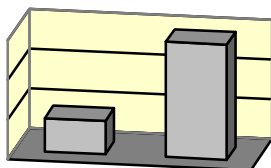


Social Investment Forum

**Report on
Responsible Investing Trends
in the United States
(Members' Expanded Version)**

SIF Industry
Research Program

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Social Investment Forum

1997 Report on Responsible Investing Trends in the United States

from the SIF Industry Research Program

Executive Summary

Social investing in the United States surged impressively from 1995 to 1997, both in terms of screened portfolios under professional management and shareholder advocacy efforts. In examining the health of socially and environmentally responsible investing in the two years since its last study in 1995, the Social Investment Forum found:

- **Responsible investing tops the \$1 trillion mark.** For the first time ever, more than \$1 trillion in assets are under management in the U.S. in socially and environmentally responsible portfolios, which have grown from \$639 billion in 1995 to **\$1.2 trillion** in 1997.
- **Growth of socially screened portfolios significantly outpaced the broad market.** Between January 1, 1995 and January 1, 1997, total assets under management in screened portfolios for socially aware investors rose **227 percent** from \$162 billion to \$529 billion. Over the same period, institutional tax-exempt assets under management in the U.S. grew by only 84 percent (including both market appreciation and cash inflows), according to *Pensions & Investments*.¹
- **The number of responsibly invested mutual funds has nearly tripled in the past two years.** In 1995, the Social Investment Forum identified 55 mutual funds as employing social and/or environmental criteria as a part of their formal, publicly stated investment policy. Today, that number has risen to 144, a gain of **162 percent**. The surge in responsibly invested mutual funds is attributed, in large part, to the move against investments profiting from the sale of tobacco products led by such groups as the American Medical Association (AMA) and the Coalition for Tobacco-Free Kids. Other factors include: growing demand from socially concerned investors in general and improved data collection for purposes of the 1997 study.
- **Tobacco is now the common denominator for virtually all socially aware investors.** Over **97 percent** of managers running screened portfolios and 84 percent of all socially screened assets avoid investing in tobacco companies. Other screens include: gambling, 72 percent; weapons, 69 percent; alcohol, 68 percent; birth control/abortion, 50 percent; environment, 37 percent; labor 25 percent; human rights, 23 percent; and animal welfare, 7 percent.

¹ According to the *Pension & Investments* annual directory of investment advisers, total internal U.S. institutional tax-exempt assets grew from \$3.149 trillion to \$5.811 trillion between 1995 and 1997, a growth rate of 84% for pension/retirement assets, based on a survey of 791 firms. This growth figure includes both market appreciation and new cash inflows into all investment assets classes managed within retirement plans in the U.S.

- **Nearly 90 percent of responsibly invested funds are managed with three or more screens.** In numbers almost identical to those contained in the 1995 study, the Social Investment Forum found that about a third of the managers listed in the *1997 Nelson's Directory of Investment Managers* identify themselves as running portfolios with social screens. Similarly, **88 percent** of these managers employ three or more screens, about the same as the 90 percent found to be using multiple screens in the 1995 study.
- **Three quarters of a trillion dollars is controlled by investors who play an active role in shareholder advocacy.** Institutional investors leveraged assets valued at **\$736 billion** in the form of shareholder resolutions, voted their proxies on the basis of formal policies embodying socially responsible goals, and/or actively worked with publicly traded companies to encourage more responsible behavior.
- **Community investing holds its own.** Community-based investments totaling **\$4 billion** are focused on local development initiatives; affordable housing and small business lending in many of the neediest urban and rural areas of the country.
- **Nearly one out of every 10 dollars under management in the U.S. today is part of a responsibly invested portfolio.** A total of 710 major investing institutions (including pension funds, mutual fund families, community development funds and foundations) were found to be involved in socially responsible investing in one way or another with assets totaling \$1.185 trillion. According to the *1997 Nelson's Directory of Investment Managers*, this broad figure accounts for roughly **9 percent** of the \$13.7 trillion in investment assets under professional management in the U.S.

