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SOCIAL INVESTING: CHALLENGING INSTITUTIONAL INVESTORS TO MEET THEIR FIDUCIARY RESPONSIBILITIES

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INTRODUCTION

I congratulate the American Enterprise Institute for creating this seminar dealing with "Socially Responsible Investing and Pension Funds."

I am aware that for some of the speakers and attendees at this conference, "social investing" is a controversial topic. And for some, it is an issue they believe should definitely not influence the investment world of pension funds, foundations, academic institutions, or other institutional investors in the least.

On the other side, there are investors who believe strongly that it is important for individuals and institutions to be able to have their investments act consistent with their values and not reside in a separate domain.

While our conference focuses quite properly on the responsibilities of pension funds in this area, I believe that first it is helpful to put the issue in a larger context.

While different laws and expectations than investments of a religious investor or trade union or foundation or mutual fund govern pension funds, there are also a number of similarities.

Let me start out by identifying the hats I wear. I serve as a Senior Vice President at Walden Asset Management, a division of Boston Trust & Investment Management Company; a Boston based money management firm. Walden is the socially responsive investment division of Boston Trust and manages $1.3 billion for clients. I also serve as President of the Social Investment Forum, the trade association for socially concerned investors. The forum's membership includes a wide range of investment firms and money managers, including the Calvert Group, Domini Social Investments and social investment units at Smith Barney, Neuberger & Berman and Dreyfus.

Before journeying to Walden, I served at the Interfaith Center on Corporate Responsibility for close to 30 years. It is fair to say that throughout my career I have been immersed in the issue of investment responsibility and corporate responsibility.

Let us look first at what the characteristics of a socially concerned investor are. Traditionally social investors utilize one or more of the following:

1. Social screening of portfolios – many social investors decide to avoid investing in companies or industries, which they feel, violate their own values or principles. For example, a healthcare agency may not wish to invest in tobacco stock, a religious group may avoid investing in a handgun company, an environmental organization in the worst polluters, a family oriented organization may eschew companies involved in pornography or a Roman Catholic diocese in a company producing abortifacients. Examples of more comprehensive social screens are on the Domini Social Investments and Calvert Group web site.

   In all these cases the investor tries to blend their principles and their investments. There is no one-universe set of "social principles" for socially concerned investors. These are decided by the investor themselves. At present, the largest social screen applied to investments is avoidance of tobacco stocks.

   Few investors argue that their avoidance of ownership will directly affect the stock price or the company's conduct, except in rare cases where there is a broad-based divestment groundswell.

   And very importantly, evidence bears out their social screens do not penalize investors financially. This has been the case in Walden's 25 year plus experience and in the experience of scores of mutual funds and money managers applying social screens to the investment process. They make competitive returns compared to their benchmarks and investment manager peers.

   Moreover, for many pension funds which are "universal owners", (in light of their size they own a cross section of the whole market and thus own shares in virtually all companies) picking and choosing investments using social or corporate governance criteria is a difficult challenge since they must first meet their obligations as fiduciaries. Thus few pension funds rush to add screens to their investment policy.

2. Public Policy – concerned investors often advocate reforms in government policy or legislation that they believe is consistent with their mission. For example, stung by the wave of business scandals, many investors supported Sarbanes-Oxley, and other new SEC regulations mandating reforms in corporate governance. Other investors have supported regulations requiring additional corporate disclosure of environmental liabilities in company 10K statements.

   Increasingly, concerned investors are insuring their voices are heard on important public policy debates affecting them as investors

3. Community Development – yet other investors seek means by which they can invest in low income housing or empowering poor communities through a variety of investments from market rate instruments to intention below market rate vehicles.

   - For example, buying Certificate of Deposits in community development banks and credit unions or making a loan to a community loan fund.

   - Investing venture capital in a start up company dedicated to solutions for specific social problems.

   - Making market rate investments in low-income housing. This a blossoming area where socially concerned investors have invested $14 billion according to the Social Investment Forum (SIF) 2003 Trends Report on the SIF website at www.socialinvest.org

4. Shareholder engagement or advocacy – Since 1971 when the Episcopal Church filed the first shareholder resolution on a social issue (with General Motors on the issue of apartheid) there has been a steady growth of proactive advocacy by investors with companies in which they are shareowners.

