corporate Governance Resolutions** generally address issues such as confidential voting, repealing classified boards (and creating annual elections of directors), compensation of directors and executives, board composition, severance pay, anti-takeover provisions (poison pills), reincorporation, and the accounting and indexing of stock options.
- **Crossover Proposals**, as they are described in this Trends Report, incorporate both corporate governance concerns and social policy/corporate responsibility concerns. In 2002, there were 22 crossover resolutions. In 2003, that number increased to 28 (as of June). Crossover resolutions include executive pay tied to social benchmarks, board diversity, or reviews or limits on executive compensation.<sup>8</sup>

### **Social and Crossover Resolutions 2001-2003**

Shareholder actions introduced by socially responsible investors are best categorized by the social issue that is being addressed. According to the Investor Responsibility Research Center (IRRC), for annual meetings up to June 2003, socially concerned investors — including religious shareholders, foundations, mutual funds, social investment managers, pension funds, and others — filed 310 social and crossover resolutions. While representing annual meetings for roughly half of the year, 2003 social and crossover resolution filings have increased over full years 2001 and 2002, with 269 and 292 total filings, respectively. The chart on page 18 details the major areas covered by these resolutions.

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<sup>7</sup> The process and limitations for filing a resolution can be found in SEC Regulation 14a-8, on the SEC web site: <http://www.sec.gov>.

<sup>8</sup> The definition of crossover proposals is that of the Investor Responsibility Research Center.

## FIGURE 11: STATUS OF SOCIAL AND CROSSOVER RESOLUTIONS 2001, 2002, 2003\*

<b>Social Policy Shareholder Resolutions</b>												
<b>Subject</b>	<b>Number of resolutions</b>									<b>Average Votes</b>		
	<b>Proposed</b>			<b>Withdrawn</b>			<b>Voted On</b>					
	2001	2002	2003*	2001	2002	2003*	2001	2002	2003*	2001	2002	2003*
Banking / Insurance**	10	10	6	6	8	3	3	2	1	4.6	4.7	8
Charitable Contributions	6	9	21	1	2	1	2	3	1	3.6	3.2	2.6
Environment:												
Resource Use / Energy / Toxins	24	34	33	5	8	7	19	21	12	7.2	9.3	11.3
CERES / Reporting	9	8	13	4	4	6	5	3	-	9.2	7.8	-
GMOs	19	14	13	3	3	1	13	11	4	7.9	5.7	4.4
Climate Change	6	21	21	2	13	10	4	6	9	9.5	18.8	16.3
Equal Employment	27	34	34	14	13	13	10	16	7	11.3	16.6	28.9
Global Labor Standards	48	48	47	7	16	20	28	27	8	8.5	8.8	10.3
Human Rights	19	16	16	3	2	5	11	13	6	9.3	7.4	10.3
Militarism & Violence	13	10	9	1	1	-	11	10	6	6	5.5	6.2
Northern Ireland	11	13	10	6	6	2	5	7	4	17.5	12.8	8.3
Pharmaceutical Access / Healthcare	9	20	5	2	11	3	7	5	1	6.9	3.7	13.3
Political Contributions / Ties	12	9	6	-	-	-	10	8	4	5.9	5.8	5.6
Tobacco	13	13	21	4	2	7	9	9	11	7.2	5.9	9.1
Other ***	10	11	27	4	2	5	3	5	9	4.4	9.2	12.6
<b>Total</b>	<b>236</b>	<b>270</b>	<b>282</b>	<b>62</b>	<b>91</b>	<b>83</b>	<b>140</b>	<b>146</b>	<b>83</b>	<b>7.9</b>	<b>8.3</b>	<b>10.5</b>
<b>Status of Crossover Shareholder Resolutions</b>												
<b>Subject</b>	<b>Number of resolutions</b>									<b>Average Votes</b>		
	<b>Proposed</b>			<b>Withdrawn</b>			<b>Voted On</b>					
	2001	2002	2003*	2001	2002	2003*	2001	2002	2003*	2001	2002	2003*
Board Diversity	13	11	10	6	6	1	6	4	2	20.5	21.9	26.8
Executive Pay & Social Benchmarks	17	8	11	3	1	2	12	7	5	9.6	11.5	9.8
Review / Freeze Executive Pay	3	3	7	-	1	1	2	2	5	7.5	3	9.7
<b>Total</b>	<b>33</b>	<b>22</b>	<b>28</b>	<b>9</b>	<b>8</b>	<b>4</b>	<b>20</b>	<b>13</b>	<b>12</b>	<b>12.5</b>	<b>12.1</b>	<b>15.4</b>
<b>Social + Crossover TOTAL</b>	<b>269</b>	<b>292</b>	<b>310</b>	<b>71</b>	<b>99</b>	<b>87</b>	<b>160</b>	<b>159</b>	<b>95</b>	<b>8.7</b>	<b>9</b>	<b>11.4</b>
<p>* 2003 Resolutions for meetings from January 1, 2003 - June 15, 2003. Vote averages for 2003 reflect vote counts available to IRRC as of June 15 for resolutions that came to a vote.</p> <p>** "Banking/Insurance" resolutions include adoption of stricter criteria for emerging market loans, review of social criteria in financial ventures, and prevention of predatory loans.</p> <p>*** "Other" includes local concerns about operations, guns, smuggling, political balance in news programs, and other media topics, among other resolutions.</p>												

Table based on data provided by Investor Responsibility Research Center

## Corporate Governance Resolutions 2001-2003

Corporate governance resolutions are being filed in burgeoning numbers, gaining more shareholder voting support and attention in recent years. While the SRI community has been involved in corporate governance issues for many years, the financial accounting scandals and discontent over portfolio losses in recent years have resulted in a surge of interest in corporate governance, evinced by record-setting shareholder advocacy efforts. Of the corporate governance resolutions tracked, options expensing, poison pill, and auditing issues have particularly grown in popularity.

The \$900 billion in assets tied to corporate governance resolutions are reported in the 2003 Report, but not included in the asset total. However, based on the development of shareholder advocacy in this area, including the filing of corporate governance resolutions by traditionally social filers – and vice versa — corporate governance proposals mark a vibrant trend in social investing, and future reports will include these assets.

**FIGURE 12: STATUS OF CORPORATE GOVERNANCE RESOLUTIONS 2001, 2002, 2003\***

<b>Status of Corporate Governance Shareholder Resolutions</b>												
<b>Subject</b>	<b>Number of resolutions</b>									<b>Average Votes</b>		
	<b>Proposed</b>			<b>Withdrawn</b>			<b>Voted On</b>					
	<b>2001</b>	<b>2002</b>	<b>2003*</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>
Audit / Auditor	-	44	19	-	13	2	-	24	9	-	26.3	15.9
Board Composition	46	55	26	11	15	4	19	32	15	24.9	27.3	22.8
Board Elections	32	35	19	4	1	1	18	12	6	5	10.2	8.3
Other Board Issues	29	40	9	2	18	1	13	16	3	10.2	10.2	4
Classified Board	60	52	21	5	3	3	49	43	15	57.7	61.7	58.8
Voting Issues	29	28	13	-	-	-	28	26	12	37.9	40.5	34.7
Employee Compensation	15	17	21	-	1	6	5	8	8	13.9	20.4	20.4
Director / Exec. Compensation	63	56	31	10	3	1	32	32	18	20	28.1	35.2
Options	29	21	85	10	9	15	9	6	48	26.2	27	30.1
Poison Pill	37	80	40	5	4	-	24	50	24	57.7	60.2	59.5
Shareholder Rights	19	17	8	1	2	-	10	6	2	17.2	21.7	6.9
Stock Plans / Dividends	16	9	7	-	-	-	4	3	3	31.3	8.4	8.1
Supermajority	16	17	3	-	3	-	15	10	3	57.8	61.5	62.7
Takeover / Restructuring / Reincorporation	42	11	5	-	2	1	19	6	3	13.5	24.8	27.1
Other**	32	17	14	1	3	11	8	4	-	8.1	9	-
<b>Total</b>	<b>465</b>	<b>499</b>	<b>321</b>	<b>49</b>	<b>77</b>	<b>45</b>	<b>253</b>	<b>278</b>	<b>169</b>	<b>27.4</b>	<b>29.1</b>	<b>28.1</b>

\* 2003 resolutions tracked for meetings from January 1, 2003 - April 30, 2003. Vote averages for 2003 reflect vote counts available to IRRC as of April 30 for resolutions that came to a vote.

\*\* "Other" includes resolutions addressing land transactions, analyst independence, forgiving lease payments, improving corporate governance and customer relations, and disclosing customer billing disputes.

Table based on data provided by the Investor Responsibility Research Center

## **Shareholder Successes in 2002 and 2003**

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

In 2002, 292 social and environmental proposals were filed with U.S. corporations. By June of 2003, that number had already climbed to 310. Of those, 159 came to a vote in 2002, and 95 were withdrawn by investors after reaching a compromise or agreement on policy changes with management. A withdrawal by investor advocates typically signifies a successful negotiation because resolution withdrawals usually occur in tandem with an agreement with the company to report or improve on changes to its policies or practices.

### **Examples of Shareholder Success in 2002:**

- After a decade of investor pressure to bar sexual orientation discrimination, CBRL Group (Cracker Barrel) agreed to amend its current employee non-discrimination policy after the resolution on the issue received majority support of 58 percent. This resolution is the first social issue proposal opposed by management in U.S. shareholder history to receive majority support. Other companies amending their non-discrimination policies to include sexual orientation in 2002 included: American International Group, Deere, Home Depot, Lockheed Martin, and Tootsie Roll.
- Oral mercury thermometers were phased out at Cardinal Health, HCA, and JC Penney (Eckerd Drugstores), among others. This marks the second year that major drug retailers and health care distributors have removed mercury-laden thermometers from store shelves without a resolution going on the proxy ballot.
- After pressure from investors and environmental groups, Staples announced a procurement policy to increase the post-consumer recycled and alternative-fiber content in the paper it sells to 30 percent. The policy also seeks to phase out paper derived from endangered forests.

### **Examples of Shareholder Success in 2003:**

- In yet another year of companies feeling significant pressure from investors regarding the need for sexual orientation non-discrimination policies, 17 resolutions were filed and 11 were withdrawn after companies agreed to implement such policies at American Electric Power, Caterpillar, ConocoPhillips, Duke Energy, Dynegy, Georgia-Pacific, Ingram Micro, Marathon, MBNA, Mirant, and TXU. As of August 2003, 93 companies of the Fortune 100 had such policies. After reaching an agreement in July, Wal-Mart Stores became the 93<sup>rd</sup> Fortune 100 company to bar such discrimination in a written policy.
- As of August 2003, 28 resolutions were filed on climate change issues — generally focusing on greenhouse gas emissions reductions and reporting, and renewable energy investment. Of those, 12 came to a vote, and seven received over 20 percent support (a strong showing for environmental proposals), including American Electric Power, Chevron Texaco, General

Electric, Southern, TXU, and two at ExxonMobil. Meanwhile, Staples agreed to set a goal for increasing renewable energy use, and Gillette and Reebok agreed to establish a baseline for greenhouse gas emissions.

- After years of pressure from union funds, Unocal agreed to a code of conduct based on core International Labor Organization (ILO) standards that recognize the rights of workers to freedom of association and collective bargaining. The new code is considered to be among the best in its industry sector, according to the Investor Responsibility Research Center.
- Board diversity resolutions also attracted high voting support and a successful agreement. BJ Services agreed to new efforts to diversify its board upon withdrawal of the proposal, and of the 12 board diversity resolutions filed by August of this year, two were pending, six were voted upon, and four of those six received over 20 percent support, including: American Power Conversion, Danaher, Gentex (39 percent), and Grant Prideco.

## **Key Trends in Shareholder Advocacy: Present and Future**

### **Corporate Governance and Social Shareholder Activism Continue to Converge**

In the *2001 Trends Report*, the Forum noted signs that the arenas of corporate governance and social shareholder activism were converging. Since then, Enron, WorldCom, Tyco, and other scandals have further catalyzed this convergence; Sarbanes-Oxley has passed; and the term "sustainable governance" is gaining currency with all types of investors. The 2003 proxy season also confirmed this trend, as social investors paid more attention to governance concerns, and many social resolutions received increasingly strong support this shareholder season, in part due to the expanding body of investors that consider such risks to be material to the wealth of the company. Since 2001, two social resolutions have received majority votes, and dozens more have received 20 percent or higher support. Both sets of advocates are also escalating their activism and filing in both arenas. And both advocates are working together to press for policies supporting greater shareholder rights and fuller disclosures by companies and industries. Corporate governance and social investors convened in record numbers to support mutual fund voting disclosures, as well as environmental reporting initiatives, and shareholder access to the proxy for Board nominations. At present, both groups of investor advocates are also examining the issue of climate change through a governance lens, and putting pressure on corporate executives to factor in the risk associated with global warming.

### **Mutual Funds Become More Active Owners**

Investors can expect to see an increase in active ownership by mutual fund companies in the coming years. Pressure for very large institutional investors like fund companies to become more active owners has come from two main fronts: 1) new disclosure regulations mandated by the SEC in January 2003 that require fund companies and investment advisers to disclose their proxy voting records for all shareholder resolutions, as well as voting guidelines and processes that led to those votes; and 2) the continued corporate scandals that have highlighted the need for institutional investors to be aware of signs of new risk and conflicts of interest. While this may not mean that fund companies begin substantially supporting social and environmental proposals, it does mean

that the increased scrutiny of voting records will force funds to take proxy voting and corporate governance more seriously. The full effect of the new SEC regulations will be felt next August, the first deadline for funds to disclose their annual voting records. Investors may well see an increase in voting abstentions on social resolutions as a result.