OVERVIEW OF SOCIAL INVESTING IN THE U.S.

The total universe of responsibly managed assets includes:

- **\$529 billion in screened portfolios**
- **\$652 billion in assets supportive of shareholder advocacy efforts**
- **\$4 billion in community-based investments, including community development banks and loan funds, program related investments and economically targeted investments.**

SECTION I

THE EXTENT OF RESPONSIBLE INVESTING IN THE UNITED STATES

Today, almost one out of every 10 dollars under management in the United States is part of a responsibly invested portfolio. According to the *1997 Nelson's Directory of Investment Managers*, this total figure accounts for roughly 9 percent of the \$13.7 trillion in investment assets under professional management in the U.S.

Socially responsible investing is growing rapidly in the United States.

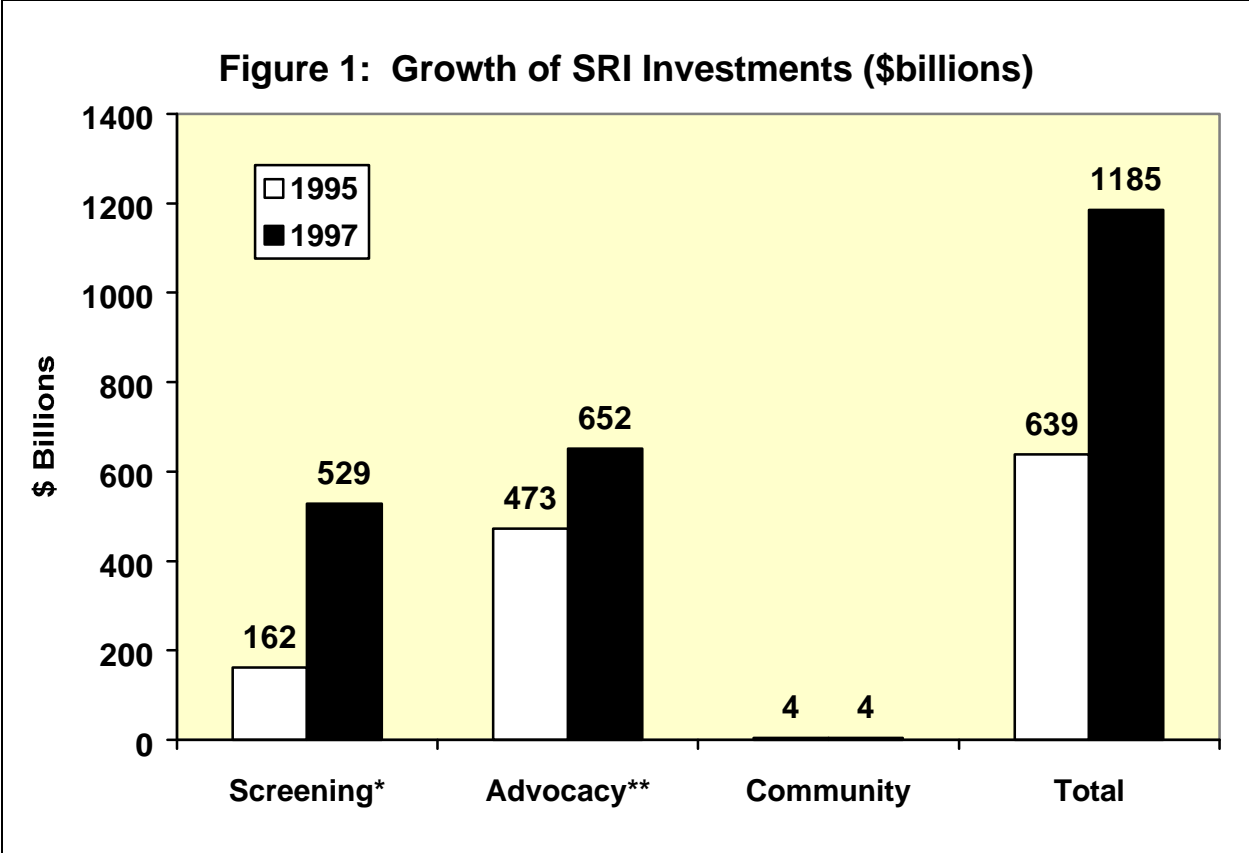
- In 1984, the Social Investment Forum conducted the first industry-wide survey to identify assets involved in social investing and found that social investing totaled \$40 billion.
- In 1995, the Forum conducted a follow-up study and found that the industry had grown to \$639 billion.
- In this 1997 survey, the Forum found that the industry has grown to \$1.185 trillion, led by substantial growth in two areas of the industry; screening and shareholder advocacy. (See Figure 1, page 4.)