   In 2004, according to IRRC, there were over 1,000 resolutions on social, environmental and corporate governance issues.

   What are the basic premises that motivate these investors, individual and institutional, to petition companies through the shareholder resolution process?

   - That long-term shareowner value is preserved long-term when companies adopt good governance practices and act as good corporate citizens or socially responsible business entities

   - A firm belief that as a shareowner they have a right to communicate with the management and Board of the company

   - A belief that they can and should attempt to influence company policy and practice.

- Obviously shareowners that think long-term see the value of the company reflected not solely in quarterly returns but over a longer period of time. Management has been put under intense pressure by conventional Wall Street pushing for increased quarterly numbers. Managers and Boards facing such pressure may see an environmental program to create energy savings as a short-term expense when over a period of years that expense may save energy and save money. Likewise, expenses related to adopting and monitoring a Code of Conduct can be seen as a short-term drain on capital or it can be seen as a long-term investment, limiting risk and enhancing reputation as well as "doing the right thing." As long-term owners we are looking at the broader long-term health of the company and support the Board and management in providing long-term leadership.

This shareowner perspective empowers the prudent (far seeing investor) to press companies to look at the long-term perspective on issues like Codes of Ethics, climate change and sweatshops and consider what the impact on the company may be five or ten years out.

Let us turn the debate on whether socially screened portfolios perform comparably to conventionally managed portfolios on its head for a moment.

In fact, there is an emergence of investors who make a cogent case for the urgent need to take specific social or environmental issues into account while making investment decisions to moderate RISK. They see it as a necessary investment strategy.

On climate change for example, they look at the analysis of Swiss Re, Munich Re and numerous other insurance companies who argue that there is significant economic risk from climate change that will he a profound effect on certain industries. They believe they must make this a part of their investment analysis. And the United Kingdom Environmental Agency in a 2004 report stated that "51 out of 60 studies demonstrated a positive correlation between company's financial performance and their environmental management quality."

I'm sure such studies can be criticized but the point is that an increasing number of investors see environmental issues as impacting shareholder value. Is this "screening"? Not in the traditional academic form.

And when the State Street Global Advisors releases their own quantitative research that argues that a portfolio weighted favorably toward companies with superior environmental records (while not screening out the poor actors), adds value to their client portfolios should they be dismissed out of hand.

In fact, SSCA's studies which optimized better environmental performance found their "ecoportfolio" outperformed the S & P annually over five years. As a result, SSCA will be backing a fund that incorporates environmental risk analysis into their stock selection.

At this point we should not make facile arguments or claim "Eureka", but if a pension fund decides they are going to dedicate a portion of their portfolios to such an approach as a form of diversification should critics automatically decry such a move as violating the Trustees responsibility to the beneficiary simply because a "social issue" has become a risk factor.

Of course not!

These are four "pillars" of social investing screening, public policy, community development and shareholder advocacy. It is vitally important to note that not all concerned investors utilize all four approaches. Some may only screen; others only employ shareholder advocacy. As far as I can see, there is no litmus test that requires a "certified social investor" to practice a combination of these. In fact, in the SIF Trends Report, investors participating in one or more of these are defined in the study as a socially involved investor.

This is important since too often academia or analysts assume the "socially responsible investor" chooses to practice screening to avoid investing in certain companies. In fact, New York City Pension Funds, active in this arena for over a quarter century and a true leader in this work, do not choose to "screen" but instead to be proactive investors. They choose to actively engage companies on a wide range of corporate governance, social and environmental issues, choosing engagement rather than avoidance.

This is a key concept as we discuss options for pension funds. There is no one "true road" to being an active "social investor."

In fact let us confuse the debate even further. Many pension funds do not characterize their work as "social investing." This may be the language of the Episcopal Church or the Sisters of Charity, of Calvert or Domini Social Investments, TIAA-CREF's Social Choice Fund, Walden or Dreyfus Third Century Fund, but it is neither the language nor the motivation of the Treasurer of the State of Connecticut, Denise Nappier, nor William Thompson, the Comptroller of the New York City nor Alan Hevesi, the sole trustee of New York State Pension Funds, nor Sean Harrigan, Chair of CALPERS.

Bound by legal and ethical responsibilities to be responsible fiduciaries, these pension leaders define their obligations carefully and attentively.

