

Getting the Most from Your SRI Program

Portfolio Return and Social Return

10 QUESTIONS TO ASK BEFORE COMMITTING TO AN SRI PROGRAM

Successful SRI requires more than simply creating stock screens. If your organization is thinking of starting an SRI program, here are 10 questions to consider:

1. How will you develop your SRI policy?
2. Will your SRI policy be tailored to your core Catholic values?
3. How will you determine your screening criteria?
4. Will managers be monitored for compliance with screens?
5. Will your screens be monitored and kept up-to date?
6. Will you have a proxy voting policy?
7. Who will vote your proxies?
8. Will you be able to file shareholder resolutions?
9. Will you be able to engage in shareholder advocacy?
10. How will you judge the social return on your SRI program?

Since 1981, CBIS has provided thoughtful answers to these questions. Our comprehensive Catholic SRI program incorporates the shared values of our participants, utilizes a wide variety of SRI approaches, achieves maximum impact on corporate behavior and delivers highly competitive investment returns.

We can help you think clearly through your SRI alternatives and create a program that maximizes the social return on your investment in SRI while achieving your financial goals.

MANY CATHOLIC INSTITUTIONS are attracted to the idea of Socially Responsible Investing (SRI) because it enables an organization to align its core values with the management of its assets and it empowers the organization to help shape corporate behavior through the power it possesses as a corporate shareholder.

No SRI program will be of interest, however, if it can not also produce competitive investment performance. SRI initiatives should therefore be evaluated in two related ways: 1) in terms of portfolio performance, and 2) in terms of their ability to advance the social goals that draw institutions to SRI in the first place — what we at CBIS call the “social return” of the SRI program.

When SRI programs are evaluated in terms of both performance and social return, it becomes clear that some institutions settle for less than the maximum possible results from their SRI program. There are usually three reasons for this: 1) the program does not take advantage of a full range of SRI strategies (for example, it relies solely on stock screens), 2) the program is not administered effectively, and 3) the institution does not track and evaluate the real world impact of its program.

SRI is More than Screens

An institutional investment program takes advantage of diversified investment strategies to achieve the maximum possible portfolio return, and the return generated by each strategy is evaluated carefully. The same general approach offers a good framework

Contact CBIS for Additional Information:

We invite Catholic institutional investors and investment management consultants who have questions about CBIS' investment process, or about any aspect of our diverse range of Catholic socially responsible institutional investment programs, to contact Bob Stelben, Senior Director, Head of Institutional Development and Marketing, at 1-800-592-8890 or rstelben@cbisonline.com.

Figure 1. SRI at CBIS: A Complete Catholic Institutional SRI Program



Drawing on a diverse range of SRI strategies to maximize social return and deliver performance that is competitive with non-SRI benchmarks and peer groups

for evaluating SRI strategies for social return.

A starting point is to consider the two motivations for SRI. With screens (what we call Principled Purchasing, and what most investors usually think of when they consider SRI), the first motivation, the desire to align faith with finance, is well-served. Screens permit an institution to avoid investing in companies whose activities violate the institution's core values, and contribute indirectly to social return by withholding capital from restricted companies. Yet other investors will readily supply the capital withheld by the screening institution, and the real world impact of screens on corporate behavior is minimal.

While stock screens are an important component of an SRI program (including ours), stock screens alone fail to take advantage of other SRI methods, and result in an SRI program whose social return falls short of its true potential. Indeed, because screens are purely exclusionary they have no impact on the companies whose shares are held in the institution's portfolio, and they do not harness the power of ownership to affect real change in the behavior of these companies.

Creating and maintaining a truly successful SRI initiative — one that delivers a competitive portfolio return and strong social return — is more complicated than may be apparent on the surface. But this should not dissuade Catholic institutions from pursuing SRI. It simply points out the necessity of investing with an experienced SRI partner to achieve the maximum results from the institution's SRI program.