Social investing, socially responsible investing, socially aware investing, ethical investing, values-based investing ... all describe the same concept. These terms tend to be used interchangeably within the investment industry to describe an approach to investing that integrates personal values and societal concerns into the investment decision making process.

Social investors include individuals, businesses, universities, hospitals, foundations, pension funds, religious institutions and other nonprofit organizations. Social investors consciously put their money to work in ways designed to achieve their financial goals while working to build a better future. They require investment managers to overlay an analysis of corporate policies, practices and impacts on to the traditional analysis of profit potential.

Social investing includes three main strategies:

- **Screening:** The inclusion or exclusion of publicly traded corporate securities from investment portfolios based on the performance of the company in areas of social and environmental responsibility.
- **Shareholder Advocacy:** Investor efforts to submit and vote shareholder proxy resolutions as a means of influencing company behavior.
- **Community Investing:** Investment programs in community-based financial institutions supporting community development initiatives.



* 1997: "Screening" includes \$84 billion of assets in portfolios that both screen and conduct shareholder advocacy.
 ** 1997: In addition to screened portfolios, "Advocacy" includes \$652 billion of assets in portfolios that conduct advocacy but do not screen.

Social investing has long historical roots in the United States dating back to the late 1700s when religious investors decided that they would refuse to invest in companies engaged in alcohol, gambling and tobacco. In the past two decades, social investing reemerged as an interest among American investors due, in large part, to concern about the racist Apartheid regime in South Africa. Concerned U.S. investors joined the effort of the international community to put economic pressure on the South African government to end Apartheid. A growing number of investors throughout the 1970s and 1980s used both screening and shareholder advocacy to express their concern about South Africa. Both individual and institutional investors refused to invest in companies who did business in South Africa and sponsored shareholder resolutions asking companies to withdraw from South Africa.

On September 24, 1993, Nelson Mandela appeared before the United Nations Special Committee on Apartheid and uttered the words: "The international community should now end all economic sanctions against South Africa." At the time, with free and fair elections scheduled in South Africa, analysts predicted that social investing would fade from the American investment picture. Two years after Nelson Mandela's historic appearance at the U.N., the Forum's 1995 research set out to learn whether or not social investing had indeed begun to decline.

The Forum's 1995 research found that social investing was alive and well. Indeed, it had grown dramatically over the previous decade. The Forum's 1995 study, "After South Africa: Responsible Investing Trends in the United States," found that 78 percent of all money managers in the U.S.

making responsible investments on behalf of clients continued to do so after the South Africa divestment issue disappeared. Furthermore, 91 percent of the money in responsibly invested portfolios were managed with three or more screens. The research also found that many institutions that had taken up shareholder resolutions on South Africa had created committees and policies that allowed them to take positions on other issues of concern. Thus, even before the free elections in South Africa, social investors had adopted both screening and shareholder advocacy strategies that kept them involved in social investing with a broad focus. After South Africa, social investing continued in full force. In 1995, the Forum decided to conduct its industry survey every two years.

