

Social Investment Forum

1999 Report on Socially Responsible Investing Trends in the United States

SIF Industry
Research Program

November 4, 1999

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This report was made possible by the generous support of the following organizations that specialize in socially responsible investing.
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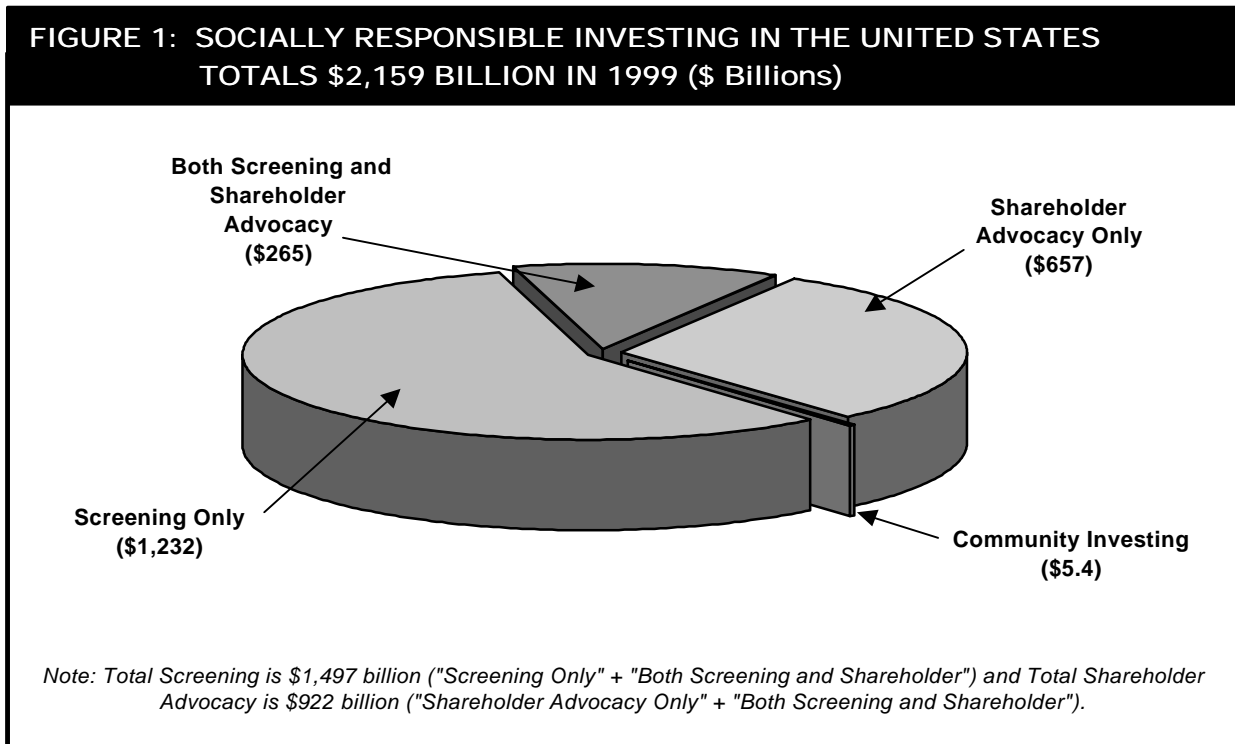
1999 Report on Socially Responsible Investing Trends in the United States

Executive Summary

Socially responsible investing in the United States experienced rapid growth from 1997 to 1999. All segments of social investing – screened portfolios, shareholder advocacy efforts and community investment – expanded. In examining socially and environmentally responsible investing trends in the two years since its last study, the Social Investment Forum found:

- **Socially responsible investing tops the \$2 trillion mark.** For the first time ever, more than \$2 trillion in assets are involved in socially and environmentally responsible investing in the United States. Social investing grew from \$1.185 trillion in 1997 to **\$2.16 trillion** in 1999.
- **One out of every eight dollars under professional management in the United States today is part of a socially responsible portfolio.** The \$2.16 trillion being managed by major investing institutions (including pension funds, mutual fund families, foundations, religious organizations and community development financial institutions) accounts for roughly 13 percent of the total \$16.3 trillion in investment assets under management in the U.S., according to the *1999 Nelson's Directory of Investment Managers*. This represents an increase over 1997, when 9 percent of all funds under professional management were part of a socially responsible portfolio.
- **Growth of assets involved in socially responsible investing significantly outpaced the broad market.** Socially responsible investing assets grew at **twice the rate** of all assets under professional management in the United States. Between 1997 and 1999, total assets involved in socially responsible investing grew **82 percent** – from \$1.185 trillion to \$2.16 trillion. In the same period, according to a comparison of total assets under professional management in the United States reported annually in *Nelson's Directory of Investment Managers*, the broad market grew 42 percent (including both market appreciation and net cash inflows).
- **Socially screened portfolios continued their explosive growth.** Since 1997, total assets under management in screened portfolios for socially concerned investors rose 183 percent, from \$529 billion to \$1,497 billion. Assets in socially screened mutual funds grew by 60 percent to \$154 billion, and assets in screened separate accounts grew 210 percent to \$1,343 billion.

- **The competitive performance of socially screened mutual funds, the continuing divestment of tobacco holdings and the increased availability of social investment options in retirement plans played key roles in the growth of socially responsible investing over the past two years.**
 - The competitive performance of socially screened investments continues to be a regular news feature. Social investment indexes have consistently outperformed the S&P 500. Twice as many socially responsible mutual funds, across all major asset classes, get top Morningstar ratings.
 - An increasing number of institutional investors – from state pension plans to hospitals and universities -- are excluding tobacco stocks. Growing awareness of tobacco companies' past efforts to withhold evidence about the health risks of smoking and the targeting of teenagers in tobacco advertising campaigns, coupled with the under-performance of tobacco stocks, is driving this tobacco divestment.
 - More employers are offering socially responsible investment options as part of retirement plans and employees are increasingly moving assets into them.



