

To: Denny Davidoff, Moderator, FIA / RE Working Group,
Finance Committee and Board of Trustees

Date: June 15, 2000

From: Moderators Ad Hoc Committee on Socially Responsible Investing

Reporting on a Fresh Approach to Socially Responsible Investing

Socially responsible investing (SRI) allows the UUA to harness the power of its financial resources to live out and express UU values. We strive to manifest our values in our daily lives, including in our financial activities. It would be hypocritical though to use income generated by the production of weapons of destruction to advance our views of peace and social justice.

In the early days of the SRI movement the UUA held a leadership role. Resolutions passed by the UUA Board and the General Assembly between 1967 and 1986 were among the earliest manifestations of the evolving trend to invest assets for the combined purposes of investment return and to advance a specific social or environmental agenda. We are indebted to Dr. Loretta Williams for her contribution to the evolution of grassroots SRI within the UUA; examples of her contributions still exist on the web-site. Money is frequently viewed as a form of power. The UUA and its constituencies have a right and the opportunity to utilize available resources to exercise moral suasion toward influencing and improving corporate and public policy. Opportunities for leadership still exist.

In recent years, the SRI movement has evolved more rapidly than we have. The investment industry has discovered that there are many investors who wish to be socially conscious in their selection of companies in which to invest. It has been estimated that over \$2 trillion is now invested in companies whose operations and corporate behavior have been examined and screened based on positive criteria, not simply with the former, negative screen approach.

Exclusionary screening methods of the past 30 years are being augmented with positive screening techniques and also with outreach activities such as sponsorship of shareholder resolutions, dialogues with corporate management and proxy voting. These new approaches in combination with the use of the Internet and the maturity of groups such as the Interfaith Center on Corporate Responsibility (ICCR) have helped to transform SRI from a largely reactive to a proactive force. Thus, there are now a number of investment firms who have chosen to add research capacity and to develop criteria to apply a social overlay to the business of investment.

An often expressed concern has been that SRI would result in less competitive financial returns. This concern has been addressed over time by statistical evidence as well as the experience and investment results of a number of firms and social investors. Socially responsible investing has become mainstream, as evidenced by an increasing number of mutual fund firms such as Calvert, Citizens, Pax World and Domini. Now traditional investment companies such as Vanguard, Smith Barney and Neuberger, Berman have begun to introduce social investment products.

Social investing has also expanded to include investment in foreign securities; international or global mutual funds are currently offered by Calvert, Walden and Citizens including both active management and indexing and it is anticipated that Vanguard and others soon will introduce international or global social funds.

Socially responsible investing allows the UUA to support our congregations as they seek ethical means to conduct their financial activities. It also offers the opportunity to minister to individual Unitarian

Universalists as they strive to invest in ways consistent with their core values. Socially responsible investment is another venue through which we may provide leadership and service.

Recommendations

The UUA's current structure for the development and implementation of socially responsible investment guidelines provides for the Board of Trustees to direct and produce the specific policies with respect to SRI which are then implemented by the Investment Committee, and others as appropriate. In order for the UUA to become a more proactive and creative force in SRI a new mechanism for the development, refinement, implementation and monitoring of the UUA's SRI mission should be established. Some key goals include:

- o review, augment, replace and maintain guidelines which are current and reflective of UU values, as embodied in our Principles and Purposes and through resolutions of the General Assembly;
- o visibly and proactively provide for the distribution of information and resources to harness the power of UUA's constituencies and provide service to encourage the involvement of congregations, thus putting our faith in action;
- o improve the UUA's outreach to the significant number of UU households with equity holdings, whether direct or through IRAs and mutual funds.

To achieve these ends, the Committee recommends that the Board establish an ongoing Committee on Socially Responsible Investing (CSRI). The CSRI Committee composition should overlap with the Investment Committee. The responsibilities of the CSRI would include:

- o update and maintain current SRI policies and practices for funds over which the Board has responsibility (including alternative social investments) that reflect our UU values, especially as expressed by the General Assembly resolution process, the Board of Trustees policies, and our UU Principles and Purposes;
- o develop a process to ensure the implementation of these SRI policies through delegation to investment managers and other outside service providers;
- o communicate the UUA's SRI activities to the Board, staff, member congregations and other constituencies; provide information to assist congregations in the development and implementation of their own SRI policies and practices.

