

Active Ownership at Work

Socially Responsible Investing (SRI) at CBIS

CBIS and Active Ownership

CBIS works in partnership with Catholic institutions to help them achieve their financial goals through the socially responsible management of their investments.

Through our active ownership initiatives, we also work in collaboration with many of the companies whose shares we hold in our funds and separately managed portfolios.

As institutional investors, we believe that strong corporate performance in areas such as governance, environmental sustainability, diversity and human rights enhances a company's ability to achieve the profitable growth that creates long-term shareholder value. As a Catholic socially responsible investment manager, we believe that our active ownership initiatives are an essential aspect of our fiduciary responsibility.

Investing's Double Return

Such an approach to investment management offers many benefits in addition to the achievement of financial goals.

- It allows an institution to extend its faith-based mission to encompass the management of its investments;
- It enables fiduciaries to establish a broad vision for investing that will appeal to all of the organization's stakeholders; and,

- It creates a strong sense of satisfaction when all witness the real world impact of the organization's investment program — what we call the program's social return.

By targeting investing's double return — financial return and social return — Catholic institutions can align their mission with their investments and unify faith and finance.

SRI Policy Development

Our disciplined approach to socially responsible investing integrates Catholic social teachings into the investment process. Our SRI program is consistent with the U.S. Catholic Bishops' guidelines on socially responsible investing, the consensus values of our participants, and the priorities of the larger SRI community — as well as the financial imperatives of a sound investment program. We rely primarily on active ownership to achieve our SRI goals and to maximize social return.

The following seven examples show how active ownership:

- shapes corporate policy;
- promotes important social goals; and,
- improves a company's prospects as a long-term investment.

To Contact CBIS:

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 Fred Devlin, Vice President, Head of Distribution and Marketing, at 1-877-550-2247 or fdevlin@cbisonline.com.

■ GLOBAL WARMING

American Electric Power Reports on Emissions Risks

In response to a shareholder resolution co-filed by CBIS, **American Electric Power** (NYSE: AEP), the nation's largest coal-burning electric utility company and largest emitter of greenhouse gases, recently released a report to shareholders on the financial risks it faces as a result of its high level of greenhouse gas emissions. The agreement to produce the report was reached after two years of dialogue with the company, and represents a strong first step toward real and lasting change in the electric utility industry on the issue of climate change.

As AEP shareholders, we are concerned that a policy of timidity in the area of voluntary emissions reduction will only add to the cost of complying with potential future emissions regulation. We also understand that management must carefully consider how capital expenditures, and other expenses associated with emissions reduction, impact earnings and affect the company's competitive position within its industry.

However, as SRI investors, we believe that companies have a responsibility to do what they can to structure themselves as sustainable enterprises, and to plan for a future in which energy production technologies do not threaten the health of the environment or that of humanity. We believe such a future is possible, and that it can also be profitable for companies such as AEP, if they are willing to integrate this vision into their long-range planning.

Emissions-Related Financial Risks

In our view, AEP faces significant risk from the potential for enactment of government legislation that will limit and regulate greenhouse gas emissions. The company is heavily reliant on coal, with coal-fired power plants accounting for nearly 75% of the total electricity it generated in 2004. The threat of emissions regulation is real on a number of fronts:

- More than 100 countries have ratified the Kyoto Protocol, a set of global environmental standards that would, if enacted, severely restrict greenhouse gas emissions. While the U.S. government does not support the Kyoto accord in its present form, it is possible that some amended version may be approved by a future U.S. administration and Congress.

- States are becoming politically active on the issue of global warming. More than 15 states have implemented renewable portfolio standards that require utilities to generate a growing portion of their electricity from environmental-

ly clean technologies, such as wind farms. Governors of a number of states have pledged to significantly reduce carbon dioxide emissions.

- In October 2003, 43 U.S. Senators voted in favor of national legislation that would have capped greenhouse gas emissions from a range of industrial sectors.

