

PRINCIPLES

An Investment Newsletter



CBIS Christian Brothers
Investment Services, Inc.

JANUARY 2005

2005 Active Ownership Strategy

During 2005, CBIS will file 17 resolutions and dialogue with 19 companies. We will engage a total of 36 companies, one more than last year. The pie chart on the right shows where our efforts are most concentrated: Environment and Human Rights. These topics were especially important to participants, according to our triannual SRI survey conducted last summer.

■ New and Expanded Issue Coverage

In response to the results of our SRI survey, CBIS will engage on a new issue in 2005, **Violence in the Media**, and we will expand our efforts on the issue of **Environmental Justice**.

Violence in the Media focuses specifically on concerns about ease of access by children to violent video games, and how this relates to the increase in aggressive behavior by children and adolescents as documented by medical professionals. Although the makers of these games have created a rating system designed to prevent minors from gaining access to the most explicit games, many people are concerned that the standards have not been well enforced. This year, we will file a res-

olution with **Best Buy** on this issue.

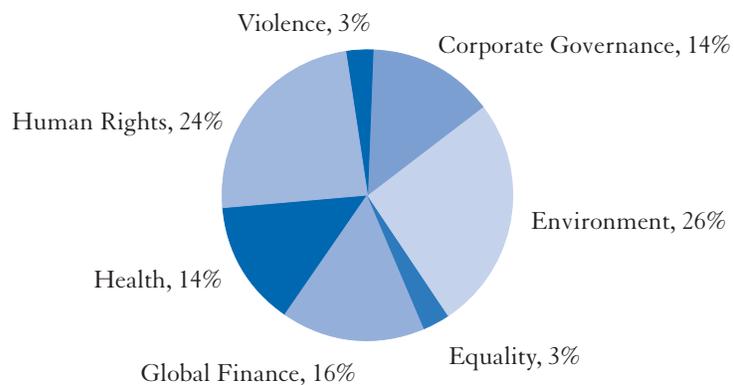
Environmental Justice, an issue that CBIS began working on last year, addresses the concern that the negative health and environmental effects of irresponsible corporate behavior fall disproportionately on the poor, particularly those who live in economically disadvantaged minority communities. Generally, our work on the environment has focused on global issues, such as climate change or worldwide emissions of pollutants. Environmental Justice focuses on the local impacts and asks that companies work with community leaders to ensure that their facilities respect the basic rights of the

people in the communities where they operate. This year, we will initiate a dialogue with **Dow Chemical** regarding its local environmental practices. We will also engage in dialogue with **Newmont Mining**, a company whose environmental practices have raised concerns in communities worldwide. We continue to work with **Costco** on its land procurement policies.

■ Concluding Dialogues

Each year we take time to review our engagement strategies and determine the best ways to use our resources to most effectively make progress with each and every company we have

2005 Active Ownership by Issue



Principles to be Published Quarterly in 2005

In order to improve the efficiency of our corporate communications and to enhance our environmental stewardship, *Principles* will be published quarterly instead of monthly beginning with this January 2005 issue. Articles and announcements that would have appeared in the monthly newsletter will now be posted on the CBIS website.

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selected for our active ownership efforts. If our engagement is successful, we applaud the efforts of the company and move on to work with other companies that are either leading or lagging their industry in environmental and social performance. In the case of **SBC Communications**, since it agreed with our request to declassify its board of directors, we praise it for

taking this proactive and important step toward greater accountability. We will now focus our attention on other companies.

In rare cases, we may cease our efforts to engage with a company, at least temporarily, in order to focus our efforts on more productive activities. Last year, CBIS co-filed a shareholder resolution led by the New York City pension funds asking **Colgate** to

implement a human rights code of conduct. Since the resolution did not garner the required votes needed for re-submission, and the company has avoided substantive dialogue about these concerns since 1997, we have chosen to refocus our efforts on other companies. We consider the issues we have raised with Colgate to be important, and will continue to seek opportunities to re-engage with it. ■

2005 Shareholder Resolutions

ENVIRONMENT

CHEVRON TEXACO

CBIS is a co-filer of a resolution asking the company to adopt a strategy of diversifying its product mix to include more renewable energy, and we will continue to participate in an ongoing dialogue with the company. While the company has taken some interesting steps — it plans to produce batteries for hybrid cars, for example — it has not yet released the comprehensive strategy for renewable energy that was promised in the spring.