- **Social investors share a broad common ground in their choice of portfolio screens.** The most common screens are tobacco – 96 percent of screened assets, gambling (86 percent), alcohol (83 percent), weapons (81 percent), and the environment (79 percent). Other screens include human rights (43 percent), labor (38 percent), birth control/abortion (23 percent), and animal welfare (15 percent).

- **Nearly a trillion dollars is controlled by investors who play an active role in shareholder advocacy on social responsibility issues.** Over 120 institutions and mutual fund families have leveraged assets valued at **\$922 billion** in the form of shareholder resolutions. These institutional investors used the power of their ownership positions in corporate America to sponsor or co-sponsor proxy resolutions on social issues. They also voted their proxies on the basis of formal policies embodying socially responsible goals and actively worked with companies to encourage more responsible levels of corporate citizenship.
- **Socially responsible investors are increasingly using both screening and shareholder advocacy to encourage greater corporate responsibility.** The fastest growing component of socially responsible investing is the growth of portfolios that employ **both** screening and shareholder advocacy. Assets in portfolios utilizing both strategies grew 215 percent, from \$84 billion in 1997 to \$265 billion in 1999.
- **Community investing grew by 35 percent.** Assets held and invested locally by community development financial institutions (CDFIs) totaled **\$5.4 billion**, up from \$4 billion in 1997. This critically important capital is invested in community development banks, credit unions, loan funds and venture capital funds, and is focused on local development initiatives, affordable housing and small business lending in many of the most economically distressed urban and rural areas of the country.

The Social Investment Forum's research finds that socially responsible investments are growing rapidly, providing competitive performance for investors, encouraging corporate responsibility and meeting needs in economically distressed communities.

FIGURE 2: SUMMARY OF SOCIALLY RESPONSIBLE INVESTING IN THE U.S.

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

	1997 (\$billions)	1999 (\$billions)	% Change 1997-1999
Total Screening	\$529	\$1,497	+183%
Total Shareholder Advocacy	\$736	\$922	+25%
Both Screening and Shareholder *	(\$84)	(\$265)	+215%
Community Investing	\$4	\$5.4	+35%
Total	\$1,185	\$2,159	+82%

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

SECTION I

THE SCOPE OF SOCIALLY RESPONSIBLE INVESTING IN THE UNITED STATES

Today, one out of every eight dollars under professional management in the United States – totaling \$2.16 trillion – is involved in socially and environmentally responsible investing. This accounts for over 13 percent of the \$16.3 trillion in investment assets under professional management in the United States,¹ and marks a substantial increase over 1997, when 9 percent of all assets under professional management were invested in socially responsible portfolios.

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 a total of \$40 billion.
- In 1995, the Forum conducted a follow-up study and found that the assets involved in socially responsible investing had grown to \$639 billion.
- In 1997, the Forum found that social investing had grown to \$1.185 trillion, led by substantial growth in two segments of the industry: screening and shareholder advocacy.
- In this 1999 survey, the Forum found that social investing has again experienced rapid growth, reaching the \$2.16 trillion mark, with growth in all three segments of socially responsible investing: screening, shareholder advocacy and community investment. (See Figure 3.)

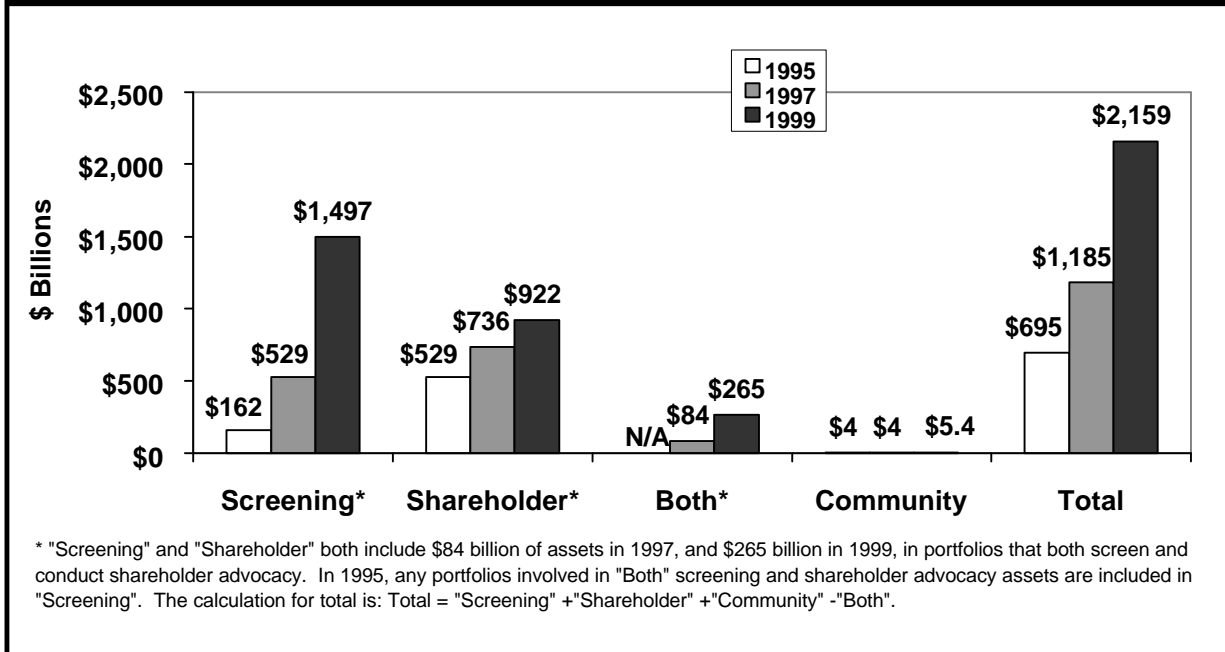
Social Investing Defined

Social investing, socially responsible investing, socially aware investing, ethical investing, and mission-based investing all describe the same concept. These terms are often used interchangeably to describe an approach to investing that integrates social and environmental concerns into investment decisions.

