

PRINCIPLES



A Quarterly Newsletter published by Christian Brothers Investment Services, Inc.

Q2 2005

Corporate Social Responsibility and its Discontents

by John Wilson, Director of Socially Responsible Investing



Over the last decade, socially responsible investing (SRI) has been the fastest growing segment of the investment industry, more than doubling in size since 1997. In fact, according to the most recent bi-annual survey conducted by the Social Investment Forum, an SRI industry research and trade association, at the end of 2003 SRI accounted for nearly \$2.2 trillion, or 11% of assets under management in the U.S. Given this enormous pool of invested capital, it is not surprising that corporate social responsibility (CSR) — the integration of social and environmental considerations into corporate strategy, SRI’s counterpart in the corporate world — has also gained in popularity. Many large corporations now maintain some sort of CSR program and work hard to present themselves as socially responsible companies.

Perhaps inevitably, the widespread success of SRI and CSR has provoked a backlash of sorts in certain academic circles and in the financial media. The traditional criticism of SRI is the erroneous claim that it goes hand-in-hand with diminished investment returns. (The CBIS white paper “*SRI and Portfolio Performance: Faith vs. Finance?*” reviews this topic in detail and shows how our SRI restrictions have a negligible impact on CBIS fund performance). This new round of criticism, exemplified by articles that appeared earlier this year in *The Economist*, *Fortune* and the

Financial Times, focuses instead on CSR and active ownership — the premise that shareholders have a legitimate role in holding corporations accountable for performance across a range of social issues, such as human rights and wage justice, the environmental impact of products and business processes, and the impact of corporate activities on local communities.

Because CBIS is the leading investment management firm pursuing SRI and active ownership on behalf of Catholic institutions, these new critiques challenge us to respond. Moreover, we are aware that the composition of finance committees at many participant organizations has evolved in recent years, and now includes a growing percentage of individuals with backgrounds in business and finance. These professionals bring valuable investment knowledge and experience to the participant organization, but often have little pre-existing understanding of SRI. This can present a challenge to long-standing committee members with religious backgrounds, who may find themselves in the position of defending SRI against the skepticism of lay colleagues. We want to help these CBIS participants present the case for SRI, and we hope this article can be a helpful resource for such a discussion.

What CSR’s Critics Say

The point of view of expressed in these recent criticisms of CSR can be characterized as follows:

Capitalism has proven to be the most

effective means ever devised for raising the living standard of the general public. Paradoxically, it does so because people act in their own interest, not in the public interest. By acting in their own interest, capitalists innovate, create jobs, and produce goods and services that raise society’s standard of living. It is true that abuses occur. However, it is the responsibility of citizens and governments, acting through the democratic legislative process, to create and enforce laws and regulations that prevent corporate wrongdoing. The only social responsibility of business is to make as much money as possible within the law. This creates the greatest good for society.

Socially responsible investors and other advocates of corporate social responsibility (CSR) do not appreciate this economic truth. They call for companies to behave more altruistically and philanthropically. However, heeding the call of these advocates would backfire and reduce overall social welfare. Trying to serve the public interest distracts companies from their real mission, that of earning profits and creating wealth for shareholders. Moreover, CSR advocates usurp the democratic

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process by seeking to impose restrictions on companies beyond those adopted by legitimate legislators and regulators. If SRI investors do not like the way a company behaves, the better approach would simply be to sell the shares.

Our Perspective

CBIS is an institutional investment manager with nearly \$4 billion in assets under management and a 24-year track record of achieving highly competitive investment returns through SRI. We reject any notion that we, or any other responsible institutional SRI investor, fail to appreciate the wealth-creating, living-standard-raising power of capitalism. Indeed, we count on this as the prime engine for achieving our long-term investment return objectives, as does the institutional SRI community as a whole.

Moreover, CBIS, like other SRI investment managers, is a financial fiduciary. We have a legal and ethical responsibility to act in the best financial interests of our participants. This means providing a competitive return on invested capital, one that allows participants to fund their mission-related activities. However, it also means doing so in a way consistent with their missions. This includes promoting the common good, respecting human dignity and preserving our natural resources for future generations.

