Social Investment Forum

2001 Report on Socially Responsible Investing Trends in the United States

SIF Industry
Research Program

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2001 Report on Socially Responsible Investing Trends in the United States

Executive Summary

In examining socially and environmentally responsible investing trends in the two years since its last study, the Social Investment Forum found that the field is healthy and expanding. All of the socially responsible investment strategies embraced by socially conscious investors in the U.S. – screening, shareholder advocacy, and community investing – have enjoyed a robust two years of activity.

Highlights of the 2001 Report on Socially Responsible Investing Trends in the United States include:

- **Assets in professionally managed, socially screened investment portfolios rose by 36 percent from 1999 to 2001.** Socially screened portfolios surpassed the $2 trillion mark for the first time. Total assets under management in portfolios screened for one or more social issues climbed from $1.49 trillion in 1991 to $2.03 trillion in 2001.

- **The growth rate for socially screened portfolio assets was more than 1.5 times that of all professionally managed assets in the United States.** According to the 2001 Nelson's Directory of Investment Managers, the total universe of professionally managed investment assets in the U.S. grew at 22 percent, from $16.3 trillion in 1999 to $19.9 trillion in 2001, during the same period in which socially screened assets under professional management grew by 36 percent.

- **Assets in socially screened separate accounts managed for institutional clients and individual investors grew by nearly 40 percent from 1999 to 2001.** These screened, private portfolios rose to $1.87 trillion in 2001, from $1.34 trillion in 1999.

- **Assets of socially concerned investors using both screening and shareholder advocacy to encourage greater corporate responsibility have more than doubled.** Assets in portfolios utilizing both strategies of social investing grew from $265 billion in 1999 to $601 billion in 2001. Most of this increase was due to the fast-rising number of major institutions that are screening out tobacco stocks, in addition to undertaking some form of shareholder advocacy.

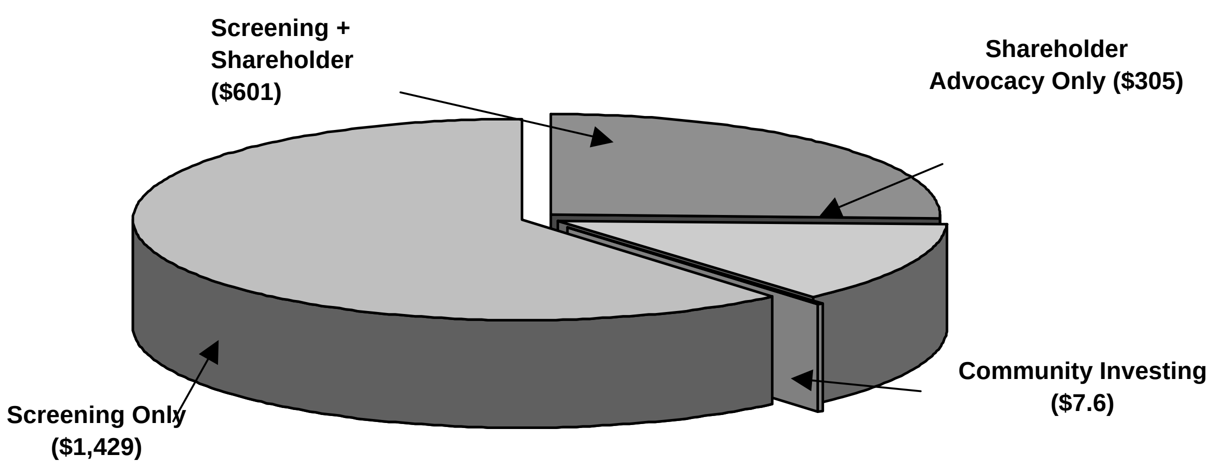
- **Altogether, over $2.3 trillion resides in professionally managed portfolios utilizing one or more of the three dynamic strategies that together define socially responsible investing in the U.S. – screening, shareholder advocacy, and/or community investing.** Despite a stock market slide covering most of the time period since the publication of the Social Investment Forum's 1999 Trends Report, the total level of socially and environmentally responsible investing in the United States grew by 8 percent from $2.16 trillion in 1999 to $2.34 trillion in 2001.

- **Nearly one out of every eight dollars under professional management in the United States today is involved in socially responsible investing**. The $2.34 trillion managed by major investing institutions, including pension funds, mutual fund families, foundations, religious organizations, and community development financial institutions, accounts for over 12 percent of the total $19.9 trillion in investment assets under professional management in the United States, according to the 2001 Nelson's Directory of Investment Managers.

- **There are now 230 mutual funds in the United States that incorporate social screening into the investment process.** The 230 socially screened mutual funds identified by the 2001 study are up from the 168 socially screened funds identified in 1999. This number does not include multiple share classes of the same fund. Due in large part to the sustained market downturn, the assets of socially screened mutual funds were essentially the same: $153 billion in 2001 and $154 billion in 1999.

- **Socially screened mutual funds are attracting and keeping investor assets better than their unscreened counterparts in the recent market downturn:** During the first nine months of 2001, Lipper reported a 94 percent drop in the dollars that investors put into all mutual funds, compared to only a 54 percent drop for socially screened funds.

FIGURE 1: SOCIALLY RESPONSIBLE INVESTING IN THE UNITED STATES TOTAL: $2,340 BILLION IN 2001 ($ BILLIONS)



Note: Total Screening is $2,030 billion ("Screening Only" + "Both Screening and Shareholder") and Total Shareholder Advocacy is $906 billion ("Shareholder Advocacy Only" + "Both Screening and Shareholder").

- **Tobacco is the most widely used screen in screened portfolios.** Other broadly utilized screens include weapons, alcohol, the environment, human rights, employment/equality, and gambling.

- **More than $900 billion in investment assets are leveraged through shareholder advocacy.** Institutions and mutual fund families used the power of their $906 billion stake in corporate America to sponsor or co-sponsor proxy resolutions on social issues. Despite the extended slump in the stock market, the $906 billion was very nearly equal to the $922 billion in total social shareholder activism reported in 1999.

- **Community investing grew by 41 percent between 1999 and 2001.** Assets held and invested locally by community development financial institutions (CDFIs) based in the United States totaled $7.6 billion in 2001, up from $5.4 billion in 1999.

FIGURE 2: SUMMARY OF SOCIALLY RESPONSIBLE INVESTING

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

	1999 ($billions)	2001 ($billions)	% Change 1999-2001
Total Screening	$1,497	$2,030	+36%
Total Shareholder Advocacy	$922	$903	-2%
Both Screening and Shareholder *	($265)	($601)	+127%
Community Investing	$5.4	$7.6	+41%
Total	**$2,159**	**$2,340**	**+8%**

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

The Social Investment Forum finds that, taken together, these trends show that socially responsible investing continued to grow in a down market, providing competitive performance for investors, encouraging corporate responsibility, and meeting needs in economically distressed communities.