COSTCO

Working closely with Domini Social Investments, we have re-filed our resolution urging the company to respect local communities' human rights, cultural heritage and environment when choosing sites for its stores in the U.S. and abroad. Broad investor support is demonstrated in the list of co-filers, which includes Sierra Club Mutual Funds, Adrian Dominican Sisters, Trillium Asset Management, Progressive Investment Management, NorthStar Asset Management and several individual investors. We will encourage the company to meet with us in order to discuss best practices in land procurement issues so that community rights to a clean environment and cultural heritage are protected.

DUPONT

We continue to be in dialogue with Dupont on the issue of Genetically Modified Organisms (GMOs). We are particularly concerned that the company may face liabilities if GMOs are proven to be hazardous to the environment or public health, as is suggested in many studies. Other concerns include the social and economic impacts of GMOs on low-income farmers and communities. We have begun to work with the company to develop a set of standards and metrics to help determine whether the company's efforts to engage in safety testing are sufficient.

We are concerned that after several years of dialogue with the company little concrete progress has been made. As the primary filer, CBIS will file a resolution this year to encourage the company to make progress.

FORD MOTOR COMPANY

Our discussions with Ford currently emphasize the company's efforts to reduce greenhouse gas emissions from its products. While the company has indicated that it shares our goal, progress has been slow to date. CBIS is a co-filer of a resolution asking the company to be a leader in reducing automobile emissions.

Recently, the company announced plans to reduce emissions in its cars by 45% by 2030. We are cautiously opti-

mistic about this announcement, and plan to learn more at our next meeting. We also continue to monitor the company's implementation of its human rights policies.

EXXON MOBIL

We will re-file on the issue of climate change. The company continues to deny the scientific community's widely accepted consensus view that human activities are causing climate change, although it has acknowledged that this might be the case. CBIS is the primary filer of a resolution asking the company to provide the data that supports its position on the science of climate change, which contradicts the conclusions of all major scientific bodies that have studied the issue. The company has so far been unwilling to do so.

Last year, this resolution was one of three that were filed with the company on this issue, part of a coordinated ICCR strategy. The company successfully challenged the other two resolutions at the SEC. This year, ICCR members intend to draft new resolutions.

NEWMONT MINING

CBIS has joined in a dialogue, led by Boston Common Asset Management, with Newmont Mining, the world's largest gold mining company. Since the company has agreed to consider

our concerns, we have decided not to file our resolution for the 2005 proxy season. We are working with the company in our role as a faith-based investment advisor to ensure that environmental justice is a basic right of all people. Concerns we will raise with Newmont include allegations of polluting mining practices and disregard for community concerns in Peru and Indonesia.

In Peru, exploration for gold on Cerro Quilish, a mountain that local farmers consider sacred and essential for their water supply, led to a two-week protest by local communities and a road blockade that temporarily suspended operations at Yanacocha, the world's biggest gold mine.

In Buyat Bay in North Sulawesi, Indonesia, the company is being accused of illegally disposing waste containing arsenic and mercury from its mine site into the ocean. The company has said that it operates in full compliance with host country and U.S. environmental standards.

UNOCAL

CBIS is the primary filer of a resolution asking the company to report on the public pressure to respond to the risks of climate change. A similar resolution appeared on the ballot last year. Our goal is to persuade the company to adopt a strategy to reduce its production of greenhouse gases in its operations and products. For an oil & gas company, this would typically mean diversifying its product mix to include more renewable energy. Unocal has experience in geothermal energy, a process of harnessing heat energy trapped deep underground.