Recent experience with a current issue in socially responsible investment highlights an opportunity for the UUA's leadership, which such a structure would facilitate. The UUA learned that its retirement funds held a small position in Occidental Petroleum through one of the Fidelity mutual funds. Occidental is planning to drill on sacred U'wa land in Colombia and socially concerned shareholders are attempting to press the company to abandon these plans. A question concerning the issue was placed on their recent proxy statement as a result of efforts of a coalition of shareholder activists, despite Occidental's opposition. With the exception of the socially responsible mutual funds, current practice in the mutual fund industry does not include disclosure of fund voting records. Public disclosure and accountability are often the first, key steps toward positive social change. UUA's leadership among its own constituencies and within other religious organizations could meaningfully advance the cause of disclosure at Fidelity and other mutual fund firms. This would greatly strengthen the position of socially concerned shareholders whose equity interests are held by mutual funds.

Anticipated Results

The approval and implementation of these recommendations are designed to produce the results outlined below, among others. This summary list is intended only to address key areas of concern. The UUA Board of Trustees, through its implementation:

- o delegates the detail-oriented work of the determination of best practices to an appropriate group and retains the broad mandate and control for SRI;
- o provides a committee structure to apply the General Resolutions and Statements of Conscience passed by the General Assembly and the UUA Board to the area of socially responsible investment;
- o expands the services provided to congregations in the formation and implementation of SRI guidelines, policies and practices;
- o affirms the interest and involvement of program staff (Faith in Action, Ministry, Religious Education, Congregation, District and Extension Services) and the role of the Investment Committee and the Compensation, Benefits and Pension Committee in the area of socially responsible investing;
- o broadens the ecumenical thrust of the UUA through active participation in the ICCR and other faith-based initiatives, including increased participation in shareholder activism (see the Appendix for additional information concerning the structure and commitment of other denominations.) Provides additional information for dissemination concerning the UUA and its leadership by the Office for Public Witness;
- o provides an ongoing structure for the assessment, implementation and audit of SRI policies and practices which impact investment strategies, alternative investments, community reinvestment and other financial resources;
- o allows increased participation and visibility in shareholder activism;
- o provides information to individual Unitarian Universalists who are interested in investing in a socially responsible manner.

Recommended Structure and Implementation

The composition envisioned for the CSRI with nominations from the Committee on Committees and approval by the Board of Trustees is outlined below:

An Investment Committee liaison,
Two liaison members from program departments or others related to key SRI issues which involve UUA constituencies, and
Two or three members from Congregations, preferably with investment and / or social action experience and expertise.

Plus Ex-Officio:

Board liaison
Financial Advisor
Treasurer

In addition, a key responsibility of the CSRI will include management of the relationships between the Board and the following with respect to SRI:

Department for Faith In Action
General Assembly Resolutions
UUA constituencies including: DRUUM, Interweave, Women's Federation
Office for Public Witness
Investment Committee
Compensation, Benefits and Pension Committee
Department of Ministry Office of Church Staff Finance
Treasurers Office of the UUA
Interfaith Center for Corporate Responsibility
Investment Managers & Consultants Responsible for SRI and UUA investments
Congregations implementing policies on Socially Responsible Investing
Individual Unitarian Universalists investing in socially responsible ways
Alternative Social and Community Investments

We recognize that staffing and budget allocations are not the direct responsibility of our committee, nor of the Board of Trustees except through the annual approval of the budget as recommended by the administration. However, the establishment of any committee requires some level of staff support. As guidance to the administration as it considers the potential staffing of these recommendations, the Committee envisions at least two possible alternatives that are progressive in their dependence on paid staff rather than volunteers, that are labeled Option A and Option B, as shown on the following page. The staffing implications could be implemented through a redirection of existing staff resources or by additional

staff resources. The Committee's responsibilities and activities under each of these options are denoted by an X, or lack thereof, in the appropriate column that appears to the right of the responsibility or activity. Option A assumes a full-time staff member that will work with and assist the Committee and its activities; Option B assumes part-time staff member coordination. The variation in the cost is primarily, though not exclusively, salary and benefits expenses.