- Credit ratings agencies now view passage of some form of carbon emission legislation as likely before the end of the decade.

Background

We co-filed our first resolution that asked the company to report on climate change risks for the 2003 proxy season. In advance of the 2003 annual general meeting of shareholders, we were optimistic that our resolution would achieve a strong vote. During the 2002 proxy season, climate change resolutions received, on average, 18 percent of votes cast. Since most institutional investors vote automatically with corporate management, an 18 percent average vote is a very good result for a first-year environmental resolution.

We also had the chance to participate in a group presentation of our case to Institutional Shareholder Services (ISS), an influential consulting firm that advises institutional investors on proxy voting issues, on the financial threat posed to corporate America as a whole by inaction in the emissions area. With ISS support, the resolution achieved 27% of the vote at AEP's April 23, 2003 annual meeting, one of the

highest vote totals ever recorded in favor of a climate change resolution at an electric utility company.

Shareholder Pressure Produces Breakthrough

Given the strength of the 2003 vote, we were prepared to file the resolution again for the 2004 proxy season, but the 2003 vote total got AEP's attention as well, and the company agreed to dialogue with us on the issue. A productive dialogue produced a consensus plan of action by late 2003, and on that basis we withdrew our resolution.

The first step in the agreement called for AEP to publish a summary of the withdrawn resolution in its 2004 proxy booklet, along with a statement of support. The summary also stated that AEP agreed to appoint a committee of independent members of the company's board of directors to supervise the creation of a report that would include:

- A discussion of the environmental requirements that the company currently faces, and may face in the future, with particular attention to an assessment of current proposals for mandatory constraints on carbon dioxide emissions.

- An assessment of the strategic options the company could take to respond to these requirements.

“The AEP agreement is a strong first step toward real and lasting change in the electric utilities industry on the issue of climate change.”

■ An evaluation of the actions the company is taking, and proposes to take, to respond to current and future requirements, and an assessment of these current and proposed actions on shareholder value; this will include how those actions affect and will affect AEP's total annual emissions of SO₂, NO_x and mercury, and the net emissions of CO₂ after accounting for offsets, for the timeframe 2000-2020.

A Solid Foundation for Progress

AEP released its report in September 2004. CBIS, the Pension Boards of the United Church of Christ, and other Interfaith Center on Corporate Responsibility (ICCR) members, led by the State of Connecticut, are involved in an ongoing dialogue with the company about the report's implications.

Notable in the report is the statement that "mandatory reductions of greenhouse gas emissions are likely in the next decade." Understanding how AEP will implement a course of action to address these reductions is the subject of our ongoing discussions with the company.

By preparing and releasing this report, AEP has established a strong leadership position in the energy industry on the issue of disclosure of emissions risks. In fact, since AEP's report was made public, four other major U.S. power companies — Southern, TXU, Cinergy and Reliant—agreed to disclose similar information. We commend AEP and its board of directors for their hard work and positive forward steps in addressing this challenging issue. ■

■ GLOBAL WARMING / HUMAN RIGHTS

Ford Supports Environmental, Human Rights Goals

CBIS and our SRI partners at the Interfaith Center on Corporate Responsibility (ICCR) have a long relationship with **Ford Motor Company** (NYSE: F) covering a series of issues, including the McBride Principles (promoting religious tolerance in Northern Ireland), global warming and human rights.

Progress on Climate Change

Automobile exhaust accounts for 40% of global greenhouse gas emissions, and new technologies exist that can dramatically reduce these emissions by substantially improving fuel efficiency. CBIS, and the broader SRI community, believe that automakers have a responsibility to find ways to bring these efficiencies to market. CEO William Ford has spoken of his

desire to make Ford a leader in environmental protection, and the company has publicly stated that it hopes to achieve a substantial increase in fleet-wide fuel efficiency over several years.