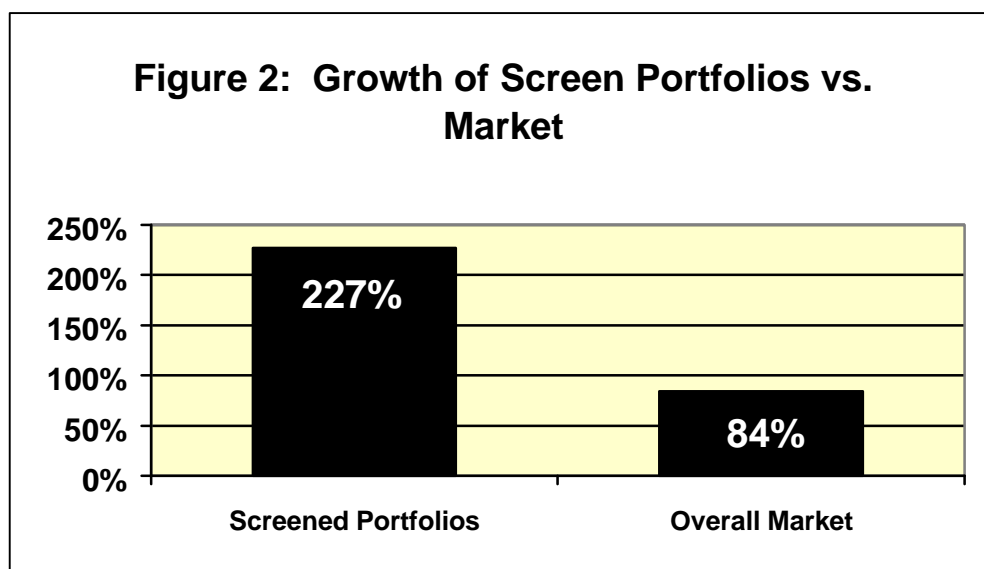
This 1997 study found that the social investment industry grew rapidly in just two years, from \$639 billion to \$1.185 trillion. The next three sections of this report detail the dimensions and origin of this growth and the study's methodology. Finally, the last section of this report provides additional information about social investing and the Social Investment Forum.

SECTION II

SCREENED PORTFOLIOS EXPERIENCE EXPLOSIVE GROWTH

Between 1995 and 1997, the amount of money in socially screened portfolios, including mutual funds, rose 227 percent from \$162 billion to \$529 billion. (See Figure 2.)

The growth of socially screened portfolios dramatically outpaced the broad market. For example, over the same period, U.S. institutional tax-exempt assets under management grew only 84 percent due to both market appreciation and net cash inflows, as reported in *Pension & Investments*.



Of the \$529 billion in screened portfolios, \$96 billion is in screened mutual funds and \$433 billion is in screened private portfolios. Additionally, of the \$529 billion, \$84 billion is in screened portfolios where the managers are also involved in shareholder advocacy as a social investment strategy.

As another measure of the enormous growth in screened portfolios, the study also found that the number of screened mutual funds has nearly tripled from 55 in 1995 to 144 in 1997.

Anti-Tobacco Sentiment Spurs Growth of Screened Portfolios

The dramatic growth in screened portfolios is attributed, in large part, to the move against investment in the tobacco industry. Other factors include the growing demand from socially concerned investors for screened portfolios and improved data collection since the 1995 survey.

In the late 1990s, tobacco divestment is catalyzing the growth of screened portfolios much like South Africa divestment did in the late 1980s. An increasing number of investors are divesting from the tobacco industry because of their concerns about its impact on public health – spurred on by recent admissions on the part of the industry that tobacco marketing is aimed at America’s youth. In addition, a growing number of investors are also spurning tobacco because tobacco stocks have become more volatile and less profitable in the past five years. Tobacco is an example of an issue of social concern that has become a financial consideration.

