

## **Working for a Just and Sustainable World through Socially Responsible Investing Inspired by Mercy**

### *What is Socially Responsible Investing*

Investment practices in the United States during the past 30 years have been changing significantly. Part of this change relates to the realization that invested assets yield not only financial returns, but also can have important societal impacts, both positive and negative. As a result, an approach to investing called socially responsible investing (SRI) has emerged and is growing. SRI is an investment process that, rather than relying solely on financial criteria, incorporates social, environmental and governance criteria into the investment process. Our global experiences over the past two years in the financial markets have demonstrated that we share an interdependent global economy, and the importance of transparency to the capital markets that are built on trust. Understanding how companies are making the profits that fuel investment returns is essential to realizing the impact of their operations on peoples, the environment and global communities. Socially responsible investing incorporates different strategies that allow us to use our role as shareholders of corporations as a tool to influence positive change.

The growth in SRI is documented in a report from the Social Investment Forum, titled 2007 Report on Socially Responsible Investing Trends.<sup>1</sup> It reports that assets invested using one or more SRI approaches have more than doubled in the past 10 years, increasing from \$1.18 trillion in 1997 to \$2.7 trillion in 2007.<sup>2</sup> Organizations that have adopted SRI include universities, hospitals, foundations, pension plans, faith-based groups, unions and other nonprofit organizations.

Faith-based organizations like the Sisters of Mercy of the Americas (the “Sisters of Mercy”) recognize the moral imperative to work for a just and sustainable global community. Guided by their Direction Statement and the Critical Concerns as well as Church teachings, the Sisters of Mercy have engaged in SRI for decades, and recently formed Mercy Investment Services as its new collective investment program. As a ministry of the Sisters of Mercy, Mercy Investment Services embraces the moral imperative of a just and sustainable global community. Socially responsible investing is a means, in this complex global reality, for the Sisters of Mercy to speak with a corporate voice and promote systemic change to pursue a just and sustainable world. Corporations play an important role in global business activity, yet if they fail to also be “responsible corporate citizens,” they can have a material impact on society. Inspiration for SRI comes from the example of Catherine McAuley, foundress of the Sisters of Mercy, who was a tireless advocate on behalf of those marginalized by society, and who collaborated with others to remedy the injustices of her day. In

addition, the United States Conference of Catholic Bishops' Pastoral Letter *Economic Justice for All* (1986, updated 2009) provides guidance as well:

We are believers called to follow Our Lord Jesus Christ and proclaim his Gospel in the midst of a complex and powerful economy. This reality poses both opportunities and responsibilities for Catholics in the United States. Our faith calls us to measure this economy, not only by what it produces, but also by how it touches human life and whether it protects or undermines the dignity of the human person. Economic decisions have human consequences and moral content; they help or hurt people, strengthen or weaken family life, advance or diminish the quality of justice in our land.<sup>3</sup>

### *Strategies Utilized in SRI*

Before describing specific examples of how responsible investing promotes a just and sustainable world, a further explanation of how organizations can engage in SRI is helpful.

There are three strategies generally employed in SRI:

- ❖ Social screens - investments are selected or declined based on criteria relating to an organization's mission, values or principles;
- ❖ Shareholder advocacy - active use of ownership positions of companies to influence their actions through techniques such as the voting of company proxies, dialogues with management, or filing of resolutions with companies; and
- ❖ Direct community investing - financial arrangements, usually low-interest loans, that target underserved areas or community needs, such as business development, job creation and housing.

### Social Screens

The Social Investment Forum reported that the use of screens is the most prevalent approach in SRI.<sup>4</sup> The most frequently used screens eliminate investment in companies that manufacture tobacco products, alcohol, weapons/military contracting and certain pharmaceutical products that raise concerns for some faith-based organizations.<sup>5</sup> A more evolving strategy in SRI is the use of "positive" screens or factors to proactively select stocks. In this approach, companies are selected based upon their performance on environmental, social and/or governance criteria. Studies are demonstrating that companies that perform well on these criteria are better long-term investments and build long-term value for shareholders.<sup>6</sup>

## Shareholder Advocacy

Shareholder advocacy, simply stated, is being the “active” owner of a corporation.