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, more just and sustainable economy. Social investment requires investment managers to overlay a qualitative analysis of corporate policies, practices and impacts onto the traditional quantitative analysis of profit potential.

¹ According to the 1999 *Nelson's Directory of Investment Managers*, assets under professional management in the United States total \$16.3 trillion.

FIGURE 3: GROWTH OF SRI INVESTMENTS (\$ BILLIONS)



The Three Strategies of Socially Responsible Investing

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

- **Screening** is the practice of including or excluding 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 outstanding employer-employee relations, excellent environmental practices, products that are safe and useful, and respect for 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 dialoging with companies on issues of concern, and submitting and voting proxy resolutions. Socially responsible proxy resolutions are generally aimed at influencing corporate behavior toward a more responsible level of corporate citizenship, steering management toward actions that enhance the well-being of all the company's stakeholders, and improving financial performance over time.
- **Community-Based Investment** programs provide capital to people who have difficulty attaining it through conventional channels or are underserved by conventional lending institutions. These institutions include community development banks and credit unions, as well as loan funds and venture capital funds for low-income housing and small business development in the United

States and abroad. Community-based investments enable people to improve their standard of living, develop their own small businesses, and create jobs for themselves and their neighbors.

Socially Responsible Investing: Deep Roots

The origins of ethical investing date back many hundreds of years. In early biblical times, Jewish laws laid down many directives on how to invest ethically. In the mid-1700s, the founder of Methodism, John Wesley, emphasized the fact that the use of money was the second most important subject of New Testament teachings. As Quakers settled North America, they refused to invest in weapons and slavery. For hundreds of years, many religious investors whose traditions embrace peace and nonviolence have actively avoided investing in enterprises that profit from weapons and other products designed to kill fellow human beings. Many also avoid the “sin” stocks -- those companies in the alcohol, tobacco and gaming industries.

The modern roots of social investing can be traced to 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 environmental movements, served to escalate awareness around issues of social responsibility. These concerns also broadened to include management and labor issues, and anti-nuclear sentiment. In the late 1970s, the concept of social investing began attracting a considerably larger group of American investors due, in large part, to concerns about the racist system of Apartheid in South Africa.

Concerned U.S. investors joined international efforts to put economic pressure on South Africa to end Apartheid. A growing number of investors throughout the 1970s and 1980s used both screening and shareholder advocacy to press for change in 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.

A Lasting Legacy

On September 24, 1993, Nelson Mandela appeared before the United Nations Special Committee on Apartheid and stated: “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 United Nations, the Forum set out to discover whether social investing had actually declined.

The Forum’s research found that not only was social investing alive and well -- it had grown dramatically over the previous decade. The Forum’s 1995 study found that 78 percent of all money managers in the U.S. managing socially responsible investment portfolios on behalf of clients continued to do so after divestment from South Africa ended. Furthermore, the research 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 applied screening and

shareholder advocacy strategies to a broad range of issues. After South Africa, social investing continued in full force.

Clearly, over the past 15 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 all 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.

In 1995, the Forum also decided to conduct follow-up trends surveys every two years. The 1997 study found that social investing grew rapidly in just two years, from \$639 billion to \$1.185 trillion. In this 1999 study, the Forum finds that this growth has continued, with total assets under professional management of \$2.16 trillion invested in portfolios utilizing social screening criteria, actively involved in shareholder activism, and/or invested in local community development financial institutions. This 82 percent growth rate is roughly twice that of all assets under professional management in the U.S.

The following sections of this report detail the dimensions of the growth of all three components of social investing. Finally, this report describes the study's methodology and provides additional information about social investing and the Social Investment Forum.

SECTION II

SCREENED PORTFOLIOS EXPERIENCE RAPID GROWTH

Between 1997 and 1999, the amount of money in socially screened portfolios, including mutual funds, rose 183 percent, from \$529 billion to \$1,497 billion. (See Figure 4.)

Of the \$1,497 billion in screened portfolios with one or more screens, \$154 billion are in screened mutual funds and \$1,343 billion are in separate accounts, privately managed and screened for both individual and institutional clients.

Key components of the growth of screened portfolios include:

- The number of screened mutual funds increased to 175 in 1999, from 139 in 1997, and up from just 55 in 1995.
- Assets in screened mutual funds grew by 60 percent from 1997 to 1999. Screened mutual fund assets expanded to \$154 billion in 1999, from \$96 billion in 1997, and up from just \$12 billion in 1995.
- Assets in separate accounts grew by an impressive 210 percent from 1997 to 1999. These screened private portfolios rose to \$1,343 billion in 1999, from \$433 billion in 1997, and up from just \$150 billion in 1995.
- Of the total \$1,497 billion in screened portfolios, \$285 billion is in portfolios controlled by investors who are also involved in shareholder advocacy.