SRI at CBIS

As the industry's leading Catholic socially responsible investment management firm, CBIS has more than 30 years of experience

implementing SRI in a way that expresses the shared values of our Catholic faith, that exerts maximum influence over corporate behavior and delivers highly competitive long-term investment returns across a wide range of equity and fixed-income strategies.

As shown in Figure 1, our SRI program is not limited to screens, but takes full advantage of a diverse range of SRI approaches in order to deliver the maximum social return along with competitive portfolio returns.

Our SRI policy draws on the U.S. Catholic Bishops' Guidelines for socially responsible investing, on the consensus values of CBIS participants, on the priorities of the larger SRI community, and on a careful evaluation of the impact of SRI policy choices on portfolio performance. In fact, our experience developing and administering successful SRI programs resulted in our being the only investment

firm invited to advise the Bishops when they updated their socially responsible investing guidelines in November 2003.

An Emphasis on Active Ownership

While stock screens are an essential element of our overall program, we rely primarily on active ownership to achieve our SRI goals and to maximize social return. Active ownership means taking advantage of the power and influence we possess as shareholders to help shape corporate behavior for the better. We call this process "responsible stewardship" and believe it to be a fundamental responsibility of Catholic investors.

Figure 2 depicts how our active ownership goals relate to social return over time, and it presents our 2012 active ownership agenda by issue. By working for positive change in the process by which companies make policy decisions — often by encouraging them to include social and environmental factors in their decision-making — we can help change the corporation's behavior for the better. And over the long term, by helping to bring about better corporate behavior as it relates to the issues that concern us as Catholic institutional investors, we can hopefully help to bring about a better world.

Active Ownership Strategies

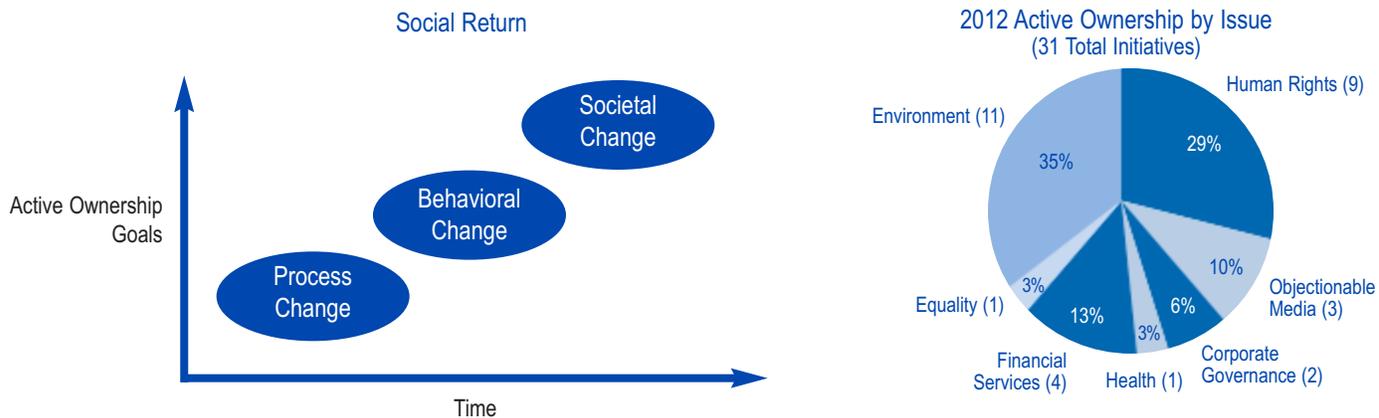
Our active ownership approach employs three basic strategies: (i) engaging corporate management in dialogue to advocate socially responsible business practices or the cessation of practices that conflict with social responsibility, (ii) when dialogue fails, or when management is unresponsive, filing shareholder resolutions that appear on the company's proxy ballot in order to rally support for our ideas from the company's other shareholders, and (iii) voting proxies at corporate annual meetings.