However, during 2003, we became concerned by the company's participation in the auto industry's effort to obstruct legislation in Congress that would have raised fuel economy standards for all U.S. automakers. Moreover, Ford joined this effort without offering an alternative means for achieving the goals sought by the proposed legislation, causing us to conclude the company needed a message from its shareholders reminding it to live up to its environmental commitment.

We filed a resolution for the 2003 proxy season that asked Ford to improve its efforts to reduce greenhouse gas emissions from its automobiles. At the same time, Ford faced outside pressure from a number of public policy advocates and religious groups that created incentives for the company to work with us.

In a dialogue that developed over the course of the year, we were able to persuade Ford management that its actions in the legislative arena only damaged its efforts to establish a leadership position in the area of environmental protection — a position we believe is critical for Ford's long-term success as a company and for long-term growth in shareholder value.

In effect, we achieved a very novel active ownership success. We agreed to withdraw our resolution and Ford agreed to print the resolution in its 2003 proxy booklet along with a statement of support. At that point in time, it was a unique development for a company to actually publish a statement of support for an environmental resolution. (We asked AEP to do so the following year, partially in response to Ford's decision). While the resolution wasn't voted on by shareholders in Ford's case, it served as a public statement of the company's commitment to environmental protection and its commitment to ongoing work on the issue of climate change.

This commitment produced results in early 2005 when Ford became the first automaker to agree to issue a comprehensive report to shareholders that will analyze the business implications of reducing greenhouse gas emissions from its vehicles. The report will also assess the potential role that new technologies, such as hybrid and hydrogen fuel-cell vehicles, can play in Ford's fleet development.

Human Rights

Over the past several years, we have also been engaged in a dialogue with Ford on the issue of global human rights standards. The company has made strong progress, and now has a leading-edge human rights policy developed in cooperation with ICCR shareholders, including CBIS. Ford has commit-

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ted to screening its global supply chain for compliance with International Labor Organizations (ILO) conventions that prohibit child labor and forced labor, and that permit collective bargaining and free association in the workplace. The company has screened its primary suppliers and is now in the process of rolling its policy out more broadly across its supply chain. CBIS will also consult on the development of Ford's Citizenship Report, which will be released to the public.

We are encouraged that the company continues to engage in a productive partnership with shareholders and other stakeholders on both these issues, but we are continuing to work with Ford to help it do better in the area of fleet planning and fuel economy. ■

■ CORPORATE GOVERNANCE

SBC Communications, Gillette Declassify Boards

CBIS and other investor advocates for corporate governance reform believe that a “classified” or “staggered” board (one with multiple classes of directors, each elected for multi-year terms) can entrench a board, making it difficult to replace directors if they are not protecting shareholder interests. Entrenched board members are far more likely to lose their objectivity than are board members whose tenure depends on effectively fulfilling their fiduciary duty to shareholders.

CBIS believes that the annual election of all directors improves board accountability by providing shareholders with the right to vote yearly on the performance of each director. This is particularly advantageous when evaluating directors who serve on the compensation, nominating and audit committees — board committees with considerable influence over the quality of corporate governance. Annual elections rarely affect the continuity of responsible directors who serve shareholders well; generally, such directors are routinely reelected with strong majority votes. Through our proxy voting, we support resolutions to declassify boards and we oppose resolutions to install them.

Widespread Investor Support

In the aftermath of the corporate scandals of 2001-02, shareholder resolutions that called for an end to staggered elections ceased to be a narrow SRI concern, and began to receive widespread investor support. Many institutional investors and investor groups, such as CALPERS, New York City and New York State pension funds, and the Council of

Institutional Investors (CII), now favor declassified boards. Institutional Shareholder Services (ISS), an influential proxy voting service, recommends that institutional investors vote in favor of resolutions calling for annual elections. Many large corporations, including Pfizer, Bristol-Myers Squibb and Coca-Cola, have declassified their boards. In 2003, at least 22 companies asked shareholders to support board declassification.