FIGURE 4: SCREENED PORTFOLIO GROWTH

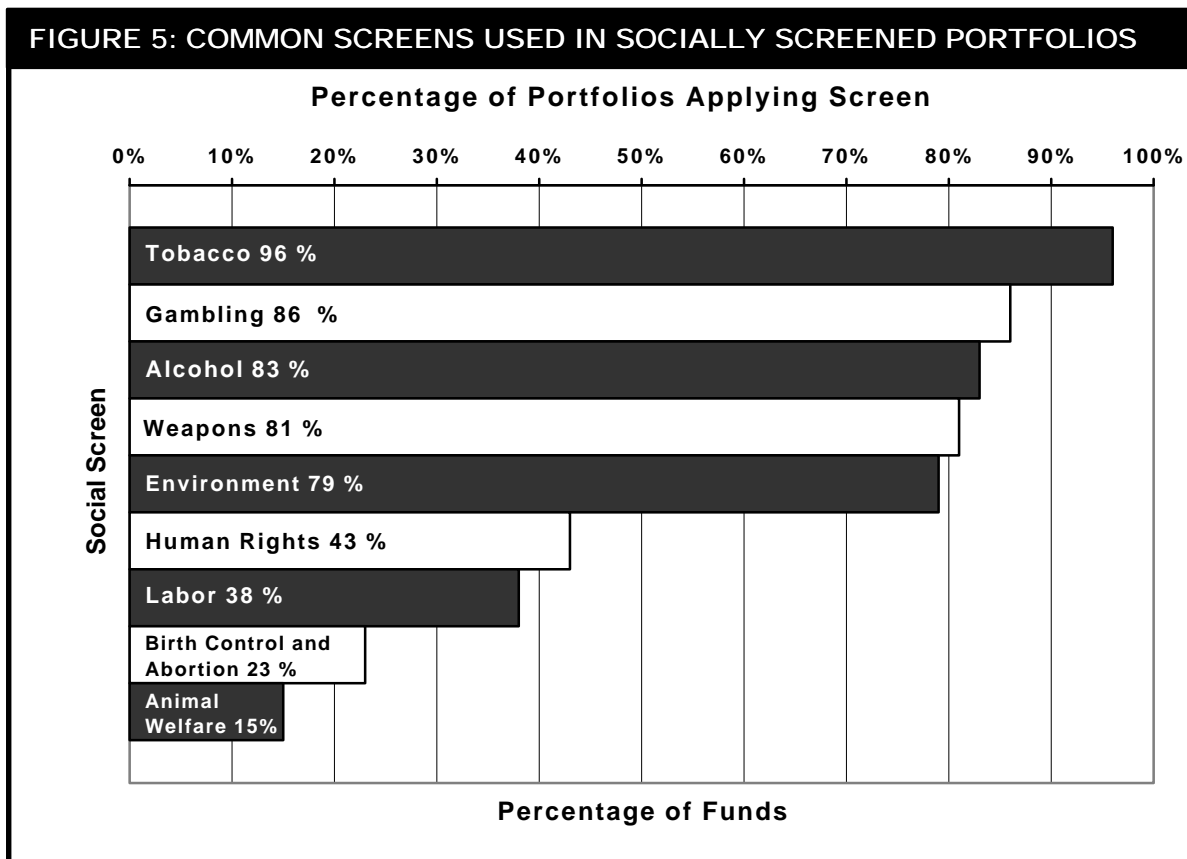
Screened Portfolios	1995 (\$billions)	1997 (\$billions)	1999 (\$billions)	% Change 1997-1999
Mutual Funds	\$12	\$96	\$154	60%
Separate Accounts	\$150	\$433	\$1,343	210%
Total	\$162	\$529	\$1,497	183%

Screens Used by Social Investors

Social investors share a broad common ground in their choice of portfolio screens. In 1999:

- Tobacco is the most common screen – 96 percent of all screened assets are void of tobacco holdings.
- The majority of assets are screened to exclude gambling (86 percent); alcohol (83 percent); and weapons (81 percent).
- The majority of screened assets – 79 percent – also address environmental concerns, with screens that either seek to exclude securities of companies with bad environmental track records or include companies with good environmental performance and environmentally-friendly products, or both.
- Assets are also frequently screened on issues of human rights (43 percent); labor (38 percent); birth control and abortion (23 percent); and animal welfare (15 percent).

The majority of investment managers use multiple screens for their screened portfolios; 88 percent report using three or more screens.