SECTION I

THE SCOPE OF SOCIALLY RESPONSIBLE INVESTING IN THE UNITED STATES

Today, nearly one out of every eight dollars under professional management in the United States is involved in socially and environmentally responsible investing. Nearly 12 percent of all investment assets under professional management in the U.S. -- $2.34 trillion out of $19.9 trillion -- reside in a professionally managed portfolio utilizing one or more of the three socially responsible investment strategies that define socially responsible investing in the United States – screening, shareholder advocacy, and community investing.

Social 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 $1.18 trillion, led by substantial growth in social screening and shareholder advocacy.

- In 1999, the Forum found that social investing experienced continued rapid growth, nearly doubling to the $2.16 trillion mark.

- In this 2001 survey, the Forum found that social investing rose to $2.34 trillion, despite an extended market downturn for most of the two-year period since the publication of the 1999 study. The primary driver for this growth is the total assets under management in portfolios screened for socially concerned investors, which climbed 36 percent from $1.49 trillion in 1991 to $2.03 trillion in 2001.

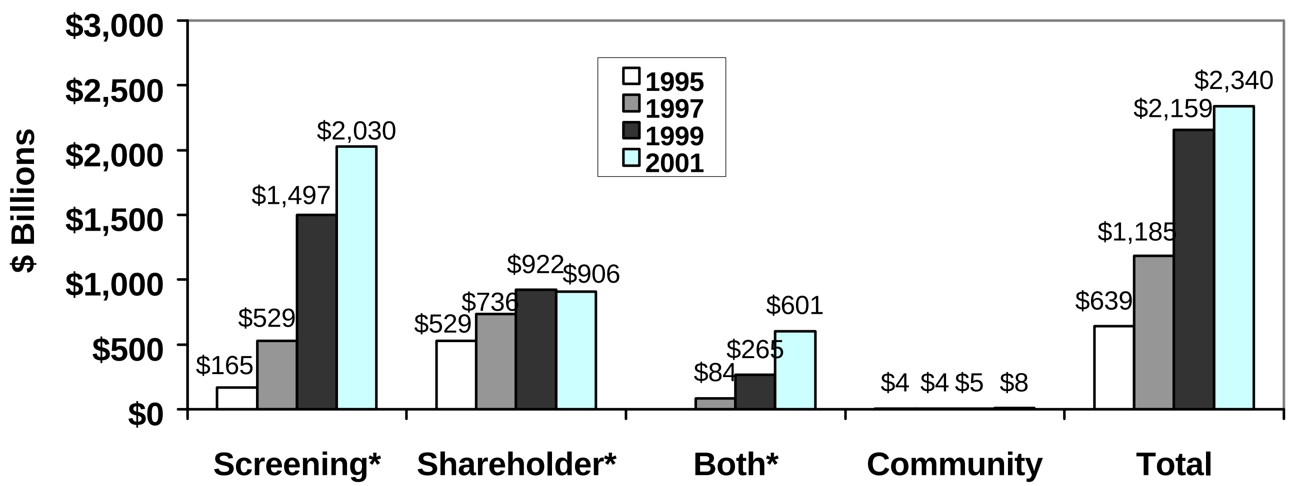
Social Investing Defined

Social investing, socially responsible investing, socially aware investing, ethical investing, mission-based investing, and natural 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.

Socially responsible investing (SRI) is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. It is a process of identifying and investing in companies that meet certain baseline standards or criteria of Corporate Social Responsibility (CSR) and is increasingly practiced internationally. As the Prince of Wales Business Leader Forum explains: "Corporate Social Responsibility means open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders."

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 specific 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.

FIGURE 3: GROWTH OF SRI INVESTMENTS ($ BILLIONS)



* "Screening" and "Shareholder" both include $84 billion of assets in 1997, $265 billion in 1999, and $601 billion in 2001 in portfolios that both screen and conduct shareholder advocacy. The calculation for total is: Total = "Screening" +"Shareholder" +"Community" -"Both". This category is not applicable in 1995.

The Three Strategies of Socially Responsible Investment

Socially responsible investing incorporates three dynamic strategies that work together to promote socially and environmentally responsible business practices and, in turn, encourage 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 operations that respect 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 dialoguing with companies on issues of concern, as well as filing, co-filing, and voting proxy resolutions. Proxy resolutions on social issues are generally aimed at influencing corporate behavior toward a more responsible level of corporate citizenship, steering management toward action that enhances the well-being of all the company's stakeholders, and improving financial performance over time.

- ***Community Investing*** is financing that generates resources and opportunities for economically disadvantaged people in urban and rural communities in the U.S. and abroad that are under-served by traditional financial institutions. Community investors make it possible for local organizations to create jobs, provide financial services to low-income individuals, and supply capital for small businesses, affordable housing, and community services such as childcare.

Socially Responsible Investing: Deep Roots

The roots of social or ethical investing stretch 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, noted 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 products designed to kill fellow human beings. Many 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 that 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 1995 report 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.

Over the past 20 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 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.

As we enter the 21st century, socially responsible investing is increasingly working in concert with social, environmental, and economic justice movements, as well as government and international bodies, to promote a broad agenda of sustainability. Within these movements, sustainability increasingly includes the full range of concerns from environmental, to human and civil rights, to economic development, including workplace health and safety, job quality, and security.

In recent years, many socially responsible portfolios have moved beyond selecting companies that are working to halt their negative environmental and social impacts to choosing companies that are actively working to improve their social and environmental performance. The adoption by many socially responsible mutual funds of a broad-based set of screens that promote sustainability, and the continuing competitive performance of these funds, has helped create mainstream recognition of the importance of a corporate sustainability agenda. There is a growing realization among corporate leaders and academics that the adoption of principles of sustainability can co-exist with long-term corporate profitability. Increasingly, corporations that practice corporate responsibility are considered to have substantial long-term investor value. Both indexes and actively managed mutual funds have been developed to track stocks in these areas.

Sustainability is also evident in the practice of socially responsible shareholder advocacy and community investing. Shareholder advocates, both in the United States and abroad, are increasingly raising environmental and social concerns with corporate managers, boards, and shareholders, and are increasingly winning support for the adoption of greater corporate responsibility standards and practices. Community investors are tying economic development to sustainable environmental development and working with local social service and social justice organizations to create long-term community development strategies that will benefit generations to come.

Based on these successes, in coming years, we will likely see the expansion of efforts by socially responsible investors to promote the interconnected economic, social, and environmental issues of sustainability, as well as increasing acceptance and action from corporations and governments in adopting a sustainability agenda.

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The following sections of this report detail the dimensions of the growth of all three components of social investing, as well as the rise of a movement for international corporate responsibility. The final section of the report describes the study's methodology, and provides additional information about social investing and the Social Investment Forum.

SECTION II

SOCIALLY SCREENED PORTFOLIOS EXPERIENCE RAPID GROWTH

Socially screened portfolios surpassed the $2 trillion mark for the first time ever in 2001. Total assets under management in portfolios employing one or more social screens climbed 36 percent from $1.49 trillion in 1999 to $2.03 trillion in 2001. Of the $2.03 trillion in socially screened portfolios, $153 billion are in mutual funds and $1.87 trillion are found in separate accounts, privately managed by professional portfolio managers for the benefit of individual and institutional clients.