CSRI Responsibilities

	<u>Option A</u>	<u>Option B</u>
Meet at least 6 times per year	X	
4 times per year		X
Continuously refine the SRI policy to reflect GA resolutions and Board of Trustee activity	X	X
Develop and maintain proxy voting guidelines	X	X
Direct UUA participation in shareholder proposals, company dialogues and corporate campaigns	X X X	X
Report activity to the Board of Trustees and Investment Committee	X	X
Representation/leadership of UUA at ICCR		
by staff	X	
by volunteer		X
Develop and implement procedures to report to member congregations on UUA SRI activity, including articles in UU publications	X	X
Maintain pages on the UUA website that provides access to the UUA's SRI activities and provides information to members and congregations about how to become involved	X	
Prepare and present SRI education to member congregations	X	
Lead programs at General Assembly	X	
Monitor, evaluate and report on implementation		

impact of activities every 1-2 years	X	
3-4 years		X
Evaluate Committee goals, objectives, results and recommend improvements every 2 - 3 years	X	
3-4 years		X
<i>Annual Estimated Cost</i>	<i>\$75,000</i>	<i>\$35,000</i>

The Ad Hoc Committee believes both of these options are viable and each represents an opportunity to enhance the present policies and practices of the UUA with respect to socially responsible investing. The Committee welcomes your questions and comments and would be pleased to assist in any additional efforts the Board may direct in this regard.

Appendix

PROTESTANT DENOMINATIONAL MEMBERS OF INTERFAITH CENTER ON CORPORATE RESPONSIBILITY (“ICCR”)

<u>Denomination</u>	<u>Number and Type of Representatives(1)</u>
American Baptists	1 or 2 Full-time staff – program
American Friends Service Comm.	2 part time staff - finance
Disciples of Christ	Formerly 1 full-time staff – program Currently volunteer
Episcopal Church Pension office Exec Council Publishing Co. Diocese of MA	1/3 time of consultant – professor of business ethics volunteer committee chair volunteer professional Board member
Evangelic Lutheran	1/3 time of program staff person
Mennonite Mutual Aid (Mutual Fund)	
Presbyterian USA	½ time 6 program staff person
Reformed Church	10% of program staff person
United Church of Christ: Homeland World	1 full-time program staff person 20% of program staff person
United Methodist: Pension Women’s’ Div.	4 staff – 2 from program 1 from finance staff

Church & Society	10% staff – program
UUA	<10% staff - from finance
UUSC	volunteer

Not represented –
Southern Baptist
African-American denominations

Note - Estimates supplied by ICCR as of May 2000

To: Lucia Santini-Field, Joann Corkran, John Keller, James Gunning, Lawrence Ladd
From: Denny Davidoff
Date: November 1, 1999
CC: Jerry Gabert, Kay Montgomery, Beth McGregor

Thank you for agreeing to serve on the Moderator's Ad Hoc Committee on Socially Responsible Investing. Lucia has agreed to convene you all for a first meeting and I suggest that you choose a chairperson from among your ranks to take the group forward.

Your charge comes from action taken by the UUA Board of Trustees in June. This is how the minutes read:

Larry Ladd, Financial Advisor, reported on investment results and said that he and Jerry Gabert, Treasurer were working on the preparation for the strategic use of the Association's assets over the next several years. He noted that, coming out of conversations at the April Board meeting, there seemed to be agreement on the need for an ad hoc committee to review the Association's practices and policies regarding socially responsible investing.

VOTED: To instruct the Moderator to appoint an ad hoc committee on socially responsible investing, charged with reviewing current practices and policies and making recommendations for new practices and policies with respect to the UUA's uses of financial and physical assets in light of our religious values. The committee will report to the Board of Trustees at its January 2000 meeting.

Given that it has taken me this long to get you going, I will let the Board of Trustees know that we should expect your report at our May 5-7, 2000 meeting.

Jerry Gabert will be staff to your committee. He can be reached at (617) 742-2100, ext. 305 or jgabert@uua.org. I expect your meetings will be held in Boston or New York City and on e-mail and phone conferences. Your expenses for travel, lodging and meals will be covered by the UUA.

Thank you for this service to our wider religious community. Please feel free to be in touch with me if I can be useful.

**MODERATOR'S AD HOC COMMITTEE ON
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