### **Foundations and Banks as Shareholder Advocates**

There is a possibility that foundations and banking institutions will be the next group of fiduciaries to disclose their proxy voting records and guidelines. Education of foundations about their fiduciary responsibilities could lead to voluntary disclosure of voting by large foundations. Foundations have reported dramatic losses due to the economic downturn and unwinding list of corporate scandals, and may well realize that shareholder advocacy and educated proxy voting can not only improve the social progress that their grantmaking supports, it can protect foundation assets over the long-term.

Banks still strongly oppose such transparency, as the mutual fund industry did in 2002. However, with the increase over the last five years of shareholder action targeting banking institutions, and the overwhelming investor support for mutual fund disclosures, banks may feel compelled to also disclose their proxy voting records.

### **State and Municipal Pension Funds Engage More Heavily in SRI**

State and city pension funds continue to expand involvement in social shareholder activism, screening, and community investment, and emerging evidence suggests that this commitment will strengthen in the next few years. Public pensions, such as the New York State Common Retirement Fund, Connecticut Retirement and Trust Plans, and the New York City Comptroller's Office have been involved in dozens of social resolutions in the last two years. The New York City pension funds have led shareholder campaigns focusing on International Labor Organization standards for worker rights, while Connecticut pension plans have lead resolutions and dialogue on climate change concerns and diversity issues. Other state and city pensions have voted in favor of social proposals, included social criteria in their voting guidelines, or been part of dialogues with companies on social issues. Numerous state and city sponsored retirement plans also offer social choices in their investment plan pool, and tend to be more educated and active proxy voters. These activities pave the way for public pensions to become even greater investor social responsibility advocates within the next decade.

## Community Investing Achieves Record Growth

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Community investing — capital from investors that is directed to communities that are underserved by traditional financial services — experienced tremendous growth from 2001 to 2003, despite difficult market conditions. In total, community investing expanded by 84 percent over the two-year period. Assets held and invested locally by community development financial institutions (CDFIs) based in the United States totaled \$14 billion in 2003, up from \$7.6 billion in 2001.

Key components of this trend include:

- The assets in Community Development Banks surged over 130 percent from \$3.1 billion in 2001 to **\$7.2 billion** in 2003. This growth is due to several factors: an increase in newly CDFI-certified banks over the past two years; the improved capacity of the national network intermediary for development banks, National Community Investment Fund; and growth in existing banks' assets.
- Assets in both Community Development Credit Unions and Community Development Loan Funds each grew by 50 percent. Credit unions' assets rose from \$1.8 billion in assets in 2001 to **\$2.7 billion** in 2003. Loan funds' assets climbed from \$2.4 billion in 2001 to **\$3.6 billion** in 2003.
- Assets in Community Development Venture Capital Funds grew by 58 percent, from \$300 million in 2001 to **\$485 million** in 2003.
- Increasing numbers of socially responsible investment professionals' clients are allocating at least one percent of their investment portfolios under management to community investing. This trend has resulted in over **\$1 billion** in Forum member assets dedicated towards community investing.
- Other financing and service activities, such as low-income housing tax credit initiatives and economically targeted investments, complementary to the traditional CDFIs, are growing in rural and urban communities, helping to create fertile ground for community investing activities.

### **Community Investing Defined**

Community investing is capital from investors 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 not have. In the U.S. 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 child care, affordable housing, 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 groups provide important services, such as education, mentoring, and technical support. They also build relationships between families, non-profits, small businesses, and conventional financial institutions and markets.

## **The Four Primary Community Investing Options**

Both individuals and institutions invest primarily in four types of CDFIs that provide funds to communities in need in the U.S. and around the world:

- **Community Development Banks (CDBs)** occupy the category of CDFIs with the greatest amount of assets (\$7.2 billion). CDBs are located throughout the country and provide capital to rebuild many lower-income communities. For account holders, they offer services available at conventional banks, including savings and checking accounts. Like their conventional counterparts, they are federally insured.
- **Community Development Loan Funds (CDLFs)** are the second-largest type of CDFI, with \$3.6 billion in assets. These funds operate in specific geographic areas, acting as intermediaries by pooling investments and loans provided by individuals and institutions at below-market rates to further community development. CDLFs use this capital to make loans to small businesses, developers of affordable housing, and community services such as childcare and urban arts centers. International funds, with \$72 million in assets, focus their lending and equity investments overseas, often providing or guaranteeing smaller loans to communities and individuals in need. CDLFs include microenterprise development loan funds and are not federally insured.
- **Community Development Credit Unions (CDCUs)** With combined assets of \$2.7 billion, there are over 200 membership-owned and -controlled nonprofit CDCUs serving people and communities with limited access to traditional financial institutions. Account holders receive all the services available at conventional credit unions, and their accounts are federally insured.
- **Community Development Venture Capital Funds (CDVCs)** use the tools of venture capital to create jobs, entrepreneurial capacity, and wealth, thus improving the livelihoods of low-income individuals and the economies of distressed communities. With \$485 million of capital under management, CDVC funds make equity and equity-like investments in highly competitive small businesses that hold the promise of rapid growth. The investments typically range from \$100,000 to \$1 million per company, smaller than most traditional venture capital investments. The companies in which CDVC funds invest generally employ between 10 and 100 people.

Investors can place capital directly into any one of the four main community investing organizations or through specialized community investment portfolios — made available through trade associations or through other intermediary organizations.

<b>FIGURE 13: THE FOUR TYPES OF CDFIs -- ASSETS AND GROWTH</b>		
<b>CDFI Institution</b>	<b>Current Assets</b>	<b>Growth Since 2001</b>
<b>Community Development Banks</b>	\$7.2 billion	+130%
<b>Community Development Credit Unions</b>	\$2.7 billion	+50%
<b>Community Development Loan Funds</b> <i>(includes Micro-Enterprise Development Funds)</i>	\$3.6 billion	+50%
<b>Community Development Venture Capital Funds</b>	\$0.5 billion	+58%
<b>Total Community Investment Assets</b>	<b>\$14 billion</b>	<b>+84%</b>

*Note: The data collected in this chart is an undercount of the market since not all banking, religious, and government money involved in community investing is captured (see the Methodology Section).*

# **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 CDFIs have been making loans and investments and creating permanent, positive changes in the poorest neighborhoods in cities, rural areas, and on Native American reservations.

Economic self-help is at the heart of CDFIs' missions, and through their loan-making and financial services, low-income families and communities begin to control their own financial destinies.

Some of the typical social criteria that CDFIs use to determine investment recipients include:

- Construction of affordable housing;
- Creation of livable wage jobs for low- and moderate-income community residents;
- Ownership by minorities and women;
- Provision of needed community services, such as childcare or health services;
- Opportunities for low-wealth individuals to build assets;
- Beneficial social and environmental impact of the product/service and the business operation; and
- Use of good business practices, including positive employee relations, 401(k) plans, and workplace safety.

CDFIs provide financing for many different types of undertakings, such as home ownership, rental housing, cooperative housing, micro-business, small businesses, medium/large businesses, childcare facilities, healthcare facilities, individual development accounts, personal loans,

## **FIGURE 14: PROFILES OF COMMUNITY INVESTING IN ACTION**

### **Small Business Loans**

Ocie and Stephanie Windham came to ShoreBank in 1991 just before their wedding to apply for their first loan to buy a six-apartment building. Ocie was working as a machinist and Stephanie as a court reporter. ShoreBank made them their first loan and has remained their bank ever since. Today, they are full time in the real estate business and own and manage 244 units of housing. They are delighted with their success; as Stephanie says, "We have come a long way." This is just one story of the thousands of borrowers ShoreBank has in Chicago; Detroit; Cleveland; Portland, Oregon; and Ilwaco, Washington.

### **Childcare Provision**

Soon after Linda Jimenez began her new job, she faced a childcare crisis. Linda had to leave work early to pick up her daughter; however, her job was vital to her transition off public assistance and she didn't want to risk jeopardizing it. Luckily, Linda was enrolled in the Community Childcare Assistance (CCA) program developed by Seedco in 2001. Working in partnership with local community organizations, universities, and other local and national groups, Seedco develops and supports wide-ranging initiatives that support working families, promote community economic development, and strengthen community-based nonprofits. With Seedco's help, CCA is able to provide back-up childcare to working public assistance recipients.

### **Home Ownership**

Self-Help Credit Union is a nonprofit Community Development Financial Institution located in Durham, North Carolina. Its national Secondary Market program provides an outlet for lenders to sell their affordable mortgage products. Through this national program, Self-Help has purchased over \$2 billion in affordable mortgages since 1998 and assisted over 25,000 low-income families in 47 states in achieving their dream of home ownership. This program has allowed traditional lenders across the country to significantly expand their lending to low-income families and minorities.

*Source: Shorebank, Calvert Foundation, and Self-Help Credit Union.*

and checking/savings accounts. CDFIs often generate tremendous impacts from limited investment of capital. For example, as documented in Figure 15, loan funds can use investors' assets to guarantee loans far exceeding the original assets provided by the investors.

Community investing continues to grow rapidly as a field, and its geographic reach and the range of its beneficiaries have expanded greatly. Community investing has enabled people earning minimum wage to purchase homes and gain access to public transportation in San Francisco's Chinatown, assisted low-income former farmers in North Dakota to launch or expand businesses, and helped impoverished rural communities in Louisiana create jobs, improve health, and promote sustainable agriculture.

These initiatives have 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.

With the rapid growth in community investing, the role that the religious community has played reflects the importance and the leadership they have provided to stimulate the development and growth of this work. The Interfaith Center on Corporate Responsibility tracks 32 religious development investment funds involved in some form of community investing, across a wide range of geographic and functional areas. Healthcare system pension funds Catholic Health Initiative and Catholic Healthcare West, as well as pension funds General Board of Pension and Health Benefits of the United Methodist Church and the Evangelical Lutheran Church of America, are examples of religious-oriented funds that not only screen their investments and participate in shareholder advocacy, but also directly invest in low-income communities.

As detailed in Figure 15, the impact on investor returns is minimal, while the total benefit to communities can be enormous.

<b>FIGURE 15: SENSITIVITY ANALYSIS ON ANNUAL RETURN</b>			
	<b>Principal</b>	<b>Annual Return*</b>	<b>Appreciation</b>
<b>1) 95% 60/40 Equity/Bond Investment*</b>	\$95,000	8.52%	\$8,094
5% Traditional cash component**	\$5,000	4.18%	\$209
<b>100% Balanced Portfolio</b>	<b>\$100,000</b>	<b>8.30%</b>	<b>\$8,303</b>
<b>2) 95% 60/40 Equity/Bond Investment*</b>	\$95,000	8.52%	\$8,094
4% Community Invest cash component**	\$4,000	4.18%	\$167
1% Below Market Community Investment***	\$1,000	2.00%	\$20
<b>100% Portfolio w/ Community Investment</b>	<b>\$100,000</b>	<b>8.28%</b>	<b>\$8,281</b>
<p><i>*Based on the average return for the ten years ending 12/31/02 of 60% S&amp;P 500 equity and 40% Lehman's bond indices.</i></p> <p><i>**Based on the average return for the ten years ending 12/31/02 of the Lipper Money Market Fund Index.</i></p> <p><i>***This example uses below market community investment with an average 2% dollar weighted return.</i></p>			

Source: Calvert Social Investment Foundation

## **Complementary Activities in Community Investing**

While the Social Investment Forum tracks assets involved in CDFIs as a key strategy in socially responsible investing, this Report also recognizes a growing number of supporting activities, which are helping to stimulate investment and provide services in low-income or underserved communities.<sup>9</sup> These activities range from tax credit programs to community investor pools. They provide a fertile environment, nurturing the work of CDFIs nationally and serving as an incubator for community investing innovation. Some of the most developed and significant of these supportive activities are outlined below:

- **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 U.S.
  - The Enterprise Social Investment Corporation (ESIC) is a prominent example of organizations that mediate the LIHTC into viable community investments. The ESIC works with partners to provide financial and development services to create housing, commercial and other community development opportunities in underserved neighborhoods across the country. In 2002, ESIC raised in excess of \$475 million from over 170 partners who have invested in ESIC-managed funds.
  - Local Initiatives Support Cooperation (LISC) also provides grants, loans, and equity investments to CDCs for neighborhood redevelopment with LIHTC dollars.
- **Economically Targeted Investments (ETI)** is most often defined as investments that fill a community development need that other investors have not met, and presents an opportunity to diversify a market rate portfolio or provides a market rate of return with a government risk management or subsidy program. Several public pension plans are required by their Board of Trustees or Department of Fiscal Services to commit to an investment goal of five to ten percent in Economically Targeted Investments.
- **New Markets Tax Credit** was approved as part of the Community Renewal Tax Relief Act of 2000 to spur the investment of \$15 billion in new private capital into community development financial institutions (CDFIs) and other entities that make loans and equity investments in businesses located in low- and moderate-income areas. By making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive an NMTC worth more than 30 percent of the amount invested over the life of the credit in present value terms.
- **Community Development Municipal Bonds (CDMB)** CD Muni bonds are securities issued by states, cities, towns, counties and special districts that have community

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<sup>9</sup> Where investments in these complementary activities are channeled through a community development financial institution, the assets are counted in this Report.

development as their primary purpose and the interest on them is generally exempt from federal income taxation and, in some cases, state income taxation.