CBIS does not invest in companies that our managers expect will produce unattractive returns, no matter how socially responsible we believe these companies to be. Nor do companies that profit from activities that violate the core moral values of our participants appear in CBIS portfolios. Companies are chosen for investment because they offer the promise of high returns for shareholders with acceptable levels of risk. We also believe that these companies are basically good companies. They provide value for society at large, jobs for workers, useful products for consumers and technological innovation that benefits all.

But good companies are not always perfect companies. Even good companies may inadvertently harm society — by creating pollution, violating human rights and degrading the life of local communities, even while abiding by relevant laws and regulations. In addition, the benefits of corporate activity may not be shared in a just and equitable fashion. For example, the average CEO's compensation more than tripled between 1990 and 2003 while the hourly wage of the average American worker has not advanced significantly in a generation.

Private Gain, Public Loss

Our economy would function most efficiently if companies bore the costs that they lay off onto society (what econo-

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mists call “externalities”) and were more completely rewarded (above and beyond short-term profits) for the broad-based social benefits they provide. But our contemporary financial markets are concerned only with private costs and benefits—revenues, expenses and accounting profit—with a focus on the short-term. Little incentive exists in this system for firms to reduce longer-term social costs and inequities. For example, corporate expenditures for pollution control systems may increase short-term costs; polluting does not. High prices for health care services increase profits in the healthcare sector; working to expand access to healthcare may not. Wall Street generally accepts managers' claims that reducing worker pay is necessary to control expenses, but

that exceedingly high executive pay is necessary to attract the best talent.

Given the intense pressures faced by most publicly held companies from competitors and from investor expectations, rational but short-sighted managers may see little incentive not to transfer many of the costs and few of the benefits from the corporation to the public at large. This can give rise to irresponsible business practices. If left unchecked, these practices can produce significant negative consequences — for individuals and communities, for the companies themselves, for their investors, and for the economy at large.

Abundant natural resources, strong communities, healthy and motivated workforces, broad-based prosperity, and supportive government institutions are some of the foundations of a healthy economy. An economy that does not place a value on preserving and strengthening these will not likely be able to sustain itself indefinitely. Moreover, a population that considers an economy to be unfair will not likely place a high value on its continued success. A focus on laying off short-term private costs onto society is self-defeating in the long run, both at the firm level and for society as a whole.

A Just and Sustainable Economy

The goal of faith-based and social investors is what we call a just and sustainable economy: an economy that shares its benefits broadly and fairly, one that meets its needs without compromising the ability of future generations to meet theirs. Acting on behalf of social justice objectives, in a way that promotes a just and sustainable economy, enhances our ability to fulfill our fiduciary responsibility to our participants. Integrating justice and sustainability into the investment process serves the interests of Catholic institutions for two reasons.

The first is that corporate irresponsibility makes it more difficult for these organizations to fulfill their missions because the burden of addressing injus-

tice falls on organizations dedicated to serving social needs. For example, a Catholic healthcare system must devote resources to healing those made ill by corporate polluters. And it serves as a healthcare provider of last resort for those who cannot afford to participate in the for-profit system—a population that is growing as increases in personal income for most Americans lag increases in healthcare costs. Promoting justice and sustainability may reduce our participants' long-term operational costs, if indirectly.

The second reason is that, in the long term, irresponsible corporate behavior reduces portfolio returns for diversified investors. Most institutional portfolios include holdings across a broad cross-section of the economy. Long-term portfolio returns depend primarily on the strength of the economy as a whole, not on the performance of individual companies. An individual company may evade the social costs of its irresponsibility — such as a predatory lender whose activities impoverish consumers and strip wealth from communities — but the diversified investor will not. As one commentator has remarked, “total long-term return is greater than the sum of its parts.” Because the short-term focus of the market places little value on the social impact of corporate decisions, market incentives can become misaligned with the interests of institutional investors, especially over the long-term as these inefficiencies accumulate. Our solution to this problem is to actively engage corporations in an effort to hold them accountable to the “double bottom line” of social and fiscal responsibility.

