

**Remarks for “Money, Values and Impact:
A Conference on Ethical Investing”
By Tim Brennan, UUA Treasurer & CFO**

All Souls DC

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I’m delighted to be among you today to explore the discipline of socially responsible investing. I’m Tim Brennan, the Treasurer and Chief Financial Officer of the UUA. I am the guy at 25 Beacon who thinks about money all day every day. Before coming to the UUA three years ago, I worked for Ceres, the coalition of investors and environmental groups dedicated to improving corporate responsibility for the environment. There I was privileged to work under the tutelage of the founder and board chair, Joan Bavaria. Joan was one of the leading lights of SRI over her tremendous career, which ended much too soon with her death just this last December. Before that I spend time working for an investment company in New York that financed movies. When I received my MBA from Wharton, the personal computer had not yet been invented and Milton Friedman’s writings were considered scripture. It’s a different world now on both counts.

What I’m not going to do today is give you the SRI for Dummies guide, but rather to join with you in this struggle in which we are all engaged. Investing is, after all, only a way of measuring aspects of our lives, and so it comes with all of the complexity and moral ambiguity of the choices we make every day. The answers are not pat, but together I think we can find a path forward.

So today we Unitarian Universalists have convened to explore a trinity; that is, the three legs of Socially Responsible Investing: shareholder advocacy, investment screening, and community investing. I’ve been asked to address the latter two. Leslie did a great job of introducing us to shareholder advocacy, so I won’t spend any time on that except to say that the UUA works very closely with Leslie and ICCR. We sponsor about a dozen resolutions a year on issues like climate change, executive pay and sexual orientation and gender identity non-discrimination.

A brief look at the history of SRI at the UUA demonstrates that the three aspects of SRI, while distinct, are bound together in practice. While we’ve had our ups and downs through the years, the UUA was there from the beginning. And this is not really surprising since SRI springs from our urge to “bend the arc of the universe towards justice” (in the words of Theodore Parker and echoed by Martin Luther King).

It started in 1966 when the UUA, the United Church of Christ, the Methodists, and TIAA-CREF filed a shareholder resolution with Eastman Kodak. The resolution stated that the board of directors had a responsibility to the African-American residents of Rochester, and should provide them with a proportionate share of Kodak's available jobs. This proved to be the first time shareholders were able to sponsor a socially responsible resolution and to influence a company's public policies at an annual shareholders meeting.

In 1967, the UUA General Assembly passed a business resolution requesting that the Board of Trustees "exercise the power represented by the Association's ownership of common stock as an effective instrument for promoting social justice." In 1970, it set aside \$500,000, or just over five percent of the UUA's endowment, to be invested in "enterprises which make a high social contribution," or what we now call Community Investments. In 1973, GA passed a resolution entitled "Corporate Social Responsibility and UUA Investments", urging the UUA "to promote better corporate social policies and practices in areas such as equal employment opportunity for women and minorities, environmental protection, consumerism, foreign investment and military production."

In 1999 the Board of Trustees established the Task Force on Socially Responsible Investing. Based on their report, the Board created the Committee on Socially Responsible Investing and charged them to advise the board on SRI issues and policy.

Social and Environmental Screening

Investment screening is the incorporation of environmental, social and governance criteria into investment analysis. This has come to be called "ESG."

Those of us on investment committees have an undeniable responsibility to invest carefully. The earnings from these endowments are critical to carrying out the missions of our institutions. This is both a legal and a moral responsibility. For many years it was common wisdom that investment committees should maximize returns and leave social justice to others. SRI investors reject that notion.

Here's another trinity: there are basically three ways of doing screening (which are not mutually exclusive, by the way):

- Negative screens – where one avoids investing in companies or entire industries with poor ESG performance. The UUA for instance will not invest in tobacco companies or weapons manufacturers.
- Positive screens where one selects companies with strong ESG performance for investment; and
- "Best of Class" screening in which the investor selects sector leaders. This would allow the investor to maintain a broad exposure to the economy, by investing in companies in industries like oil or mining with the best environmental practices in their sector.

So what are the risks and rewards of this ESG approach to investing?

One of the most pervasive myths about SRI is that applying these screens always lowers returns. This is simply not true. If it were, it would be pretty depressing – what if companies with good environmental practices and human rights protections always have lower returns? Fortunately there is good research that disproves this.

In 2007 Mercer consulting issued a report titled "Demystifying Responsible Investment Performance." This was a study of studies, or an overview of 30 research reports on the

effect of ESG issues on investment performance. 13 of studies showed a positive ESG effect, 14 were neutral, and only three showed a clearly negative result.

A second study, and one that I find even more interesting and relevant, is "The wages of social responsibility," by Meir Statman, a Professor of Finance at Santa Clara University. This paper was the winner of the 2008 Moskowitz Prize, which is presented each year to the best academic paper on SRI. What Professor Statman did was to separate the effects of negative and positive screening. What he found was that screening out offending industry sectors (negative screening) yielded a return disadvantage relative to conventional investors while positive screening produced a return advantage. Doing both yields a wash. This analysis goes a long way to explaining the sometimes contradictory results of earlier work.