Growth in tobacco-related screened portfolios has several dimensions:

- Tobacco-related divestment on the part of major institutions over the past two years has totaled over \$157 billion, compared to \$6.6 billion in similar activity reported in the Forum’s 1995 study.

The states of Vermont, Florida, Pennsylvania, along with the city of Philadelphia are all examples of major institutional investors beginning to divest tobacco from some or all of their pension plans as well as other funds.

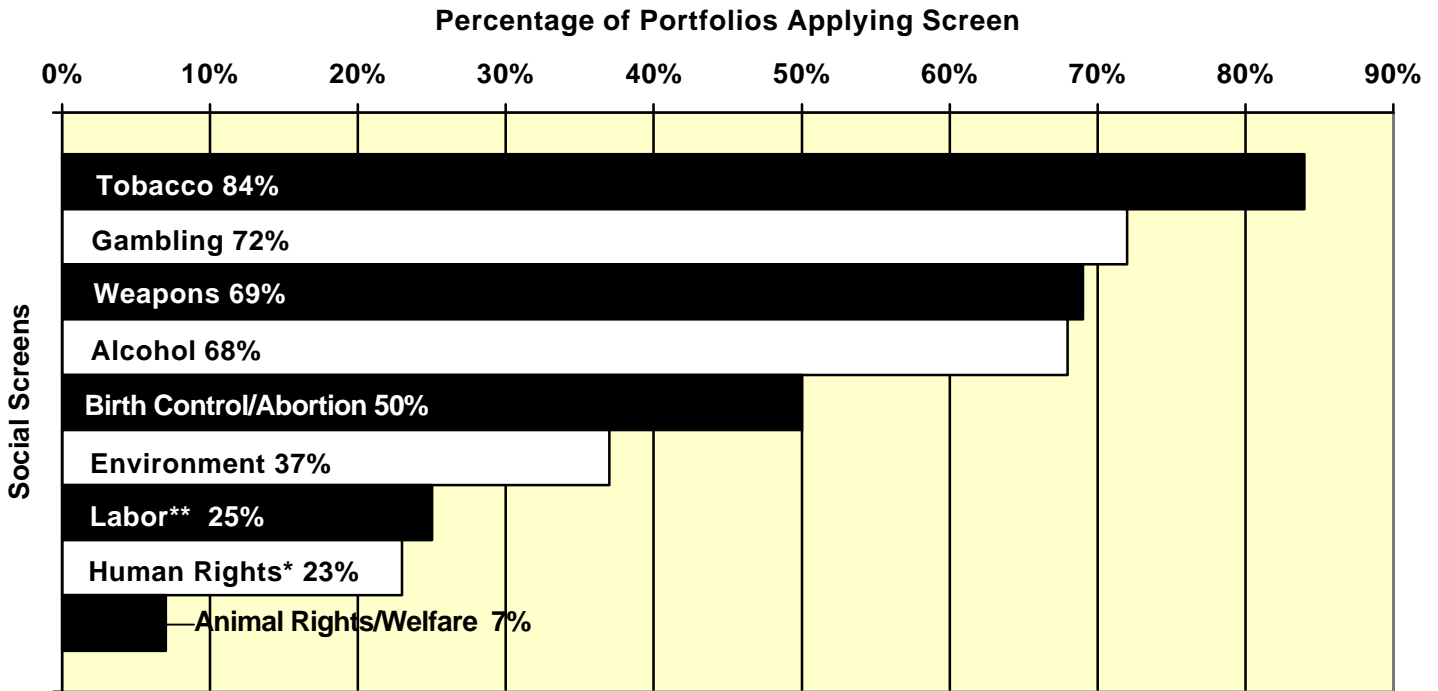
- Increased demand for tobacco-free investing by individual investors has led to net inflows into socially screened portfolios.
- A significant increase in the number of tobacco-free mutual funds available to investors, prompted by consumer demand driven by groups like the American Medical Association and the Coalition for Tobacco-free Kids.