- **Equity Equivalent Investments (EQ2)** were pioneered in 1996 by National Community Capital Association and Citibank. EQ2s are loans to CDFIs that are deeply subordinated and have a rolling term and other features that allow them to function like equity. EQ2 investments in CDFIs also provide banks with enhanced CRA credit.
- **Targeted Mortgage-backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)** is a pool 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. CMOs are more complex mortgage securities that help compartmentalize prepayment risk and better addresses investment time frames and cash-flow needs.
- **Community Development Corporations (CDCs)** focus on economic development in low- and moderate-income communities in rural and urban America. There are approximately 3600 CDCs nationwide, of which 900 are tracked by the trade association entity, the National Congress for Community Economic Development (NCCED). According to the NCCED, Community Development Corporations have helped produce hundreds of thousands of units of low-income housing; developed more than 71 million square feet of commercial, industrial, retail and community space; and provided job training, emergency food assistance, and childcare to people nationwide.
- **Community Investor Pools** are designed to make it safe and convenient for individuals and institutions to invest in CDFIs, CDCs, and other community-based non-profits by offering registered investment products, portfolio diversification, and professional management. One of the first Community Investor Pools, Partners for the Common Good, was launched in 1989 by Christian Brothers Investment Services. Subsequently, two other SRI mutual fund companies have launched Community Investor Pools: Calvert Community Investments (Calvert Social Investment Fund) and MMA Community Development Investment (MMA Praxis Funds). Additional faith-based Community Investor Pools, not associated with a fund company, include Oikocredit and the Tzedek Economic Development Fund. There are presently more than 2000 U.S. investors channeling over \$70 million to CDFIs and other non-profits through these non-profit Community Investor Pools.
- **Trade Associations** of CDFIs support the development and growth of CDFIs throughout the country, often by providing access to capital, training, and technical assistance. National Community Capital, for example, has 152 member CDFIs and provides loans, training, technical assistance, consulting, and policy work to hundreds of CDFIs each year to help them meet their community development goals. Other trade associations include the National Association of Community Development Credit Unions, Community Development Venture Capital Association, and the National Community Investment Fund.

## **Key Trends in Community Investing:** **The “1% in Community” Campaign**

Three years ago, the Social Investment Forum launched the “1% in Community Campaign”. As part of the initial work that focused on the consumer, the Forum teamed up with Co-op America, a national provider of consumer and investment tools, to promote the campaign. The “1% in Community Campaign” aims to dramatically increase the assets devoted to community investing by helping to move more than \$10 billion in assets into community investments over five years. If all social investors shift one percent of their investment dollars into community investing, this shift will effectively triple the real dollars available to finance work in economically distressed communities and assist lower-income families. It will create a permanent tier of capital to serve underserved communities and hasten the day when every investor’s asset allocation chart shows one percent of total investments in community investing.

In the first year of the campaign, the number of institutions and professionals that pledged to devote at least one percent of their assets to community investing jumped from 23 to 54. The Forum recorded \$750 million in community investments among institutions giving one percent or more to community investing in 2001. This number included both organizations that had previously been investing some portion of their portfolios in community investing, as well as those who began as a result of the campaign. In 2002, the Forum reported over \$250 million in additional assets in community investing, an increase of over 30 percent. By the end of 2002, there were more than \$1 billion dollars in community investing from among 54 participating Forum member institutions, with an average investment size of \$15.7 million.

The list of “1% in Community Achievers” includes both large and small institutions and individual professional advisors, with varying depths of commitment to, longevity in and impact upon community investing. “1% in Community Achievers” are investment managers, advisers, brokers, and mutual fund companies with a primary focus that is not necessarily community investing.

As of December 2002, Forum members who qualify as “1% (or more) in Community Achievers” include: the Board of Pensions, Evangelical Lutheran Church; Calvert Group; CRA Fund; Creative Investment Research; David Dobkin of First Affirmative Financial Network (FAFN); Domini Social Investments; F.B. Heron Foundation; Fannie Mae Foundation; First Affirmative Financial Network; the General Board of Pension and Health Benefits, United Methodist Church; Heartland Financial USA, Inc.; Michael Lent of Progressive Asset Management; Kathy Leonard of the Center for Responsible Investing and FAFN; Loring, Wolcott & Coolidge; Andy Loving, of Just Money Advisors and FAFN; Lowell, Blake & Associates; Laurie McClain of Socially Responsive Investing; MMA Praxis Mutual Funds; Joyce Moore of Joyce Moore Financial Services; New Alternatives Fund; Eric Packer of Progressive Assets Management; Christopher Peck of Holistic Solutions; Portfolio 21; Principle Profits Asset Management, Inc.; Progressive Investment Management; the Rose Foundation for Communities and the Environment; Rudolf Steiner Foundation; Eric Smith of FAFN; and Trillium Asset Management Corporation.

# Global Trends

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Although cultural concepts of “Socially Responsible Investing” and “Corporate Social Responsibility” vary around the world, there is nevertheless an international movement to encourage corporate responsibility through invested assets. Socially responsible investing is growing globally. From the screening and shareholder advocacy of U.K. pension funds to a multitude of small-scale community investing initiatives reaching millions throughout Asia, a wide array of socially responsible investment products are now available in more than 21 countries.

## North American Dynamics

SRI industries in North America have experienced healthy growth in recent years, both in capitalization as well as in evolving and expanding dynamic strategies. Social investing in Canada and the United States is characterized by a wide range of diverse portfolio screens, increasingly competitive community investing products, and growing popularity in shareholder advocacy initiatives. The use of these strategies – in isolation or in tandem – has driven the growth of SRI in the region, and has captured much of the interest of mainstream investing.

- **Asset Growth:** In Canada, SRI assets grew by nearly four percent in the past two years, from (U.S.) \$37 billion in 2000 to \$38.2 billion in 2002. According to Canada’s Social Investment Organization, market conditions reduced SRI asset values among retail investment funds and institutions that manage their own investments; however, these declines were offset by higher assets managed on behalf of institutional investors. The Canadian survey found more asset managers with SRI clients, and average SRI assets per firm higher than in 2000.
- **Multiple Strategies:** As in the U.S., shareholder advocacy and community investing are increasingly popular strategies for socially responsible investing in Canada, with (U.S.) \$453 million and \$196 million in assets, respectively, in 2002.
- **Screen Types:** Canadian and U.S. social screens share some similarities in type and usage. In both countries, tobacco is the most common screen, used by roughly 80 percent of the funds in both countries. In Canada, military screens are used by 68 percent of retail portfolios, environmental screens are used by 55 percent, and human rights by 45 percent. Likewise, in the United States, military screens are used by 51 percent of mutual funds, environmental screens by 48 percent, and human rights by 31 percent.

## European Leadership

Europe appears to be leading the world in SRI development through new regulation and national legislation that encourages greater disclosure and facilitates higher investment in SRI in retirement accounts. In effect, Europe is moving SRI into a more mainstream policy position than it occupies in North American or Asian markets.

Other European SRI characteristics include:

- **Shareholder Dialogue:** According to the European Sustainable and Responsible Investment Forum (EuroSIF) there is a greater focus in Europe on engagement tactics in shareholder advocacy through dialogue mechanisms (more formal in the U.K. than on the continent), such that much shareholder advocacy occurs in discussions between corporate management and directors and investors. However, shareholder filing, such as is exercised in North America, is also active in Europe, although the accessibility of filing and the popularity of this form of shareholder advocacy varies across the region. In a comparative study of Western European shareholder rights, Hermes Ltd. Investment Management found that shareholders have more rights and a greater ease in filing resolutions in Finland and Sweden, followed by France, Germany, and Poland.
- **Rapid Growth of Participation:** Cerulli Associate's European SRI report found that the growth in number of socially screened mutual funds, which has nearly doubled from 159 funds across Europe in 1999 to nearly 300 by 2002, is driven primarily by the United Kingdom, Sweden, France, and Belgium (nearly 70 percent of European funds are concentrated in these four countries).
  - ❑ Ethical investing has become the fastest growing sector of the U.K. retail funds market, expanding tenfold over the past decade to become an approximately (U.S.)\$6 billion industry – more than 20 funds have been launched in the past three years.
  - ❑ The most dynamic retail market is France, which has tripled its number of funds between 2000 and 2002.
  - ❑ Pension fund participation has also increased dramatically. The U.K. Social Investment Forum reports that nearly 75 percent of U.K. pension funds involved in SRI are also active in some type of shareholder engagement, and according to researchers at Nyenrode University, 74 percent of Dutch pension funds expect to be using social or environmental criteria in investment decisions in the near future.
- **Policy Leadership:** European policy is advancing SRI, namely through the European Union's Multi-stakeholder Forum on CSR. In addition, national legislation and initiatives are helping to increase the SRI share of the pension market. In July 2000, the U.K. government legislated a change to its Pension Act of 1995, requiring trustees of occupational schemes to state the extent (if at all) to which social, environmental, or ethical considerations are taken into account in the selection of investments. The Netherlands, Belgium, Switzerland, Sweden, Germany, and France have followed suit with similar enacted or proposed legislation.

## **Asian Opportunity**

Community investing is one of the most highly active areas of SRI in Asia, playing a vital role in providing credit and investment opportunities in many communities. However, the Association for Sustainable & Responsible Investment in Asia (ASrIA) the SRI trade association for the region, reports that the biggest area for SRI opportunity and growth in Asia is in pension funds. Although SRI has only begun to be an investment option for pension management in Asia, the rate of aging in the region is the fastest in the world, and investment managers, particularly those of international

portfolios, are beginning to devote increased attention to social investing options. The SRI presence in Asian capital markets is younger than in Europe and North America, yet its rate of growth, both in fund availability and assets, has surged considerably in the past few years. ASrIA has identified 18 domestic SRI fund providers in various Asian countries, not including a growing number of global SRI fund providers who have registered for sale in Asian markets or invested into Asian markets. In addition, SRI in Asia enjoys the advantageous position of learning from the opportunities and challenges experienced by its sister industries in the West.

Other details illustrating Asia's opportunity in SRI include:

- **Regional Dynamics** According to ASrIA, the SRI membership association for Asia-Pacific markets, the SRI industry in Asia is quickly growing, up 32 percent in new funds between 2001 and 2002, while overall managed funds have held steady in a weak market. Total SRI money under management in Asia, excluding Australia, is less than (U.S.) \$2.5 billion, but is likely to increase substantially in the next few years. Australia is the largest market in the Asian region with (U.S.) \$14.3 billion invested in funds with SRI policies as of July 2002. Australia is also a world leader in terms of SRI policy initiatives. Australian legislation was introduced in 2002, based on U.K. legislation, that all super-annuation (pension) schemes must disclose whether or not they adopt SRI criteria. There is presently legislation being enacted that mandates that all investment products must disclose their SRI criteria.
- **Japan's Growth Potential:** After Australia, Japan is Asia's most developed and promising SRI market. Although the first SRI fund was introduced in Japan only three years ago, there is now over (U.S.)\$1 billion invested in 11 SRI fund options. According to an official at Nikko Asset Management, Japanese SRI fund managers and investors do not consider cigarettes, alcohol, gambling, nuclear, or weaponry as "anti-social;" rather, social screens are most often focused on environmental, human rights, and supply chain issues. In March 2003, the Mutual Aid Association of Tokyo Teachers and Officers launched the first SRI pension fund in Japan, an important signal to the country's pension industry. Based on the fast-growing interest in the region, ASrIA predicts that as market conditions continue to improve, corporate investors, pension funds, and employment pension plans will increasingly adopt SRI initiatives as a strategy to help Japan move towards a more sustainable society and economy.

**FIGURE 16: GLOBAL TRENDS IN SRI**

	<b>Common screens/ approaches</b>	<b>Legal/ Regulatory Environment</b>	<b>Relative SRI Market Size (U.S. Dollars)</b>
<b>NORTH AMERICA</b>	Tobacco, alcohol, and gambling, followed by environmental and human rights, are the most common screens; growing participation in shareholder advocacy and capitalization of community investing.	Recent disclosure and transparency requirements by the Securities and Exchange Commission in U.S., amid overall increased regulatory attention.	<b>Canada:</b> \$38.2 billion total in SRI (June 2002), with 53 retail mutual funds. <b>U.S.:</b> \$2.16 trillion total in SRI (Dec. 2002), with 200 retail mutual funds.
<b>EUROPE</b>	Environmental and labor screens are most popular; "SRI" perceived as more than applying single exclusionary screen; shareholder engagement strategy commonly used.	Leadership through new laws and SRI tax-free schemes by country and EU governments boost pro-SRI policy and participation growth.	280 retail and institutional funds available as of 2001. \$260 billion (including retail, pension, and shareholder advocacy).
<b>ASIA</b>	Community investing active at local level; growing number of funds in Japan, Hong Kong and Australia, which provide opportunity for pension funds; environmental screens dominate.	<b>Australia:</b> Disclosure requirements on social and environmental issues in investment decisions. <b>Rest of Asia:</b> No real SRI-related policy in place, but there is increasing attention, especially among multinational fund managers.	<b>Australia:</b> \$14.3 billion (August 2003, with \$2.2 billion in managed SRI funds). 74 funds total (31 percent increase in total number of funds in one year). <b>Rest of Asia:</b> \$2.5 billion total (December 2002).

To learn more about each of these SRI markets, visit the respective trade association web sites:

**Asia:** [www.asria.org](http://www.asria.org)

**Australia:** [www.eia.org.au](http://www.eia.org.au)

**Canada:** [www.socialinvestment.ca](http://www.socialinvestment.ca)

**Europe:** [www.eurosif.org](http://www.eurosif.org)

**United Kingdom:** [www.uksif.org](http://www.uksif.org)

## SECTION VI

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# Methodology

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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 survey methodology employed for the purposes of this Report. It also outlines improvements to the methodology used in the 2003 survey. Finally, this section identifies social investment assets that are not counted in the survey, thus providing additional confidence that the survey results are a conservative statement of the total assets involved in socially responsible investment in 2003.

