

# PRINCIPLES

An Investment Newsletter

JANUARY 2004



## 2004 Active Ownership Strategy

### Introduction

During 2004, CBIS will file 22 resolutions and engage in dialogue with 15 companies. In 2003, CBIS filed 18 resolutions and participated in 28 dialogues. Reversing a recent trend of annual increases in our active ownership, CBIS has elected to reduce the total number of company engagements for 2004. Given the nature of our current dialogues, we believe that we can have a greater overall impact by focusing our efforts on a smaller number of companies where we believe we can make a strong contribution, and where success is most likely. The overall number of companies remains high by historical levels; only in 2003 did we engage more.

Chart I (page 2) compares the number of initiatives per issue in 2004

vs. 2003. Chart II illustrates the allocation, by issue, of our efforts in 2004.

### Environmental Justice

This year, CBIS will begin to address the issue of environmental justice. Environmental justice refers to the cultural, economic and environmental impact of corporate behavior on local communities, especially disadvantaged communities. We will ask Costco Corporation to examine its land development practices in light of their impact on local communities, and to develop a policy of involving local communities in development decisions.

### New Company Highlights

#### Corporate Governance

This year we will continue to expand

our work with companies on corporate governance. New company efforts include resolutions with General Electric, on its standards for CEO pay, and with SBC Corp., on its classified board.

#### Human Rights

We are filing a resolution with Occidental Petroleum that asks the company to include a comprehensive human rights policy in its code of business conduct, and with VF Corp., an apparel company, asking it to implement labor standards for its contract suppliers.

#### Equality

We are filing a resolution with Kemet, a switch manufacturer, on board diversity. ■

## 2004 Shareholder Resolutions

### ENVIRONMENT

#### AMERICAN ELECTRIC POWER

We are re-filing our 2003 resolution that asks the company to report on the threats it faces from climate change. CBIS, the State of Connecticut, and other SIF and ICCR members met with AEP in June. At the time, the company promised a report about the financial impact of climate change in light of an uncertain regulatory environment and other economic risks. We have not yet received the report.

#### COSTCO (NEW)

CBIS is the lead filer of a shareholder proposal that asks Costco, as it opens stores around the world, to develop a policy that ensures preservation of the local cultural heritage and natural environment of affected communities, respect for human rights, and consultation with these communities. The company has challenged the resolution at the SEC.

Community groups in Cuernavaca, Mexico alerted CBIS to a plan by Costco to build a megastore at the site

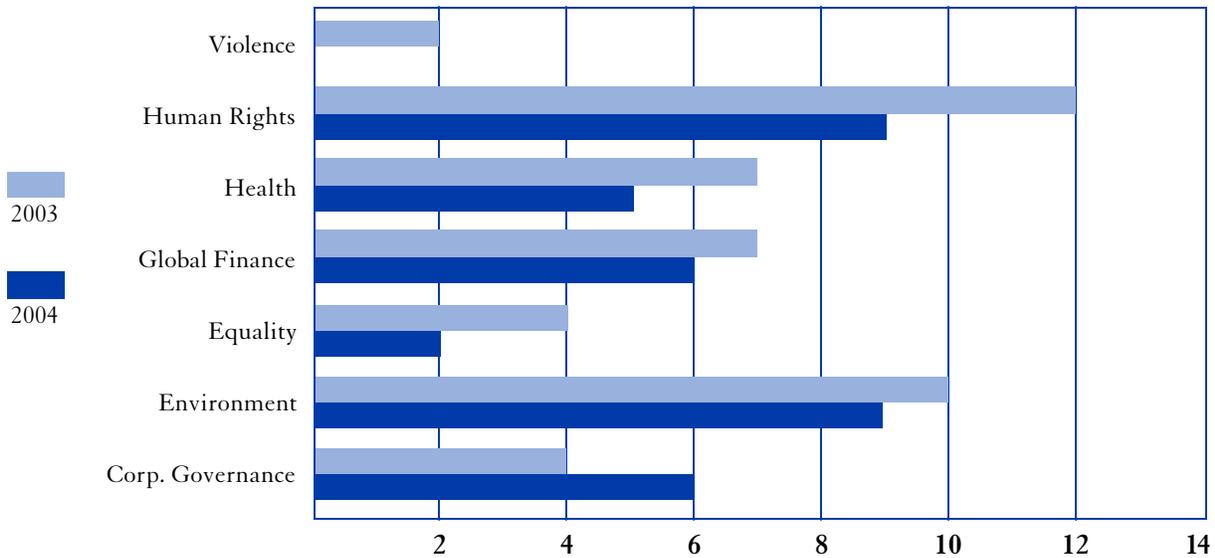
of a former hotel called Casino de la Selva. Although closed and in a state of disrepair, the hotel was well known for its cultural significance, lush grounds, and murals by famous Mexican painters. The hotel was