In 1997, Smith Barney converted one of its mutual funds to a screened fund, with the consent of its shareholders. Smith Barney’s Concert Social Awareness Fund, a multi-screened mutual fund, launched in February 1997 with a total of approximately \$380 million.

- An increased willingness on the part of portfolio managers to make it known that they have been screening out tobacco, due to increased market acceptance of this practice.

Tobacco is now a common denominator for virtually all socially aware investors. Over 97 percent of managers running screened portfolios and 84 percent of all socially screened asset pools avoid investing in tobacco companies. As Figure 3 (page 8) shows, other commonly applied screens include gambling, weapons, alcohol, birth control/abortion, environment, labor, human rights and animal welfare.

Figure 3: Common Screens Used in Socially Screened Portfolios



* Human Rights includes focus areas such as Northern Ireland and Burma.

** Labor includes such issues as avoidance of sweatshop labor, advancement of women and people of color in the workplace and issues of concern to labor unions.

Both social and financial concerns around investing in tobacco are likely to continue to spur the growth of screened portfolios. As investors become more aware of the tobacco industry's attempts to hide prior knowledge about nicotine addiction and tobacco's health risks, there is likely to be continued debate about tobacco on the part of both individual and institutional investors. In addition, uncertainty about the tobacco settlement in the U.S., as well as the possibility that other countries will undertake similar settlements is likely to encourage increasing numbers of investors to consider excluding tobacco from their portfolios for financial reasons.