Property Rights and Active Ownership

Our critics' argument that capitalism works best when investors take a hands-off approach to their role as corporate shareholders falters on two fronts.

First, engagement with management is a basic right and responsibility of property ownership. Owners of companies, through the agency of property

rights, have a legitimate stake in corporate decision making. Legally, the right of shareholders to vote proxies and file shareholder resolutions are the formal means by which they oversee corporate governance and strategy. Discussions with management are an accepted informal means of this oversight.

Second, active ownership is not unique to the CSR movement. For decades, mainstream institutional investors have sought to re-energize underperforming companies and unlock shareholder value by engaging in direct oversight of management. This occurs when investors advocate for shifts in corporate strategy, mergers, acquisitions, buyouts and other policies that may be at odds with the vision of an existing management team. These

“Companies may obey all applicable laws and regulations, but may also engage in practices that would pain the conscience of their shareholders — were they to know.”

investors select an active strategy because, as silent buy-and-hold investors, they cannot reverse the forces weighing down performance and steer their company in a more fruitful direction. SRI investors approach things in much the same way.

CSR and the Law

Federal, state and local laws all play an important role in assuring corporate social responsibility, but it cannot be the responsibility of government alone to hold companies accountable to ethical behavior. Indeed, there is not a clean division, as CSR critics would seem to suggest, between corporate practices on the one hand and the law, as enacted through representative democracy, on the other.

Corporations exert significant influence over legislation and government policy. Because corporations are profit-maximizing institutions, they have strong incentives to support laws and regulatory approaches that maximize their profits while laying their costs off onto society. In the United States, and in other developed nations, corporations lobby government officials, donate money directly or indirectly to political campaigns, and create and fund non-profit groups and think tanks in an attempt to shape laws and regulations in their favor. Corporations have every right to advocate for their interests. But without the check and balance provided by informed and conscientious shareholders, such advocacy may lead to outcomes that, in the long run, hurt the company, its shareholders and society.

Companies may also seek to source low-cost production in countries with lax environmental and human rights laws, discouraging countries seeking investment from improving their local standards. In these cases, companies may obey all applicable laws and regulations, but may also engage in practices that would pain the conscience of their shareholders — were they to know.

Government policy should be seen as a floor not a ceiling. Government policy can set minimal standards of behavior but cannot be expected to enforce a standard of continual ethical improvement. A government effort to define how firms should incorporate CSR into their overall strategies would seem to contradict the values of free enterprise. On the other hand, it is entirely consistent with free enterprise for shareholders, as owners of the corporation, to demand high levels of financial and social performance. Government lawmakers and regulators use their legitimate coercive powers to enforce a common minimum standard for all companies. Shareholders seek partnership with management to create a unique strategy that is appropriate for an individual firm and its shareholders.

Additionally, the premise that CSR-

advocates seek to impose restrictions on companies beyond those adopted by legislators and regulators is a misleading point of view. When shareholders wish to press their case to a management that is reluctant to engage in dialogue, their method of activism is well regulated by securities law. The Securities and Exchange Commission (SEC) governs the process by which shareholder resolutions are submitted for inclusion on a company's proxy ballot, and the agency has the power to block resolutions if they do not meet its standards for materiality. In order to have any influence at all on a company, shareholder advocates must persuade the SEC of the validity of their specific resolution and the company's other shareholders of the merit of their case. This must be demonstrated through broad shareholder support in the form of high vote totals when these resolutions come to a vote at the company's annual meeting. CSR advocates work through a well-defined set of laws and regulations when advocating for a change in corporate behavior. Shareholder advocates do not have the ability to "impose" any sort of restriction on any corporation outside of the regulatory framework that applies to all shareholders who would seek to influence corporate strategy.

Partners, Not Antagonists

As actors interested in the performance of the entire economy, faith-based and other socially responsible investors play a critical role in the social performance of companies. A management that increases profits by imposing costs on society does not serve shareholder interests as understood by socially responsible investors: irresponsible business practices simply move those costs from one area of the portfolio to another, and create additional burdens for religious organizations. The role of social investors, therefore, is to hold management accountable for a more responsible disposition of these costs.