This 2003 Trends Report is a quantitative behavioral study. That is, all professionally managed investment assets that fit within the strategies of socially responsible investing are counted. In short, if assets are screened for one or more non-financial or social issues, are involved in social shareholder advocacy, or are directed to community investing, they are counted.

The study does not attempt to make a qualitative judgment about whether or not the investor identifies with the term “socially responsible investing,” or markets services as part of the socially responsible investing industry. A critique of this quantitative approach is that some investors, portfolio managers, and mutual funds counted in this study may not be positioning themselves in the marketplace as “socially responsible.” This criticism suggests that a future study might be conducted to ascertain the qualitative intentions motivating the behavior that this study is designed to identify. Such an analysis of intention is not attempted by this study.

## What Was Counted

For purposes of the survey underlying this Social Investment Forum study, an institution was considered to engage in socially responsible investing if its practice includes one or more of the following:

- **Screening.** The institution utilizes one or more social screens as part of a formal investment policy. Only that portion of an institution’s funds that is screened for one or more social issues is credited as such, and is included in the screened portfolio component of social investing. All qualifying institutions must confirm social screening in writing.
- **Shareholder Advocacy.** The institution sponsors or co-sponsors shareholder resolutions on social responsibility or social-corporate governance “cross-over” issues. 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 were included in the shareholder advocacy segment of social investing. Institutions that engage in dialogue only as a shareholder advocacy strategy were described in the study, but their assets were not included. This year, for the first time, resolutions on corporate governance were tracked, but were not aggregated into the total count of socially responsible investing assets.
- **Community Investment.** Institutions qualifying as a Community Development Financial Institution (CDFI), which the Forum defines as a private sector organization that has a

primary mission of lending to low-income or very-low-income communities, and engaging in finance as its primary activity, were included in this section of the 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 above.

## **What Was Not Counted**

Certain dollars 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 has no formal policy for doing so and/or utilizes no social screens.

**Shareholder Advocacy** excludes assets of 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.
- Says it “votes proxies,” but lacks any formal policy determining votes; or votes with management in a clear majority of cases, especially on resolutions submitted by socially concerned investors.
- Engages in dialogue with corporations, but has not filed or co-filed a resolution in the past three years.
- Sponsor resolutions that deal solely with corporate governance; although, as this trend develops, they will be counted in future reports.

**Community Investment** excludes any institution that says it has some type of economically targeted investment(s), but that are not recognized by a Community Development Financial Institution (for details, see Data Sources below). Organizations that engage in community investing in accordance with Community Reinvestment Act I requirements are not counted in this survey unless the investments were made through a Community Development Financial Institution. In addition, low-income housing tax credits were not included in the total asset count, although they were covered in the report narrative.

## **Data Sources**

The following data sources were used to compile the institutions and investment managers included in the survey:

### **Mutual funds:**

Mutual funds and variable annuity sub-accounts that have at least one social screen were included in the study. This list was compiled from material provided by Morningstar, Wiesenberger, Lipper, GoodMoney, SIMFUND, the Social Investment Forum, First Affirmative Financial Network, and public media sources. All funds were contacted to ensure that screens were in place as of December 30, 2002; this information was verified in writing for each fund.

### **Other screened portfolios:**

Forum research compiled a list of all institutions identifying themselves in the *2003 Nelson's Directory of Plan Sponsors* as restricting their investments with some social criteria. Added to this list were institutions that are known to have adopted social screening strategies in the past two years. These institutions were identified through the assistance of the Investor Responsibility Research Center (IRRC), the Interfaith Center on Corporate Responsibility (ICCR), the American Hospital Association, and various media sources. In addition, the Forum directly surveyed its membership and targeted investment managers who identified themselves in the *2003 Nelson's Directory of Investment Managers* as employing "social screening" as an investment strategy.

### **Shareholder Advocacy:**

The list of institutions involved in shareholder advocacy came from the IRRC's "Checklist of Shareholder Resolutions" in the *Corporate Issues Reporter*, the ICCR's *Corporate Resolutions Book*, the Forum's Shareholder Action Network, and the media. Resolution tracking data used to compile the charts on the status of social, crossover, and corporate governance shareholder resolutions was provided by the IRRC. IRRC is based in Washington, DC. For more information, please visit its Web site at [www.irrc.org](http://www.irrc.org).

### **Community Investment:**

The Forum contacted all of the community development trade organizations and intermediaries to determine the number of member institutions and the assets they control. Trade associations and intermediaries contacted included the National Community Capital Association, the Association for Enterprise Opportunity, the National Federation of Community Development Credit Unions, the Community Development Venture Capital Alliance, the National Community Investment Fund, the CDFI Fund, and the Calvert Foundation.

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

To determine the total assets under professional management in the United States, the Forum used the *2003 Nelson's Directory of Investment Managers*. The *2003 Nelson's Directory* lists \$19.2 trillion in total assets under management in the United States as of December 31, 2002.

## **Survey Methodology**

The Social Investment Forum utilizes a survey to determine the total assets involved in various types of socially responsible investments. The survey methodology is direct and straightforward:

The list of institutions surveyed is compiled from the data sources described in the Data Sources subsection above. The list provides information on the amount of assets institutions manage in the United States that qualify under social screening, shareholder advocacy, and community investing. Mutual funds that screen were also surveyed for the type of screen(s) utilized. Community Development Financial Institutions (CDFIs) were surveyed for the amount of assets managed by their member organizations.

The surveys are compiled by investment type — that is, screening of portfolios, shareholder advocacy, and/or community investing — and any double counting is eliminated. An example of double-counting that is eliminated is a mutual fund subadvisor and a mutual fund reporting the same assets. No estimates or sampling techniques were used in gathering data for this report.

Extensive verification was conducted for each section of the Trends Report, including individually contacting mutual funds, separate accounts, community investing organizations, and organizations tracking shareholder advocacy.

## **Methodology Improvements**

The Social Investment Forum conducts this survey every two years. From time to time, the methodology is enhanced. Changes in 2003 include:

- The Social Investment Forum this year, for the first time, used information on separate account social screening from the American Hospital Association, and fully surveying its membership.
- A greater number of sources were used to identify socially screened mutual funds, and these funds were contacted directly to determine screen types and to verify assets.
- The 2003 Trends Report corrects an error found in the First Edition of the 2001 Report. In 2001, the Forum reported that there were 230 mutual funds; the correct number was 181, which is reflected in this report. Assets in socially screened mutual funds likewise were revised from \$154 billion to \$136 billion. The revised 2001 Report can be found online at [www.socialinvest.org](http://www.socialinvest.org).

## **Special Note on Time Series**

Over time, our data collection has improved, as SRI has grown in participants and acceptance, and portfolio managers have become more willing to both use social screens and to disclose their screening. Growth in SRI, then, has occurred in several ways: through net asset growth, asset appreciation, new portfolios participation in SRI, and improved counting of the market. For example, assets in socially screened mutual funds counted by this report have grown by 11 percent from 2001 to 2003, and this growth is attributable to new funds and growth in assets in existing funds. For these reasons, we advise against using this 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 investment. However, there are certain types of social investment assets that this survey is not able to identify, including:

- Investment assets owned by individuals who directly purchase the equity or debt securities of companies according to the individuals' personal social investment criteria. With Internet trading, and the increased information available on the Internet that provides individual investors with the information needed to create their own screened investment portfolios, this may be a large and growing area of socially responsible investment.
- The stocks and bonds of responsibly managed companies purchased for individuals through personal stockbrokers and financial planners.
- The portfolios of socially aware investors whose investment assets are managed through the trust departments of banks, law firms, or trust companies.
- Smaller investors who participate in the shareholder advocacy process.
- Community investments not made through a Community Development Financial Institution.

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 Forum intends to explore the development of the survey methodology to capture these sources in the future. At present, this undercounting of assets involved in social responsible investing introduces a conservative bias to the survey, and provides confidence that survey results are a conservative statement of the total assets involved in socially responsible investment in 2003.

### **About the Publishers**

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#### **About the *Social Investment Forum Foundation***

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.

#### **About the *Social Investment Forum, Ltd.***

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.

### **Helping to Create a More Just and Sustainable Future**

Socially aware investors are sensitive to the idea of achieving personal 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 aware investors to match their personal 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.

## **Social Investment Forum**

### **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, and summaries of the best research on socially responsible investing.
- **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 us 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 on our Web site: [www.socialinvest.org](http://www.socialinvest.org).
- **Information on Community Investing:** Find the latest information on community investment opportunities and issues on the Forum's Web site on community investing: [www.communityinvest.org](http://www.communityinvest.org).
- **Information on Shareholder Advocacy:** Find the latest information on shareholder advocacy on our Web site, [www.shareholderaction.org](http://www.shareholderaction.org). Information includes:
  - ❑ **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 vote on or file a shareholder resolution.
  - ❑ **Regulatory alerts:** Information on regulation affecting investor rights.

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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).

## Appendix 1

# Screening Glossary

- ❖ **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.
- ❖ **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.
- ❖ **Gambling:** The exclusion or partial exclusion of companies involved in the licensing, manufacturing, owning and operating, or ownership of or by a gambling company.
- ❖ **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.
- ❖ **Human Rights:** The inclusion or exclusion of companies based on issues of indigenous peoples relations, labor rights, and operations in countries with oppressive regimes, such as Burma.
- ❖ **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.
- ❖ **Products/ Services:** The inclusion or exclusion of companies based on issues of benefits to economically disadvantaged, quality programs recognized as exceptional in U.S. industry, R&D / Innovation leadership in the industry, product safety, marketing/contracting controversy, or antitrust fines or civil penalties.
- ❖ **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.
- ❖ **Employment/ Equality/ Diversity:** 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.
- ❖ **Community Impact:** The inclusion or exclusion of companies based on issues of charitable giving, innovative giving, non-U.S. charitable giving, support for affordable housing, support for education, exceptional volunteer programs, investment controversies, or negative economic impacts.

## Other Screens:

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

- ❖ **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.
- ❖ **Animal Testing:** The exclusion of companies involved in animal testing in the research and development or manufacturing of a product.
- ❖ **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.
- ❖ **Pork Products:** In compliance with Islamic Shari’a law, exclusion or partial exclusion of companies that derive a significant portion of their income from the manufacture, processing, marketing, or sales of pork products.
- ❖ **Interest-based Financial Institutions:** In compliance with Islamic Shari’a law, exclusion or partial exclusion of companies in the financial sector that derive a significant portion of their income from interest earnings (primarily on loan products).

## Appendix 2

# SRI Mutual Funds Competitiveness

Investors, academics, and journalists have all shown interest in the question of the competitiveness of SRI funds. Over the past few years, considerable academic and real world evidence has been accruing that demonstrates competitive performance of SRI funds.

The following section highlights: 1) the most significant academic studies of recent years; 2) the ability of SRI funds to attract and retain assets as captured in net asset flow data; 3) real world performance data as captured in the awarding of high Morningstar ratings; and 4) the relative expense ratios of SRI funds as compared to the broader mutual fund universe.

## Significant Academic Studies

Two of the most rigorous and insightful quantitative studies of socially screen funds' performance and cost are:

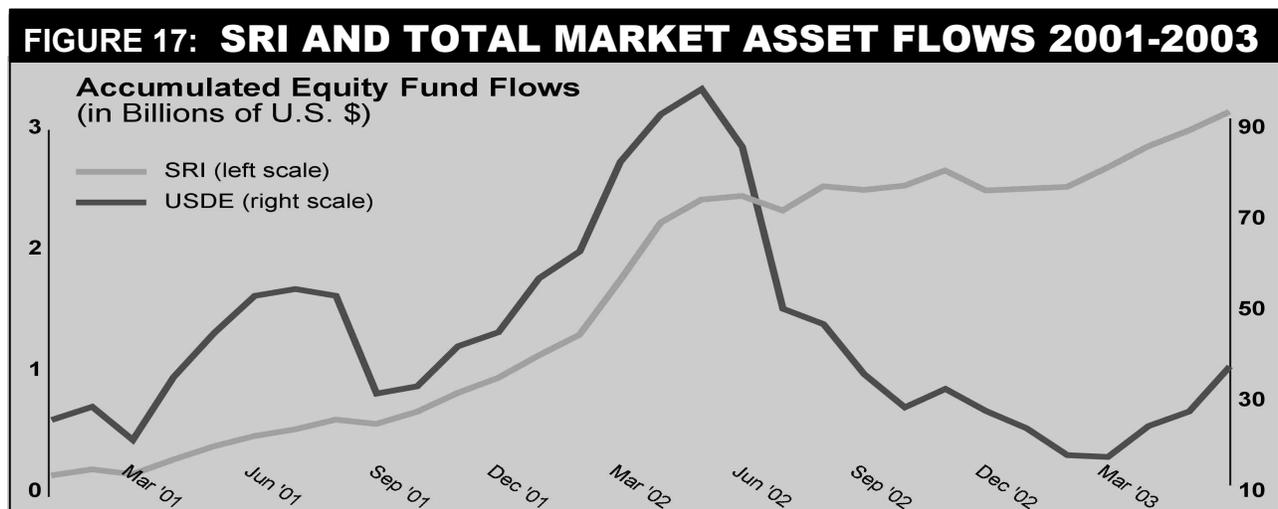
- **Stone, Guerard, Gultekin, and Adams (2001)** show that the returns of a stock selection model were not harmed by the implementation of social screens for the 1984-1997 time period.
- **Bauer, Kees, and Otten (2002)** measure the risk-adjusted performance of 103 German, U.S., and U.K. mutual funds for the 1990-2001 time period, and find no significant differences between their returns and those of unscreened funds.