HEALTH

ABBOTT LABORATORIES

We will be re-filing the HIV/AIDS resolution this season. The filers believe that Abbott's U.S. price increase of 400% of Norvir (ritonavir), a key AIDS drug, is an inappropriate response to the AIDs pandemic. The company has said that it adjusted Norvir's price to better reflect the

drug's importance in treating AIDS and the costs for improving the formulation. Norvir is an HIV protease inhibitor that is widely used to boost the potency of some other AIDS combination-drug therapies. The wholesale price for a month's treatment of the drug jumped to \$265 from \$54.

MERCK

For the past two years, we have filed resolutions asking Merck to increase access to medications by restraining price increases. While retaining this as our primary objective, our 2005 resolution will ask the company to separate the chairman of the board and CEO positions. Our resolution will highlight the company's reluctance to engage shareholders on the issue of medication pricing as a demonstration of the need for greater independence in the position of board chairman.

HUMAN RIGHTS

DILLARD'S

Shareholders, led by New York City pension funds, will continue to

2005 SHAREHOLDER RESOLUTIONS

COMPANY	RESOLUTION
Abbott Laboratories	Improve access to AIDS/Malaria/TB medications in Africa
Best Buy (new in 2005)	Report on efforts to reduce children's access to violent video games
ChevronTexaco	Develop cleaner sources of energy
Cisco	Report on pay disparity between highest and lowest paid workers
Costco	Establish environmental and social policies for selection of store locations
Dillard's	Establish fair labor standards for contract suppliers
DuPont	Disclose impact of genetically modified organisms
Exxon Mobil	Justify position on climate change with peer-reviewed data
Ford Motor	Reduce carbon emissions from vehicles
Gillette	Declassify board of directors
Merck	Improve affordability and access to pharmaceuticals by the poor
Newmont Mining (new in 2005)	Establish human rights and environmental justice policies for global operations
Time Warner	Report on pay disparity between highest and lowest paid workers
Unocal	Develop cleaner sources of energy
VF Corp	Establish fair labor standards for contract suppliers
Wal-Mart	Provide better professional opportunities to 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.

encourage Dillard's to implement at its overseas factories and subsidiaries a code of conduct based on the International Labor Organization's human rights standards and the United Nations' Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights. In addition, we are calling on the company to commit to a program of outside, independent monitoring programs by respected human rights and religious organizations in order to strengthen compliance with international human rights standards.

VF

For the second year in a row, we will file a resolution with VF, a clothing retailer, regarding its contract supplier standards. The company's overseas textile operations are of some concern to us. Reports indicate that numerous labor rights abuses occur at its overseas factories. So far, the company has not expressed interest in dialogue.

YUM! BRANDS

Our resolution asks the company to create and monitor human rights standards of its suppliers and to report on the results in a publicly available annual corporate citizenship report. Shareholders, led by the Center for Reflection, Education and Action, Trillium Asset Management and including CBIS, hope to initiate a substantive discussion with YUM!, one of the world's largest restaurant companies. We plan to discuss the negotiations between the company and the Coalition of Immokalee Workers, a group of tomato pickers in Immokalee, Florida. The Coalition is calling for improved pay and working conditions.

CORPORATE GOVERNANCE

GILLETTE

This year, CBIS will not file our resolution calling for the annual election

of all board member since the company recently announced that it will recommend that shareholders vote in favor of an equivalent, management-sponsored resolution at its 2005 annual meeting. CBIS was very pleased with Gillette's decision and commends the company for taking this step. We believe that annually electing directors encourages the board to adhere to a higher level of accountability. A resolution on this topic had been filed for the past three years and each year it has received a majority vote. Last year, the resolution filed by CBIS and Walden Asset Management received 68% in favor of the resolution, one of the highest vote totals ever for a CBIS-sponsored resolution.

EQUALITY

CISCO

CBIS, Sisters of the Holy Names of Jesus and Mary, and other ICCR members have again co-filed a resolution on the issue of pay disparity between the highest and lowest paid workers. We plan to analyze how the company justifies excessive executive compensation, the ways that compensation can be adjusted to more reasonable levels, and why there is a barrier to producing the report on pay disparity that our resolution requests. The Cisco annual meeting was Thursday, November 18, 2004 and the resolution on pay disparity received 11% (preliminarily) of the vote, up from 9% last year. The company should post final results in early 2005.