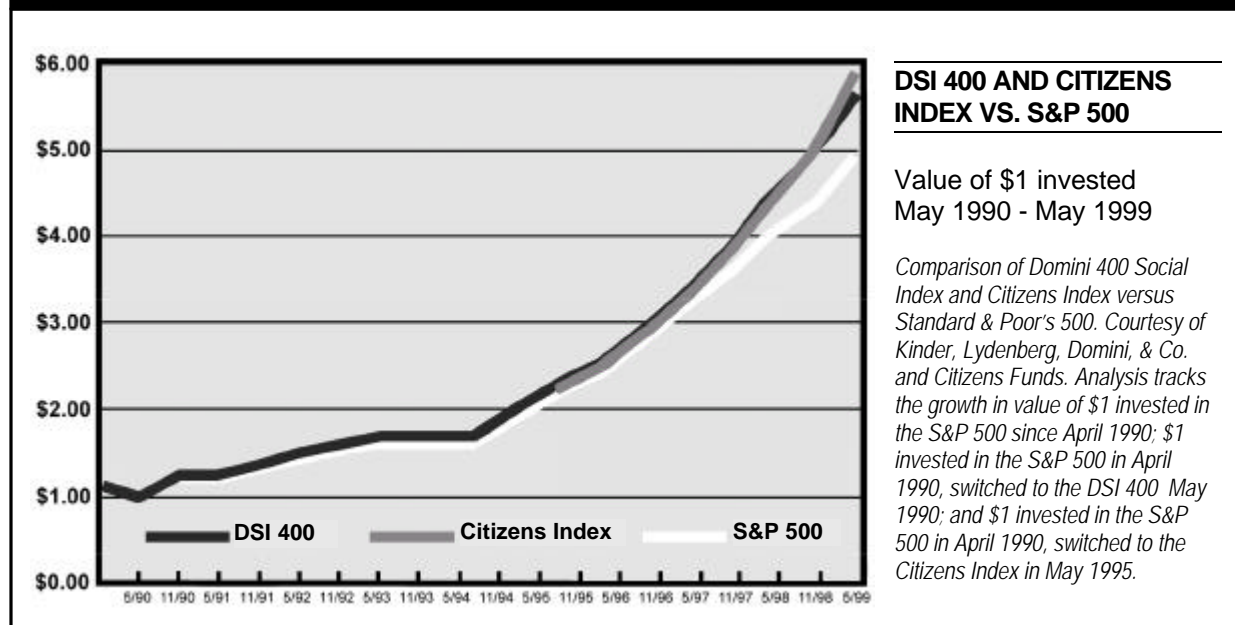


Analysis of Factors Spurring the Rapid Growth of Socially Screened Investing

Several factors account for the rapid growth of screened portfolios:

- **Performance:** Socially responsible investing is performing well financially for both individual and institutional investors. Investors that find the concept of portfolio screening compelling are moving increasing portions of their assets into screened portfolios as they determine that they can achieve competitive performance. The evidence of the competitive performance of socially screened portfolios includes:
 - Socially screened indexes, designed for direct comparison to the S&P 500 index, are outperforming the S&P 500. Both the Domini 400 Social Index (DSI) and the Citizens Index have outperformed the S&P 500 on a total returns basis since their inception. (See Figure 6.)
 - Socially screened mutual funds, across all major asset classes, are twice as likely as all mutual funds to get top Morningstar ratings.²
 - A growing body of academic studies has found that socially screened portfolios provide competitive performance to investors.³

FIGURE 6: THE SOCIALLY SCREENED DOMINI 400 SOCIAL INDEX AND CITIZENS INDEX HAVE OUTPERFORMED THE S&P 500.



² Emily Hall and John Hale, "How Do Socially Responsible Funds Stack Up?" www.morningstar.com: Aug. 1999.

³ See for example Michael Russo and Paul Fouts, "A Resource-Based Perspective on Corporate Environmental Performance and Profitabilities," *Academy of Management Journal* Vol. 40 No. 3 Jun. 1997: 534-559, where the authors demonstrate that companies that adopt higher environmental standards than those required by government regulation post higher profits. And see John B. Guerard, Jr. "Is there a cost to being a Socially Responsible Investor?" *Journal of Investing* Summer 1997, where the author found that risk adjusted performance is the same for socially screened funds as for unscreened funds.

- **Anti-Tobacco Sentiment:** Tobacco is an example of an issue of social concern that has become a financial consideration. Investors are continuing to divest from tobacco stocks due to concerns about the impact of smoking on public health – spurred by recent admissions on the part of the tobacco industry that it has marketed cigarettes to children and withheld evidence about the health risks of smoking. In addition, a growing number of investors are spurning tobacco because tobacco stocks have become more volatile and less profitable.

Other recent studies have also identified the trend among investors to divest tobacco stocks:

- The Investor Responsibility Research Center (IRRC) conducted a nationwide survey of institutions' tobacco investment guidelines. The survey, conducted in the summer of 1998 found a growing number of institutions with tobacco investment restrictions. Altogether, 437 institutions were contacted. Of the 174 responses, 29 percent of educational institutions reported having tobacco investment restrictions, as did 20 percent of public pension funds, 79 percent of health and life insurers and 92 percent of public health associations.⁴
- Hewitt Associates, in a study of 2,500 hospitals, identified that 44 percent exclude tobacco stocks from their portfolios.⁵

- **Increased Participation by Retirement Plans:** More employers are offering socially screened investment options as part of retirement plans, and employees are increasingly moving assets into them. Other recent studies have also identified the growth in socially screened retirement investments:

- A Calvert Group sponsored study of investors' attitudes toward socially responsible investing showed that 35 percent of mutual fund investors with defined contribution retirement plans at work said that their employer offers a socially screened investment option, more than double the 16 percent found in 1996.⁶
- Domini Social Investments reported that over the past two years, defined benefit plans have grown from about one percent to more than 33 percent of the assets in the Domini Social Equity Fund, as of October 1999. Citizens Funds and other socially responsible mutual funds report similar rapid growth of retirement assets within their funds.

The United States Department of Labor's Office of Regulations and Interpretations issued a May 1998 letter that helped settle a lingering question about whether a socially responsible mutual fund could be included in retirement plans that qualify under section 404c of the Employment Retirement Income Security Act (ERISA). The letter clarified that investments, such as a socially screened mutual fund, could be included in an ERISA-qualified retirement plan, as long as the fiduciary determines that the mutual fund is expected to provide an investment return similar to alternative investments having similar risk characteristics. This clarification helped spur the use of socially screened funds in retirement plans. It also helped provide a greater level of comfort for trustees and fiduciaries to make use of social screens for other types of institutional investments.

⁴ Douglas Cogan, *Tobacco Divestment and Fiduciary Responsibility: A Legal and Financial Analysis*, Investor Responsibility Research Center: 1999, presented at the SRI in the Rockies Conference, Oct. 2-5, 1999.

⁵ Hewitt Associates, *Multi-Hospital System Investment Practices*; April 1999

⁶ Calvert Group, *Attitudes Toward Socially Responsible Investing*: 1999.