SBC Communications

During early 2003, CBIS and Walden Asset Management co-filed a shareholder resolution at **SBC Communications** (NYSE: SBC) that asked the company to declassify its board. Our dialogue was constructive and made rapid progress. In November 2003, SBC announced that it planned to submit a proxy resolution at its spring 2004 annual meeting asking shareholders to approve a switch from staggered elections to the annual election of all directors. In the announcement, Edward E. Whitacre Jr., SBC Chairman and CEO, said, “Our board believes the annual election of directors is consistent with SBC’s commitment to good corporate governance and being accountable to shareowners.” CBIS was also very pleased by SBC’s commitment to develop a comprehensive new set of corporate governance guidelines.

Nearly 75% of shareholders voted in favor of management’s proposal to declassify the board of directors. The proposal was substantially the same as the resolution originally filed by CBIS and our filing group. We applaud these steps taken by SBC Communications.

Gillette

In response to a shareholder proposal co-filed by CBIS in 2004, **Gillette** (NYSE: G), a global market leader in consumer products, agreed to propose an amendment to its corporate charter that requires the annual election of all directors.

Gillette noted in its announcement that prior shareholder proposals were one of the factors that led the board to propose the change. CBIS and Walden Asset Management filed shareholder resolutions for the past two years asking Gillette to declassify its board. Majority votes were registered in 2003 (63%) and 2004 (68%). In 2004, investors frustrated by the lack of responsiveness from Gillette’s board to these majority votes registered their concern with 24% withholding votes for the directors. We applaud Gillette’s willingness to respond to shareholders’ wishes for improved corporate governance.

Subsequent to Gillette’s decision, the company merged with Proctor & Gamble, who had a classified board. However, in early 2005, P&G decided to declassify as well. ■

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■ GLOBAL LABOR STANDARDS

Sears Shuns Sweatshop Vendors

Sweatshops have long ranked as a top concern for CBIS participants. As one of the largest U.S. retailers, **Sears** relies on a global supplier network that includes facilities located in many low-wage, developing nations, but lacked a formal policy to screen its vendors and weed out those who abuse workers with inhumane working conditions and exploitive wages. In 1997, CBIS made the decision to engage Sears on this issue.

Along with a group of SRI partners, we filed our first shareholder resolution with the company in the 1998 proxy season. We asked Sears to amend its buying policy and purchase contracts to incorporate a code of conduct for vendors based on International Labor Organization (ILO) standards. We also asked the company to establish an independent process for measuring vendor compliance and to report annually to shareholders on the findings.

When we first approached the company we made efforts to engage with the CEO at the time, Arthur Martinez, but our efforts were unsuccessful. Mr. Martinez did not appear to be comfortable relating to shareholders, and this translated down into all areas of the company and to our dialogues with the company. At one point in the process we initiated a write-in from our institutional clients on behalf of our agenda because the company refused to include our proposal on the proxy ballot.

We succeeded in getting on the ballot and gained enough first-year support to stay on the ballot the following year. By 2001, we achieved an 8.1% vote. In 2002, the total rose to 9.3%. Small numbers, but enough to get management's attention, and to help create the foundation for eventual success.

Our breakthrough at Sears occurred when a new CEO, Alan Lacey, assumed leadership of the company in 2000. Mr. Lacey had been described as "engaged and interactive, with the willingness to talk." This was apparent to us from the beginning. He created a tremendous difference in attitude that included a willingness to have a conversation and a willingness to address the issue. This attitude was communicated down to executives throughout the company.

Success came in early 2003 when Sears agreed to work with us to develop a buying policy consistent with the standards called for by our resolution. Sears also agreed to explore ways to implement independent monitoring of supplier facilities and to seek ways to report these results to shareholders. Based on this, we withdrew our resolution for the 2003 proxy season

and, with our SRI partners, we are now working with Sears to help it implement its commitments.