Through a series of techniques, shareholders use their positions as investors/owners of corporations to address key social, environmental and corporate governance concerns in their policies and practices. Investors engaging in shareholder advocacy are a broad group of organizations, from interested individual investors to large institutional investors such as pension funds, universities, foundations, faith-based organizations, and labor unions. Faith-based investors may at times hold fewer shares in companies than other investors involved in socially responsible investing, they frequently collaborate on shareholder advocacy with other like-minded investors. Recent data indicates that faith-based investors file nearly one-half of shareholder resolutions.<sup>7</sup>

While at times ownership of some companies may not appear to be aligned with the Critical Concerns of the Sisters of Mercy, owning shares in corporations whose activities cause concern enables shareholders to address issues of social justice and environmental sustainability to these companies. The shareholder advocacy tools utilized include:

Filing Shareholder Resolutions: Shareholders join together for a resolution to appear on the company proxy at its annual meeting of shareholders. The resolution requests the company to adopt or change practices or remedy wrongs concerning various social justice, environmental sustainability or governance concerns that shareholders believe present a material risk to the corporation or society.<sup>8</sup> Examples of issues addressed in recent years include:

- ❖ Environmental impact of company’s operations, including water;
- ❖ Climate change;
- ❖ Social issues, such as global access to medicines;
- ❖ Employment practices, such as equal employment and fair labor standards;
- ❖ Corporate governance practices such as just executive compensation practices and gender and minority diversity in board membership.

While shareholder resolutions are generally nonbinding, they remain a powerful tool because most corporations seek positive relationships with shareholders. Success is generally measured not by the percent of favorable vote, but rather by whether a corporation improves its practices over time in response to shareholder concerns.

Dialogues with Companies: Frequently, companies and shareholders engage in collaborative dialogue to address issues of concern, either in response to a filed resolution or to avoid the filing of one. In many instances, companies have

voluntarily instituted changes in practices or issued reports to shareholders on issues in response to dialogues, and dialogues are considered the preferred route to achieve corporate action.

Proxy Voting: Proxy voting is the most important way that shareholders can express their views on company performance. This voting process addresses important business matters presented at a corporation's annual meeting, including the election of directors, resolutions presented by a corporation and resolutions submitted by shareholders. Proxies may be voted directly by a shareholder or by a contracted proxy voting service utilizing proxy voting guidelines approved by the shareholder. Development of voting guidelines is an opportunity for shareholders to consider their perspective on critical issues. A number of new tools are available to shareholders, including websites such as [www.endowmentethics.org](http://www.endowmentethics.org), the website of the Responsible Endowments Coalition, which contains numerous tools for use by colleges and universities to implement a social responsibility program in its investment program.

#### Direct Community Investing

Broadly stated, direct community investing is a means for capital to be directed to organizations that address a significant community need, usually in low-income areas, and that do not have access to traditional banks. This approach to socially responsible investing is a relatively small overall percentage, comprising 1% of dollars invested utilizing SRI. However, the total amount of this type of investing has grown significantly from \$4 billion in 1997 to \$25.8 billion in 2007, according to the Social Investment Forum's 2007 Trends report.<sup>9</sup> Currently, a variety of organizations, such as community development banks, credit unions and loan funds target capital to projects in underserved areas, both in the U.S. and globally. Community investing is a way of using financial resources to address underlying social justice issues, and creating a just and sustainable world. These are investments, not grants, so they are viewed to be a prudent investment of funds since the investment return will generally be equivalent with at least the rate of inflation; plus they achieve social impact through the investment. Community investing can address needs such as the creation of jobs with livable wages, affordable housing and access to needed community health services.

#### *Examples of how the Critical Concerns of the Sisters of Mercy lead us into SRI*

Through its role as a shareholder of corporations worldwide, Mercy Investment Services engages companies through the various techniques of shareholder advocacy described above, including proxy voting, sending letters and engaging in dialogues with companies. These efforts focus on achieving meaningful changes in corporate

practices that promote social and economic justice, a sustainable earth and the common good. Examples of shareholder advocacy that focus on a just and sustainable global community include engaging the following companies:

Coca-Cola: Water is the world's most essential resource because it sustains life and the food chain, which sustains us. Water is also essential for industry, and thus supports our global economy; industrial uses account for one-quarter of the world's consumption of available water resources. However, industrial pollution is itself endangering water supply and destroying ecosystems. According to the Global Environmental Outlook 4 (2007) of the United Nations Environmental Programme (UNEP), in 2025 1.8 billion people will live in countries with absolute water scarcity (1 out of every 4 people) and two-thirds will live in water-stressed areas.<sup>10</sup> Access to an adequate supply will also be hampered since most population growth will occur in developing countries where water supply is already limited. Contaminated water remains the greatest single cause of global human disease and death. In developing countries, at least 3 million people die annually from water-borne diseases, most of them younger than 5 years old.<sup>11</sup> Since 2002, the United Nations has recognized the human right to water and defines it as "the right of everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses."<sup>12</sup> Not all nations are in agreement with water as a human right, including the U.S. and Canada. The Critical Concerns of the Sisters of Mercy recognize the fundamental importance of the access to clean water by all and the human right to water.