*See Appendix 3 for full bibliographical listing of significant SRI papers since 2001.*

## SRI Mutual Fund Asset Flow Data

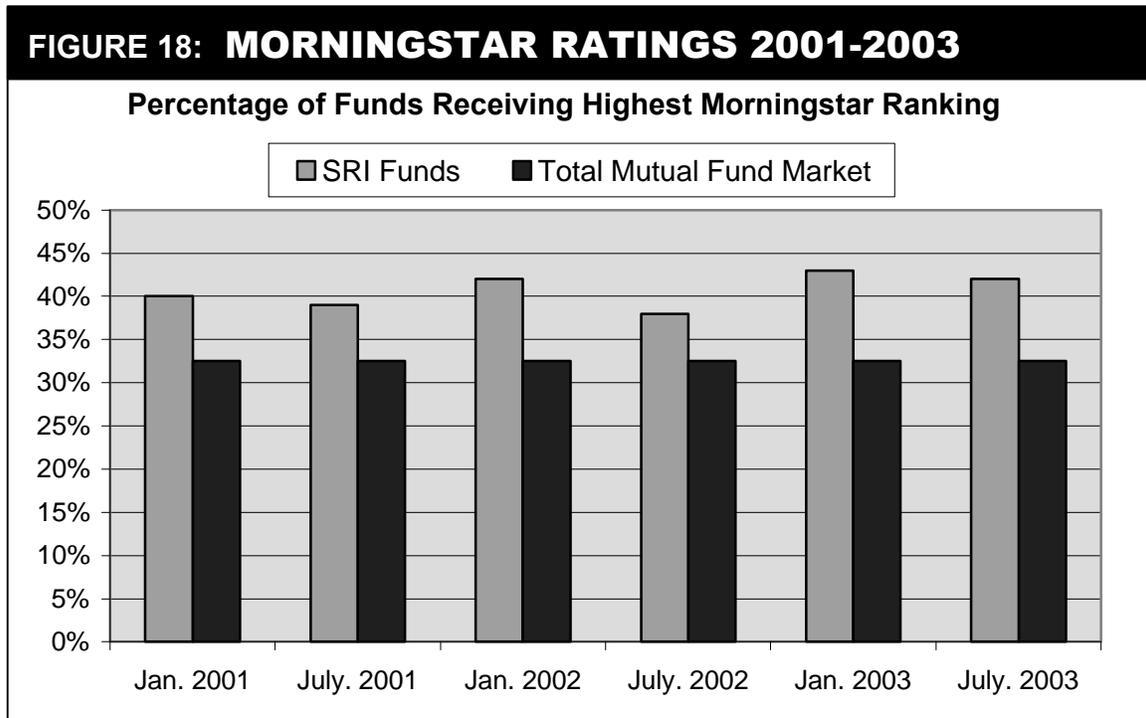
Socially screened mutual funds have recorded impressive asset inflows over the past two years in spite of a harsh stock market environment. These SRI fund inflows have often occurred over sustained periods when the much larger marketplace of all U.S. domestic equity funds recorded asset outflows, according to the data provided by independent fund evaluator Lipper, a Reuters Company.

This trend reflects SRI investors' loyalty and their long-term orientation to value creation, and is illustrated in Figure 17.



## SRI Mutual Fund Morningstar Rating

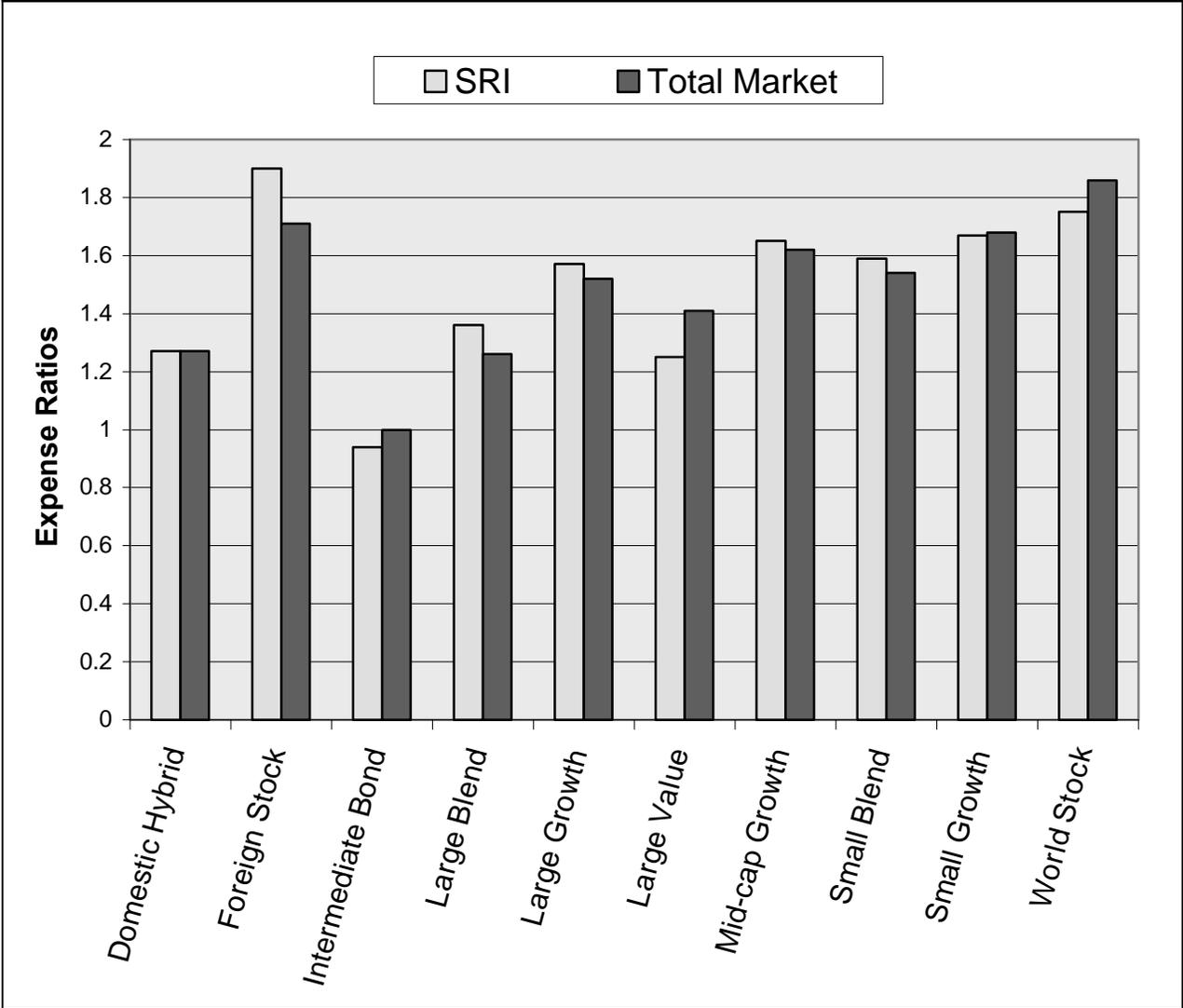
Morningstar's mutual fund rating scheme provides another benchmarking metric on SRI fund performance. Morningstar awards rankings one through five stars (low to high) of mutual funds based on performance, risk and cost metrics. Morningstar uniformly grants a high rating of four or five stars to only 32.5 percent of the universe of mutual funds tracked by Morningstar. A higher percentage of SRI funds have repeatedly received four or five star ratings than one would statistically expect, during the period 2001 to 2003.



## SRI Mutual Fund Costs

Comparing all share classes of SRI funds by investment type to all share classes for the total market, and only including those investment categories with five or more SRI funds, an analysis of SRI expense ratios finds that SRI funds are neither more or less costly than other funds of similar type. Fifty percent of SRI funds by investment category are less costly than the whole market, while 60 percent of SRI investment categories have lower average net assets than the market. This fact further underscores the competitiveness of SRI mutual funds expenses, as funds with lower assets often tend to have higher expenditures. This analysis on mutual fund expense ratios is illustrated in Figure 19.

**FIGURE 19: MUTUAL FUND EXPENSE RATIOS, TYPE OF FUND**



## Appendix 3

# Quantitative Studies in Socially Responsible Investing 2001-2003<sup>10</sup>

## **I. Fund Performance**

*The following papers focus on fund or portfolio performance within social investing parameters, ranging from environmental issues to corporate governance. Coverage on the below papers includes risk and cost indicators, screening approaches, and international variables.*

- Barnett, Michael L. and Robert M. Salomon. "Porous, Pious, and Prosperous: The Curvilinear Relationship Between Social Responsibility and Financial Performance." *Working Paper. New York University Stern School of Business, May 2002.*
- Bauer, Rob, Kees Koedijk, and Roger Otten. "International Evidence on Ethical Mutual Fund Performance and Investment Style." *Working Paper, January 2002. This study won the 2002 Moskowitz Prize competition for the best quantitative study of socially responsible investing.*
- Boutin-Dufresne, Francois and Patrick Savaria. "Corporate Social Responsibility and Financial Risk." *Working Paper, May 2002.*
- Burke, Paul. "Sustainability Pays." *CIS Cooperative Insurance, June 2002.*
- Chen, Larry. "Sustainability Investment: The Merits of Socially Responsible Investing." *UBS Warburg, August 2001.*
- Dimtcheva, Ludmila, Gordon Morrison, and John Marsland. "Boxing against Green Shadows." *Commerzbank Securities, July 19, 2002.*
- Dimtcheva, Ludmila, Gordon Morrison, and John Marsland. "Green with Envy." *Commerzbank Securities, March 18, 2002.*
- Garz, Hendriz, Claudia Volk, and Martin Gilles. "More gain than pain - SRI: Sustainability pays off." *WestLB Panmure, November 2002.*
- Garz, Hendriz, Claudia Volk, and Martin Gilles. "From Economics to Sustainomics: SRI - Investment style with a future." *WestLB Panmure, May 2002.*
- Geczy, Christopher C., Robert F. Stambaugh, and David Levin. "Investing in Socially Responsible Mutual Funds." *Working Paper, Wharton School, May 2003.*

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<sup>10</sup> List of papers published from January 2001 to July 2003 provided by "Studies in the Field of Socially Responsible Investing online at <http://www.sristudies.org>, ed. Lloyd Kurtz, Senior Vice President and Research Analyst at Harris Bretall Sullivan Smith, Director of the Colloquium on Socially Responsible Investing and Administrator of the Moskowitz Prize. The Social Investment Forum awards the Moskowitz Prize each year to a work of outstanding research on socially responsible investing.

- Innovest Strategic Value Advisors. "New Alpha Source for Asset Managers: Environmentally-Enhanced Investment Portfolios." New York: Innovest Strategic Value Advisors, April 2003.
- Lane, Marc J. and Jijun Feng. "A Reconsideration of Behavioral Screening: The Case for Advocacy Investing." Chicago: Law Offices of Mark J. Lane, June 27, 2003.
- ORC International. *Where Faith and Wall Street Intersect*. Goshen, Indiana: MMA, August 2001.
- Stone, Bernell K., John B. Guerard, Jr., Mustafa N. Gultekin, Greg Adams. "Socially Responsible Investment Screening: Strong Evidence of No Significant Cost for Actively Managed Portfolios." *Journal of Investing*, forthcoming.
- Troutman, Michael. "Staying on (the) Course: Risk Control Techniques for Social Investing." *Journal of Investing*, Winter 2001.
- Yaron, Gil. "The Responsible Pension Trustee: Re-Interpreting the Principles of Prudence and Loyalty in the Context of Socially Responsible Institutional Investing." Aurora, Ontario: *Estates & Trusts Pension Journal*, vol. 20, 2001.

## **II. Company / Stock Performance**

*Below papers are concerned broadly with company or stock performance within socially responsible investing, and also include environmental, corporate governance, risk, and international indicators, among others.*

- Austin, Duncan and Amanda Sauer. "Changing Oil: Emerging Environmental Risks and Shareholder Value in the Oil and Gas Industry." *World Resources Institute*, June 2002.
- Blank, Herbert D. and C. Michael Carty. "The Eco-Efficiency Anomaly." Innovest Working Paper, June 2002.
- Carter, David A., Betty J. Simkins, and W. Gary Simpson. "Corporate Governance, Board Diversity, and Firm Value." *The Financial Review*, February 2003.
- Coulson, Andrea and ISIS Asset Management. "A Benchmarking Study: Environmental Credit Risk Factors in the Pan-European Banking Sector." London: ISIS Asset Management, September 2002.
- Dixon, Frank. "Financial Markets and Corporate Environmental Results." Innovest Working Paper, 2002.
- Fields, M. Andrew and Phyllis Y. Keys. "The Emergence of Corporate Governance from Wall St. to Main St.: Outside Directors, Board Diversity, Earnings Management, and Managerial Incentives to Bear Risk" *The Financial Review*, February 2003.
- Gill, Amar. "Saints and Sinners: Who's Got Religion?" CLSA Emerging Markets report, April 2001.