The Sears story highlights two truths about engaging companies through active ownership. First, change usually does not happen quickly. With Sears, it took six years to get to a state of constructive dialogue. Patience and perseverance are essential when attempting to lead a company to the behavioral change that we are seeking. Second, corporate leadership matters. At Sears, a change in the CEO created an opportunity to develop a relationship with the company that was not possible previously. Sears merged with KMart in late 2004, and we are continuing our dialogue with the new company.■

■ GLOBAL HUMAN RIGHTS

Occidental Petroleum Creates Human Rights Policy

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CBIS and other socially responsible investors believe that multinational corporations operating in countries with repressive governments, ethnic conflicts, weak rule of law, endemic corruption, or poor labor and environmental standards face serious risks to their reputation and to shareholder value if they are seen as responsible for, or complicit in, human rights violations. The oil and gas industry is often at the center of controversy over

human rights abuses in developing countries. The World Bank Extractive Industries Review (2004), for example, highlighted the potential for oil exploration in low-income countries to contribute to political turmoil and repression as governments seek to protect their oil interests.

As an **Occidental Petroleum** (NYSE: OXY) shareholder, CBIS was concerned that the company did not have a formal human rights policy. Human rights activists allege that Occidental has employed government security forces to protect its pipeline operations in Columbia's Arauca province, even though these forces are known to violate human rights. And the company has been sued in U.S. courts for alleged complicity in a 1998 massacre by the Colombian military. We joined an ongoing dialogue on this issue in late 2003. The dialogue made rapid progress.

By early 2004, we were able to help the company realize that there is a strong business case for adoption of a comprehensive human rights policy — it enhances corporate reputation, improves employee recruitment and retention, improves community and stakeholder relations, and reduces the risk of adverse publicity, consumer boycotts, divestment campaigns

and law suits. According to the Harvard Business Review (HBR):

“Activist U.S. courts are accepting more and more claims against multinational companies for their business practices in developing countries. The courts are increasingly willing to apply international human rights standards to corporate conduct. . . . In the post-Enron environment, every global company’s board of directors needs to oversee its assessment and management of these risks. Given the magnitude of potential claims, liability may even extend to individual directors if they are not seen as exercising proper oversight.” (“Emerging Threat: Human Rights Claims”, HBR, August, 2003).

CBIS has worked in partnership with Sears, Ford, Coca-Cola and others on human rights policy development. We were able to draw on this experience to suggest ways Occidental could strengthen its initial draft policy by including:

- a discussion of ILO conventions in order to clarify human rights standards;
- a process for including local community views when evaluating corporate practices; and,
- expansion of the code to suppliers.

By late 2004, Occidental had made a great deal of progress from its early draft. In December, the company released the final document. Occidental CEO Ray Irani commented that “. . . this policy explicitly spells out our commitment to support human rights, strengthens our existing Code of Business Conduct and establishes an important milestone for our stockholders, our company and the industry.”

CBIS congratulates Occidental Petroleum for its good work on this issue. As shareholders, we believe it has taken an important step that will enhance its reputation, contribute to social justice and boost the long-term value of our investment in the company. We are now working with the company to augment the enforcement mechanisms in the code. ■

■ ENVIRONMENTAL REPORTING

Tyco Embraces Global Environmental Reporting

Over 90% of voting shareholders at **Tyco Corporation’s** (NYSE: TYC) March 2004 annual meeting supported a

CBIS-sponsored resolution that asked the company to create a global environmental reporting system, and to take steps to mitigate potential liabilities arising from toxic emissions from company facilities. This extraordinary vote total, one of the highest ever for an environmental resolution, was made possible by another extraordinary development — the decision by Tyco management to recommend that shareholders vote in its favor.