*(continued on page 2)*

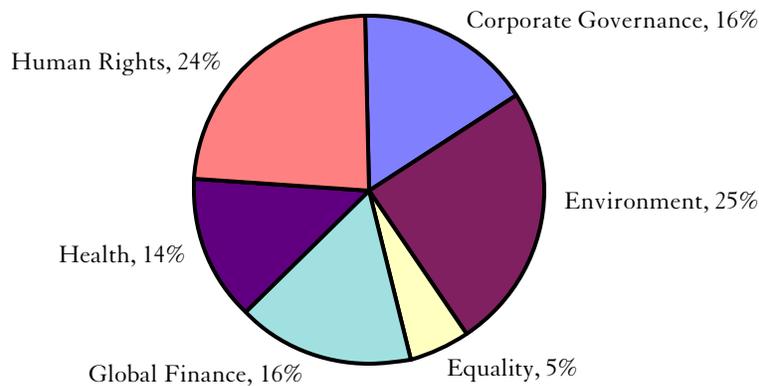
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## I. Active Ownership Comparison: 2004 & 2003



## II. 2004 Active Ownership by Issue



destroyed to make way for the Costco store and parking lot. The Costco store is now open for business.

After an exchange of several letters, and a conference call with Costco executives, it is apparent that the company is not willing to engage on this issue. Since there is little potential for continued discussions on the topic, we will attempt to form strategic alliances with environmental, social, and community groups, as well as other SIF members with large consumer bases, in order to reach out to the company to demonstrate widespread shareholder concern about its lack of a coherent policy that addresses communities' rights.

### UNOCAL

CBIS is the primary filer on an effort to persuade Unocal, an oil and gas exploration company, to adopt responsible policies to reduce its impact on climate change. A shareholder group, which includes members of ICCR, plans to file a resolution with Unocal this year.

Early dialogues resulted in the company's agreement to disclose some of its carbon emissions. Shareholders were also hopeful that Unocal's investments in geothermal energy could serve as the beginning of a comprehensive strategy to replace fossil fuels with clean, renewable energy

sources. However, further progress has proven difficult. The company has recently told us that it doubts the consensus scientific view that the earth is warming and that human activity is one important cause. The company has refused our offer to arrange a meeting on the issue with top management and respected scientists. Moreover, the company does not seem interested in pursuing a more robust renewables strategy. The resolution is intended to emphasize, to shareholders and top management, the importance of progress on this issue.

## TYCO

Last year, we filed a resolution that asked the company to reduce the use of PVC plastic, which can be toxic, in its medical devices. Under SEC rules, our resolution did not receive sufficient votes to be re-filed this year. This year, we have broadened our resolution to ask the company to report on toxic releases from its factories, and to take steps to mitigate resulting potential liabilities. According to researchers, the level of emissions from Tyco's facilities is among the highest of any corporation. These emissions include phthalates, lead, and possibly bromides, all of which are recognized as highly hazardous to human health and the environment.

The company appears unwilling to engage in dialogue. CBIS is the primary filer for this effort.

## EXXON MOBIL

We will file with Exxon Mobil again on the issue of climate change. While the company has been willing to meet with shareholders over the past year, it has not made any meaningful changes in its approach to the issue. The company continues to devote substantial resources to lobbying and public relations efforts designed to prevent meaningful regulation of greenhouse gas emissions. The company maintains its position that climate change is not an important concern, despite the strong scientific consensus to the contrary, and despite the acceptance of the consensus view by a growing number of leading companies, including some energy companies.

Our resolution asks the company to release the scientific data leading to its views on climate change.