The growth rate of assets found in socially screened portfolios was over one-and-a-half times that of all professionally managed investment assets in the United States. According to the 2001 Nelson's Directory of Investment Managers, there is currently a total of $19.9 trillion in investment assets under management in the U.S., compared to $16.3 trillion in 1999. This 22 percent increase compares to the 36 percent increase in socially screened portfolios over the same period.

Key components of the growth of socially screened portfolios include:

- Total growth in assets under management in screened portfolios increased to $2.03 trillion in 2001, from $1.49 trillion in 1999. Of the $2.03 trillion, $1.87 trillion are found in socially screened separate accounts privately managed by professional portfolio managers, and $153 billion are found in socially screened mutual funds.

- Assets in socially screened separate accounts grew by nearly 40 percent from 1999 to 2001. These screened private portfolios rose to $1.87 trillion in 2001, from $1.34 trillion in 1999, $433 billion in 1997, and just $150 billion in 1995.

- Of the total $1.87 trillion in socially screened portfolios, $601 billion are in portfolios controlled by investors who are also involved in shareholder advocacy on various social issues, a significant increase over 1999, when these assets totaled $285 billion.

- The number of mutual funds utilizing social investment criteria increased to 230 in 2001, from 168 in 1999, 139 in 1997, and just 55 in 1995.

- Assets in socially screened mutual funds stayed steady from 1999 to 2001, despite a substantial market downturn. Screened mutual fund assets now stand at $153 billion, versus $154 billion in 1999. This is up from $96 billion in 1997, and up from just $12 billion in 1995.

- In terms of attracting investor assets, socially screened mutual funds have been impacted less by the recent market downturn than their unscreened counterparts. Lipper reported that for the first nine months of 2001, there was a 94 percent drop in the dollars that investors put into all mutual funds, compared to only a 54 percent drop for socially screened funds.

FIGURE 4: SCREENED PORTFOLIO GROWTH

Screened Portfolios	1997 ($billions)	1999 ($billions)	2001 ($billions)	% Change 1999-2001
Mutual Funds	$96	$154	$153	-1%
Separate Accounts	$433	$1,343	$1,870	39%
Total	**$529**	**$1,497**	**$2,030**	**36%**

Socially Screened Separate Accounts

Screened separate accounts – portfolios that are privately managed on behalf of institutions and individuals – enjoyed a significant increase in assets from 1999 to 2001, with a growth rate of 39 percent. The current growth of separate accounts continues a solid trend of increasing assets since the Forum first tracked these assets in 1995. Assets in separate accounts in 1995 were $150 billion, compared to today's $1.87 trillion – a growth rate of 1,150 percent over a six-year period.

The increase in screened separate accounts can be attributed largely to the growing number of institutions and investors that have been attracted to the field of socially responsible investment. Institutions and individual investors that have placed their money into privately managed socially and environmentally screened portfolios include:

- Religious organizations
- Municipal and state governments
- Unions
- Foundations
- Universities and colleges
- Insurance companies
- Corporations
- Individuals turning to professional investment managers to tailor personal portfolios

Socially Screened Mutual Funds

Socially responsible mutual funds are mutual funds that include one or more social screens. They are available to investors through several routes. Socially screened mutual funds may be available to investors directly, meaning investors that can meet the funds' minimum investment may put their assets directly into the fund. Investors may also be able to place assets in socially responsible mutual funds through a variable annuity plan. Finally, several funds are made available only to institutions, most commonly to labor union pension funds.

From 1999 to 2001, the number of socially responsible mutual funds increased substantially, creating greater options for investors seeking screened portfolios. The number of mutual funds utilizing social investment criteria rose to 230 in 2001, from 168 in 1999.

Figure 5: Mutual Funds by Availability

	Available Directly		Available within Variable Annuity Plans		Other: Available through Institutions Only		Total	
	1999	**2001**	**1999**	**2001**	**1999**	**2001**	**1999**	**2001**
# of Mutual Funds	143	203	13	13	12	14	168	230
Assets (billions)	$133	$128	$7	$7	$14	$18	$154	$153

Common Portfolio Screens

Based on an historical overview covering the period 1995-2001, the Social Investment Forum finds that tobacco is the most common screen employed by socially screened portfolios. The environment, human rights, employment/equality, gambling, alcohol and weapons are also broadly used screens (used by 50% or more of screed portfolios).

Common screens (used by 30 to 49 percent of screened portfolios) are labor relations, animal testing/rights, community investing, and community relations. Specialty screens (used by less than 30 percent of screened portfolios) are executive compensation, abortion/birth control, and international labor standards.

FIGURE 6: SCREENS USED IN SCREENED PORTFOLIOS

Broadly Used Screens (50% or more screened portfolios use)	Commonly Used Screens (30% to 49% of screened portfolios use)	Specialty Screens (Less than 30% of screened portfolios use)
Tobacco Environment Human Rights Employment/Equality Gambling Alcohol Weapons	Labor Relations Animal Testing/Rights Community Investing Community Relations	Executive Compensation Abortion/Birth Control International Labor Standards

Throughout the 1990s, and into the new century, screened portfolios have consistently broadened the screens employed, including negative screens (screening out companies for their poor environmental and social records) and positive screens (screening in companies that have excellent social and environmental records). Some of the screens that are now used by less than 30% of screened portfolios may, over time, become more commonly used. In some cases, new issues of social and environmental concern, such as international labor standards, emerge first through the shareholder advocacy process (see Section III), and then, over time, quantitative criteria are developed to apply them as portfolio screens.

Key Trends in the Growth of Screened Portfolios

Several factors account for the continuing growth of screened portfolios:

- **Performance**: Socially responsible investing continues to perform well financially, relative to the market for both individual and institutional investors. This competitive performance has continued during the recent period of market turbulence. 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 responsible mutual funds tracked by Morningstar have consistently been more likely to receive Morningstar's highest rankings (four or five stars) than the overall universe of mutual funds.

    - Academic studies continue to find that socially screened portfolios perform as well as their unscreened counterparts.[1]

- **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. Tobacco continues to be the leading screen employed by both separate accounts and mutual funds.

- **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.

- **The Growth of Screened Religious Funds:** A study by Carlisle Social Investments in early 2001 reported that a myriad of religious-minded organizations have developed mutual funds

[1] See Bernell K. Stone, John B. Guerard, Jr., et al., "Socially Responsible Investment Screening: Strong Evidence of no Significant Cost for Actively Managed Portfolios," 1999 (First presented at the "Making a Profit While Making a Difference Conference," May 1999). See also, John B. Guerard, Jr., "Is There a Cost to Being Socially Responsible in Investing?," Vanguard Global Advisors, 1996.

and indexes with the tenets of a specific faith at the forefront of the decision-making process. A nationwide survey by MMA Praxis Mutual Funds found that nearly 80 percent of investors consider themselves religious, and over 60 percent consider the teachings of their faith when making decisions about their investments.