TIME WARNER

CBIS and the co-filers will be encouraging Time Warner, for the third year in a row, to produce a report on the disparity between its highest and lowest paid workers, or provide similar information in an alternative form. We also seek an analysis of changes in the relative size of the gap between the two groups, the rationale

justifying this trend and an evaluation of whether the top executive compensation packages at the company are excessive and should be modified.

WAL-MART

For the third year, CBIS will co-file a resolution concerning the advancement of women and minorities and improvements to the company's diversity program. In addition, we will evaluate the specific details of CEO Lee Scott's announcement that the company will promote more women to management, and that his and other executives' bonuses would be cut by up to 7.5% this year and 15% next year if the company does not promote women and minorities in proportion to the number that apply for management positions.

VIOLENCE

BEST BUY

CBIS will take the lead and work with other ICCR members who are increasingly concerned that recent research has demonstrated that playing and exposure to violent video games can increase aggressive thoughts, feelings and behavior in children. This year, CBIS will file a resolution asking Best Buy to prevent access by minors to violent video games labeled for mature audiences (ages 17 and older). A recent study found that three-quarters of unaccompanied children ages 13-16 were able to buy violent games for mature audiences. Even among retail stores with programs in place to restrict sales, 73 percent of unaccompanied children were able to buy them. We will discuss with the company the creation of new policies and improvements to existing programs and practices to ensure that access to and purchase of violent, mature-rated games is restricted to individuals age 17 and older. ■

2005 Corporate Dialogues

HUMAN RIGHTS

ALCOA

CBIS and our dialogue group will continue to engage Alcoa on a variety of issues including employment levels and the payment of living wages at the company's Alcoa Fujikura Ltd. (AFL) subsidiary. In addition, we will discuss the company's strategy for hydropower in countries with fragile ecosystems, and ways it can protect local communities from the impacts of the dams which power its facilities. We will also encourage Alcoa to establish firm emission reduction targets for greenhouse gases, including CO₂, and to describe its quantitative goals, recycling rates and efforts to improve sustainability in the aluminum production process.

MAY DEPARTMENT STORES

CBIS is in dialogue with May Department Stores over the company's labor standards for its overseas production facilities. The company has a code of conduct and a process for internal monitoring. We will work to strengthen the code, and to incorporate independent monitoring into its compliance procedures.

COCA-COLA

We are in dialogue with Coca-Cola on the issue of human rights at its worldwide bottling plants. A number of concerns have arisen about working conditions at these plants. The most important are:

- Union leaders at the company's Colombia bottler have been harassed,

kidnapped and murdered by right-wing paramilitary groups. Many people believe that there has been collusion by bottling plant managers and these groups. Coca-Cola had been a party to a lawsuit filed against the bottler, but was dropped from the suit.

- Human Rights Watch reports that child laborers are involved in the production of sugar for Coca-Cola in El Salvador.

The company is currently developing a human rights code of conduct and monitoring program in conjunction with its bottlers. CBIS and our partners in ICCR are working to ensure that the company follows internationally recognized human rights standards, and works with local human rights groups to monitor its compliance with these standards.

2005 CORPORATE DIALOGUES

COMPANY	DIALOGUE
ABN AMRO Holding NV	Expand mortgage lending in low-income and minority communities
Alcoa	Establish environmental and social policies for global operations
American Electric Power	Establish a policy of reducing greenhouse gas emissions
BP	Develop sustainable energy sources, improve social impact of development projects
Citigroup	Establish policies for socially responsible lending in emerging markets
Citigroup	Report on international community investment
Citigroup	Report on efforts to end predatory lending
Coca-Cola	Establish global human rights policies
Dow Chemical (new in 2005)	Establish policies in the area of environmental justice
Eli Lilly	Provide medications for Malaria/TB
General Electric	Report on pay disparity between highest and lowest paid workers
GlaxoSmithKline	Provide access to AIDS medications in Africa
JPMorgan Chase	Establish policies for socially responsible lending in emerging markets
Kemet	Implement board diversity policy
May Department Stores	Establish labor rights standards for contract suppliers
McDonald's	Declassify board of directors
Occidental Petroleum	Develop human rights policies for global operations
Schering-Plough	Expand access to pharmaceuticals in low-income communities in the U.S.
Sears Roebuck & Co	Establish labor rights standards for contract suppliers
Tyco International	Report on toxic emissions
Wells Fargo	Establish policies to prevent predatory lending

Corporate 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.