When we get down to the practical execution of a strategy, however, the choices are challenging. For most of us investing as individuals or in our role in congregations, we will be using mutual fund vehicles. Statman was looking only at indexed portfolios, not managed funds. With individual mutual funds we introduce manager skill and fees. When Pam and I talked before about what I should address today, she asked if I could speak about how the SRI funds have done during the recent downturn. So I took a look at the list of SRI mutual funds reported on the Social Investment Forum website. The results were pretty consistent: Over the 12 months ending March 31, of the 32 SRI funds tracked, 44% beat the S&P 500 benchmark. Let it be said that this was a period when the S&P was down 38% and many of the lagging funds were within 1% of that. Looking back over a 5 year period, 41% of the funds beat the benchmark, and again many others were close. This, by the way, is not too different than the conventional investing industry: the sad fact is that more often than not, active management doesn't beat the benchmark.

Another study by AT Kearney showed that companies with a strong commitment to sustainability outperformed by 15% in 16 of 18 industries in the six months from May through November 2008.

So then what are the rewards of socially responsible investing?

Call it moral consistency. Somehow there is a fundamental disconnect when a hospital derives profits from tobacco investments. Or this, and I assure you it's true: a foundation that funded environmental groups disseminating information about climate change while it invested in ExxonMobil, the company most responsible for funding climate change disinformation.

But so often the situation is not as stark as that. SRI decisions are rarely binary. Rather they take place in the gray area where most moral decision-making takes place. Take the company we love to hate: Wal-Mart. Over the last several years, under pressure from investors and other activists, the company has adopted some of the most innovative energy and environmental practices in the country. They have also revamped their health

insurance plan and have actually called for a national health insurance policy. So are they good or bad? Or better stated: do we invest or not? Where is the line?

One of the most important reasons to do Socially Responsible Investing is that it is a moral discipline. You make explicit your choices about how your money is invested. In each individual case, the answer is often ambiguous, but in asking the questions we are awake to the world in the Buddhist sense.

A final question on investment screening is: Does it make a difference to the companies? Do they care? Does it drive down stock prices? The answer here seems to be “no.” Even tobacco companies, which are those most consistently caught in investor screens, do not seem to have suffered from lower valuations.

But the ESG discipline itself does seem to be making a difference. More and more investors are now asking questions of companies about their environmental and social impacts. In an extremely promising development, a group of large institutional investors from around the globe came together under the sponsorship of the United Nations and developed what are called the Principles for Responsible Investment. I was privileged to be in the room in London four years ago when the Principles were originally drafted. In part they say: “we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios.” And further they pledge to “incorporate ESG issues into investment analysis and decision-making processes.” The signatories are some of the largest investment funds in the world with assets over \$15 trillion.

As a result of investor pressure, companies are now measuring and reporting on their ESG impacts, and money managers are beginning to use this data in their valuations. Since companies “manage what they measure,” this is a very positive development for the planet and its people.

Community Investing

Community investing is essentially its own asset class. It can be defined as “financing that creates resources and opportunities for economically disadvantaged people and communities underserved by traditional financial institutions.” It includes Community Development Banks and Credit Unions, Loan Funds, and Microfinance institutions.

Community investments can be divided into – get ready, here comes our third trinity – three categories:

- Insured investments, such as bank CDs. These often pay market rate interest.
- Uninsured loan funds, often paying below market rate; and
- Social venture capital: equity funds that seek a “double bottom line” both financial and social returns

The Social Investment Forum has been promoting a 1% for community investing campaign for a number of years. They encourage foundations and other institutional

investors to allocate 1% of total assets to community investments. The UUA has made such a commitment, and last year the Investment Committee decided they would only invest in the uninsured variety since that is where the greatest leverage lies.

Also, the UUA has a matching program for congregations that make community investments. The UUA will match community investments made by its congregations up to \$10,000 each. The UUA matches the amount, rate, and term (up to 3 years) made by the congregation. This program has encouraged over 60 congregations to venture into community investing. We hope that they will find that this is a good allocation of their investment resources and add to those investments over time.

What does the future hold?

I wanted to call your attention to a news item that did not make it into yesterday's newspaper:

Congress approved landmark legislation today that opens the door for a new era on Wall Street in which commercial banks, securities houses and insurers will find it easier and cheaper to enter one another's businesses. The measure, considered by many the most important banking legislation in 66 years, was approved in the Senate by a vote of 90 to 8 and in the House tonight by 362 to 57. The bill will now be sent to the president, who is expected to sign it, aides said. It would become one of the most significant achievements this year by the White House and Congress.

"Today Congress voted to update the rules that have governed financial services since the Great Depression and replace them with a system for the 21st century," Lawrence H. Summers said.

Some of you may have already figured it out but that is from a New York Times article from 10 years ago. There were a few voices of caution, but they were dismissed. The late Paul Welstone said that Congress had "seemed determined to unlearn the lessons from our past mistakes."

90 to 8 and 362 to 57, now that's bi-partisanship. Charles Schumer praised the bill and Bill Clinton signed it. In fact, if we look in the mirror, we can see that we all bought into this. We believed that our houses were really worth what our neighbor's sold for, we believed that it made sense that our 401k's were going up by 15% a year. We took advantage of the ballooning equity in our houses with home equity loans. Nobody was complaining. Rather than pointing fingers I would encourage us to look forward.

The good news is that the old model is dead, the faith-based approach concocted by Milton Friedman that I mentioned in my opening. What will replace it we don't know, but it has the potential to be something much healthier and closer to our values. SRI investors have been talking about the importance of ESG factors for a couple of decades, and now such concerns are entering the mainstream. Capitalism and its offspring, the public corporation, can be powerful vehicles for human well being, but only if we remember that they are instruments and not ends in themselves.