This growing number of religious investment options includes new offerings from Carlisle Social Investments (Catholic), Dow Jones (Islamic), MMA Praxis Mutual Funds (Anabaptist), Saturna Capital (Islamic), Timothy Plan (Christian), and others.

In addition to religious mutual funds, there has been a growth of religious indexes. Dow Jones offers several indexes tracking Islamic-oriented stocks across the globe. Carlisle Social Investments provides Catholic investors with the Carlisle Catholic U.S. Market Index and the Carlisle Catholic Small Cap Index. The Anabaptist MMA Praxis Funds launched the MMA Praxis Value index.

- **The Growing Number Of Socially Responsible Offerings Available To Investors:** Investors who are considering socially responsible investment are increasingly presented with a growing range of products. Socially responsible portfolios offer investors the ability to invest in a wide range of equities and bonds, as well as domestic, international, and global options.

- **The Increasing Prominence Of Socially Responsible Investing.** Over the past 10 years, there has been an increase in media focus on socially responsible investing, including attention from the trade press. Increased media coverage has led to greater familiarity with socially responsible investing by the public as well as investment professionals.

SECTION III

SHAREHOLDER ADVOCACY ADVANCES ISSUES OF SOCIAL CONCERN

The new data in the 2001 Trends Report shows that shareholder advocacy continues to be a vibrant force in the United States:

- Between 1999 and 2001, the amount of money controlled by investors who are involved in shareholder advocacy held steady, at $922 billion in 1999 and $906 billion in 2001.

- Of this $906 billion, $304 billion represents institutional investment assets that are actively involved in shareholder advocacy but do not employ social screens, and $601 billion is both screened and involved in shareholder advocacy efforts.

- The number of resolutions filed on social responsibility issues increased from 2000 to 2001, as did the average percentage of votes received per resolution.

FIGURE 7: SHAREHOLDER RESOLUTION GROWTH 2000-2001

	2000	2001
Resolutions Introduced	251	261
Resolutions Voted On	150	156
Average Percentage of Votes	7.5	8.5

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

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 a shareholder resolution 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 even need to 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 dialogue between shareholder proponents and management, which is generally the most effective way to encourage changes within the company. When fruitful dialogue with management occurs, shareholder advocates often willingly agree to withdraw their resolutions before having them presented to the company's shareholders through the proxy ballot. In short, a successful shareholder process may lead to an effective dialogue 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 group 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 its proxies, the votes in essence default to management. Many large institutional investors vote only if they have researched the issues involved, a process that 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 directly. Therefore, even relatively low votes through the proxy process often indicate real, and likely increasing, interest among shareholders, the public, and the press. This combined level of attention is often enough to encourage management to enter into dialogue and to consider changing its practices or policies.

In short, not only is the shareholder process a right and responsibility of shareholders, but the existence of the shareholder resolution process also creates a healthy climate of dialogue between investors and management. Management-shareholder dialogues 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, religious investors, 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 generally address issues such as confidential voting, board of director qualifications, compensation of directors and executives (including the linking of executive compensation to social performance), and board composition.[2]

- Social responsibility resolutions most often address issues such as company policies and practices on the environment, health and safety, race and gender, tobacco, sweatshops, and other human rights issues. Approximately 150 of these resolutions are authored and filed annually by the Interfaith Center on Corporate Responsibility, a coalition of faith-based institutional investors.

Shareholder actions introduced by socially responsible investors are best categorized by the social issue that is being addressed. According to the Investor Responsibility Research Center (IRRC), as of October 2001, socially concerned investors – including religious shareholders, foundations, mutual funds, social investment managers, pension funds, and others – filed approximately 261 resolutions in 2001. The chart below details the major areas covered by these resolutions.

FIGURE 8: STATUS OF SOCIAL POLICY SHAREHOLDER RESOLUTIONS IN 2000 AND 2001

	Number of Resolutions								Average	
Subject	**Proposed[1]**		**Withdrawn**		**Omitted[2]**		**Voted On**		**Votes**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001[4]**	2000
Banking/Insurance	10	16	6	6	--	5	3	5	4.3	5.3
Board Diversity	12	9	6	4	--	--	6	5	18.9	19.9
Charitable Contributions	4	9	1	--	1	3	2	5	2.7	4.6
Energy	8	4	--	--	2	--	6	4	6.9	7.2
Environment: CERES/misc.	30	12	9	3	4	--	17	19	8.0	6.7
GMOs	19	22	4	8	1	--	12	14	5.9	3.8
Climate change	7	11	2	6	--	--	5	5	9.3	7.5
Equal Employment[3]	28	29	14	14	2	1	10	13	10.6	8.4
Executive Pay & Social Link	17	20	3	6	1	--	13	14	9.6	8.8
Global Labor/Env. Standards	46	27	8	8	7	2	27	17	8.8	8.2
Human Rights	14	9	3	5	1		10	3	9.3	7.2
Military	11	11	1	1	--	--	10	9	5.1	7.0
Northern Ireland	11	8	6	1	--	--	5	6	17.5	16.5
Pharmaceutical Pricing	9	10	2	1	--	--	7	7	7.0	4.7
Political Contributions/Ties	12	12	--	--	2	2	10	9	5.8	4.5
Tobacco	13	14	4	1	--	--	9	12	7.0	5.9
Other Issues	10	13	4	--	2	10	4	3	4.7	n.a.
Total	**261**	251	**73**	65	**23**	25	**156**	150	**8.5**	7.5

[1] Excludes resolutions not voted on for other reasons (usually a merger): 1 on banking, 2 on environment, 2 on equal employment, and 4 on global labor standards in 2001; and 3 on the environment, 2 on pharmaceutical pricing, and 1 each on charitable contributions, equal employment, human rights, military topics, Northern Ireland, political contributions/ties, and tobacco in 2000. Also excludes proposals omitted on technical grounds.
[2] Excludes proposals omitted on technical grounds.
[3] Includes anti-gay rights proposals: 1 vote, 2 omissions, and 1 withdrawal in 2001; and 1 vote in 2000.
[4] Excludes votes for 16 proposals at 11 companies that had not come to a vote, or for which vote tallies were not available at press time.

[2] 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.

Shareholder Successes in 2000 and 2001

Changes in corporate policy often require long-term engagement with company management. Through resolutions and dialogues with executives, investors have played a substantial role in changing corporate behavior regarding the environment, workplace issues, health, equality, and human rights.

In 2000 and through October 2001 respectively, 150 and 156 social issue shareholder resolutions faced a vote. Notably, labor and environmental issues were major shareholder concerns both years, although shareholders continue to demonstrate a wide range of concerns.

Examples of shareholder success in 2000 included:

- Ford Motor Company and Nike agreed to endorse the CERES Principles, a ten-point code of conduct created by the Coalition for Environmentally Responsible Economies that encourages companies to commit to improvements in environmental performance, reporting, and standards.

