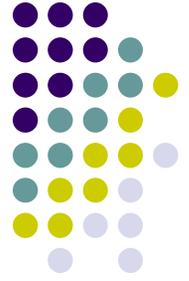




Socially Responsible Investing: Making a Difference

April 2008 UUA Committee on
Socially Responsible Investing
Training Presentation

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



Presenters:

Glenn C. Farley, CIMA®

- Member, UUA CSRI
- Certified Investment Management AnalystSM
- Seminarian, Starr King School for the Ministry

The Rev. Sydney Morris

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

Socially Responsible Investing: Value-Based Financial Practices



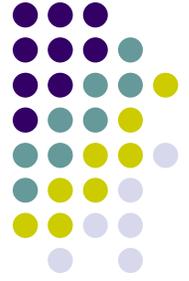
- Our everyday economic practices can be guided by our principles.

For example,

2006 GA Statement of Conscience: Threat of Global Warming/Climate Change

2006 Study/Action UUA issue: A Liberal Morality in a Pluralistic World

Ideals: Investment Screening



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

A Process of Discernment



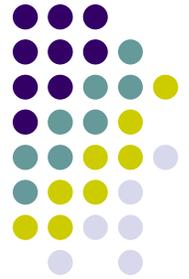
- *Are you interested in learning to identify and implement your personal values when making decisions about your money?*
- *Is your church/fellowship/society/organization willing to consider it's values in regard to decisions about it's money?*



Overview

- What is SRI?
 1. Community investing
 2. Shareholder activism
 3. Stock selection
- Today's Seminar: standards of stock selection
- Why & How: Practical Help / Resources

Some SRI History



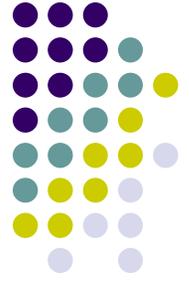
- Late 1700's religious investors in U.S. refused to invest in alcohol, gambling and tobacco companies.
- 1928: Pioneer Group creates a "sin" screen that is used to screen out same three products.
- 1960's: Students pressure universities to divest companies that have South African operations. First divestment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

UUA's SRI History



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

Source: The Register-Leader, January, 1968



UUA's SRI History, con't

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

UUA General Assembly SRI Statements

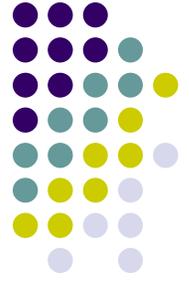


1990's

- A Job, A Home, A Hope (1995)
- Support for Non-Discriminatory Corporate and Other Business Policies (1997)
- Adequate Wages, Employee Health Care
- Toxic Threats to Children [CERES*] (1997)

2000's

- Economic Globalization Resolution (2003)
- Resolution on Corporate Governance (2005)
- Climate Change (2006)



2000: Your sponsor is born.

Committee on Socially Responsible Investing →
formed by UUA Board

Relevant duties:

- To review & assist the UUA
- To communicate SRI policies and activities

Investment Screening Goals



- Make money
- Make a better world (socially and environmentally)

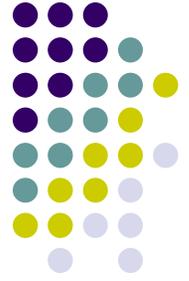
The double bottom line: financial & social returns

(In Europe it's called the triple bottom line: human rights, environment and fiduciary returns)

Naysayers →

“But you can't have your cake (reasonable financial returns) and eat it too (create positive social change)!!”

Corporate Social Responsibility Pays Off



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

Business Ethics, Winter 2004

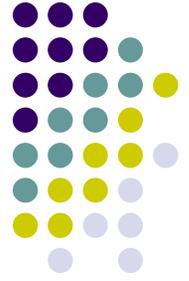
- Orlitzky (2003) finds positive association with corporate social responsibility and financial performance.

Organization Studies, 24, 2003

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

Financial Analysts Journal, Mar/Apr 05

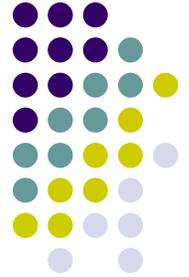
Investment Performance & SRI



- **Case Studies:** 
 - **Theoretical: Domini Social Equity Index vs. S&P 500** Long term, since 1990, the return and risk characteristics are nearly identical, with Domini having a slight performance edge.

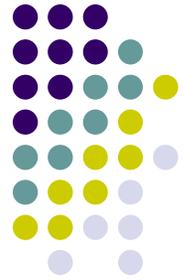
Index Total Returns As of 02/29/08								
	February 2008	Last Qtr	YTD	One Year*	Three Year*	Five Year*	Ten Year*	Since 5/1/90 Inceptn*
KLD's DS400 Index	-4.17%	-3.24%	-9.81%	-6.25%	3.84%	10.06%	3.57%	10.85%
S&P 500	-3.25%	-3.33%	-9.05%	-3.60%	5.37%	11.64%	4.07%	10.41%

SRI Investment Performance



- **Backward looking: Winslow Green Growth**
Winslow is a pioneer in environmentally responsible investing. Massive and consistent outperformance vs. Russell 2000 Growth Index and Small Growth Peers since the 1994.
- **Backward looking: Ariel Fund** Minority-owned firm with SRI Values has one of the best performance records of all mutual funds over the past 20 years.