SRI and Portfolio Performance

Institutional investors who plan to start a socially responsible investing (SRI) program face a multitude of questions. However, one generally dominates: How will it impact my investment returns? The answer depends on the SRI methods employed. The CBIS white paper, *SRI and Portfolio Performance: Faith vs. Finance?*, helps investors understand how SRI strategies impact portfolio performance, and how CBIS achieves maximum social return while delivering portfolio returns that are highly competitive with style benchmarks and peer groups.

The paper is available upon request. We look forward to the opportunity to answer your questions regarding SRI investment performance and social return.

Figure 2. Responsible Stewardship through Active Ownership



Corporate Dialogues A corporate dialogue is an ongoing communication between a group of shareholders and company management. The goal is to convince management to take a specific action on an issue of concern to the shareholders. Corporate dialogues are time intensive, strategic, direct engagements with companies that often evolve over several years before noticeable progress is made and success is achieved. Yet this form of engagement offers the best way for SRI investors to fundamentally change the way a corporation conducts its business. In 2012, we will engage in 31 corporate dialogues.

Shareholder Resolutions A shareholder resolution is a proposal placed on the proxy ballot by a group of shareholders, and voted on by all shareholders at a company's annual meeting. Resolutions are non-binding, but high vote totals get management's attention, and often spur them to engage in a constructive corporate dialogue. Over the past ten years, CBIS has filed resolutions that called for better corporate performance in areas such as human rights standards at international operations and at vendor facilities, pay disparity between lowest and highest paid workers, access to medicines for the world's poor, environmental performance, corporate governance and a corporation's impact on the local communities in which it operates.

Proxy Voting All investors who own publicly traded shares have the right to vote their shares for or against resolutions

that appear on the proxy at the company's annual shareholder meeting. Our SRI department has developed comprehensive proxy voting guidelines that govern how we vote proxies across a wide range of social issues.

Professional investment managers generally vote in accordance with the recommendation of company management. For social and environmental resolutions, this is often in direct opposition to what would be considered a socially responsible vote. As a result, many investors unknowingly lend support to forms of corporate behavior that we and other SRI investors are working hard to change. In 2010, we voted over 2,800 proxies with U.S. corporations and over 450 proxies with international corporations.

Explore the CBIS Shareholder Advocacy Directory

Achieving real results from an SRI program requires skilled, strategic engagement with companies across a wide range of SRI concerns.

The [Shareholder Advocacy Directory](#) at CBIS' website (www.cbisonline.com) keeps all CBIS participants updated on the real world impact of our SRI initiatives. The Directory provides an explanation of our SRI policies, a description of our Principled Purchasing and active ownership programs, our SRI strategy by company and issue, and reviews the current status of our shareholder resolutions and corporate dialogues. A link to our proxy votes at more than 1200 corporations can be found on our homepage.

Principled Purchasing CBIS' stock screens focus only on activities that so violate our participants' core beliefs that they are unwilling to profit from them. These activities include Life Ethics (abortion, contraception, embryonic stem cell research); Violence (militarism, firearms, landmines); Tobacco and Pornography.

Ongoing policy development and administration is a critical component of any screening program. Screens, once implemented, should not become static. Our Principled Purchasing universe, for example, changes in response to corporate restructurings, mergers, acquisitions and strategic repositionings that cause changes in corporate strategies and product lines. Monitoring these changes to keep screens up-to-date and consistent with our SRI policy is a key feature of our program. Program administration should also include the monitoring of manager trading to ensure that screened stocks are not accidentally purchased and held in SRI portfolios.

Of course, screens should be implemented in a way that does not preclude effective portfolio diversification. SRI policy should be able to distinguish the shades of grey in corporate behavior, and screen companies when and where appropriate, but not at the expense of restricting an institution's ability to achieve adequate portfolio diversification and the targeted investment return.