An Inauspicious Beginning

CBIS’ engagement with Tyco dates back to 1999, when we sought a dialogue with the company in the hopes of persuading it to phase out the use of polyvinyl chloride (PVC) plastic by its Kendall Healthcare subsidiary in the manufacture of IV bags and feeding tubes. Medical products made with PVC plastic emit toxins during the manufacturing process and when incinerated during disposal, and they leach toxins during use. Many of Tyco’s competitors offered non-PVC alternatives, and we were concerned that Tyco’s competitive position in these markets would suffer as a result. The company, however, was unresponsive to our request, and refused to engage us in dialogue.

Hoping to add leverage to our efforts, we filed a shareholder resolution in late 2002 that requested the phase-out of PVC use, but the resolution received only 2.7% of the vote at the company’s March 2003 annual meeting, too low a total under Securities and Exchange Commission rules to allow us to refile the resolution the following year.

In retrospect, Tyco shareholders had a number of more immediate concerns during 2002 and early 2003. A new management team had taken over leadership of the company in the summer of 2002, intently focused on mending the scandal-ridden firm’s weak balance sheet, and on repairing damage to shareholder confidence wrought by the revelation in 2002 of the fraudulent accounting that underpinned the company’s apparently stellar growth during the 1990s. With the survival of the company by no means certain, it was difficult to persuade either management or shareholders to focus attention on what could be seen as a narrow environmental issue.

A Change in Tactics

According to research by the Interfaith Center for Corporate Responsibility (ICCR), the level of toxic emissions from Tyco’s facilities was among the highest of any U.S. corporation. The company was identified under the U.S. Environmental Protection Agency (EPA) Toxic Release Inventory Program as an emitter of lead, lead-related byproducts and dioxins, all

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of which have been linked to brain damage, slow growth, hyperactivity and other developmental problems in children, as well as cancer, reproductive problems, diabetes and high blood pressure in adults, according to the National Institutes of Health (NIH).

Strengthened by a successful debt refinancing in January 2003, Tyco's financial condition improved dramatically, and as 2003 progressed, Tyco shareholders became far more confident of the firm's long-term survival. We judged that the time was right to try again and rally support for an environmental resolution, but one broader in scope, and with a greater chance of generating support among other Tyco shareholders. We highlighted the firm's poor environmental record and lack of a comprehensive environmental policy or reporting system. Of course, we hoped that Tyco management would respond positively to our initiative as well.

The environmental reporting system that Tyco's management team inherited when they took over in July 2002 was simply a jigsaw puzzle of the systems administered by acquired companies — there was no element of central control that could monitor toxic emissions and environmental responsibility on a company-wide basis.

In our view, this lack of control presented significant risks to shareholder value — including the potential for toxic emissions that result in legal liabilities and damage to the company's reputation among customers, investors and the public. Perhaps as importantly, toxic emissions are simply wasteful, and waste is costly. Continual attention to environmental concerns prevents problems and reduces costs.

There is also a growing conviction on the part of investors that good environmental stewards will likely also be good corporate managers. Attention to environmental issues signals a commitment to stakeholders and a concern for the long term, which will also show up in more traditional measures of management performance such as product quality and customer service.

Breakthrough

In late 2003, Tyco agreed to dialogue with us regarding our resolution, and in early 2004 the dialogue produced a breakthrough when the company agreed not only to the basic request embodied in the resolution, but actually decided to recommend that shareholders vote in its favor at the March 2004 annual meeting.

Under the leadership of CEO Ed Breen, Tyco's management is working hard to transform the company's disparate global subsidiaries (which had been loosely administered as a

holding company by previous management) into a centrally and tightly controlled operating company. Fortuitously, the creation of a company-wide environmental management system came to be seen as an important component of that effort.

Tyco's commitment to better environmental stewardship was evident in its invitation to CBIS, and to the resolution's co-filers, to participate in the process of creating a set of global toxic emissions standards. Tyco also created and filled the position of Vice President of Environment, Health and Safety, the first such executive role in the history of the company.