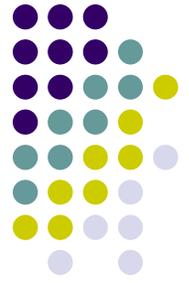
SRI Investment Performance



- Real World UUSC Walden Social Equity vs. S&P 500 - 10 year outperformance of SRI Large Cap Equities vs. benchmark! (10.1% vs. 8.4%)

	Qtr Ended 12/31/06	Year Ended 12/31/06	3 Years Annualized	5 Years Annualized	10 Years Annualized
Equities:					
1-04257 Walden Social Equity	4.3%	10.4%	7.9%	6.5%	10.1%
1-04256 Ariel Growth	6.3%	10.4%	10.8%	10.5%	n/a
1-06420 Small Cap Innovations	7.8%	13.7%	14.0%	n/a	n/a
Boston Common Investment Tr/ Brandywine	9.3%	28.2%	21.0%	n/a	n/a
S&P 500	6.7%	15.8%	10.4%	6.2%	8.4%
S&P Midcap 400	7.0%	10.3%	13.1%	10.9%	13.5%
S&P Smalcap 600	7.9%	15.1%	15.0%	12.5%	11.6%
MSCI EAFE	10.4%	26.3%	19.9%	n/a	n/a

SRI Investment Performance



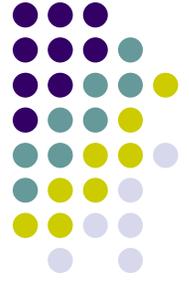
- "When we here at Morningstar have conducted performance studies of socially responsible funds in the past, we've found that the offerings - as a group - perform about as well as funds that pay no attention to ethical considerations when building their portfolios." - Hall (2004)
www.morningstar.com, July 7, 2004

How does Investment Screening make a better world?



- Your choices contribute to a company's profit, reputation and future.
- Environmentally responsible behavior protects our planet.
- Socially responsible behavior protects humanity.
- You support sustainable behavior, and refrain from participating in egregious behavior.
- Investing in sustainable companies gives you a more stable portfolio.
- The work of deciding (doing social research) promotes honesty and transparency.

The Current UUA Investment Screening Standards Guidelines



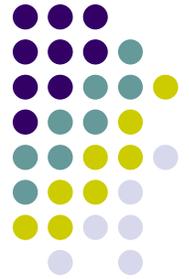
- Favor or Avoid companies with positive or negative behavior concerning to international ESG criteria:
- Environment
- Society
- Governance

Available on the web at

<http://www.uua.org/documents/csri/guidelines.pdf>

The UUA

Socially Responsible Investment Guidelines



Environment

Investments are **preferred** in companies that

- (1) produce products or services that reduce waste generation or conserve natural resources;
- (2) show significant progress in reducing volume and toxicity of waste, emissions and effluents;
- (3) have innovative programs to reduce use of energy, water, materials and land;
- (4) have consistently good compliance records;
- (5) have strong environmental management systems including clear environment policies and audits;
- (6) are committed to standardized environmental reporting (e.g., CERES),
- (7) are committed to increased involvement in renewable energy sources and
- (8) are proactively addressing these and other issues of global climate change

Environment, Avoid



The UUA seeks to avoid companies that

- (1) show a pattern of serious environmental violations,
- (2) show a below-average record of environmental performance and/or responsible for major environmental disasters
- (3) are in industry sectors with high adverse impact on the environment
- (4) have been negligent in handling significant environmental problems,
- (5) are significantly engaged in practices with negative global impacts such as rainforest destruction and ozone depletion, and/or (6) contribute in significant ways to climate change.

Society



The UUA **favors** investment in companies with explicit human rights principles and/or labor standards which guide their national and global operations in both owned and contracted facilities.

Also favored are companies with

- (1) safe useful high quality products or services which enhance the quality of life;
- (2) responsible pricing and marketing practices;
- (3) high performance in addressing product safety;
- (4) strong policies and programs in recruiting, development for historically marginalized people;
- (5) innovative labor policies demonstrating commitment to quality of life (paid time off for volunteering, sabbaticals, employee recognition, company sponsored volunteer programs, flex-time, part-time benefits, job sharing, telecommuting and dependent care);
- (6) inclusive nondiscrimination policies (e.g., sexual orientation, gender identity, same sex partner benefits, positive union relations or employee participation) and adherence to those policies; (7) strong emergency and on-going safety programs and performance; and (8) strong records of investing in local communities; e.g., as exemplified by outstanding Community Reinvestment Act ratings.