- Gompers, Paul, Joy L. Ishii, Andrew Metrick. "Corporate Governance and Equity Prices." National Bureau of Economic Research, Working Paper 8449, 2001.
- King, Andrew and Michael Lenox. "Exploring the Locus of Profitable Pollution Reduction," *Management Science*. Vol. 48 (2), 2002.
- King, Andrew and Michael Lenox. "Does it *Really* Pay to Be Green? Accounting for Strategy Selection in the Relationship Between Environmental and Financial Performance." *Journal of Industrial Ecology*. Vol. 5(1), 2001.
- King, Michael. "Sustainability: advantaged or disadvantaged?" PriceWaterhouse Coopers, Manchester, UK. Working Paper, 2001.
- Koehler, Dinah A. "Capital Markets and Corporate Environmental Performance: What Does the Empirical Work Tell Us?" Working Paper. Harvard School of Public Health, 2002.
- Kurtz, Lloyd and Chris Luck. "An Attribution Analysis of the 100 Best Companies to Work for in America." Presentation to Northfield Investment Conference, Fish Camp, California, May 5-7, 2002.
- Lee, Charles M.C. and David T. Ng. "Corruption and International Valuation: Does Virtue Pay?" Working Paper, Cornell University, November 2002.
- Litvack, Karina, Tiffany Butterfield, Harriet Fletcher. "The Governance of Bribery and Corruption." London: ISIS Asset Management, February 2002.
- Mahoney, Lois and Robin Roberts. "Corporate Social and Environmental Performance and Their Relation to Financial Performance and Institutional Ownership: Empirical Evidence on Canadian Firms." Working paper, 2002.
- Manry, David and David Stangeland. "The United Shareholders Association *Shareholder 1000* and firm performance." *Journal of Corporate Finance* (2003) 353-375, April 2002.
- Mansley, Mark. "Risking Shareholder Value? ExxonMobil and Climate Change." Claros, May 2002.
- Nadeau, Lou, Jeff Cantin, and Richard Wells. "Participation in Voluntary Programs, Corporate Reputation, and Intangible Value: Estimating the Value of Participating in the EPA's EnergyStar Program." Working paper, June 2003.
- Pfau, Bruce. "Watson Wyatt's Human Capital Index: Human Capital As a Lead Indicator of Shareholder Value." Watson Wyatt Worldwide, 2001.
- Repetto, Robert, and James Henderson. "Environmental Exposures in the U.S. Electric Utility Industry." Working Paper, Yale School of Forestry and Environmental Studies, February 2003.
- Welbourne, Theresa M. "Wall Street Likes Its Women: An Examination of Women in the Top Management Teams of Initial Public Offerings." Working Paper, 2001.
- Ziegler, Andreas, Klaus Rennings, and Michael Schroder. "The Effect of Environmental and Social Performance on the Shareholder Value of European Stock Corporations." Centre for European Economic Research (ZEW), November 20, 2002.

## Appendix 4: Socially Screened Mutual Funds

<b>MUTUAL FUNDS -- SCREENED</b>	
<b>Fund</b>	<b>Net Assets</b>
AARP Capital Growth Fund	1,100,000,000
AARP Global Fund	82,400,000
AARP GMNA Fund	3,984,000,000
AARP Growth and Income Fund	4,600,000,000
AARP Managed Municipal Bond Fund	1,564,000,000
AARP Small Company Stock Fund	84,000,000
AB Funds: Cap Oppty Fund	765,600,000
AB Funds: Equity Index Fund	312,700,000
AB Funds: Global Equity Fund	628,600,000
AB Funds: Growth & Income Fund	1,046,300,000
AB Funds: Growth Equity Fund	1,066,600,000
AB Funds: International Equity Fund	788,200,000
AB Funds: Small Cap Equity Fund	250,700,000
AB Funds: Value Equity Fund	957,800,000
AHA Balanced Portfolio Fund	26,600,000
AHA Diversified Equity Fund	69,300,000
AHA Full Mat Fixed Income Fund	37,200,000
AHA Limited Mat. Fixed Income Fund	89,400,000
Alfanar US Capital Growth Fund	18,700,000
Alger Socially Responsible Fund	1,400,000
Amana Growth Fund	19,300,000
Amana Income Fund	17,800,000
American Funds Mutual Fund	8,480,000,000
American Funds Washington Mutual Investors Fund	46,567,000,000
American Trust Allegiance Fund	19,800,000
Aquinas Equity Growth Fund	48,800,000
Aquinas Fixed Income Fund	47,700,000
Aquinas Small-Cap Fund	5,400,000
Aquinas Value Fund	33,800,000
Ariel Appreciation Fund	1,472,200,000
Ariel Fund	1,190,200,000
ARK Social Intrmd Fxd Inc Fund	3,100,000
ARK Social Issues Blue Chip Equity Fund	700,000
ARK Social Issues Capital Growth Fund	300,000

<b>Fund</b>	<b>Net Assets</b>
ARK Social Issues Small Cap Equity Fund	200,000
Ave Maria Catholic Values Fund	61,800,000
Azzad Ethical Income Fund	500,000
Azzad Growth Fund LP	800,000
Azzad/ Dow Jones Ethical Market Fund	200,000
Baron Assets Fund	1,966,000,000
Baron Growth Fund	1,214,000,000
Baron Opportunity Fund	64,000,000
Baron Small Cap Fund	748,000,000
Bridgeway Aggressive Growth Portfolio Fund	235,600,000
Bridgeway Balanced Fund	5,700,000
Bridgeway Micro-Cap Limited Fund	44,000,000
Bridgeway Ultra Large 35 Index Fund	6,600,000
Bridgeway Ultra Small Company Fund	58,200,000
Bridgeway Ultra Small Company Tax Advantage Fund	100,200,000
Builders' Fixed Income Fund	240,900,000
Capstone CSF Lg Cap Equity Index Fund	7,900,000
Capstone SERV Bond Fund	54,900,000
Capstone SERV International Fund	11,300,000
Capstone SERV Money Market Fund	1,500,000
Capstone SERV Large Cap Equity Fund	57,300,000
Capstone SERV Short-term Bond Fund	30,400,000
Capstone SERV Small Cap Fund	17,300,000
Catholic Money Market Fund	11,700,000
Citizens Money Market Fund	106,800,000
CRA Qualified Investment Fund	266,900,000
Delaware Social Awareness Fund	43,400,000
DEM Equity Fund	10,900,000
DEVCAP Shared Return Fund	17,300,000
Domini Money Market Fund	54,800,000
Dow Jones Islamic Index Fund	16,600,000
Dreyfus Premier Third Century Fund	548,300,000
Eclipse Ultra Short Term Income Fund	8,100,000.0
Eco*Index Select Portfolio Fund	54,300,000
Enterprise Global Socially Responsive Fund	3,900,000

<b>Fund</b>	<b>Net Assets</b>
Exeter PureMark E Fund	4,800,000
Flexfunds Total Return Utility Fund	19,300,000
Flexfunds Utility Growth Fund	3,200,000
GMO Tobacco Free Core III Fund	173,300,000
IPS Millennium Fund	87,900,000
IPS New Frontier Fund	3,700,000
IRG Institutional Equity Fund	3,400,000
IRG Investment Trust Fund	3,200,000
KLD Broad Market Social Index (BMSI) Fund	4,500,000,000
LB Fund	811,300,000
LB High Yield Fund	560,000,000
LB Income Fund	41,400,000
LB Mid Cap Growth Fund	98,050,000
LB Money Market Fund	609,100,000
LB Municipal Bond Fund	681,260,000
LB Opportunity Growth Fund	112,500,000
LB World Growth Fund	68,300,000
Liberty Young Investor Fund	855,700,000
Lincoln Life Social Awareness Fund	887,600,000
Meeder Advisor Utility Growth Fund	3,100,000
MFS Union Standard Equity Fund	49,300,000
MMA Praxis Money Market Fund	3,400,000
Morgan Stanley KLD Social Index Fund	10,800,000
Neuberger & Berman Socially Responsive Fund	86,600,000
New Alternatives Fund	36,700,000
New Covenant Balanced Growth Fund	264,900,000
New Covenant Balanced Income Fund	124,300,000
New Covenant Growth Fund	671,100,000
New Covenant Income Fund	507,400,000
Noah Fund	8,400,000
Parnassus Fund	303,200,000
Parnassus Income Trust: California Tax-Exempt Fund	26,200,000
Parnassus Income Trust: Equity Income Fund	273,400,000
Parnassus Income Trust: Fixed Income Fund	19,100,000
Pax World Money Market Fund	237,600,000
PIMCO Low Duration Fund III	57,200,000

<b>Fund</b>	<b>Net Assets</b>
PIMCO Total Return Fund III	952,900,000
Pioneer Core-Equity Fund	17,200,000
Pioneer Equity Income Fund	658,300,000
Pioneer Fund	5,381,000,000
Pioneer Value Fund	3,213,700,000
Roxbury Socially Responsible Fund	101,300,000
Scudder GMNA Fund S	4,400,000,000
Security Social Awareness Fund A	7,800,000
Security Social Awareness Fund B	6,300,000
Shepherd Large Cap Growth Fund	12,200,000
Smith Barney Concert Social Awareness Fund	365,300,000
Social Responsibility Investment Fund	64,400,000
SSgA IAM Shares Fund	133,300,000
StrategicNova SAMI Fund	1,700,000
Stratton Growth Fund	38,400,000
Stratton Monthly Dividend Reit Shares Fund	137,900,000
Stratton Small Cap Value Fund	45,400,000
Summit Apex Total Social Impact Fund	3,800,000
Third Avenue Small Cap Value Fund	394,900,000
Third Avenue Value Fund	2,263,200,000
Thornburg Ltd. Term Income Fund	363,600,000
TIAA-CREF Social Choice Equity Fund	108,700,000
TIAA-CREF Social Choice Fund	4,373,800,000
Timothy Plan Aggressive Growth Fund	5,400,000
Timothy Plan Conservative Growth Fund	18,400,000
Timothy Plan Fixed Income Fund	13,200,000
Timothy Plan Large/Mid-Cap Growth Fund	16,300,000
Timothy Plan Large/Mid-Cap Value Fund	23,900,000
Timothy Plan Money Market Fund	3,850,000
Timothy Plan Small Cap Fund	38,400,000
Timothy Plan Strategic Growth Fund	16,800,000
Trillium Advocacy Fund	1,600,000
USAA First Start Growth Fund	134,500,000
Vanguard Calvert Social Index Fund	98,400,000
Winslow Green Growth Fund	11,300,000
Working Assets Citizens Balanced Fund	100,000

**Mutual Funds –  
Screened and Shareholder Adv.**

<b>Fund</b>	<b>Net Assets</b>
Calvert Large Cap Growth Fund	18,100,000
Calvert Social - Bond Fund	172,000,000
Calvert Social - Enhanced Equity Fund	39,200,000
Calvert Social - Equity Fund	506,300,000
Calvert Social - South Africa Fund	360,000
Calvert Social Index Fund	26,900,000
Calvert Social -Technology Fund	2,200,000
Carlisle Catholic US Market Index Fund	4,800,000
Catholic Equity Fund	16,100,000
Catholic Values Investment Trust Fund	7,200,000
Citizens Balanced Fund	1,000,000
Citizens Core Growth Fund	354,100,000
Citizens Emerging Growth Fund	158,800,000
Citizens Global Equity Fund	129,500,000
Citizens Income Fund	68,300,000
Citizens International Growth Fund	2,600,000
Citizens Small Cap Core Growth Fund	15,000,000
Citizens Ultra Short Bond Fund	3,700,000
Citizens Value Fund	15,500,000
Domini Social Bond Fund	37,800,000
Domini Social Equity Fund	1,131,500,000
Green Century Balanced Fund	34,200,000
Green Century Equity Fund	26,300,000
Longview Collective Investment Fund	5,820,000,000
MMA Core Stock Fund	136,900,000
MMA Intermediate Income Fund	73,800,000
MMA International Fund	86,600,000
MMA Praxis Value Index Fund	18,300,000
Miller / Howard Better Than Bonds/ Utilities Fund	131,700,000
Miller/ Howard Income Equity Strategy Fund	42,600,000
Pax World Fund - Balanced	1,032,700,000
Pax World Growth Fund	22,100,000
Pax World High Yield Fund	31,200,000
Portfolio 21 Fund	16,300,000
Walden Social Balanced Fund	18,700,000
Walden Social Equity Fund	24,900,000
Women's Equity Mutual Fund	12,800,000

**Other Pooled Products**

<b>Fund</b>	<b>Net Assets</b>
Access Capital Strategies Community Investment Fund	258,300,000
AFL-CIO Housing Investment Trust Fund	3,440,000,000
Boilermakers' CoGeneration and Infrastructure Fund: Project Finance	6,823,000,000
Cigna America Fund	448,000,000
Hamilton Lane-Carpenters' Partnership Fund	193,000,000
IBEW-NECA Equity Index Fund	3,889,200,000
KPS Special Situations Fund I & II	385,000,000
Multi-Employer Property Trust Fund	3,943,400,000
ULLICO J for Jobs Fund	2,187,500,000
ULLICO Separate Account P Fund	28,900,000

**Annuities**

<b>Fund</b>	<b>Net Assets</b>
Calvert Capital Accumulation Fund	108,200,000
Calvert New Vision Small Cap Fund	145,200,000
Calvert Social - Balanced	517,600,000
Calvert Social - Money Market Fund	213,400,000
Calvert World Values International Equity Fund	156,300,000
Dreyfus Socially Responsible Growth Fund	445,100,000
Horace Mann Socially Responsible Fund	59,500,000
Lincoln National Social Awareness Fund	48,400,000
Ohio National Social Awareness Fund	2,800,000
SBL Fund Series S (Social Awareness)	900,000
Travelers Ser Tr Social Awareness Stock Portfolio Fund	63,400,000