SECTION III

SHAREHOLDER ADVOCACY ADVANCES ISSUES OF SOCIAL CONCERN

Shareholder advocacy describes the actions many socially aware investors take in their role as owners of corporate America. These efforts include engaging or “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 undertaken primarily by institutional investors. These efforts are aimed at encouraging corporate management to choose policies and practices that advocates believe will enhance the well being of all the company’s stakeholders and improve both the company’s reputation and bottom line over time.

Shareholder advocacy is on the rise:

- Between 1997 and 1999, the amount of money controlled by investors who are involved in shareholder advocacy rose from \$736 billion to \$922 billion, an increase of 25 percent.
- Of this \$922 billion, \$657 billion represents institutional investors that are actively involved in shareholder advocacy but do not employ social screens, and \$265 billion is both screened and involved in shareholder advocacy efforts.

The Shareholder Process: Background

This section takes a brief look at what the shareholder process and shareholder resolutions are, how they work, and who utilizes the process.

Shareholder Resolutions: What They Are and How They Work

As stockholders and owners of the company, shareholders have both a right and a responsibility to take an 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, and with other shareholders, on issues of corporate governance and social responsibility. In addition, shareholder actions often complement the work of other citizen advocates and nonprofit organizations in pressing corporations to adopt socially or environmentally responsible conduct, and often open company doors that are otherwise closed to citizens. The Securities and Exchange Commission (SEC) regulates the shareholder process.

The shareholder resolution process is open to a wide range of investors. According to SEC rules, any shareholder who owns at least \$2,000 of stock in a given company for one year may file shareholder resolutions requesting information from management or asking management to

consider changes in practices or policies. Resolutions appear on the company's proxy ballot and are voted on at its annual meeting by all shareholders.

In many cases, shareholder advocates do not need to even 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 in order to avoid a formal shareholder proposal. Thus, the decision to file a shareholder resolution often sparks a fruitful, ongoing dialog between shareholder proponents and management, which is generally the most effective way to encourage changes within the company. When fruitful dialog with management occurs, shareholder advocates often willingly agree to withdraw their resolutions before having them presented to the body of the company's shareholders through the proxy ballot and at the annual meeting. In short, a successful shareholder process may lead to an effective dialog and the company's agreement to improve a practice or policy without the shareholder proposal needing to go to a vote before the entire body of shareholders.

Even when shareholder resolutions are presented to the entire body of shareholders, proxy voting is not like 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 does not actively vote their proxies, the votes in essence default to management. Many large institutional investors vote only if they have researched the issues involved, a process which may take more than a year and extend beyond the initial vote. Also, investors who own stocks through mutual funds do not have the ability to vote their shares. Therefore, even relatively low votes through the proxy process often indicate real, and likely increasing, interest among shareholders, and reflect interest on the part of the public and press. This combined level of interest is often enough to encourage management to enter into dialog and to consider changing its practices or policies.

In short, not only is the shareholder process a right and responsibility of shareholders, the existence of the shareholder resolution process creates a healthy climate of dialog between investors and management. Management-shareholder dialogs have led to many creative outcomes that have advanced social and economic issues while providing bottom-line benefits to the performance of the company, and thus, added value to all shareholders.

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 and foundations. Investors have an enormous financial and ethical stake in a healthy shareholder resolution process.

Traditionally, analysts have classified shareholder resolutions into two categories: corporate governance and corporate social responsibility.

- Corporate governance resolutions address issues such as confidential voting, board of director qualifications, compensation of directors and executives, and board composition.⁷
- Social responsibility resolutions address issues such as company policies and practices on the environment, health and safety, race and gender, tobacco, sweatshops and other human rights issues.

Shareholder actions introduced by socially responsible investors are best categorized according to the social issue that is being addressed. According to the Interfaith Center on Corporate Responsibility (ICCR), in 1999, socially concerned investors — including religious shareholders, foundations, mutual funds, social investment managers, pension funds and others — filed approximately 220 resolutions with more than 150 major U.S. companies. Figure 7 (below) details the major areas covered by their resolutions:

FIGURE 7: CATEGORIES OF SHAREHOLDER RESOLUTIONS	
1999 Shareholder Issues	# of Resolutions
Environment	54
Global Corporate Accountability	41
Equality	38
Executive Compensation	30
International Health and Tobacco	31
Global Finance	14
Militarism and Violence	12

Examples of Shareholder Successes in 1999

In 1999, socially responsible shareholders have experienced successes in each of the categories listed above. The following is a sampling of successful actions, which illustrate the process of shareholders using resolutions to open dialog with companies, and the ways in which shareholder actions work in concert with other forms of advocacy.

- Home Depot announced an environmental wood purchasing policy and stated that it would eliminate its practice of buying three species of old-growth timber from endangered forests by 2002. At an annual meeting three months earlier, 12 percent of shareholders sent a clear message by asking the company to develop a plan to stop selling old-growth wood.
- After one year of dialog with shareholders about their resolution, Baxter International, the world's largest health-care products manufacturer, has agreed to look for alternatives and to phase out polyvinyl chloride (PVC) materials in its intravenous products. During manufacture and incineration, PVCs release dioxin. Two hospital corporations — Universal Health Services and Tenant Healthcare — have also agreed to research alternatives to PVCs.

⁷ Note that institutions advocating only for corporate governance resolutions are not included in the survey or the trends data in this report. See the Section V, Methodology for more details.