Society, Avoid

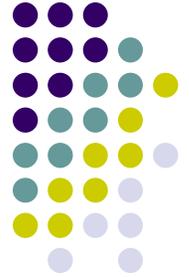


Violations of the most basic human rights to survival and integrity (e.g., the use of forced labor, child labor, sweatshops and other international labor organization standards) are to be avoided.

UUA investments also avoid companies that negatively impact communities through

- (1) failure to invest adequately in local communities, or engage in predatory lending or redlining;
- (2) manufacture or sell products with adverse public health consequences;
- (3) conduct misleading or irresponsible marketing of products or services;
- (4) demonstrate patterns of equal employment opportunity (EEO) or Occupational Safety and Health Administration (OSHA) violations; and/or
- (5) demonstrate serious labor relations problems.

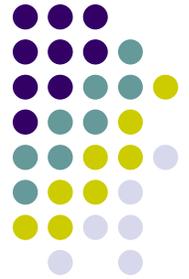
Governance



Preference is given to companies with good performance in matters of ethical corporate governance principles:

- (1) accountability (independent monitoring and reporting on Environmental/Social/Governance performance);
- (2) democratic practices;
- (3) transparency (regular audits e.g., CERES; full disclosure of charitable giving and political activities);
- (4) embedded ness, i.e., ethical behavior is normative in corporate culture (e.g., above average representation of historically marginalized peoples on boards of directors and in senior management and pipeline positions; performance-based executive compensation that considers a company's impact on all stakeholders); and
- (5) responsibility (community investment; generous corporate philanthropy; policies and treatment of shareholder advocacy).

UUA Common Endowment Fund Target Asset Allocation



Equity (40%)

- 15% Domestic Large Cap
 - 5% Rhumblin SRI
- 5% Domestic Small Cap
- 20% International

Fixed Income (30%)

- 19% Core bonds
- 1% Community
- 5% global bond
- 5% high yield bonds

Non-Correlated (30%)

- 30% Non-correlated
 - 5% Relational

Screened ?

Yes, Avoid Screens
 Yes, Fully Screened, Favor & Avoid
 Yes, Avoid Screens
 No

 Yes, Avoid Screens
 By Definition
 No
 Yes, Avoid Screens

 No
 Yes, Activist Shareholder Strategy

50% Screened

5% fully screened (Rhumblin)
 40% screened for Tobacco, Weapons & Darfur;
 5% screened for governance issues (Relational)

50% Not Screened

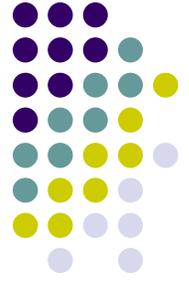
Do it yourself?



Social research is a burgeoning field

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

Where to begin? uua.org/finance/sri/



- Talk with your minister, Social Justice Committee, Financial/Endowment Committee.
- Use the Spectrum of Involvement Scale
- Find competent financial professionals who know the SRI field.
- Other SRI-related websites:
SIRAN www.siran.org
ICCR www.iccr.org

Mutual Funds and Screens



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

Other Starting Points



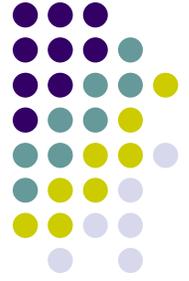
- www.calvert.com/sri_kwyo.asp. (Know What You Own: look up companies and get a socially researched opinion)
- www.socialinvest.org Provides outline of screens performance for social funds*.
- Financial performance of mutual funds: www.morningstar.com (free trial period); Is available thru some financial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

Unitarian Universalist Common Endowment Fund (CEF)



- Professionally Managed by Investment Professionals and Socially Responsible Investment Professionals with your values
- Access to Investment Managers and Investment Consultants not available to most Individual Investor
- Pool your investments with other UU societies to maximize impact in:
 - Shareholder Activism
 - Community Investment
 - Sophisticated Screening Tools

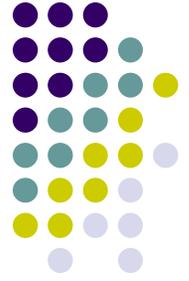
SRI Mutual Funds with Net Assets over \$600m



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

No UUA endorsement/recommendation

Caveat



Traditional rules of sound investment:

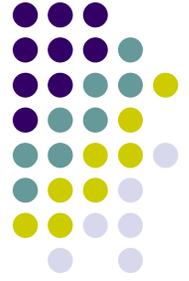
- 1) Don't put all your eggs in one basket!
- 2) If investor has fiduciary duties they must be followed as well.

Socially responsible mutual funds tend to have higher fees than regular funds. The higher fees can be attributed to the additional ethical research that mutual fund managers must undertake.

In addition, socially responsible funds tend to be managed by smaller mutual fund companies. Larger fund companies are able to make use of economies of scale, and as such they have fees that are more comparable to other funds.

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

Questions & Reflections



- While there is no ideal company, just as there is no ideal world, we must make a start and express our values through economics.