- Shareholder pressure played a significant role in convincing General Electric to support stronger efficiency standards for washing machines, which led to major improvements across the industry.

- Mitsubishi abandoned plans for a salt factory near Baja, California's San Ignacio Lagoon, which serves as a grey whale calving site. Fifteen institutional investors joined an environmental coalition to preserve these waters.

Examples of shareholder successes in 2001 included:

- Mercury oral thermometers have been linked to polluted waterways and health dangers, especially in newborns and young children. Because non-mercury alternatives are available, shareholders put pressure on several companies to phase out this mercury-laden product. CVS, Longs Drug Stores, and Safeway are three that agreed to phase out production or distribution.

- Citigroup, Conseco, and Household International came under scrutiny from shareholders because of lending practices considered predatory in nature. Investors asked these companies to amend their lending criteria to eliminate abusive practices – such as prepayment penalties, packing, flipping, and upfront single premium credit insurance. Significant progress was made on this predatory lending issue, including an industry-wide phase out of mandatory credit insurance.

- Coca-Cola and PepsiCo were asked to increase the amount of recycled plastic used to make new plastic beverage bottles. The Coke and Pepsi resolutions asked the companies to meet the 25 percent recycling goal they agreed to nearly a decade ago, and to set an 80 percent container recovery goal by 2005. In April 2001, Coke announced a commitment to increase its level to 10 percent recycled content in all PET containers by 2005. The resolution at PepsiCo received 8.26

percent, demonstrating significant support to keep this issue before the company until significant steps are taken.

Examples of Shareholder Advocacy Planned for 2002

Socially responsible shareholder advocates are once again planning to address a broad range of issues with companies. Issues range from labor rights and human rights to genetically modified products to environmental protection.

FIGURE 9: SHAREHOLDER ACTIONS PLANNED FOR 2002: INCLUDING COMPANY DIALOGUES AND FILED RESOLUTIONS (EXAMPLES)

Company (ies)	Goal of resolution or dialogue
Disney, Federated Department Stores, Gap, Kohl's, McDonald's, Nike, Wal-Mart	Report on compliance mechanisms for vendors and subcontractors to raise labor standards.
ALCOA, Caterpillar, Chiquita, General Electric, Honeywell, Johnson & Johnson, Lucent Technologies	Amend international operating standards to protect human rights, labor rights, and prohibit child or forced labor.
Abbott Labs, American Home Products, Bristol Myers Squibb, Eli Lilly, Merck, Pharmacia, Schering-Plough	Create price restraints on, and greater access to, prescription drugs.
Albertson's, Anheuser-Busch, Aventis SA, Campbell Soup, Dow Chemical, Hain Celestial Group, Hershey Foods, Kroger, McDonald's, Monsanto, PepsiCo, Starbucks, Sysco, Tricon Global (Taco Bell/KFC)	Label genetically modified products, or end production or marketing of such products until additional health and safety tests are performed, or report on the risks of continued use of GMOs.
Philip Morris	Allocate at least 50 percent of philanthropic dollars to patients (and their families) suffering from lung cancer acquired from smoking the company's products.
Eastman Kodak, Whirlpool	Increase employment of persons with disabilities.
BP Amoco, Chevron, ExxonMobil, Phillips Petroleum	Report on environmental damage from drilling for oil and gas in the Arctic National Wildlife Refuge.
PepsiCo, Coca-Cola	Recycling and container recovery.
Apple, Compaq, Dell, Hewlett Packard, Gateway, IBM	Computer recycling.

Key Trends in Shareholder Advocacy: Social Responsibility and Corporate Governance Advocacy Increasingly Joining Forces

For over 30 years, shareholder resolutions on social responsibility issues have appeared on corporate proxy statements. During the last two decades, major institutional investors have prodded companies in which they invest to adopt more positive corporate governance practices. In the United States, these investors have gathered under the umbrella of the Council on Institutional Investors, whose members have over $1.5 trillion invested and have adopted corporate governance guidelines which guide proxy voting. As a result, scores of resolutions are passing with majority votes, clearly demonstrating the power of the proxy.

Many of the leaders on corporate governance reforms are also leaders on various social responsibility issues, including the pension funds of New York City, the State of Connecticut and State of Minnesota, and a number of trade unions. Also, investors like the State of California, New York State, and TIAA-CREF take social issues seriously in proxy voting and advocacy**.** The pension funds of the States of California and Connecticut, as well as that of the City of New York, now routinely vote for resolutions supporting improved vendor standards and the adoption of labor standards set forth by the International Labor Organization. This was not true several years ago. The State of Connecticut and the City of New York now file resolutions on these issues as well. Investors are also tying corporate governance and social issues together, for example, by linking executive compensation to progress on social and environmental concerns. These investors quite properly see governance and social issues both having an impact on corporate performance. More and more academic and investor studies underline this point.

In addition, social issue advocates such as Walden Asset Management, Domini Social Investments, and Trillium Asset Management, along with religious investors, are also leading resolutions asking for corporate governance reforms. The formerly strict division between social and governance interests is showing signs of fading. The result may be a powerful coalition with increasing impact on corporate decisions, and is a trend well worth watching in the years ahead.

SECTION IV

COMMUNITY INVESTING GROWS AS A FORCE FOR BUILDING LOW-INCOME COMMUNITIES

Community investing grew by 41 percent between 1999 and 2001. Assets held and invested locally by community development financial institutions (CDFIs) based in the United States totaled $7.6 billion in 2001, up from $5.4 billion in 1999. Key components of this trend include:

- The assets in Community Development Credit Unions tripled from $601 million in 1999 to $1.8 billion in 2001.
- The assets in Community Development Venture Capital Funds doubled from $150 million in 1999 to $300 million in 2001.
- Cumulative financing by Community Development Loan Funds rose from $1.3 billion in 1999 to $2.1 billion in 2001. Cumulative financing by CDLFs in 1990 totaled just $88 million.
- Two CDFI members of the Social Investment Forum, Shorebank and Self-Help, have both passed the $1 billion mark in cumulative lending.
- Socially responsible investment professionals are increasingly incorporating community investing as an asset allocation of at least 1 percent into the investment portfolios they manage or advise, creating significant additional funds for all community investing vehicles.

Community Investing Defined

Community investing is financing that generates resources and opportunities for economically disadvantaged people in urban and rural communities in the U.S. and abroad that are under-served by traditional financial institutions. Community investors make it possible for local organizations to create jobs, provide financial services to low-income individuals, and supply capital for small businesses, affordable housing, and vital community services such as childcare.

These local financial service organizations prioritize people who have been denied access to capital and provide them with opportunities to borrow, save, and invest in their own communities. In addition to supplying badly needed capital in under-served neighborhoods, community investment groups provide important services, such as education, mentoring, and technical support. They also build relationships between families, non-profits, small businesses, and conventional financial institutions and markets.