- RJ Reynolds has agreed to separate its tobacco business from its food business, which shareholders have been encouraging the company to do for years.
- McDonald's has agreed to implement a sexual orientation non-discrimination policy. Trillium Asset Management and the Pride Foundation co-filed this resolution, which was withdrawn after the company agreed to enter into dialog over the proposal.
- Since 1996, shareholders have been asking General Electric to clean up toxic PCBs in the Housatonic River in western Massachusetts. A number of forces, including government agencies, were brought to bear on GE, and shareholder resolutions were instrumental in calling attention to these polluted areas. In October 1999, GE agreed to spend \$150 million to \$250 million cleaning up a stretch of the Housatonic River that was polluted by PCBs decades ago.

Examples of Shareholder Advocacy Planned for 2000

Socially responsible shareholder advocates are once again planning to address a broad range of issues with companies. Issues range from the environment to equality to militarism and violence. Examples are listed in Figure 8 below.

FIGURE 8: SHAREHOLDER ACTIONS PLANNED FOR 2000 (Examples)

Company	Goal(s)
Kraft, McDonald's, Kroger and Archer Daniels Midland	Explore the health and safety issues surrounding genetic engineering
Amoco, Chevron, General Motors and Ford	Report on carbon emissions (global warming) and to disclose affiliations with associations and lobbying groups that might be working against pollution controls
Baker Hughes, Dun and Bradstreet, TJX (parent company of TJ Maxx), Bell Atlantic	Implement the MacBride Principles for fair employment in Northern Ireland
Exxon, Southwest Airlines, GE	Implement sexual orientation non-discrimination policies
Federated Department Stores (Macy's, Bloomingdale's)	Stop selling items with negative images of indigenous peoples
Chevron and Exxon	Abandon plans to drill in the Arctic National Wildlife Refuge
Huffy (bicycles)	Freeze executive pay when the company lays off a significant number of employees
Kmart, Wal-Mart and others in the apparel industry	Stop sweatshops by reporting on vendor compliance programs, working with nonprofit organizations in independent monitoring programs, and paying sustainable living wages
Unocal	Withdraw operations from Burma because of human rights issues

Sources: Interfaith Center on Corporate Responsibility, Trillium Asset Management, Maryland Safe Energy Coalition, Friends of the Earth, and As You Sow Foundation.

SECTION IV

COMMUNITY INVESTING GROWS AS A FORCE FOR ADDRESSING LOCAL PROBLEMS

Community investing grew by 35 percent between 1997 and 1999. Assets held and invested locally by community development financial institutions (CDFIs) totaled **\$5.4 billion** in 1999, up from \$4 billion in 1997.

These critically important capital resources are focused on local development initiatives, affordable housing and small business lending in many of the neediest urban and rural areas of the country. The people who benefit from community investment initiatives generally don't have access to reasonably priced capital through traditional sources.

The Four Types of Community Investing

Both institutions and individuals invest in four main types of community development financial institutions that provide funds to communities in need:

- **Community Development Banks (CDBs).** CDBs, the type of CDFI with the greatest amount of assets (\$2,922 million), are located throughout the country, and provide capital to rebuild distressed communities. For account holders, community development banks offer services available at conventional banks, including savings and checking accounts. Like their conventional counterparts, CDBs are federally insured.
- **Community Development Loan Funds (CDLFs).** CDLFs are the second largest type of CDFI, with \$1,742 million in assets. These funds operate in specific geographic areas, acting as intermediaries which pool investments and loans provided by individuals and institutions at below-market rates to further community development. One form of CDLFs are microenterprise development loan funds. Microenterprise funds have lent \$25 million to low-income individuals for purposes such as small business start-ups, and have helped people who may not be able to qualify through traditional financing routes. CDLF funds are not federally insured.
- **Community Development Credit Unions (CDCUs).** With combined assets of \$601 million, there are over 100 of these membership-owned and controlled nonprofit financial institutions serving people and communities with limited access to traditional financial institutions. Account holders receive all the services available at conventional credit unions and are covered under the National Credit Union Share Insurance Fund.
- **Community Development Venture Capital Funds (CDVCs).** With assets of \$150 million, community development venture capital funds use the tools of venture capital to create good jobs, entrepreneurial capacity, and wealth that improves the livelihoods of low-income individuals and the economies of distressed communities. 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, and are much smaller than most traditional venture capital investments. The companies in which CDVCs invest generally employ between 10 and 100 people.

FIGURE 9: THE FOUR TYPES OF CDFIS AND THEIR ASSETS, 1999

Community Development Banks	\$2,922 million
Community Development Credit Unions	\$601 million
Community Development Loan Funds <i>(includes Micro Enterprise Development Funds)</i>	\$1,742 million
Community Development Venture Capital Funds	\$150 million
Total Community Investment Assets	\$5,415 million

Expanding Community Investment

The Social Investment Forum has recently launched a program to encourage expanded community investment. As part of this program, the Forum is:

- Encouraging all socially responsible investors involved in screening or shareholder advocacy, or both, to direct at least one percent of their portfolios to community investing.
- Preparing a guide to community investing, to be published early in 2000, which will assist investment professionals who are interested in directing funds toward CDFIs. The guide will provide information on managed money and the range of options in community investment, and will provide effective methodologies and information-sharing on how institutions and money managers can overcome barriers to entry for community investment.

SECTION V

METHODOLOGY

The Social Investment Forum utilizes a direct survey methodology to determine the assets involved in socially responsible investing. This section describes the data qualification, data sources and survey methodology used. It also discusses improvements to the methodology in this 1999 survey. Finally, this section identifies social investment assets which 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 1999.

Data Qualification

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 are screened for one or more issues are credited as such, and are included in the screened portfolio component of social investing.
- **Shareholder Advocacy:** The institution sponsors or co-sponsors shareholder resolutions on social responsibility issues, addressing issues of social or environmental concern. A qualifying institution must have filed at least one resolution as a socially responsible investor over the past three years, or be part of the active shareholder dialog process managed by the Interfaith Center on Corporate Responsibility. 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. Resolutions on corporate governance were not included.
- **Community Investment:** The institution qualifies as a Community Development Financial Institution (CDFI), which the Forum defines as an organization that is a private sector institution, has a primary mission of lending to low-income or very-low-income communities, and engages in finance as its primary activity.