New York City Pension Funds and their comptroller William Thompson put it this way. "The New York Pension Funds take the responsibility of stock ownership seriously. They believe that advocacy and activism for shareholder rights, corporate governance reforms, and corporate responsibility is consistent with their fiduciary obligations. They understand the interconnectedness and interdependencies of markets and societies within the global economy. Accordingly, they expect companies in which they invest to strive continually to be good citizens in the communities where they do business."
NYC Pension funds: http://www.comptroller.nyc.gov/bureaus/bam/faw.shtm

Bill Thompson describes the concurrence of governance and social issues for their New York Pension Funds "In fact, I believe the time has come to take a broader view of what we now call corporate governance. We must recognize that a company's conduct with regard to areas such as the environment and human rights is just as significant in evaluating overall corporate governance as the independence of board audit committees and executive compensation.
Corporate responsibility of any kind poses risks for the health and the stability of public companies and their shareholders.

There is a simple but persuasive logic to this broader approach. Attempting to encourage the companies in which we invest to build long-term shareholder value by including in their business plans responsible economic, environmental and social behavior- the sustainability business model – is a wise and prudent course of action."
http://www.comptroller.nyc.gov/press/speeches/CERES-4-10-03.shtm

Their personal social objective aside, they are obliged to protect the beneficiaries of their pension funds. This is not their money to "play with", they are "trustees" bound to protect the interests of the investors and participants in these pension funds.

There are literally endless expressions of what fiduciary duty is in law books and pension plan policy statements. The concept is widely understood.

It is well expressed in an April 2004 speech to CERES by Sean Harrigan, Chair of CALPERS, which holds assets worth $166 billion. He calls it "Money held in trust for the benefit of our members and beneficiaries."

He further states "as such, our Board is charged with overseeing these assets, investing them in the sole financial best interest of our members."

I want to emphasize those words "sole financial best interest." Legally and morally Mr. Harrigan and his colleagues know the definition of their job description.

And these pension fund leaders have set a course whereby they are proactive investors engaging companies in the key governance and corporate responsibility issues of our day consistent with their fiduciary interest.

This is a distinct trend among pension funds, whether the fund is a state, municipal, labor or religious pension fund. In general these funds do not rush to identify new screens or list companies to avoid. Instead they move to interact, engage, press for changes that they believe are in the best interests of investors. In fact these are the same standards that motivate proxy voting advisory firms like ISS who vote proxies based on what is in shareholder best interests.

In short, it is incorrect to define a modern social investor by the old definition, as an investor who screens portfolios based on social criteria. The movement is much broader than that.

Certainly a critic could fairly ask for a further explanation from pension funds active in the pursuit of good governance and corporate social responsibility regarding how this activism is consistent with or advances their fiduciary duty.

What inspires their activism? Certainly those active funds firmly believe that companies with strong corporate governance and corporate responsibility records protect long-term shareowner value by doing so. In fact, many argue that as large "universal owners" this is one of the few tools they can use to add value.

For example, Phil Angelides, Treasurer of the State of California stated in his 2002 publication "The Power of the Purse" – "investors need to send a clear message: Company conduct counts. Too often, institutional investors have tried to construct a wall between their investment decisions and corporate responsibility. Yet, in doing so, they ignore the relationship between good corporate citizenship and good investments."

In the same document, Angelides issued a call to activism "act like owners" he urged. "Shareholders should start acting like the owners they are. They must make the most of the voting power that they have today while they mobilize to strengthen their rights to have a meaningful say in the companies they own."

These are not simply convenient theories concocted by pension fund leaders. In fact, they are firmly rooted in statements of hundreds of CEO's and commitments by corporations themselves. Not only do publications from corporate governance rating agencies (ISS, Governance Metrics, and The Corporate Library) tell us that good governance is good for shareholder value. We also see an abundance of companies agreeing.

For example, the 2004 Gillette Proxy Statement (Page 3) states "the Board of Directors strongly believes that good corporate governance practices lead to successful business performance."

There are few companies who would not state a similar case. If the business community accepts this as a standard for itself, it is not hard to affirm that investor intervention for good governance can be defended as consistent with fiduciary duty.