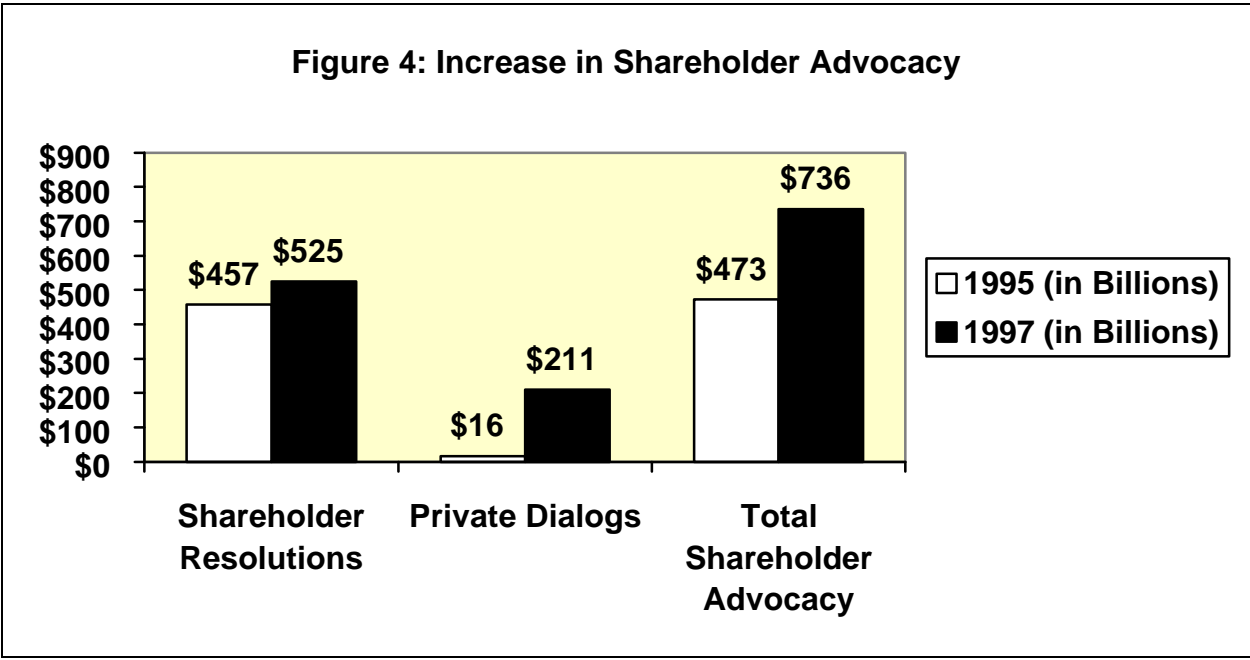
SECTION III

SHAREHOLDER ADVOCACY TAKES HOLD

Shareholder advocacy describes the actions many socially aware investors take in their role as owners of corporate America. These efforts include “dialoging” with companies on issues of concern, and submitting and voting proxy resolutions when companies refuse to talk or when the dialog breaks down. Shareholder advocacy is aimed at encouraging corporate management to choose policies and practices that will enhance the well being of all the company’s stakeholders and improve the reputation and bottom line of the company over time.

Shareholder advocacy is on the rise (See Figure 4.):

- Between 1995 and 1997, the amount of money controlled by investors who are involved in shareholder advocacy rose from an estimated \$473 billion to an estimated \$736 billion.
- Of this \$736 billion, \$652 billion represents institutions that are involved in shareholder advocacy but do not screen and \$84 billion represents institutions that both screen and conduct shareholder advocacy.
- Shareholder resolutions on issues of concern to socially aware shareholders rose from 144 to 303 between the 1994 and 1996 proxy seasons.



The fastest growing trend in shareholder advocacy is that of institutional investors “dialoging” with management to encourage improved corporate behavior and improved long-term financial performance. Private dialog efforts between large institutional investors and problem companies jumped from \$16 billion to \$211 billion, an increase of roughly 1,220 percent between 1995 and 1997. (See Figure 4, page 9.)

SUMMARY OF SOCIAL INVESTING IN THE U.S.

- **Responsible investing grew from \$639 billion in 1995 to \$1.2 trillion in 1997 and includes:**
 - \$529 billion in screened portfolios
 - \$652 billion in assets supportive of shareholder advocacy efforts
 - \$4 billion in community-based investments, including community development banks and loan funds, program related investments and economically targeted investments.
- **Growth of socially screened portfolios significantly outpaced the broad market.**
- **The number of responsibly invested mutual funds has nearly tripled in the past two years.**
- **Tobacco is the common denominator for virtually all socially aware investors.**
- **Nearly 90 percent of responsibly invested funds are managed with three or more screens.**
- **Three quarters of a trillion dollars is controlled by investors who play an active role in shareholder advocacy.**
- **Nearly one out of every 10 dollars under management in the U.S. today is part of a responsibly invested portfolio.**

SECTION IV

METHODOLOGY

For purposes of the analysis underlying this Social Investment Forum study, an institution was considered to engage in socially responsible investing if it did one or more of the following:

- Employs one or more social screens as part of a formal investment policy. Only that portion of an institution's funds that are actually invested in a socially responsible fashion are credited as such.
- Sponsors shareholder resolutions on social issues. Each institution must have filed at least one resolution as a socially responsible investor over the past three years.
- Votes proxies in support of shareholder resolutions on issues of concern to socially aware investors and has an active social investment committee that determines proxy-voting policies before the issues come up for a vote.
- Is a Community Development Financial Institution, has Program Related Investments, Economically Targeted Investments, targeted venture capital, or targeted state investment funds. Only assets actually invested in a socially responsible fashion are credited as such.

An institution was not considered to engage in responsible investing if it only did the following:

- Says it takes into account social criteria in its investment decisions, but has no formal policy and/or no screens.
- Says it "votes proxies" but lacks any formal policy determining votes, and/or votes with management in a clear majority of cases, especially on resolutions submitted by socially concerned investors.

A list was compiled of the 851 investment managers who identify themselves in the *1997 Nelson's Directory of Investment Managers* as utilizing "social screening" as an investment strategy. A random sample of these managers were surveyed for the amount of assets they managed with social screens and the nature of the screens utilized.