## Appendix 5

# Institutions Applying Social Screens

Abilene Christian University  
 Advocate Health Care  
 Aetna  
 AG Edwards (Jon Ellenbogen)  
 AG Edwards (Phil Richman)  
 Akin Gump Strauss Hauer & Feld  
 Alameda County ERS  
 Alaska State Pension Investment Board  
 Alexian Brothers Health System  
 Allegheny University Hospital  
 Allina Hospitals & Clinics  
 Allstate  
 Altoona Hospital  
 American Baptist Church Pension fund  
 American Cancer Society  
 American Express - David Hurley  
 American Family Mutual Insurance Company  
 American Friends Service Committee  
 American Heart, Lung and Medical Associations  
 American Honda Motor Company  
 American Medical Association  
 American Re Insurance Company  
 American University  
 Anderson Area Medical Center  
 Andy Warhol Foundation for the Visual Arts  
 Annuity Board of the Southern Baptist Convention  
 Anthem, Inc.  
 AON  
 Archdiocese of Chicago  
 Archdiocese of Los Angeles  
 Ariel Capital Management  
 Arkansas Judicial Retirement System  
 Asbestos Workers, Local #53  
 Ascension Health  
 Attleboro (MA) Municipal Contributory Retirement  
 Avera - Sacred Heart Hospital  
 Baltimore (MD) Retirement Systems  
 Baptist Healthcare Systems  
 Barlett & Co. - Colleen Eaton  
 Barnstable County (MA) Retirement System  
 BayCare Health System, Inc.  
 Baylor College Of Medicine  
 Baylor Health Care System  
 Beazley Foundation  
 Beldon Fund  
 Belmont (MA) Contributory Retirement System  
 Benedict College

Benjamin Lovell (Individual Broker)  
 Berkeley  
 Bibb County (GA) Pension System  
 Bingham Foundation  
 Birmingham (AL) Retirement Systems  
 BJ Medley (Individual Broker)  
 Blue Cross & Blue Shield of Massachusetts  
 Blue Cross & Blue Shield of Minnesota  
 Blue Cross & Blue Shield of North Carolina  
 Blue Cross & Blue Shield of The National Area  
 Blue Cross/Blue Shield (Michigan and Pennsylvania)  
 B'nai Birth Retirement Plan  
 Bob Dreizler - Protected Investors of America  
 Boston  
 Boston College  
 Boston Foundation  
 Brainerd Foundation  
 Bricklayers & Trowel Trades Int'l Pension Fund  
 Brigham Young University  
 Brockton (MA) Contributory Retirement Program  
 Brookhaven Memorial Hospital Medical Center  
 Brookline (MA) Retirement System  
 Bullitt Foundation  
 Burlington, VT Employees Retirement System  
 California Nurses Association  
 California State Teachers Retirement System  
 California Wellness Foundation  
 CalPERS  
 Cambridge (MA) Retirement System  
 Cancer Research Foundation of America  
 Capital Management Assoc. - Bob Shepard  
 Carbon County (PA) Employees' Retirement System  
 CareGroup  
 Carlisle Companies Inc.  
 Carol Malnick - Nelson Capital Management  
 Carpenters, Benefit Fund, Baltimore  
 Carpenters, District Council, Tri-State Area  
 Carpenters, Local #370 Benefit Fund Office  
 Catholic Funds - separately mgd assets  
 Catholic Health Initiative  
 Catholic Healthcare Partners  
 Catholic Healthcare West  
 Catholic University of America  
 Cement Masons, Local #502  
 Cenex Harvest States Cooperatives  
 Center for Public Integrity  
 Charles Stewart Mott Foundation

Charter Manufacturing Co.Inc.  
 Chicago Lawyers Committee for Civil Rights Under Law  
 Children's Medical Center  
 Chivas Fund  
 Christian Brothers Investment Services, Inc.  
 Christian Brothers Retirement Plan  
 Christian Schools International  
 Chubb  
 City & County/San Francisco Employees Retirement  
 City of Baltimore Elected Officials Retirement  
 City of Baltimore Fire & Police E.R.S.  
 City of Baton Rouge & Parish of East Baton Rouge  
 City of Brockton, Brockton Retirement Board  
 City of Des Plaines (IL)  
 City of Mobile (AL) Police & Firefighter's Ret.  
 City of Ocala (FL) Consolidated Retirement Fund  
 City of Phoenix (AZ) Employees Retirement System  
 City of Pittsburgh (PA) Municipal Pension Trust  
 City of Salem (OR)  
 City of Spartanburg (SC) Retirement Systems  
 City of Swampscott (MA)  
 City of Wheaton (IL)  
 Clark University  
 Colorado State Dept. of Personnel & Admin.  
 Columbia University  
 Communication Workers of America  
 Community Hospital of Indianapolis  
 Compassed Advisor (Dave Breuer)  
 Compton Foundation  
 Contra Costa County (CA) Employees' Retirement  
 Coral Gables (FL) Retirement Trust  
 CT State Comptroller's Office  
 Cummings & Lockwood  
 CUNY  
 Curtis & Edith Munson Foundation  
 Curtiss Wright Corp.  
 Cytec Industries, Inc.  
 Dartmouth College  
 Dauphin County (PA)  
 David Lipscomb University  
 Dekalb (GA) Employees Retirement System  
 Delnor-Community Hospital  
 Denver Employee Retirement  
 Deseret Mutual Benefit Association  
 Detroit Medical Center  
 Detroit, MI  
 Dimensions Healthcare System  
 District of Columbia Retirement Board  
 Domestic & Foreign Missionary Society, Episcopal Church  
 Dukes County Retirement Board  
 Earlham College

Electric Power Board of Nashville  
 Electrical Workers Joint Board of Trustees  
 Electrical Workers, IBEW, Local #124  
 Electrical Workers, IBEW, Local #26  
 Electrical Workers, IBEW, Local #569  
 Elizabethtown College  
 Employers Health Insurance (WI)  
 Energy Foundation  
 Engineers, Operating, Local #132  
 Engineers, Operating, Locals 14-14B  
 Episcopal Church Pension Fund  
 Evangelical Lutheran Church Board of Pensions  
 FAFN  
 Fairview Health Services  
 Falmouth (MA) Town Retirement System  
 Federal Reserve Employee Benefits  
 Field Museum of Natural History  
 FinArc, LLC  
 Fitchburg (MA) Retirement System  
 FL Putnam Inv. Mgmt (Rob Schreiber)  
 Florida  
 Florida Prepaid College Trust  
 Florida State Board of Administration  
 Forest City Trading Group  
 Foundation for Deep Ecology  
 Franklin (MA) County Retirement System  
 Fred Gellert Family Foundation  
 Freddie Mac - Federal Home Loan Mortgage Corporation  
 Friends Fiduciary Corp.  
 Galesburg Cottage Hospital  
 Gates Rubber Company  
 General Board of Global Ministries  
 Giant Food Inc.  
 Glacial Ridge Health System  
 Gloucester (MA) Contributory Retirement System  
 Gnaden Huetlen Memorial Hospital  
 Gonzaga University  
 Great Lakes Protection Fund  
 Great-West Life & Annuity  
 Guide Dogs for the Blind  
 Hamon Research-Cottrell  
 Hampshire College  
 Hancock County Memorial Hospital  
 Hansen's Financial Services  
 Harding University  
 Harrington Investments  
 Harris Bretall Sullivan & Smith  
 Harry Frank Guggenheim Foundation  
 Hartford, CT  
 Harvard  
 Harza Engineering Company

Heartland Financial USA, Inc.  
 Henry J. Kaiser Family Foundation  
 Henry P. Kendall Foundation  
 HKH Foundation  
 Holy Cross Resources Inc  
 Homeland Foundation  
 Horace Mann Educators Corp.  
 Hotel & Restaurant Employees, Local #19  
 Illinois Wesleyan University  
 Independence Blue Cross  
 Indiana Hospital  
 Interfaith Center on Corporate Responsibility  
 Iron Workers, District Council, Philadelphia  
 Iron Workers, Local #10  
 Iron Workers, Local #473  
 ISIS  
 IUE AFL-CIO Pension Fund  
 J. Bulow Campbell Foundation  
 Jackson City, MO  
 Janice and Laurence Hoffman -  
 Hoffman-Trinca Team at Salomon Smith Barney  
 Jessica Greenway - Individual Broker  
 Jessie B Cox Charitable Trust  
 Jessie Smith Noyes Foundation  
 Jodi Tanner - American Express Financial Advisors  
 Johns Hopkins University  
 Joyce Mertz-Gilmore Foundation  
 Kaiser Permanente Medical Care Program  
 Kaiser-Hill Rocky Flats  
 Kansas Building Trades  
 Kansas Health Foundation  
 Ken Jacobs - Individual Broker  
 Kerr Group  
 Kettering (OH) Medical Center  
 Keyston Brothers  
 Kiplinger Washington Editors  
 Kollmorgen Corp.  
 Kyocera International, Inc.  
 Laborers, Local #435  
 Laird Norton Foundation  
 Lakeview Memorial Hospital  
 Legg Mason (George Bingham)  
 Lehigh Valley Hospital  
 Leica Microsystems, Inc.  
 Lenox Hill Hospital  
 Light Green Advisors  
 Linfield College  
 Loring, Wolcott & Coolidge  
 Louisiana Baptist Foundation  
 Louisiana Firefighters' Retirement System  
 Lowell, Blake & Associates

MA Pensions Reserve Investment Management Board  
 MA Trust Funds  
 Macomb County (MI) Retirement System  
 Maine  
 Maine Lands Reserved for Public Trust Fund  
 Manchester College  
 Manhattan & Bronx Surface TOA(MABSTOA)Pension  
 Manning & Napier  
 Manufacturers & Traders Trust  
 Marian Community Hospital  
 Marine Firemen's Union  
 Maryknoll  
 Maryland State Pension Plan  
 Mass. Port Authority Employees Retirement System  
 Massachusetts Housing Finance Agency  
 Mayo Regional Hospital  
 McKee Foods Corporation  
 Medford (MA) Retirement System  
 Medical Center at Princeton  
 Mellon Equity - Rick Scottie  
 Memorial Healthcare System  
 Memorial Sloan-Kettering Cancer Center  
 Merck & Co.  
 Mercy Health Center  
 Merrill Lynch (Jon Blum)  
 Messiah College  
 Methodist Hospital of Brooklyn  
 Metro Water Reclamation Dist. Retirement Fund  
 Michigan  
 Michigan Catholic Conference  
 Michigan Legislative Retirement System  
 Miller Howard Investments  
 Milwaukee (WI) Drivers Pension Trust Fund  
 Minneapolis (MN) Fire Dept. Relief Association  
 Minneapolis, MN  
 Minnesota  
 Minnesota Laborers Pension Fund  
 Minot (ND) Retirement System Police & Fire Dept  
 Miriam Hospital  
 Monroe, NY  
 Mt. Holyoke  
 Muskingum College  
 Mutual of Omaha Insurance  
 Nathan Cummings Foundation  
 National Cement Co.  
 National Steel Corp.  
 National Wildlife Federation  
 Natural Investment Services  
 Nebraska State Employees Pension Fund  
 New Ground Investments (Bruce Herbert)  
 New Hampshire

New Jersey Division of Investment  
 New Jersey Hospital Association  
 New York City Teachers Retirement Fund  
 New York Life  
 New York State Common Retirement Fund  
 New York State Medical Society  
 New York Teachers Retirement Fund  
 Norfolk (MA) County Employees Retirement System  
 North Adams (MA) Contributory Retirement System  
 North Safety  
 NorthStar Asset Management (Julie Goodridge)  
 Northwest Sheet Metal Workers Pension Trust  
 Northwestern  
 Notre Dame  
 NYC Employees Retirement Fund  
 Oakland (CA) Police & Fire Retirement System  
 Ohio State Teachers Retirement System  
 Oklahoma Christian University of Science/Arts  
 Oklahoma School Land Trust  
 Omaha Construction Health & Welfare Benefits  
 Oneida Trust  
 Operating Engineers, 14-14B  
 Ouachita Baptist University  
 Pacific School of Religion  
 Painters, District Council #2 (Bay Area)  
 Partners Healthcare System  
 Patton Boggs  
 Pax World  
 Penn Engineering & Mfg. Corp.  
 Pennsylvania  
 Pennsylvania Tuition Account Program  
 Pennzoil-Quaker State Company  
 Pensacola (FL) General Pension Retirement Fund  
 Pension Boards, United Church of Christ  
 Philadelphia (PA) Board of Pensions & Retirement  
 Piper Jaffray  
 Pitcairn Financial Management Group  
 Pittsburgh Foundation  
 Pittsburgh, PA  
 Planned Parenthood of Northern New England  
 Plumbers & Pipefitters, Local #189  
 Plymouth (MA) County Retirement System  
 Polaroid Corp.  
 Pomona College  
 Pompano Beach Police & Firefighters Ret. System  
 Prentiss Smith and Company, Inc. (Trudy Walker)  
 Presbyterian Healthcare Services  
 Pressmen, Publishers Welfare Pension  
 Principle Profits Asset Management  
 Progressive Investment Management  
 Prospect Hill Foundation  
 Prudential

Puerto Rico Teachers Retirement Board  
 Quanex Corp.  
 Quincy (MA) Retirement System  
 Rapid City (S.D.) Regional Hospital  
 RBC Centura  
 Readers Digest Association  
 Recreational Equipment Inc.  
 Regence Blue Cross/ Blue Shield (Iowa and Seattle)  
 Regence Blue Cross/ Blue Shield (Oregon and Utah)  
 Research Triangle Institute  
 Rhode Island  
 Rinehart Associates  
 Road Carriers Local #707 Pension Fund  
 Robert Feyche -- Individual Broker  
 Robert Wood Johnson Foundation  
 Rockefeller Family Fund  
 Rockefeller Foundation  
 Rockford (IL) Fire & Police Pension  
 Rodale Press  
 S.C. Johnson & Son, Inc.  
 S.E. Pennsylvania Transportation Authority  
 Sacred Heart Medical Center  
 Saint Mary's College  
 Samford University  
 Santa Clara public school employees pension  
 Schnider Automation  
 Schott Foundation  
 Scudder (Alison Belavacqua)  
 Sensory Awareness Foundation  
 Shaw's Supermarkets  
 Shelburne Farms  
 Shore Memorial Hospital  
 Sierra Health Foundation  
 Sisters of Charity Leavenworth Health Services  
 Sisters of Mercy  
 Sisters of Saint Francis Health Services, Inc.  
 Sisters of St. Francis of Sylvania, Ohio  
 Sisters of the Holy Cross, Inc.  
 Sisters of the Sorrowful Mother Ministry Corp.  
 Smith Barney Social Awareness  
 separately managed account  
 Smith College  
 Socially Responsible Investing (Laurie McClain)  
 Southcoast Health System  
 Southeastern Ohio Regional Medical Center  
 Southeastern Regional Medical Center  
 Southern Maine Medical Center  
 Southside Hospital  
 Sparrow Health System  
 Spelman College  
 Springfield, MA  
 SSM Health Care