The Four Types of Community Investing

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

- **Community Development Banks (CDBs)** are a category of CDFIs with the greatest amount of assets ($3.139 billion). CDBs are located throughout the country and provide capital to rebuild many lower-income communities. For account holders, they offer services available at conventional banks, including savings and checking accounts. Like their conventional counterparts, they are federally insured.

- **Community Development Loan Funds (CDLFs)** are the second largest type of CDFI, with $2.36 million in assets. These funds operate in specific geographic areas, acting as intermediaries and pooling investments and loans provided by individuals and institutions at below-market rates to further community development. International funds, with $27 million in assets, focus their lending overseas, often providing or guaranteeing smaller loans to communities and individuals in need. CDLFs include microenterprise development loan funds and are not federally insured.

- **Community Development Credit Unions (CDCUs).** With combined assets of $1.8 billion, there are over 200 membership-owned and controlled nonprofit CDCUs serving people and communities with limited access to traditional financial institutions. Account holders receive all the services available at conventional credit unions, and their accounts are federally insured.

- **Community Development Venture Capital Funds (CDVCs)** use the tools of venture capital to create good jobs, entrepreneurial capacity, and wealth, thus improving the livelihoods of low-income individuals and the economies of distressed communities. With assets of $300 million, 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, much smaller than most traditional venture capital investments. The companies in which CDVC funds invest generally employ between 10 and 100 people.

Investors place capital directly into any one of the four types of community investing organizations or through specialized community investment portfolios – made available through trade associations or others such as Calvert Foundation or Partners for the Common Good.

FIGURE 10: THE FOUR TYPES OF CDFIS -- ASSETS AND GROWTH

CDFI Institution	Current Assets	Growth since 1999
Community Development Banks	$3,139 million	+7%
Community Development Credit Unions	$1,800 million	+200%
Community Development Loan Funds *(includes Micro Enterprise Development Funds)*	$2,355 million	+35%
Community Development Venture Capital Funds	$300 million	+100%
Total Community Investment Assets	**$7,594 million**	**+41%**

Note: The data collected in this chart is an undercount of the market since not all banking, religious, and government money involved in community investing is captured (see the Methodology Section).

The Impact of Community Investing

Community investing arose to support the spectrum of community development organizations working to revitalize distressed communities. Since the 1970s, national and international CDFIs have been making loans and investments and creating permanent, positive changes in the poorest neighborhoods in cities, rural areas, and on Native American reservations. Economic self-help is at the heart of CDFIs missions, and through their loan-making and financial services, low-income families and communities begin to control their own financial destinies.

CDFIs often generate tremendous impacts from limited investment of capital. For example, as documented in Figure 12, loan funds can use investors' assets to guarantee loans far exceeding the original assets provided by the investors.

FIGURE 11: EXAMPLE OF THE MULTIPLIER EFFECT OF CDFI LENDING

Shared Interest is a community investment fund that multiplies lenders' funds from four to forty times as it provides low-income South Africans with access to credit they would otherwise be denied. Recently, a Shared Interest Guarantee for $500,000 encouraged a South African bank to lend the equivalent of $20 million to "emerging" black contractors that built low-cost homes with government contracts for the first time. Loans for the guarantee fund succeeded in unlocking 40 times their value for South Africa's new builders, who have used the funds as a bridge loan until the subsidies are paid. These loans have led to the construction of more than 45,000 houses for the country's poorest and officially homeless residents.

Source: Shared Interest, 2001

Community Investing has grown rapidly as a field, and its geographic reach and the range of its beneficiaries have expanded greatly. Community Investing has enabled people earning the minimum wage to purchase homes in North Carolina, assisted impoverished battered women in Texas in opening a community-based shelter, and provided displaced timber workers in the Pacific Northwest with loans to start successful and environment-friendly businesses.

It has also helped “untouchable” Indian women launch very small businesses to feed their families, enabled small farmers in draught-stricken areas of Nicaragua to obtain financing for their own commercial coffee cooperatives, and made it possible for black families barred from credit under Apartheid to borrow what they needed to build viable communities in the new South Africa.

Key Trends in Community Investing: The “1% in Community” Campaign

The Social Investment Forum, in conjunction with Co-op America, a national provider of consumer and investment tools, has launched a“1% in Community Campaign.” The campaign aims to dramatically increase the assets devoted to community investing. If all social investors shift one percent of their investment dollars into community investing, this shift will effectively triple the real dollars available to finance work in economically distressed communities and for lower-income families. It will create a permanent tier of capital to serve underserved communities and hasten the day when every investor’s asset allocation chart shows one percent of total investments in community investing.

The Social Investment Forum encourages all investors to direct at least one percent of their investment capital into community investment. The allocation of one percent of a portfolio in this manner is a simple, effective way for individuals and institutions to take part in the growing movement to support community development. As detailed below, the impact on investor returns is minimal, while the total benefit to communities can be enormous.

FIGURE 12: Sensitivity Analysis on Annual Return			
	Principal	Annual Return*	Appreciation
1) 95% 60/40 Equity/Bond Investment*	$95,000	12.20%	$11,590
5% Traditional cash component**	$5,000	4.64%	$232
100% Balanced Portfolio	$100,000	11.82%	$11,822
2) 95% 60/40 Equity/Bond Investment*	$95,000	12.20%	$11,590
4% Traditional cash component**	$4,000	4.64%	$185
1% Below Market Community Investment	$1,000	3.00%	$30
100% Portfolio w/ Community Investment	$100,000	11.80%	$11,805
*Based on the average return for 10 years ending 6/30/01 of a balanced portfolio comprised of 60% S&P 500 equity and 40% Lehman's bond indices. **Based on the average return for the10 years ending 6/30/01 of the Lipper Money Market Fund Index.			
This example uses below market community investment with an average 3% dollar weighted return.			

Source: Calvert Foundation

The Social Investment Forum works to assist investment professionals who are interested in directing funds toward CDFIs. Through its Increasing Investment in Communities guide for professionals and technical assistance program, the Social Investment Forum provides information on the range of options in community investment, as well as effective methodologies and information-sharing on how institutions and money managers can overcome barriers to entry for community investment.

Since the beginning of the campaign, 28 members of Social Investment Forum that are not CDFIs have reached the campaign goal of devoting at least one percent of the assets under their management to community investing.