SEARS

We will continue to work with the company as it develops its code of vendor rights standards.

OCCIDENTAL PETROLEUM

In response to our resolution last year, Occidental Petroleum has agreed to collaborate with ICCR and its partners to develop a set of human rights policies for its overseas operations.

In recent years, the oil & gas industry has been criticized for its links to human rights abuses in developing countries. For example, the World Bank Extractive Industries Review highlighted concerns that oil exploration may not lead to development in low income countries, but instead may cause political turmoil and repression as governments seek to protect their oil interests.

In particular, the company has been criticized for its work in Colombia. The company has used government security forces to secure its operations there, even though those forces are known to violate human rights. While the company has agreed to a code of conduct regarding security forces, we are particularly concerned with how the company will implement these agreements.

HEALTH**ELI LILLY**

We will continue to dialogue with the company concerning its Multi-Drug-Resistant Tuberculosis Partnership (MDR-TB) and its plans to reach more infected people. According to The World Health Organization, 30 million people may die from TB by 2020.

GLAXOSMITHKLINE

We are in dialogue with this company on the issue of HIV in Africa. The company is one of the largest producers of HIV medicines in the world. While it has reduced prices for Africans suffering from the disease,

the price is still an obstacle to treatment for millions, while only a tiny percentage of infected people receive regular treatment. We have asked the company to allow local generics manufacturers, who could supply the same drugs more cheaply, to manufacture and distribute.

SCHERING-PLOUGH

CBIS has recently discovered that the company is involved in fetal tissue research. The company is therefore restricted under our Principled Purchasing criteria and will no longer be approved for CBIS funds. In order to honor our commitments to our partners, we will temporarily retain sufficient holdings in the company to allow us to participate in the dialogue through the end of the current season. Shareholders will continue to meet with the company to learn more about its efforts to diagnosis and treat hepatitis C patients, especially those who have difficulty accessing and affording medication. In addition, we will evaluate the company's implementation of its compliance programs, including the measures and controls that have been put in place to uphold ethical practices in the sale and promotion of its medications.

ENVIRONMENT**AMERICAN ELECTRIC POWER**

Since American Electric Power (AEP) publicly released its report in September outlining the company's actions to mitigate the economic impact of its carbon dioxide and other emissions, CBIS, the Pension Boards of the United Church of Christ and other ICCR members, led by the State of Connecticut, are planning to continue discussions with the company about the report's implications. We believe that it has set a benchmark for other energy companies to follow, and we praise AEP for identifying the potential risks posed by climate

change. Noted in the report, which involved independent directors and input from shareholders, is the statement that "mandatory reductions of greenhouse gas emissions are likely in the next decade." Understanding how the company will implement a course of action to address these reductions will be the subject of upcoming meetings.

BP

Shareholders will continue to meet with BP and monitor the environmental and social impacts of the Baku-Tbilisi-Ceyhan pipeline, which runs from the Caspian Sea to the Turkish Mediterranean, and the company's operations in Alaska, where safety and environmental protections are concerns. In addition, we hope to learn more about any environmental liabilities and methods of reporting on the environmental performance of TNK-BP, the major Russian oil company resulting from merger, of which BP owns 50%.