Exclusions were determined in the following manner:

- **Social Screening:** Any institution which says that it takes into account social criteria in its investment decisions, but has no formal policy and/or no social screens was excluded.
- **Shareholder Advocacy** excludes 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 or does not take part in active shareholder dialog through the Interfaith Center on Corporate Responsibility.

- 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.
- Conducts only shareholder resolutions regarding corporate governance.
- Community Investment: Any institution that says it has some type of economically targeted investment(s) which are not recognized by a Community Development Financial Institution has been excluded (for details, see Data Sources below).

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.

Data Sources

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

- Mutual funds: Mutual funds that have at least one social screen were included in the study. This list was compiled from material provided by Morningstar, Wiesenberger, the Social Investment Forum, First Affirmative Financial Network, Jack Brill, and public media sources.
- Other screened portfolios: Forum researchers compiled a list of all investment managers who identify themselves in the *1999 Nelson’s Directory of Investment Managers* as utilizing “social screening” as an investment strategy. Researchers also listed all institutions identifying themselves in the *1999 Nelson’s Directory of Plan Sponsors* as restricting their investments with some social criteria. Added to this list were institutions that were otherwise 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, the Interfaith Center on Corporate Responsibility and multiple media sources. Other additions came from a Hewitt Associates survey of the health care industry which identified hospitals that have money managed using social investment criteria.
- Shareholder Advocacy: The list of institutions involved in shareholder advocacy came from the Interfaith Center on Corporate Responsibility’s *Corporate Resolutions Book*, the Investor Responsibility Research Center’s “Checklist of Shareholder Resolutions” in the *Corporate Issues Reporter*, and from the AFL-CIO.
- Community Investment: The Forum contacted all of the community development trade organizations to determine the number of member institutions and the assets they control. Trade associations contacted included the National Community Capital Association, 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.

Survey Methodology

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

- The list of managers and institutions to be surveyed is compiled from the data sources described in the Data Sources subsection above.
- The entire list of managers and institutions were surveyed for the amount of assets they manage which qualify under social screening, shareholder advocacy and community investing. Managers and institutions 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. Assets managed by hospitals with screens as reported in the Hewitt Associates survey that were not already included in the Social Investment Forum survey were added.
- The surveys are compiled by investment type and any double counting is eliminated. An example of double counting that is eliminated is a mutual fund sub-advisor and a mutual fund reporting the same assets. No estimates or sampling techniques were used in gathering data for this report.

Methodology Improvements

This survey is conducted by the Social Investment Forum every two years. The methodology is improved and applied to allow survey results to be compared across years. Improvements and changes in 1999 include:

- Shareholder Advocacy: The data qualification criteria for shareholder advocacy were made stricter. In previous years, qualification criteria for shareholder advocacy included institutions that voted proxies in support of shareholder resolutions on issues of concern to socially responsible investors, and had an active social investment committee, but did not sponsor or co-sponsor a resolution in the past three years. For the 1999 survey, institutions that vote on resolutions but do not sponsor or co-sponsor them were not included. By making the shareholder qualification stricter, \$10 billion were eliminated from the 1999 shareholder advocacy only category that would have been included in previous years. Since this makes the methodology more conservative without significantly changing it, shareholder advocacy results can still be compared over the years.
- Screened mutual funds (1997): The total number of mutual funds was revised downward in 1997 from 144 to 139 because of the elimination of a mutual fund company which had five funds. This elimination was due to a changed reporting of qualification by the mutual fund company. The revised number of mutual funds for 1997 is included in this report. This revision affected the total

number of mutual funds, but did not materially affect the total amount of assets in the screened mutual fund category, so there was no need for the total screened mutual fund assets figure to be revised.

- Introduction of a new category: This 1999 report adds a new category for tracking social investment assets managed by institutions that both screen and conduct shareholder advocacy. As social investing grows, investors that once only conducted shareholder advocacy are adding screens and investors that once did only screening are engaging in shareholder advocacy. This is an important emerging trend to track. In this survey, and going forward, the Forum will track and report on this category of investors that do both screening and shareholder advocacy. This figure was captured in the 1997 survey and reported as a footnote. To the extent that it appeared in the 1995 survey, assets managed by institutions that conducted both screening and shareholder advocacy were included in the totals for screening. The tables and charts in this report have been updated to include the "both" category for both 1997 and 1999.

Conservative Bias: Note of Undercounting

The Social Investment Forum believes that the data sources included in this study allow the survey to identify nearly all of the assets involved in 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 individual's personal social investment criteria. With the rapid increase of internet trading since the 1997 study, 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 growing area of socially responsible investing.
- The stocks and bonds of responsibly managed companies purchased for individuals through personal stock brokers and financial planners.
- The portfolios of socially aware investors whose investment assets are managed through the trust departments of banks or law firms.
- Smaller investors who participate in the shareholder advocacy process.

In short, there are a number of investors and investment portfolios engaged in socially responsible investing which 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 investment 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 1999.

SECTION VI

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 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. 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 publishes a Mutual Fund Performance Chart which provides monthly performance data on socially screened funds. The Forum's web site, www.socialinvest.org, links interested parties to member sites and dozens of other resources.

Helping to Create a More Just and Sustainable Future

Socially aware investors are sensitive to the idea of achieving personal financial goals while putting their money where their hearts are. 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.

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 impacts 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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