## FORD MOTOR COMPANY

We are co-filing a resolution with the company on the issue of climate change. Last year, the company and ICCR shareholders came to a historic agreement whereby the company printed the text of our resolution, which we agreed to withdraw, in its proxy booklet along with a statement of support. The resolution called for the company to develop a strategy to reduce carbon emissions from its vehicles, and encouraged the company to play a positive role in developing sound public policy in the area of emissions regulation.

This year, our resolution calls on the company to make progress on the commitment it made last year.

## 2004 SHAREHOLDER RESOLUTIONS

COMPANY	RESOLUTION
Abbott Laboratories	Provide medications for AIDS/Malaria/TB in Africa
American Electric Power	Develop policy to mitigate economic impact from global warming
Chevron Texaco (formerly Texaco)	Report on climate change strategy
Cisco	Report on pay disparity between highest and lowest paid workers
Colgate	Establish labor standards for contract suppliers
Costco (new for 2004)	Establish land development policies in low-income communities
Dillard's	Establish labor standards for contract suppliers
Eli Lilly	Improve affordability and access to pharmaceuticals
Exxon Mobil	Release data that justify the company's position on climate change.
Ford Motor	Develop policy to mitigate competitive impact of global warming
General Electric (new for 2004)	Report on disparity between highest and lowest paid workers
Gillette	Declassify board of directors
JPMorgan Chase	Establish policies for lending in emerging markets
Kemet (new for 2004)	Add women and minorities to the board of directors
Merck	Improve affordability and access to pharmaceuticals
Occidental Petroleum (new for 2004)	Establish global human rights standards
SBC Communication (new for 2004)	Declassify board of directors
Time Warner (formerly AOL Time Warner)	Report on disparity between highest and lowest paid workers
Tyco International	Report on toxic emissions
Unocal	Report on climate change strategy
VF Corp (new for 2004)	Establish labor standards for contract suppliers
Wal-Mart	Report on Glass Ceiling for women and minorities
YUM! Brands	Establish global human rights standards

Shareholder Resolution — 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 action.

**CHEVRON TEXACO**

We are co-filing an ICCR resolution that asks the company to develop a strategy to measure and reduce the carbon emissions from its products, possibly by seeking to develop technologies to replace fossil fuels with clean, renewable sources of energy such as wind and solar power.

**HEALTH****ABBOTT LABORATORIES**

We are filing a resolution with Abbott this year on the issue of HIV/TB/Malaria in Africa. After a year of dialogue, CBIS and ICCR members remain skeptical that the company has fully considered the risks and opportunities it faces in relation to the HIV/AIDS public health crisis in emerging markets, nor does it appear to have effective policies and processes in place for dealing with this crisis. While the company does have some effective HIV/AIDS-related programs in place, shareholders will use 2004 to discuss the numerous opportunities available to the company to further demonstrate its commitment — including donating to the Global Aids fund, providing much needed anti-retroviral medications to the poorest countries, who cannot otherwise afford the high cost of these patented medications, and devoting more funding to research and to beneficial public/private partnerships that include affected communities.

**ELI LILLY**

Although our resolution was withdrawn at Eli Lilly last year, CBIS and ICCR members will file a shareholder proposal this year requesting that the company establish and implement standards of responsibility in connection with the health pandemic of TB and Malaria in developing countries. Although we hope for continued dialogue, the filers are concerned that little progress has

been made to date. We will continue to work with Lilly in hopes that the company will support and donate to the Global Aids Fund, and increase funding and drug donations in Africa.

**MERCK**

CBIS is a co-filer on this effort to increase the affordability of pharmaceuticals to low-income people in the United States. This year, our resolution asks the company to develop a policy on the ethical use of patent extensions. Patents are an important facilitator of pharmaceutical research. They allow companies temporary monopolies over the drugs they develop, which in turn allows them to charge high prices for their products. Patents create incentives for technological research, but also expire after a period of time, resulting in competition and lower prices.

In recent years, however, companies have sought to obtain dubious extensions to their patents, delaying competition and keeping drugs out of the hands of those who cannot afford the high prices. For example, drug makers may make an insignificant change in the drug, and file for a new patent based on that change. Even if the new patent is ultimately denied, current law allows the patent to continue during the review process, which may take more than two years.