The Forum also contacted all institutions identifying themselves in the *1996 Nelson's Directory of Plan Sponsors* as restricting their investments with some social criteria. One hundred ninety-six institutions were identified from this directory. Added to this list were institutions that had adopted social screens in the past year. These institutions were identified through the assistance of the Investor Responsibility Research Center, the Interfaith Center on Corporate Responsibility and news clippings.

Also included in the study was any institution that had filed a shareholder resolution on social issues over the past three years. Resolutions on corporate governance were not included. The list of

institutions came from the Interfaith Center on Corporate Responsibility's *Proxy Resolutions Book* and the Investor Responsibility Research Center's "Checklist of Shareholder Resolutions" in the *Corporate Social Issues Reporter*. The Forum then surveyed the institutions to determine the amount and characteristics of their responsibly invested assets.

All mutual funds that have at least one social screen were included in the study. This list was compiled from material provided by First Affirmative Financial Network, the Social Investment Forum, the American Medical Association's Coalition for Tobacco-free Investments, and news clippings.

The Forum contacted a number of community development trade organizations to determine the number of member institutions and the assets they controlled. Trade associations contacted included the National Association of Community Development Loan Funds, the Association for Enterprise Opportunity, the National Federation of Community Development Credit Unions, and the Community Development Venture Capital Alliance. Since there is no trade association for community development banks, the Forum gathered data on these institutions from the individual banks directly.

Other than substantial increases in market valuations for virtually all investment asset classes, the Forum noted two major differences from 1995 which had a noticeable impact on the 1997 study results:

- **Decline in the fortunes of tobacco.** The results of this study reflect the watershed events of 1996 associated with tobacco investing. The American Medical Association's call for divestment of tobacco, the filing of some two dozen state-level legal actions against tobacco companies which have catalyzed efforts to craft a federal settlement, and growing consumer backlash against smoking and the companies that produce and sell tobacco products have effectively made money managers much more willing to disclose that they avoid investments in tobacco.
- **Improved data.** The Forum learned a few lessons during the course of the 1995 study which it put to good use during the data gathering phase of the 1997 study. As such, the 1997 data reflect a somewhat fuller picture of the actual level of socially and environmentally responsible investing in the United States. For example, several mutual funds which have been available to the public for many years and who have operated with prohibitions against owning tobacco and gaming companies, but who had never gone public with those policies, have been added to the Forum's list.

It is clear, however, that not all socially and environmentally responsible investments have been identified for purposes of the Forum study. For example, there was no attempt to count the perhaps unquantifiable assets invested in a responsible manner by individuals who directly purchase the equity or debt securities of companies who meet their personal social investment criteria, or the stocks and bonds of responsible companies purchased for individuals through stock brokers, or the portfolios of socially aware investors whose investment assets are managed through trust departments of banks or law firms, or smaller investors who participate in the shareholder advocacy process.

Community-based investing is an area where the Forum intends to conduct more in-depth research. It is anticipated this study will be released in late 1998.

SECTION V

ABOUT THE SOCIAL INVESTMENT FORUM

The Social Investment Forum 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 four hundred 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. The Forum provides cutting-edge research on trends in social investing, publishes the nation's most comprehensive annual directory of practitioners in the field, and distributes a Mutual Fund Performance Chart which provides monthly performance data on socially screened funds.

Socially aware investors are sensitive to the idea of achieving personal financial goals while putting their money where their hearts are. Screening allows socially aware investors to match their personal values to their investment decisions. Shareholder advocacy allows concerned investors to communicate directly with corporate management and boards of directors about desired changes in policy and practice. Community-based investing works in local communities where capital is not readily available to create jobs, affordable housing and environmentally friendly products and services.

Socially aware investors are a fast growing segment of investors who applaud and reward management for responsible corporate practices and put pressure on firms not taking responsibility for their impact on society. As dollars are pooled around social investment strategies, these progressive individual and institutional investors encourage more responsible corporate citizenship through traditional marketplace mechanisms.

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