DOW CHEMICAL

CBIS will be the primary filer initiating a dialogue with Dow Chemical and environmental community groups to discuss the company's siting, safety policies and management practices at selected plants in the United States. We will be working with local organizations to encourage companies to disclose information about environmental impacts and to involve stakeholders in the decision-making process. Recent studies have found that the siting of chemical industry facilities is more likely to occur in counties with sizeable poor and/or minority populations. The surrounding communities bear the attendant environmental and health risks, such as high emissions of pollutants, inconsistent community notification during emergency events and inadequate monitoring procedures around and near high-risk chemical facilities.

TYCO INTERNATIONAL

CBIS has partnered with other ICCR members as well as CERES and Health Care without Harm, two environmental NGOs, to encourage Tyco to develop an environmental management system and report on its efforts to reduce toxic waste, and other environmental impacts, from its operations. After agreeing to support our resolution on this topic last year, the company is in the process of developing its system with help from the shareholder group and other stakeholders. This dialogue is in a monitoring phase.

GLOBAL FINANCE

ABN AMRO

We are in a dialogue with this company, a global bank based in the Netherlands, regarding its lending activities in the United States. We are particularly interested in its lending to low- and moderate-income communities and minority communities.

CITIGROUP:

RESPONSIBLE LENDING

We will continue to meet with the company to learn more about its training programs, disclosure and evaluation of projects under the Equator Principles, a voluntary set of guidelines developed in part by Citigroup for managing social and environmental issues related to the financing of development projects. We will also learn more about the bank's new progressive programs to combat illegal logging and to finance sustainable forestry initiatives.

CITIGROUP:

INTERNATIONAL COMMUNITY INVESTMENT

CBIS and our dialogue group partners are interested in learning more

about ways the company can increase access to capital in low-income populations. We intend to continue discussing Citigroup's microfinance operations in emerging markets.

CITIGROUP:

PREDATORY LENDING

Along with our ICCR partners, we continue to monitor the company's implementation of its agreement with the Federal Reserve Bank to reduce the likelihood that its CitiFinancial subsidiary engages in predatory lending practices.

JPMORGAN CHASE

We look forward to learning more about the bank's progress in seeking to protect communities that are impacted by its financing of companies and projects. We will evaluate the bank's progress toward establishing environmental guidelines and creating a committee composed of high-level bankers from departments such as oil and gas, project finance and Latin America, to assist in the monitoring and implementation of these guidelines. We will also be looking for improvements in the environmental section of the bank's annual corporate citizenship report.

WELLS FARGO

We are in dialogue with this company on the issues of predatory lending and mortgage lending in low- and moderate-income and minority communities. The dialogue is in the monitoring phase.

CORPORATE GOVERNANCE

MCDONALD'S

After several informative discussions between CBIS, Walden Asset

Management and the lead director of the board at the company, McDonald's announced that after studying the idea of adopting a declassified board structure it decided not to declassify its board. While we were disappointed with this result, the company did agree to continue discussions and review the issue in the future. This year we hope to inform the company about new economic evidence that suggests a strong link between increased shareholder value and an annually elected board, and to discuss the strong movement by companies towards declassified boards over the past two years.

EQUALITY

GENERAL ELECTRIC

For the second year in a row, CBIS will take part in a dialogue with General Electric on the issue of pay disparity between its highest and lowest paid workers. The company was not willing to meet with filers on this issue last year, and we continue to seek a dialogue with the company.

KEMET

CBIS will monitor the composition of Kemet's board in hopes that women and minority board candidates are included in search process, as committed to by the company in its new Nominating and Corporate Governance Committee charter. CBIS withdrew its resolution with Kemet last year after the company established policies and processes that promote greater inclusiveness of women and minorities. We will also seek to encourage a greater level of board independence. ■

New Shareholder Advocacy Directory Added to CBIS Website

The new Shareholder Advocacy Directory enables visitors to search and view up-to-date descriptions of CBIS SRI activities by company and issue, resolutions and vote totals, educational reports on SRI issues, and the role of shareholders in addressing these concerns. To view, click the Shareholder Advocacy Directory link in the left margin of the CBIS home page.



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ANNOUNCEMENTS

■ CBIS Offices closed February 21, 2005

CBIS offices will be closed on Monday, February 21 in observance of President's Day.

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