While Tyco's support of our resolution is encouraging, our long experience with company dialogues shows that turning public commitments into actual behavioral change is often the hardest part of the SRI engagement process. (CEOs, of course, face a similar challenge when trying to reform a corporate culture.) In our view, Tyco's commitment to environ-

mental responsibility must contain several necessary and actionable elements. We are advocating for all these in our ongoing work with the company:

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- Tyco must collaborate with shareholders and with stakeholders who will be impacted by the company's environmental performance. We are committed to partnering with Tyco to ensure that it hears a wide array of informed and experienced voices and points of view.

- The company must set specific and measurable targets for emissions reductions in all areas, and hold management and employees accountable for achieving these goals.

- The company should make environmental principles integral to all business planning, from product design to distribution to disposal.

- The company must be accountable to its shareholders and stakeholders. Environmental reports should contain all the information shareholders need to evaluate whether the company is meeting its goals. Reporting standards, such as the Global Reporting Initiative (GRI), are becoming widely accepted benchmarks for corporate social and environmental reporting.

This agreement represents one important step toward remaking Tyco as a successful, responsible and respected enterprise. We commend Tyco for taking such a positive step. A company-wide approach to reducing emissions of toxic chemicals is something that CBIS believes is in the best interest of other large corporations and their shareholders. We look forward to our continued dialogue with Tyco. ■

■ VIOLENCE IN THE MEDIA

Best Buy Restricts Youth Access to Violent Video Games

CBIS and other faith-based socially responsible investors have become increasingly concerned about the impact of violent entertainment on children. A growing body of research shows that violent video games lead to aggressive and antisocial behavior by adolescents. A 2004 study, for example, published in the *Journal of Adolescence*, found that teenagers who have non-aggressive personalities but who frequently play violent video games are almost ten times more likely to get into physical fights than teens who don't play the games.

We are also concerned about the ease with which children can purchase and/or rent violent video games at retail stores. Recent research found that a vast majority of unaccompanied children, ages 13–16, were able to buy violent games for mature audiences (“M”-rated games are for persons 17 or older), and that a large percentage of unaccompanied children were able to buy these games even at retail stores with programs to restrict such sales. M-rated video games are the fastest growing segment of the video game industry. About one-third of video games are rated M, and about 40% of those who play M-rated games are under 18.

In October of 2004 we began a dialogue with retailer **Best Buy** (NYSE: BBY) on this issue. During our initial discussions,

the company acknowledged our concern but maintained that it had adequate safeguards against the sale of games to minors. However a “mystery shopper” program sponsored by the New York City Council suggested otherwise, at least in the New York area. Unaccompanied minors, shopping as part of the study, were regularly able to purchase these games at a number of retailers in the city, including Best Buy. A press conference held to publicize the program’s findings received nationwide publicity. The resulting PR was not especially positive.

Subsequently, our dialogue group was able to persuade the company that it needed to strengthen its controls and more vigorously publicize its policies in this area — both internally (to cashiers, clerks and managers who work on the retail floor) and externally (to families wondering whether their underage children have easy access to such games when out shopping with friends).

Our dialogue achieved success in early 2005 when Best Buy agreed to put in place what may be the toughest policy so far by a major American retailer to prohibit sale of M-rated games to children and teens. Cashiers must now verify the shopper’s ID for all suspect transactions; all cashiers must sign a document stating that they understand company policy in this area; the company produced a training video for store clerks; and Best Buy is in the process of publicizing its policy on its website and throughout its company.

We believe the company’s good work here will diminish reputation risk and protect shareholder value. ■

About CBIS

- Founded in 1981, CBIS is the leading Catholic institutional investment management firm.
- CBIS manages nearly \$4 billion for more than 1,000 Catholic institutions worldwide.
- We work exclusively on behalf of Catholic organizations including dioceses, religious institutes, healthcare 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
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- CUIT Value Equity
- CUIT Core Equity Index
- CUIT Growth
- CUIT Small-Capitalization Equity Index
- CUIT International Equity

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