FIGURE 13: Non-CDFI Social Investment Forum Members That Have Met or Exceeded the 1% in Communities Goal

- Aquinas Funds
- Calvert Group
- Domini Social Investments
- Evangelical Lutheran Church in America: Board of Pensions
- The F.B. Heron Foundation
- General Board of Pension & Health Benefits of the United Methodist Church
- Holistic Solutions
- Leenson, Eric (Progressive Asset Management)
- Leonard, Kathy (Center for Responsible Investing)
- Loring, Wolcott & Coolidge
- Loving, Andy (First Affirmative Financial Network)
- Medley, B.J. (SWS Financial)
- MMA Praxis Mutual Funds
- Money With A Mission
- New Alternatives Fund, Inc.
- Newground Investment Services
- Packer, Eric (Progressive Asset Management)
- Parnassus Investments
- Portfolio 21
- Principle Profits, Inc.
- Rose Foundation
- Seid, Judith (First Affirmative Financial Network)
- Smith, Eric A., CFP
- The Social Equity Group
- Solomon, Joel (Renewal Partners/Endswell Foundation/Tides Canada Foundation)
- Tides Foundation
- Trillium Asset Management
- Underdog Ventures

Section V

Global Trends in International Advocacy and Corporate Governance

There are notable trends in the social investment and corporate responsibility movement that are not readily captured by a description of the size of portfolios involved in socially responsible investing. These deserve comment since they are harbingers of change, as well as indicators of a growing worldwide movement to encourage corporate social responsibility. These trends include:

- The growth of international social responsibility shareholder advocacy and standards.

- The endorsement of corporate social responsibility by many leading global companies.

These trends are hard to quantify but are of vital importance. The Social Investment Forum is undertaking research on the growth of corporate responsibility globally and plans to issue a full report within the next two years. Below, several crucial indicators regarding the growth of a worldwide effort to encourage corporate social responsibility are presented.

International Advocacy

The desire to improve corporate behavior does not stop at the border. The International Corporate Governance Network, a global association of investors, mirrors the determination of shareowners in the United States and overseas to exercise their power as investors on governance issues with companies around the world. Similarly, socially concerned investors are likely to have a representative attending a British, French, or Australian company stockholder meeting to make a presentation or ask a question. In the United Kingdom, for example, British Petroleum has faced several shareholder resolutions at its annual meeting. In this new global economy, the global shareholder's voice is being heard. Shareholder rights and the importance of disclosing social and environmental investment policies are now captured in British, Canadian, French, and German regulations – a fact that would have been unbelievable a decade ago.

Since socially responsible investing is increasingly a global phenomenon, every successful step forward in one country helps validate and strengthen the argument and basis for SRI in another nation. In fact, recent events in the United Kingdom have provided a dramatic catalyst. Since July 2000, United Kingdom pension plans have been required to declare whether and how they integrate social and environmental factors into their investment decisions. While pension plans are free to declare that they do not and have no intention of doing so, this new regulation has resulted in a new resolve by many pension funds to engage corporations in dialogue on social and environmental issues. Similar new regulations are in place in Canada and Germany, and similar legislation is working its way through France and Australia.

United Kingdom leadership on SRI was given another boost in October 2001 when the Association of British Insurers, whose members account for more than 25 percent of all London stock market investments, launched new guidelines on corporate social responsibility. They called on companies to establish formal systems to identify risks and opportunities arising from ethical and environmental issues, to disclose which of these issues are significant for business, and to describe the policies and management systems they have in place to address these risks. See www.abi.org.uk.

The guidelines start with the statement: "Public interest in corporate social responsibility has grown to the point where it seems helpful for institutional shareholders to set out basic disclosure principles, which will guide them in seeking to engage with companies in which they invest." That social and environmental issues matter and affect the bottom line is an important message to be coming from mainstream British insurance companies. In the United States, this theme was buttressed in a statement by the Council on Institutional Investors (CII), which at its September 2001 meeting adopted a statement calling on companies to practice good corporate citizenship. CII is an association representing pension funds with over $1.5 trillion invested. The statement reads:

> The Council supports corporate governance initiatives that promote responsible business practices and good corporate citizenship. The Council believes that the promotion, adoption and effective implementation of guidelines for the responsible conduct of business and business relationships are consistent with the fiduciary responsibility of protecting long-term investment interests.

Company Leadership on Corporate Social Responsibility

Many global corporations that have developed Corporate Governance Codes or endorsed environmental and social codes embrace investors' calls for good governance and socially responsible behavior. Their premise is that good corporate citizenship (sometimes referred to as corporate social responsibility or CSR, for short) and positive returns for investors are tightly linked. While corporate conduct sometimes does not reflect a company's publicly stated values, the endorsement of such codes by many of the world's best-known companies gives tremendous legitimacy to the social and environmental issues championed by social investors. As synergy develops to move social issues forward with even greater speed, corporate governance advocates are realizing the increasingly tangible benefits to a company's bottom line.

There is also mounting evidence that consumers and investors are integrating CSR concerns into their purchasing and investment decisions:

- According to a recent survey, 79 percent of consumers take corporate citizenship into account in making their purchasing decisions, and 36 percent consider it an "important" factor. Similarly, 75 percent of respondents reported taking corporate citizenship into account in making investment decisions, while 12 percent said they would even consider a less profitable stock if the company was a good corporate citizen.[3]

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[3] *2001 Corporate Citizen Watch Survey*, Hill & Knowlton/Harris Interactive

- Another survey found that 28 percent of Americans who own corporate shares either directly or indirectly – e.g., through mutual funds – report buying or selling shares on the basis of companies' employment practices, community involvement, or business ethics, and another 10 percent reported considering doing so. The same survey found that 45 percent of Americans reported "punishing" companies they viewed as socially irresponsible by avoiding products or services.[4]

CSR as a reputation-management tool helps companies: differentiate themselves in a crowded marketplace; enhance employee recruitment, retention, productivity, and morale; garner consumer and brand loyalty; foster good community and government relations; reduce costs, risks, and exposure to lawsuits; build credibility and good will in the media and among the public; attract investors; and enhance shareholder value. In other words, there is a strong business rationale for CSR, and the notion that CSR contributes to long-term business success and shareholder value is increasingly accepted in financial circles and among the public.

[4] Environics International December 2000 survey

SECTION VI

METHODOLOGY

The Social Investment Forum utilizes a direct survey methodology to identify professionally managed socially responsible investment assets in the United States. This section describes the data qualification, data sources, and survey methodology employed for the purposes of this report. It also outlines improvements to the methodology used in the 1999 survey. Finally, this section identifies social investment assets that 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 2001.

This 2001 Trends Report is a quantitative behavioral study. That is, all professionally managed investment assets that fit within the strategies of socially responsible investing are counted. In short, if assets are screened, involved in shareholder advocacy, or are directed to community investing, they are counted. The study doesn't attempt to make a qualitative judgment about whether or not the investor identifies with the term "socially responsible investing," or markets services as part of the socially responsible investing industry. A criticism of this quantitative approach is that some investors, portfolio managers, and mutual funds counted in this study may not be positioning themselves in the marketplace as "socially responsible." This criticism suggests that a future study might be conducted to ascertain the qualitative intentions motivating the behavior that this study is designed to identify. Such an analysis of intention is not attempted by this study.

What Was Counted

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 is screened for one or more social issues is credited as such, and is included in the screened portfolio component of social investing.