As a beverage producer, Coca-Cola's corporate livelihood and growth depends on an adequate supply of water to produce its products. Water is the main ingredient in its beverages and is also essential to produce ingredients used in making the beverage. Coca-Cola's recent profitability has relied on emerging markets, according to an analysis of its earnings report in the Wall Street Journal.<sup>13</sup> Its manufacturing strategy has been to base plants in local communities, so Coca-Cola also articulates the importance of sustainable communities as part of its company strategies. As Coca-Cola has expanded globally, it has located its plants in countries in the developing world, such as India, where there is a water scarcity. Beginning in 2002, Coca-Cola has been accused of depleting water supplies and of polluting the groundwater in several plant locations in India. This crisis led the company to adopt a global water stewardship policy. The company has initiated processes to evaluate its water footprint and established goals to be an efficient user of water and appropriately treat wastewater in each of its more than 200 plants. It also has a corporate

commitment to finance and support local community projects to replenish water, such as rainwater collection and reforestation.<sup>14</sup>

While Coca-Cola is viewed by some as a leader in the corporate commitment to water sustainability, Mercy Investment Services and other shareholders have been engaging them in a dialogue related to their water practices and, in particular, on the impact they are having on the availability of clean water in countries like India. We are pursuing a dialogue rather than filing resolutions because Coca-Cola has met with us on several occasions, has been open in sharing information with us, and appears to be taking constructive action on clean water access and availability. Shareholders are also dialoguing with Coca-Cola about making a corporate commitment to recognize water as a human right. Efforts will continue with Coca-Cola to address its environmental accountabilities.

BP: Climate change is one of the most serious threats to our global environment and our livelihoods, and the use of fossil-based fuels (oil, gas and coal) is a significant contributor to climate change. Energy-related activities contribute approximately 70% of global greenhouse gas emissions, and oil and gas together represent about 60% of those energy-related emissions through their extraction, processing and subsequent combustion. Given the large contribution that fossil fuels make to global greenhouse emissions, scientists have stated that any meaningful objective to reduce greenhouse gas emissions will require a dramatic reduction in emissions from fossil fuel use. Nonetheless, the oil and gas industry continues to rely almost entirely on fossil fuel production for its profitability and value.<sup>15</sup> The Critical Concerns of the Sisters of Mercy call us to reverence the Earth and work more effectively toward the sustainability of life

BP's involvement in the Gulf of Mexico oil spill in April 2010 has cast a spotlight on the company's environmental efforts and practices. The recent oil spill into the Gulf of Mexico is certainly one example of the risk to our global ecosystems from the production of oil and reminds us of the Texaco oil operations that polluted the Amazon rainforest in Ecuador. An evolving area of environmental concern is the planned production by BP and other energy companies of crude oil from Canadian oil sands, which represent the largest crude oil deposits outside the Middle East. The oil product is generated through mining, rather than drilling, and requires the use of hot water to produce. Concerns are that oil sands production can be harmful to air, water and land. BP has initiated three Canadian oil sands projects in Alberta, Canada. In April, Mercy Investment Services joined 35 other socially responsible investors in a letter to BP raising

concerns about the projects and how BP would manage the environmental risks. The letter encouraged BP to increase its disclosure of its actions to mitigate the environmental risks.<sup>16</sup> A dialogue was also held with the company and other concerned investors. BP has committed to improved disclosure of risks in its sustainability report beginning in 2011. As an active shareholder, Mercy Investment Services will continue our efforts with energy companies, asking for transparency in their operations and accountability to our environment.

Proxy Voting: The Social Responsibility Committee of Mercy Investment Services developed a set of proxy voting guidelines that incorporate issues of particular concern to the Sisters of Mercy. The guidelines address a variety of concerns related to the Critical Concerns, such as environmental resolutions addressing climate change, just pay practices for executive compensation, and diversity and inclusiveness of management and boards. A proxy voting service hired by Mercy Investment Services uses these guidelines and ensures that all proxy ballots, both U.S and global, are appropriately voted so the voice of the Sisters of Mercy can be heard.<sup>17</sup>

The Sisters of Mercy have also been engaged in making loans and providing financial support to organizations worldwide through its community investing program named Mercy Partnership Fund. This fund, a part of Mercy Investment Services, recognizes that the investment of financial resources is itself a ministry of the Sisters of Mercy, which gives expression to their enduring concerns for the poor, sick and uneducated described in the Direction Statement and Critical Concerns. It is a way of using financial resources to address underlying social justice issues, and creating a just and sustainable world. One such organization Mercy Partnership Fund has funded is Fonkoze, or the “Shoulder-to- Shoulder Foundation,” a microfinance organization founded by a Haitian Catholic priest that supports economic development in Haiti. Poor Haitians, many who cannot read or write, had no access to banks. Fonkoze views women as the backbone of Haiti’s economy, so its focus has been to empower women by making credit available to them to build their local businesses and thus Haiti’s economy. It also provides them with training and other support programs to assist them to build their own business in a sustainable way. Fonkoze receives much of its financial support from “investors” who make low-interest loans to Fonkoze, and Fonkoze in turn loans the money in Haiti.<sup>18</sup> Mercy Partnership Fund made its first loan to Fonkoze in 2002, and has increased that loan over the years. Its “on the ground” works and importance to the Haitian people were acknowledged in a *Newsweek* article on the impact of the earthquake and Fonkoze’s ability, unlike traditional banks, to assist Haitians with access to money to support their immediate humanitarian needs for food, water, clothes and medicine.<sup>19</sup>