As of December 31, 2011, only 32 companies, 6% of the S&P 500, were restricted from our Core Equity Index Fund (an S&P 500 index fund).

Tracking Real World Impact

The best way to measure the social return from an SRI program is to track the program's real world impact. However, this requires resources and personnel that the organization's investment staff rarely has at its disposal. Can the SRI program demonstrate success in terms of its ability to influence corporate behavior? Does it offer the institution the satisfaction of knowing that it has harnessed its power as a corporate shareholder to create positive societal change?

Throughout the year we regularly report on the status of our many SRI initiatives through our website and printed publications so that our participants can clearly see the process change, behavioral change and ultimately the societal change made possible through the responsible stewardship of their invested assets. Following are some examples of our past achievements:

- Our shareholder resolution at [Tyco](#) that asked the company to establish a global environmental reporting system received strong support from Tyco management and over 92% of the vote at the company's annual meeting. Tyco is now working with CBIS to develop company-wide emissions standards and a reporting system that will monitor toxic emissions throughout its network of global facilities.

- In response to a shareholder resolution filed by CBIS, [American Electric Power](#), the nation's largest coal-burning utility, has agreed to report to shareholders on the financial risks it faces from its high level of greenhouse gas and toxic emissions. The agreement was reached after two years of engagement with the company and represents a strong first step toward real and lasting change in the electric utility industry on the emissions issue. Since this agreement was signed, a number of other electric power companies have agreed to file a similar report.

- Our corporate dialogue with [Occidental Petroleum](#) resulted in the company's agreement to develop human rights policies for its operations in the developing world that will include independent monitoring and local community involvement.

- Our work with [JPMorgan Chase](#) helped persuade the company to create the position of Director of Environmental Affairs, to develop policies for managing the environmental impact of investing activities, and to assign responsibility to its board of directors for environmental management.

- Our engagement with [Citigroup](#) was instrumental in convincing the company to agree to follow the Equator Principles, a widely recognized set of guidelines for environmentally safe development in

emerging nations, and to hire a Director of Social and Environmental Risk who will ensure that company-financed projects meet standards for sustainable development.

- Our dialogue with [Schering-Plough](#) produced an agreement by the company to develop educational programs designed to help the poor better understand how to access medicines. And our dialogue with [Eli Lilly](#) produced an agreement by the company to help improve access to pharmaceuticals in developing countries by licensing proprietary antibiotic manufacturing technology to local drug manufacturers in India, China and South Africa.

A comprehensive, up-to-date report on the status of all our shareholder resolutions and corporate dialogues can be found in the Shareholder Advocacy Directory section of our web site (www.cbisonline.com).

Conclusion

The decision to embrace responsible stewardship can result in a tremendous sense of satisfaction for trustees and fiduciaries, as they witness their institution's assets not only fund its financial goals but promote ethical, responsible behavior by the world's most powerful corporations. CBIS utilizes the full range of SRI approaches and delivers the highest possible social return on an institution's SRI investment.

About CBIS

- Founded in 1981, CBIS is the leading Catholic institutional investment management firm.
- CBIS manages approximately \$4 billion for more than 1,000 Catholic institutions worldwide.
- We work exclusively on behalf of Catholic organizations including dioceses, religious institutes, health care systems, educational institutions and other entities.
- Our unique focus allows us to anticipate, understand and offer investment strategies that meet the specific financial needs of Catholic organizations.
- Our SRI Program combines Principled Purchasing (stock screens) and Active Ownership (shareholder advocacy) in order to encourage companies to become better, more responsible corporate citizens.
- We contribute a percentage of our profits to support the educational and social ministry of the Church.

Institutional Funds

RCT Flex Cash
 RCT Short Bond
 RCT Intermediate Diversified Bond
 CUIT Balanced
 CUIT Value Equity
 CUIT Core Equity Index
 CUIT Growth
 CUIT Small-Capitalization Equity Index
 CUIT International Equity

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