Holding management accountable to achieving social and environmental

goals is not the same as telling them how to do it. We call on management to incorporate corporate social responsibility into a long-term strategy of value creation, but we expect management to develop the specific means by which they will do this. As responsible stewards and active owners, we are careful not to overstep our legitimate oversight role by micromanaging the corporation.

In fact, management often responds very creatively to this challenge in ways that support long-term earnings growth. As one example, responsible environmental management once meant the timely clean up of toxic waste releases. Now, leading companies develop more efficient business processes that minimize toxic waste by using fewer raw materials, reusing manufacturing inputs and recycling waste into useful products. Social investors are now working with Tyco Corporation to help it develop an environmental management and reporting system that will reduce toxic releases from its global facilities. This will save money, reduce regulatory liabilities, enhance the company's battered public image and may create ideas for new products. Moreover, the company believes that a corporate-wide set of standards, and the networks created as business units share ideas about how to meet those standards, will help to knit Tyco's far-flung and previously autonomous enterprises into a unified operating culture.

Although such programs require upfront investment, companies who have implemented them report that they also create long-term value. The ultimate goal of social investing is not to force firms to bear the harmful costs of their activities, but to encourage companies to design business processes that prevent the harm in the first place.

In some cases, management may initially deflect an SRI concern but later come to see the business case for it. For example, social investors brought the issue of HIV in Africa to a number of prominent U.S. companies, including ExxonMobil, Ford and Coca-Cola, who

have a longstanding business presence on the continent. At first, some of these companies resisted becoming involved in addressing the epidemic on the grounds that the tragedy of HIV was the responsibility of governments. But in dialogue with investors and others, they came to understand that the dying included their workers and their customers. HIV was both a human tragedy and a business problem for a company that expects to operate in Africa over the long term. They also began to realize that they did have the means to contribute to a solution: with their existing distribution networks they could help get medications to those that were difficult to reach, they could help spread information through their workforces, and they could provide monetary benefits to workers and communities. Companies have enthusiastically embraced the opportunity to become involved, with one company actually recommending a vote in favor of a shareholder resolution calling for action. Addressing such a stark need might seem a natural human impulse, but contemporary business culture considers doing so a distraction from the "real" objective of business: to raise revenues and cut costs.

Managers who treat socially responsible investors as partners, rather than antagonists, often find value in a diversity of perspectives that might not arise within the closed world of corporate management. Finding the business case for justice and sustainability can align investment requirements with human values and help to strengthen companies in the long run. With their dual focus on shareholder value and social justice, socially responsible investors bring a valuable perspective to corporate management — one that can enhance a company's prospects for profitable long-term growth, increase return to investors, and promote the development of a more just and sustainable economy. ■

“Hey Mikey!”

Taking the First Bite of Market Neutral

by Frank Haines, Chief Investment Officer



I remember a wonderful cereal commercial on TV from a number of years ago in which two young boys are sitting at the breakfast table with their spoons and cereal bowls. They are hesitant to try a new cereal brand — “You try it . . . no, you try it . . . no, you first . . .” Then their even younger brother, Mikey, comes to the table, and they both exclaim — “Let’s get Mikey to try it! He won’t eat it, he hates everything!” Sure enough, Mikey pours out the cereal and quickly digs in. Amazed, the older brothers take a few bites themselves and realize just how good the cereal is.

After nearly a year of discussions with CBIS participants regarding our new Market Neutral program, I am reminded of the Mikey story. A common response seems to be — “Hmmm . . . well . . . we’ll consider it once its up and running.” A few daring “Mikeys” have agreed to commit to the idea, but not enough to get the Fund underway. So I would like to revisit the case for a market neutral allocation, and why CBIS believes that it deserves serious consideration among our participants.

■ The market neutral strategy is designed to offer low volatility and low correlation with our existing RCT bond and CUIT equity programs.