### *Participation by Mercy Colleges and Students in SRI*

Many of the SRI processes outlined above are wonderful ways for colleges and their students to become involved in our global reality. With the significant role that corporations play in the world (more than 50 of the world's largest "economies" are corporations), the different strategies used in SRI are an opportunity to engage in today's significant social and environmental issues and to seek a just and sustainable world.<sup>20</sup> Questions for colleges and students to address include:

- ❖ Is the college investment program using strategies of socially responsible investing, such as screens, filing of resolutions, dialogues and proxy voting?
- ❖ If so, what are the standards that determine the strategies, and are these promoting a just and sustainable world?
- ❖ Are there opportunities for the college and students to participate in engaging companies on issues of concern as both a learning opportunity and an important voice?
- ❖ How are decisions made on votes to be cast on company proxies? Issues raised by resolutions also provide an opportunity for learning about global social justice and environmental issues.

As Catherine McAuley said, "We rejoice in the continued invitation to seek justice, to be compassionate and to reflect mercy to the world." Socially responsible investing provides us with many opportunities to continue the wonderful works of Catherine.

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<sup>1</sup> Social Investment Forum, *2007 Report on Socially Responsible Investing Trends in the United States*, 2007

<sup>2</sup> *Ibid*, p.2.

<sup>3</sup> United States Conference of Catholic Bishops, *Economic Justice for All*, 1 (Updated, 2009)

<sup>4</sup> Social Investment Forum, *2007 Report on Socially Responsible Investing Trends in the United States*, 2007, p.1.

<sup>5</sup> *Ibid*, p. 19.

<sup>6</sup> See EIRIS Foundation, *The Value of ESG Factors for Foundation Investments*, 2009, pp. 8-10. See also Guyatt, D. *Integrating ESG to Enhance Portfolio Value*, Mercer Investment Consulting, 2008. This approach to investing was endorsed in 2006 with the adoption of Principles for Responsible Investment by the United Nations Environmental Programme (UNEP). The report describes six best practices for incorporation of environmental, social and governance factors into investment decision-making.

<sup>7</sup> Social Investment Forum, *2007 Report on Socially Responsible Investing Trends in the United States*, 2007, p. 37.

<sup>8</sup> The U.S. Securities and Exchange Commission ("SEC") is the regulatory body which regulates share ownership in major US corporations, and it has established certain minimum ownership and other criteria which must be met in order to file.

<sup>9</sup> Social Investment Forum, *2007 Report on Socially Responsible Investing Trends in the United States*, 2007, p. 38.

<sup>10</sup> Ceres, *Water Scarcity and Climate Change: Growing Risks for Businesses and Investors*, 2009

<sup>11</sup> World Health Organization, Water Supply, Sanitation and Hygiene Development, [www.who.int/water\\_sanitation\\_health/hygiene](http://www.who.int/water_sanitation_health/hygiene)

<sup>12</sup> United Nations Committee on Economic, Social & Cultural Rights, General Comment No. 15, The Right to Water, 2002

<sup>13</sup> Wall Street Journal, *Coke's Profits Rides on Emerging Markets*, (April 21, 2010).

<sup>14</sup> Business for Social Responsibility, *Drinking It In: The Evolution of a Global Water Stewardship Program at The Coca-Cola Company*, 2008, found at [www.bsr.org](http://www.bsr.org).

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<sup>15</sup> See Ceres, *Global Climate Disclosure Framework for Oil and Gas Companies*, 2010, pp.1-4.

<sup>16</sup> The letter signed by investors to BP may be found on Mercy Investment Services web-site, [www.mercyinvestmentservices.org](http://www.mercyinvestmentservices.org) by clicking on “Company Dialogues”.

<sup>17</sup> See [www.mercyinvestmentservices.org](http://www.mercyinvestmentservices.org) for Mercy Investment Services proxy voting guidelines.

<sup>18</sup> See [www.fonkoze.org](http://www.fonkoze.org).

<sup>19</sup> Newsweek, *Big Crisis, Small Help*, February 10, 2010.

<sup>20</sup> Resources in socially responsible investing dedicated to colleges and universities can be found at [www.endowmentethics.org](http://www.endowmentethics.org).