**HUMAN RIGHTS****COLGATE**

The shareholder proposal we co-filed last year with New York City, that asked Colgate to create and monitor human rights standards for its overseas production facilities and those of its suppliers, received 10.3% of the vote, enough to re-file the resolution this year. We hope to be able to discuss with the company ways it can implement a code of conduct based on the United Nations' International

Labor Organization's (ILO) workplace human rights standards. Last year, Colgate was not interested in pursuing full implementation of the ILO code, nor would it commit to a program of outside, independent monitoring.

**DILLARD'S**

We are re-filing a shareholder proposal at Dillard's on the issue of vendor standards. Since the proposal filed by CBIS and New York City received 15.1% of the vote at the company's last annual shareholder meeting, we are able to file the resolution again this year. In a discussion with the company in the spring of 2003, it showed no interest in fully implementing a code of corporate and supplier conduct based on the United Nations' International Labor Organization (ILO) standards. In addition, Dillard's would not commit to a program of outside, independent monitoring of compliance with its current standards.

**YUM! BRANDS**

Our resolution, filed jointly last year with ICCR and SIF members, called on the company to create and monitor vendor human rights standards, and will be re-filed again this year since the company states that it does not have the power or responsibility to influence its suppliers' behavior. The company has not been willing to meet with shareholders even though last year's resolution received a 35% vote. Shareholder proponents will continue to attempt to engage the company in a discussion about its current policies, practices and long-term plans relating to social, environmental and economic sustainability throughout its supply chain. Taco Bell, a subsidiary of YUM! Brands, has been the subject of nationwide protests and a boycott by Immokalee farm workers, employees of a YUM! supplier, over low pay.

**OCCIDENTAL PETROLEUM****(NEW)**

We are co-filing a resolution with the company that asks it to develop a code of human rights conduct. The company does business in several parts of the world where human rights are not respected, and has itself been the target of human rights activists.

**VF (NEW)**

We are filing a resolution with this company, asking it to develop human rights standards for its contract suppliers. VF is an apparel company whose brands include Wrangler, Lee and North Face.

**CORPORATE GOVERNANCE****CISCO**

CBIS is a co-filer of an ICCR resolution that asks the company's Board Compensation Committee to prepare a report comparing total compensation of the company's top executives and its lowest paid workers, both in the U.S. and abroad. Cisco CEO John Chambers remains among the world's highest paid CEOs; recently he was featured as #2 on Bloomberg's list of "The 15 Most Overpaid CEOs."

**TIME WARNER****(FORMERLY AOL TIME WARNER)**

We will file our resolution on executive compensation again this year. At our last meeting, the company was unwilling to evaluate and report on the disparity between company's top executives and its lowest paid workers. CBIS will be the primary filer with this company.

**SBC (NEW)**

CBIS and Walden Asset Management will be filing a resolution at SBC Communications that asks the company to declassify its board. While SBC's board gets high marks for diversity, and the company is consistently noted as one of the best places to work for minorities, it receives poor corporate governance grades from such well-respected organizations as The Corporate Library and KLD. Discussions with the company will also include the issue of board interlocks (where CEOs sit on one another's boards), an arrangement that potentially raises conflicts of interest and diminishes the objectivity of these individuals in their capacity as directors.

**GILLETTE**

We will re-file last year's shareholder proposal that asked the company to annually elect its board of directors. We will also discuss this issue at an upcoming meeting with the company. We will also encourage Gillette to move its annual general meeting (AGM) away from the current Wilmington, Delaware location, where fewer than fifteen people attended last year, to a more conveniently accessible, major city.

**GENERAL ELECTRIC (NEW)**

CBIS is joining with other ICCR partners to file a resolution with GE on its executive compensation practices. In 2002, CEO Jeffrey Immelt received a compensation package valued by analysts at \$37 million. Earlier, former CEO John Welch was forced to give up excessive annual retirement benefits when the pub-

licity surrounding the package embarrassed the company.

We are particularly concerned about these awards since the company has sought to reduce costs through layoffs. We will encourage the company to develop a strategy for using its compensation policies to reward success and share prosperity broadly within the company.

**EQUALITY****WAL-MART**

CBIS and ICCR members will be re-filing a resolution that asks the company to take steps to provide equal opportunities for professional advancement to women and minorities. For the past two years, this resolution has received over 10% support.