■ The Fund will invest in offsetting long and short stock portfolios implemented with our standard Principled Purchasing screens, and generate a total return comprised of

the Treasury Bill yield plus the incremental return added by active stock selection.

■ The Fund’s return should rise as short-term yields increase, whereas stock and bond returns generally weaken in a rising rate environment.

■ Over the next five to ten years, we expect market neutral to be competitive with stocks and bonds, based on our expectation for more traditional (i.e. single-digit) returns for these asset classes instead of the

“It is easy to . . . observe what investment approaches worked in the past, but this is not a successful strategy for achieving future gains or for preserving portfolio value.”

extraordinary gains experienced during the 1980s and 1990s.

During 2004, stocks produced 10% or higher returns due to a strong rebound in the fourth quarter of the year, and bonds held up credibly by producing an over 4% total return. However, since the Fed began raising cash yields in June of 2004, the Fed Funds rate has risen from 1% to 3.00%, and the Fed seems committed to a program of continued tightening as the year progresses. During 2005, bonds will be hard-pressed to produce their current yield of 4.75% to 5%, and are at risk of lower returns due to

price weakness from rising rates or widening credit spreads. Stocks have become more volatile since the start of 2005, facing the headwinds of rising energy costs, inflation concerns, fears of slowing domestic U.S. consumption and the growing fiscal deficit’s impact on taxation and GDP growth. Both stocks and bond returns are flat or down year-to-date through early March, while rising cash yields and added value would have produced a positive Market Neutral return of 2.7%, net of fees*.

One of our roles at CBIS is to analyze the forces impacting financial markets and to structure new investment programs, or modify existing Funds, to capture opportunities that benefit our participants’ longer-term results. It is easy to look at past performance and observe what investment approaches worked in the past, but this is not a successful strategy for achieving future gains or for preserving portfolio value. This requires a reasoned decision after a prudent analysis of the forward-looking risk-return tradeoffs in each asset class.

CBIS is looking for a few more “Mikeys” who recognize the tradeoffs inherent in today’s financial markets. We hope that the CUIT Market Neutral Fund can be up and running before many of our participants see the need for it, rather than after they suffer the losses in either stocks or bonds that demonstrate the need.

For information about the CUIT Market Neutral Fund, please contact your CBIS Investment Advisor. ■

*The market neutral performance cited above represents actual results of two market neutral managers (the proposed “two-manager” structure) who have been chosen to manage the CBIS CUIT Market Neutral Fund. These managers target conservative return objectives with constrained portfolio risk, the approach CBIS intends to implement in its market neutral program. This market neutral return does not reflect an actual CBIS program. CBIS does not currently manage a market neutral product; accordingly, there is no actual CBIS market neutral program historical performance data. Actual returns may differ from the returns shown.

Corporate Profits vs. Social Goals

by Geoffrey M. Heal

Geoffrey M. Heal is the Paul Garret Professor of Public Policy and Business Responsibility at the Columbia Business School. His research includes studying ways of controlling the impact of economic activity on the environment and ways of valuing the economic services provided by environmental assets. This article first appeared in the Fall 2004 issue of the school's journal Hermes. CBIS expresses our appreciation to Hermes for the right to republish the article here.

Should corporations worry about their social impact? Or should they just go for profits and trust that everything else will fall into place? Consider Apple, Intel and Microsoft: In 20 years they created an industry affecting everyone in the developed world, changing lives and businesses, creating billions of dollars in value for shareholders and tens of thousands of jobs for new employees.

These companies contributed massively to society and did so in the cause of making money for their shareholders. They illustrate well Adam Smith's classic remark: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." If companies make products that consumers value and price them affordably, making money in the process, what is the need for corporate social responsibility?

Tobacco companies sell a poison that is slow acting and addictive, so they can actually make money while killing

their customers. Clearly, this is a different case from the tech sector. What about auto and oil companies, which help us experience freedom by means of personal mobility, while polluting the environment and changing the climate? What differentiates the tech sector from tobacco, oil and autos?