- **Shareholder Advocacy.** The institution sponsors or co-sponsors shareholder resolutions on social responsibility issues or engages in dialogue through the Interfaith Center on Corporate Responsibility (ICCR) addressing issues of social or environmental concern. A qualifying institution must have filed at least one social issue resolution over the past three years, or be part of the active shareholder dialogue process managed by ICCR. 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, nor were institutions that do nothing more in this area than vote their proxies.

- **Community Investment.** The institution qualifies as a Community Development Financial Institution (CDFI), which the Forum defines as a private sector organization that has a primary mission of lending to low-income or very-low-income communities, and that engages in finance as its primary activity.

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.

What Was Not Counted

Certain dollars under management were not counted in this survey. Exclusions were determined in the following manner:

Social Screening excludes any institution that says it takes into account social criteria in its investment decisions, but has no formal policy for doing so and/or utilizes no social screens.

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 dialogue.

- 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 excludes any institution that says it has some type of economically targeted investment(s), but which are not recognized by a Community Development Financial Institution (for details, see Data Sources below). Organizations that engage in community investing in accordance with Community Reinvestment Act I requirements are not counted in this survey unless the investments were made through a Community Development Financial Institution. In addition, low-income housing tax credits were not included.

Data Sources

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

Mutual funds: Mutual funds and variable annuity subaccounts 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, and public media sources.

Other screened portfolios: Forum researchers compiled a list of all investment managers who identify themselves in the 2001 Nelson's Directory of Investment Managers as utilizing "social screening" as an investment strategy. Researchers also listed all institutions identifying themselves in the 2001 Nelson's Directory of Plan Sponsors as restricting their investments with some social criteria. Added to this list were institutions that are 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 various media sources.

Shareholder Advocacy: The list of institutions involved in shareholder advocacy came from both the Interfaith Center on Corporate Responsibility's Corporate Resolutions Book and the Investor Responsibility Research Center's "Checklist of Shareholder Resolutions" in the Corporate Issues Reporter. The chart on the Status of Social Policy Shareholder Resolutions in 2000 and 2001 was provided by the Investor Responsibility Research Center, October 15, 2001. IRRC is based in Washington, DC. For more information, please visit its Web site at www.irrc.org.

Community Investment: Community Investment: The Forum contacted all of the community development trade organizations and intermediaries to determine the number of member institutions and the assets they control. Trade associations and intermediaries contacted included the National Community Capital Association, the Association for Enterprise Opportunity, the National Federation of Community Development Credit Unions, the Community Development Venture Capital Alliance, the National Community Investment Fund, the CDFI Fund, and the Calvert Foundation.

Total Assets Under Professional Management in the United States: To determine the total assets under professional management in the United States, the Forum used the 2001 Nelson's Directory of Investment Managers. The 2001 Directory lists $21.7 trillion in total assets under management as of December 31, 2000. Of this total, $1.8 trillion is under management outside the United States. Therefore, total assets under management in the United States equal $21.7 trillion minus $1.8 trillion, or $19.9 trillion.

Survey Methodology

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

The list of 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 in the United that 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.

The surveys are compiled by investment type – that is, screening of portfolios, shareholder advocacy, and/or community investing – and any double counting is eliminated. An example of double-counting that is eliminated is a mutual fund subadvisor and a mutual fund reporting the same assets. No estimates or sampling techniques were used in gathering data for this report.

Methodology Improvements

The Social Investment Forum conducts this survey every two years. From time to time, the methodology is improved. The improvements are then applied to allow survey results to be compared across years. Improvements and changes in 2001 include:

- The Social Investment Forum this year, for the first time, used HostedSurvey.com, an online survey firm, to query investment managers, institutional investors, and mutual fund companies concerning their social screening and shareholder advocacy roles. A ten-question survey was provided online and potential participants were emailed to solicit their participation in the data collection process. Participants were surveyed for their asset totals, use of screens, advocacy efforts, and other vital information. A sample of the questionnaire may be found at www.socialinvest.org/trends/onlinesurveyquestions. These responses were tallied into the various totals and used as a check against existing data.

- There are now several investment management firms that focus their attentions specifically on socially responsible investing. The asset totals from these firms include the money they have invested on behalf of clients in SRI mutual funds. To avoid double counting, these firms were contacted separately to ascertain their asset totals minus the money they have invested in socially responsible mutual funds. In past reports, not all of the SRI assets of these firms were captured.

- The 2001 Trends Report corrects an error found in the First Edition of the 1999 Report. In 1999, the Forum reported that there were 175 mutual funds; the correct number was 168, which is reflected in this report.

Conservative Bias: Note on Undercounting

The Social Investment Forum believes that the data sources included in this study have led to the identification of the vast majority of the professionally managed assets in the United States that reside in portfolios that meet the study's definition of 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 Internet trading, 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 investment.

- The stocks and bonds of responsibly managed companies purchased for individuals through personal stockbrokers 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.

- Community investments not made through a Community Development Financial Institution.

In short, there are a number of investors and investment portfolios engaged in socially responsible investing that 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 2001.

SECTION VII

ABOUT THE PUBLISHERS

About the Social Investment Forum Foundation

The Social Investment Forum Foundation is a national nonprofit organization providing research and education on socially responsible investing. The Forum Foundation provides cutting-edge research on the trends, practice, performance and impact of social investing.

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.

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.

Social Investment Forum Resources for the Media and the Public

Members of the media and the public can turn to the Social Investment Forum for the following resources:

- Award-winning Web site: www.socialinvest.org: The Forum's highly acclaimed Web site includes the Mutual Fund Performance Chart, the Directory of Socially Responsible Investment Services and summaries of the best research on socially responsible investing.

- Directory of Socially Responsible Investment Services: Provides a listing of the leading professionals in the socially responsible investing field including financial planners, money managers, consultants, community development banks, credit unions and loan funds, social research and education organizations, and shareholder advocacy organizations. Find these professionals by type of service or location. Contact us for a hard copy ($2) or find the directory free on our Web site, www.socialinvest.org.

- Information on Social Screening:

  - Media Center: Find our latest media releases on mutual fund performance and other socially responsible investing issues.

  - Mutual Fund Performance Chart: Tracks the performance of the leading socially screened mutual funds over a ten year period and includes a summary of each fund's screens. Find the chart on www.socialinvest.org.

  - Research: Find summaries of cutting-edge research on social screening on our Web site: www.socialinvest.org.

- Information on Community Investing: Find the latest information on community investment opportunities and issues on the Forum's Web site on community investing, www.communityinvest.org.

- Information on Shareholder Advoacy: Find the latest information on shareholder advocacy on our Web site, www.shareholderaction.org. Information includes;

  - Current Shareholder Resolutions: Comprehensive information on resolutions in play in the current shareholder season. Find them by issue or by company.

  - Corporate Contacts: Email links to corporations with shareholder resolution.

  - Results: Results of recent shareholder votes.

  - Shareholder "How to": Information on how to vote on or file a shareholder resolution.

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Membership in the Social Investment Forum is open to any company, organization or practitioner involved in the social investment field. Join by contacting the Forum, information above, or on the Forum’s Web site, www.socialinvest.org.