**KEMET (NEW)**

CBIS and the Calvert Group will be filing a resolution with Kemet Corporation, the world's largest manufacturer of solid tantalum capacitors. CBIS is concerned that Kemet's board includes no women or minorities. Other corporate governance concerns are the company's classified board and the lack of a majority of independent directors. CBIS and Calvert hope to meet with the company to discuss the creation of a nominating committee, and the development of a charter for the committee that formalizes its commitment to an independent and inclusive board. Nominating committees should strive for the inclusion of talented individuals from a variety of backgrounds. By considering candidates with a diverse set of experiences, companies can discover independent voices and fresh perspectives. ■

As part of our environmental stewardship program, CBIS now offers E-Delivery (electronic delivery via email) of all communications and publications. Instead of a printed, mailed PRINCIPLES newsletter, subscribers can now receive monthly e-mail notification

that PRINCIPLES has been posted to the CBIS website, along with a link to a printer-friendly PDF version of the newsletter. To register for E-Delivery of PRINCIPLES and other CBIS announcements and communications, please visit [www.cbisonline.com](http://www.cbisonline.com).

# 2004 Company Dialogues

## HUMAN RIGHTS

### ALCOA

CBIS and ICCR members continue to meet with Alcoa to discuss the company's human rights code of conduct, including implementation and monitoring of the code. Better understanding of these issues is a key goal of the 2004 dialogue.

### MAY DEPARTMENT STORES

Working with ICCR, we continue our dialogue with May Department Stores on its contract supplier standards. We will emphasize the need for independent monitoring of factories — the company currently uses its own staff to monitor compliance — and a living wage for all workers.

### COCA-COLA

We are in dialogue with Coca-Cola as it develops a set of human rights standards. The company has a global set of standards for its own operations and those of its suppliers. However, these do not apply to the companies that bottle Coca-Cola products around the world, and most of the human rights concerns with the company take place at bottler factories. The company is currently in dialogue with bottlers as they develop human rights codes; CBIS and ICCR partners seek the opportunity to provide input into the development of these standards. The company has also asked us to work with it in developing a monitoring program.

### SEARS

We are in dialogue with Sears on the issue of vendor standards. In 2003, the company agreed to work with shareholders to develop a buying policy. As a first step in this process, we provided the company with advice and

direction, and plan to meet with the company over the next year as it develops its policy.

## HEALTH

### SCHERING PLOUGH

CBIS and ICCR members seek dialogue with Schering Plough. Investors want to feel confident that Schering Plough has fully considered the risks and opportunities it faces in relation to public health crises in emerging markets, and that Schering Plough has effective policies and processes in place for dealing with these challenges. We hope to receive more information from the company regarding the economic effects of the HIV/AIDS, tuberculosis and malaria pandemics on the company's operations worldwide, and its responses to date.

### GLAXOSMITHKLINE

We are seeking dialogue with this company on the issue of HIV, Malaria and Tuberculosis in Africa. The company manufactures some of the most effective AIDS medications. However, these drugs are inaccessibly expensive for most Africans, and we believe that the company has a responsibility to make efforts to improve the availability of these drugs.

## ENVIRONMENT

### BP

The dialogue with BP focuses on the environmental and human rights implications of its oil and gas development projects, and the impacts of these projects on climate change. Goals for 2004 include resolving the environmental concerns surrounding the company's investment in Russian oil firm TNK, global climate change, and the company's plans to reduce its reliance on fossil fuel. We are espe-

cially concerned about the TNK investment, given TNK's participation in the largest infrastructure project in the world, the Baku-Tablisi-Ceyhan pipeline.

### DUPONT

We continue to work with this company on the issue of genetically modified agriculture. CBIS is the lead on this effort. Our primary goal with the company this year is to persuade it to allow independent scientists to participate in the company's efforts to develop genetically modified organisms. Up to this point, company scientists and contractors have performed all safety tests. We believe that independent voices are needed to prevent conflicts of interest.

## GLOBAL FINANCE

### ABN AMRO

We are continuing to pursue dialogue with this company on the issue of its mortgage lending activities. We are asking the company to ensure that it pursues fair lending practices for minority and low-income borrowers.

### CITIGROUP:

#### INTERNATIONAL LENDING

The goals of the dialogue group, including CBIS and members of ICCR and SIF, are to strengthen and monitor the bank's commitment to the Equator Principles, a voluntary set of guidelines developed by Citigroup and other large international banks for managing social and environmental issues related to the financing of development projects. The Equator Principles are based on the policies and guidelines of the World Bank and International Finance Corporation (IFC), including IFC Safeguard Policies, which provide guidance on issues such as

indigenous peoples' rights, involuntary resettlement, safety of dams, forestry and natural habitats.