To understand this, we have to see when the interests of corporations are fully aligned with those of society as a whole and when they are in conflict, and for this we have to go beyond Adam Smith, to the concepts of private and social costs. Markets work well for society, aligning corporate and social interests, when a firm's private and social costs are the same, as is the case with the tech sector. But when these costs are different, markets don't do such a good job, as is the case with tobacco and, to a lesser degree, oil and autos. This explains the conflict between corporations and society in these sectors.

Discords can arise, too, over issues of fairness. What is a fair wage for unskilled labor in Vietnam, or for that

matter in the retail sector in the United States? As Nike and Wal-Mart know, these are controversial issues. Markets may be efficient, but there is no presumption that they are fair.

Corporate social responsibility needs to be an important part of corporate strategy in sectors where inconsistencies arise between corporate profits and social goals, or else discord can arise over issues of fairness. A corporate social responsibility program can make executives aware of these conflicts and commit them to taking social interests seriously. It can also be critical to maintaining or improving staff morale, to the stock market's assessment of a company's risk and to negotiations with regulators.

The payoff to anticipating sources of conflict can be very high—indeed it can be a matter of survival, as societies penalize companies perceived to be in conflict with underlying values. Asbestos was the tobacco of the 1950s: Where is that industry today? ■

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CBIS Names New Head of Participant Services

CBIS is pleased to announce that Denise Cusick has joined our organization as Vice President and Head of Participant Services.

In addition to his role as General Counsel, David Skelding held this position for the past five years. CBIS' asset growth, the industry's expanding legal and regulatory requirements, and our commitment to service, however, made it an easy decision to create two full-time positions for these vital functions.

Denise is now responsible for all activities devoted to building and maintaining relationships with CBIS partic-

ipants and management of the Participant Services Group. David will continue to serve on the Management Team and as CBIS' General Counsel.

Denise brings 25 years of industry experience, a wealth of knowledge and a broad background in the asset management business to CBIS. Importantly, she has devoted almost two decades of her professional career exclusively to client service. Most recently, Denise was a founding partner in Curant Associates, a consulting firm that provided investment management organizations with solu-

tions that maximized their ability to deliver premium service to their clients. Previously, she was Managing Director and Head of Client Service for Forstmann-Leff International and Oppenheimer Capital. Denise's extensive experience also includes marketing, sales and strategic planning.

We are delighted to welcome Denise to our team of dedicated professionals. Your Investment Advisor will continue to be your primary contact with CBIS; however, you should also feel free to contact Denise at any time, with concerns as well as compliments. ■

Active Ownership Success at Occidental Petroleum, Best Buy

Occidental Petroleum

CBIS and other socially responsible investors believe that transnational 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 share value if they are seen as responsible for, or complicit in, human rights violations. Human rights activists have alleged that [Occidental Petroleum](#) (NYSE: OXY) has employed government security forces to protect its pipeline operations in Columbia, even though these forces are known to violate human rights. And the company has been sued in U.S. courts for alleged complicity in 1998 massacre by the Colombian military.

As an OXY shareholder, CBIS was concerned that the company did not have a formal human rights policy. We joined an ongoing dialogue on this issue in late 2003, and the dialogue made rapid progress. By early 2004, we were able to help the company see the 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. Indeed, 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 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 OXY 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.

In December 2004, 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 progress so far. We are now working with the company to augment the enforcement mechanisms in the code .

Best Buy

CBIS and other faith-based socially responsible investors have become increasingly concerned about the impact of violent entertainment on children. 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 as likely to get into physical fights as teens who don't play these 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. ■



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Announcements

■ New CBIS Website to Offer Improve Navigation, Enhanced Functionality

Based on participant feedback, CBIS has redesigned our website. The new website will be activated in May 2005 and will offer more intuitive navigation and enhanced functionality. Before the site is launched, participants who have registered to receive statements online will receive instructions via email on how to login and access their statements through the new site.

■ Holidays and Office Hours

CBIS offices will be closed on Monday, May 30th for Memorial Day, and Monday, July 4th for Independence Day.

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