St. Anthony's Medical Center & Affiliates  
 St. Ignatius College Preparatory  
 St. Joseph hospital and health system  
 St. Luke's Hospital  
 St. Mary's University  
 St. Paul, MN  
 St. Pius Church  
 Stanford  
 State Farm Life  
 State of Connecticut Trust Funds  
 State Street Global Advisors - Kimberly Gluck  
 Steamfitters, Local #602  
 Steelworkers, National Headquarters  
 Sterling Heights (MI) Police & Fire R.S.  
 Summit Global Management - John Dickerson  
 Surdna Foundation  
 Susquehanna Bancshares, Inc.  
 Sutro and Co., Inc. (Shelly McFarland)  
 Swarthmore College  
 Taunton (MA) Contributory Retirement System  
 Teamsters, Central States,  
 Southwest & Southeast Pension Fund  
 Teamsters, International Brotherhood  
 Ted Disabato - Individual Broker  
 Temple Hoyne Buell Foundation  
 Tennant Co.  
 Texas State Pension Plan  
 The Bay Foundation  
 The Blandin Foundation  
 The Board of Pensions of the Presbyterian Church  
 The Bush Foundation  
 The Cleveland Clinic Health System  
 The Francis Families Foundation  
 The Fremont Area Community Foundation  
 The Howard Hughes Medical Institute  
 The Kresge Foundation  
 The May Department Stores Co.  
 The Parsons Corporation  
 The Pullman Company  
 The Scherman Foundation  
 The Social Equity Group  
 Tides Foundation  
 Todd Shipyards Corp.  
 Treven Ayers - Individual Broker  
 Trillium Asset Management Corporation  
 Trinity Health System  
 Truman Medical Center Incorporated  
 Tuboscope Varco Incorporated  
 Tufts University  
 Turner Foundation  
 Tuscon, AZ

UFCW Employers Benefit Plans of Northern CA  
 United HealthCare  
 United Methodist Church Gen'l Board of Pensions  
 University of California  
 University of Chattanooga Foundation Inc.  
 University of Maine  
 University of Michigan  
 University of Notre Dame  
 University of Pittsburgh Medical Center  
 University of South Dakota  
 University of Southern Mississippi  
 University of St. Thomas  
 University of Texas  
 University of Vermont  
 University of Virginia  
 University of Washington  
 University of Washington - Seattle  
 University of Wisconsin  
 UNUM  
 Vermont Community Foundation  
 Vermont State Employees' Retirement System  
 Vermont State Teachers' Retirement System  
 Victoria Foundation  
 Walden Asset Management  
 Wallace Global Fund  
 Wallace-Reader's Digest Fund  
 Walter & Elise Haas Fund  
 Wayne State University  
 Weeden Foundation  
 Wellmark Blue Cross/ Blue Shield of Iowa  
 West Springfield (MA) Retirement System  
 Western Conference Teamsters Pension Trust  
 Western Pennsylvania Hospital  
 Westmoreland Regional Hospital  
 Weymouth (MA) Contributory Retirement System  
 Wayne Supply Company  
 Wheaton College  
 Wheaton Franciscan Services, Inc.  
 Wildman Harrold Allen & Dixon  
 William Penn Foundation  
 Williams College  
 Wilmington (DE) Pension System  
 Winnebago Indian Health Service  
 Winslow Management Company  
 Worcester County (MA) Retirement System  
 World Health Organization  
 World Savings & Loan Association  
 Y.M.C.A. Retirement Fund  
 Yale New Haven Hospital  
 York Hospital  
 Zoological Society of San Diego

## Appendix 6:

# Sponsors and Co-Sponsors of Shareholder Resolutions

A Territory Resource Foundation  
Academy of Our Lady of Lourdes  
Adorers of the Blood of Christ  
Adrian Dominican Sisters  
Advocate for Young Children  
AFL-CIO  
American Baptist Home Mission Society  
American Friends Service Committee  
Amityville Dominican Sisters  
Amnesty International USA  
Arizona Safe Energy Coalition  
As You Sow Foundation  
ASC Investment Group  
Benedictine Sisters of St. Francis  
Benedictine Sisters Charitable Trust  
Benedictine Sisters of Mt. Angel  
Benedictine Sisters of the Monastery of St. Gertrude  
Benedictine Sisters, Boerne, TX  
Board of Pensions of the  
Evangelical Lutheran Church in America  
Boston Common Asset Management, LLC  
Breast Cancer Action  
Brethren Benefit Trust  
Brothers of the Holy Cross, Eastern Province  
Calvert  
Camilla Madden Charitable Trust  
Capuchin Province of St. Joseph  
Carlisle Social Investments  
Catholic Foreign Mission Society of America  
Catholic Funds  
Catholic Health East  
Catholic Health Initiatives  
Catholic Healthcare West  
Christian Brothers Investment Services  
Christus Health  
Church of the Brethren  
Church Pension Fund of the Episcopal Church  
Citizens Funds  
Clean Yield Group  
Communication Workers of America

Community Church of New York  
Congregation of Divine Providence  
Congregation of Holy Cross, Eastern Province  
Congregation of Sisters of St. Agnes  
Congregation of Sisters of St. Joseph of Brighton  
Congregation of Holy Cross, Southern Province  
Congregation of the Passion  
Congregation of the Priests of the Sacred Heart  
Congregation of the Sisters of Charity Incarnate Word  
Congregation of the Sisters of St. Joseph,  
Chesnut Hill, Philadelphia  
Connecticut Retirement Plans & Trust Funds  
Connecticut Treasurer's Office  
Convent Academy of the Incarnate Word  
Daughters of Charity of St. Vincent de Paul  
Dentistry for Children  
Diocese of Yakima  
Domestic and Foreign Missionary Society  
of the Episcopal Church  
Domini Social Investments  
Dominican Sisters Congregation of Holy Cross  
Dominican Sisters Congregation of St. Mary,  
New Orleans, LA  
Dominican Sisters of Edmonds, WA  
Dominican Sisters of Grand Rapids, MI  
Dominican Sisters of Great Bend, KS  
Dominican Sisters of Hope  
Dominican Sisters of Mission San Jose  
Dominican Sisters of San Rafael  
Dominican Sisters of Springfield, IL  
Educational Foundation of America  
Equality Project  
Ethical Funds Inc.  
Evangelical Lutheran Church of America  
Franciscan Province of the Most Holy Name  
Franciscan Sisters of Little Falls, MN  
Franciscan Sisters of Mary  
Friends of the Earth  
GE Stockholders' Alliance Against Nuclear Power  
General Board of Global Ministries,  
United Methodist Church

Glenmary Home Missioners  
 Global Exchange  
 Green Century Funds  
 Harrington Investments  
 Hotel Employees & Restaurant Employees  
 International Union  
 Human Life International  
 Human Rights Campaign  
 Immaculate Heart Missions  
 Interfaith Center on Corporate Responsibility  
 International Brotherhood of Du Pont Workers  
 International Brotherhood of Teamsters  
 ISIS Asset Management  
 JBO-JDO Enterprises  
 Jesse Smith Noyes Foundation  
 Jesuit Conference  
 Jesuit Province, California  
 Jesuit Province, Chicago  
 Jesuit Province, Detroit  
 Jesuit Province, Maryland  
 Jesuit Province, Missouri  
 Jesuit Province, New Orleans  
 Jesuit Province, Oregon  
 Jesuit Province, Upper Canada of the Society of Jesus  
 Jesuit Province, Wisconsin  
 LongView Collective Investment Fund  
 Loretto Literary Benevolent Institution  
 Marianist Society  
 Marquis George MacDonald Foundation  
 Maryknoll Fathers and Brothers  
 Maryknoll Mission Association of the Faithful  
 Maryknoll Sisters of St. Dominic  
 Medical Mission Sisters  
 Mennonite Foundation Stock Fund  
 Mennonite Mutual Aid MMA Praxis Mutual Funds  
 Mennonite Retirement Trust  
 Mercy Consolidated Asset Management  
 Miller Howard Investments  
 Minnesota State Board of Investment  
 Nathan Cummings Foundation  
 National Anti-Vivisection Society  
 Needmor Foundation  
 New York City Fire Dept. Pension Fund  
 New York City Pension Funds

New York City Teachers Retirement Plan  
 New York State Common Retirement Fund  
 New York yearly meeting of the Religious Society of Friends  
 Northeastern Province of the School Sisters of Notre Dame  
 Northstar Asset Management  
 Northwest Women Religious Investment Trust  
 Oblates of Mary Immaculate  
 Oneida Trust  
 Pax Funds  
 People for the Ethical Treatment of Animals  
 Premonstratensian Fathers  
 Presbyterian Church  
 Pride Foundation  
 Pro Vita Advisors  
 Progressive Asset Management  
 Progressive Investment Management  
 Providence Trust  
 Province of St. Joseph of the Capuchin Order  
 Rainforest Action Network  
 Ralph L. Smith Foundation  
 Real Assets  
 Reformed Church in America  
 School Sisters of Notre Dame Cooperative Investment Fund  
 School Sisters of Notre Dame, Baltimore, MD  
 School Sisters of Notre Dame, St. Louis, MO  
 School Sisters of Notre Dame, Milwaukee Province  
 School Sisters of Notre Dame, Wilson, CT  
 Service Employees International Union  
 Shareholder Association for Research & Education (SHARE)  
 Sheilah Dorcy Trust  
 Sierra Club  
 Sinsinawa Dominicans  
 Sisters of Charity, Cincinnati, OH  
 Sisters of Charity, Nazareth, KY  
 Sisters of Charity of St. Elizabeth, NJ  
 Sisters of Charity of St. Vincent de Paul of New York  
 Sisters of Charity of the Incarnate Word  
 Sisters of Charity of the Blessed Virgin Mary  
 Sisters of Christian Doctrine  
 Sisters of Loretto  
 Sisters of Mercy Regional Community,  
 Detroit Charitable Trust  
 Sisters of Mercy Regional Community, St. Louis, MO  
 Sisters of Mercy Regional Community, Burlingame, CA

Sisters of Notre Dame de Namur, California Province  
 Sisters of Perpetual Adoration, La Cross, WI  
 Sisters of Providence Community Support Trust  
 Sisters of Providence, Mother Joseph Province  
 Sisters of St. Dominic Congregation of the  
 Most Holy Name (Dominican Sisters of St. Rafael)  
 Sisters of St. Dominic, Amityville, NY  
 Sisters of St. Dominic, Caldwell, NJ  
 Sisters of St. Francis of Assisi  
 Sisters of St. Francis of Dubuque, IA  
 Sisters of St. Francis, Philadelphia, PA  
 Sisters of St. Joseph, Brentwood, NY  
 Sisters of St. Joseph, Brighton  
 Sisters of St. Joseph, Carondelet, NY  
 Sisters of St. Joseph, LaGrange Charitable Trust  
 Sisters of St. Joseph, Nazareth, MI  
 Sisters of St. Joseph of Peace, Our Lady Province  
 Sisters of St. Joseph, Kalamazoo, MI  
 Sisters of St. Joseph, Philadelphia, PA  
 Sisters of St. Mary of Oregon  
 Sisters of St. Ursula, Rhinebeck, NY  
 Sisters of the Blessed Sacrament  
 Sisters of the Holy Name of Jesus and Mary  
 Sisters of the Holy Names of Jesus and Mary of Oregon  
 Sisters of the Holy Names of Jesus and Mary,  
 California Province  
 Sisters of the Holy Names of Jesus and Mary,  
 Washington Province  
 Sisters of the Holy Spirit & Mary Immaculate  
 Sisters of the Humility of Mary  
 Sisters of the Incarnate Word and Blessed Sacrament  
 of Corpus Christi  
 Sisters of the Order of St. Dominic, Gran Rapids, MI  
 Sisters of the Presentation of the Blessed Virgin Mary  
 Sisters of the Sacred Heart of Mary

Sisters of the Sorrowful Mother  
 Sisters Servants of the Immaculate Heart of Mary  
 Society of Jesus/Maryland  
 Society of the Holy Child Jesus  
 Sisters of St. Agnes  
 St. Joseph Health System  
 St. Mary's Institute  
 (Sisters of the Most Precious Blood of O'Fallon, MO)  
 Swarthmore College  
 The Religious of the Sacred Heart of Mary  
 Tides Foundation  
 Trillium Asset Management  
 Trinity Health  
 Unitarian Universalist Association  
 Unitarian Universalist Service Committee  
 United Brotherhood of Carpenters & Joiners of America  
 United Church Board for Pension Asset Management  
 United Church Foundation  
 United Church of Christ Board for  
 Pension Asset Management  
 United for a Fair Economy/ Responsible Wealth  
 United Methodist Church  
 Ursuline Sisters of Louisville, KY  
 Ursuline Sisters of Rhinebeck, NY  
 Ursuline Sisters of the Eastern Province of the US  
 Ursuline Sisters of Tildonk  
 Walden Asset Management  
 Weeden Foundation  
 Welt-Katzen Trust  
 Wisdom Charitable Trust  
 Women's Division, General Board of Global Ministries,  
 United Methodist Church  
 Women's Equity Mutual Fund  
 Working Enterprises Ltd