**CITIGROUP:**

**INTERNATIONAL CRA**

Another topic for dialogue with Citigroup is international community investing. The Community Reinvestment Act (CRA) requires U.S. banks to reinvest in communities in which they do business. The CRA was created in response to concerns that banks were taking deposits from poor communities and investing them in wealthier communities, and intends that local investment should accrue locally. Although the CRA only impacts banks in U.S. communities, we are asking the company to extend these principles abroad.

**CITIGROUP:**

**PREDATORY LENDING**

We are continuing to monitor the bank's efforts to prevent predatory lending. The bank has made substantial improvements in this area, such as developing policies and procedures to prevent unethical practices, and set-

ting lawsuits that allege predatory lending. We will continue our discussions with the bank in order to urge additional progress, and to ensure that the bank follows up on its commitments.

**JPMORGAN CHASE**

The goals of our 2004 dialogue include encouraging the development of a strong environmental management system, educating bankers about environmental and social issues, and creating monitoring mechanisms to ensure that the guidelines that are developed will be implemented.

Since our last meeting with JPMC, the company has reported that it is in the process of forming a senior level committee, that will report to the board, to develop and implement environmental guidelines. The company has yet to make a formal announcement of its commitment to this endeavor.

**WELLS FARGO**

We continue monitoring this company's implementation of policies designed to prevent predatory

lending practices and to improve its record of lending to minority and low-income borrowers.

**CORPORATE GOVERNANCE**

**MCDONALD'S**

We will continue to discuss board declassification with the head of the Governance Committee and its lead director. In exchange for not filing the resolution last year, members of the board and a panel of experts, chosen with CBIS input, discussed the feasibility of changing to a declassified board structure.

A representative of CBIS observed the deliberations. The board will announce its decision whether to declassify at McDonald's upcoming annual meeting in the spring of 2004. McDonald's should be commended for providing CBIS with access to its board of directors, and for developing a thoughtful and transparent process to discuss the election of directors. ■

**2004 COMPANY DIALOGUES**

COMPANY	DIALOGUE
ABN AMRO Holding NV	Expand mortgage lending to low income and minority communities
Alcoa	Establish global human rights standards
BP	Establish a policy of reducing impacts of global warming
Citigroup	Establish policies for lending to emerging markets
Citigroup	Establish policies to prevent predatory lending
Citigroup	Expand CRA principles internationally
Coca-Cola	Establish Global Human Rights Policies
DuPont, EI de Nemours	Establish policy of responsible marketing and manufacture of genetically modified organisms
GlaxoSmithKline	Provide medications for AIDS/Malaria/TB in Africa
May Department Stores	Establish labor standards for contract suppliers
McDonald's	Declassify board of directors
Sears Roebuck & Co	Establish labor standards for contract suppliers
Schering-Plough	Provide medications for AIDS/Malaria/TB in Africa
Wells Fargo	Establish policies to prevent predatory lending

Company Dialogue — An ongoing communication between a group of shareholders and company management. The shareholders hope to convince management to take action on an issue of concern. A failed dialogue may result in the filing of a shareholder resolution.



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## ANNOUNCEMENTS

### ■ CBIS to Host Rome Regional Gathering on February 26, 2004

CBIS is once again hosting a Regional Gathering on Thursday, February 26, 2004 at 10:00 A.M. at the Generalate of the Christian Brothers in Rome, Italy. CBIS Chief Executive Officer Michael W. O'Hern, FSC and Regional Director and Investment Advisor Tim Mitchell will provide an update on our investment programs and 2003 fund performance to CBIS participants and invited prospects, and will make themselves available for individual meetings after the presentation. If you have any questions prior to the meeting, please contact the Rome Gathering Coordinator at (212) 490-0800, or via email at RomeGathering@cbisonline.com.

### ■ CBIS Offices closed January 19th

CBIS offices will be closed on Monday, January 19th, in observance of Martin Luther King Day.

## Contacting CBIS

Can we help you? Please feel free to contact your CBIS representative or Don Platner, Vice President, at 1-800-592-8890 x 115 or Email: [platner@cbisonline.com](mailto:platner@cbisonline.com)

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