The strength of this case is further buttressed by some of the overwhelming majority votes by investors supporting shareholder resolutions on issues like;

- Moving to annual election of Directors
- Expensing stock options
- Putting poison pills to a shareholder vote

These votes, many of them in the 50% to 80% range, cast by pension funds and mainstream mutual funds and money managers, are cast consistent with their belief that it is legal and fiduciary obligation to vote for these reforms.

But increasingly pension funds also recognize that their fiduciary responsibility requires that they be proactive on specific social or environmental issues that affect shareholder value.

Let me be clear. Not all "social issues" fall in this category. Some issues that may be appropriate to push as corporate social responsibility reforms do not carry with them a convincing business case that stimulates a prudent fiduciary to act.

However, the fact that a strong business case can be made on many of these issues have prompted pension funds to become active to encourage a company to

- Avoid costly litigation and future liability
- Utilize cost reductions (e.g. energy conservation)

- Foster strong corporate climate that attracts and retains diverse and high quality employees, and enhances productivity

- Protect brand identify and minimize reputational risk

- Seek new market opportunities

Examples of such issues where a strong business case can be made include

1. No discrimination based on sexual orientation – This is an issue that ten years ago would have been considered a "fringe issue." But in the last 5 years a wave of companies have decided to change their policies and explicitly add sexual orientation to the section of their human resource policies banning discrimination. In fact now 98 out of the Fortune 100 companies and 75% of the Fortune 500 have made this change, including Wal-Mart.

   Exxon Mobil still opposes this reform and as a result ISS has stated they are an "outlier" and supported the resolution urging this change (which in 2003 received a 27% FOR vote). Clearly, companies and many investors both see the business case for this change.

2. The "Sweatshop and Vendor Standards issue" – This is another issue where a cogent business case has been made about the need for global companies to develop strong Codes of Conduct, support Independent Monitoring and be transparent about the process and the results of the findings. Again companies like Disney, McDonalds, The Gap, Sears and scores of others strive for leadership in this area.

   The examples of ugly publicity, colleges cutting ties to companies allegedly using sweatshops and consistent shareholder pressure are blended with the examples of positive leadership paying off for companies. Astute shareholders see forward-looking policies and practices on the Code and vendor standard issue as good for long-term shareholder value.

3. Diversity - Likewise the case for "leveraging diversity" (not simply avoiding discrimination but taking advantage of the breadth of skill, knowledge and experience across diverse lives in the company) is strong. Not only is a company seeking to avoid legal action or bad publicity from publicly revealed patterns of discrimination, but they speak proudly of the many benefits provided in their business by having a broader pool of skilled applicants from the bottom of the job ladder to the Board.

4. Climate Change – pension fund advocacy as part of fiduciary duty – the issue of climate change is a current and extremely relevant example of the new waves of activism by pension funds acting in the context of fiduciary duty.

In November of 2003, CERES, the environmental organization whose relationship includes many investors as well as environmental organizations, convened a meeting in New York dealing with climate change and investor responsibility. Investors with over $1 trillion attended to discuss the environmental impact of climate change and the impact on business and the pension fund that invested in them (see www.incr.com/news-release)

While a comprehensive briefing was given on climate change and the environment, the focus of the event, which was chaired by Treasurer Denise Nappier of Connecticut, was the responsibility they had as fiduciaries to address this issue.

At the meeting California State Treasurer Phil Angelides said: "In global warming, we are facing an enormous risk to the U.S. economy and to retirement funds that Wall Street has so far chosen to ignore.

The corporate scandals over the last couple of years have made it clear that investors need to pay more attention to corporate practices that affect long-term value. As a fiduciary, we must take it upon ourselves to identify the emerging environmental challenges facing the companies in which we are shareholders, to demand more information, which we need to spur actions to respond to those challenges."

Connecticut Treasurer Denise Nappier said: "companies that fail to adequately disclose potential liabilities related to climate risk and financial analysts who ignore the potential finance risks of investments in these companies run the risk of fueling the next governance crisis. As investors, we can not afford any more causalities of corporate irresponsibility or regulatory loopholes."

Underlining the point, Phil Angelides stressed "shareholders need to know if the companies they own are going down the prudent path, by adopting environmental practices that will enable them to survive and thrive in a world of increasing environmental concern and regulation." "Or, whether those companies are taking the path of denial, risk, liability and cost."
www.treasurer.ca.gov/news/envrmt/020304_enviro.pdlf)

The pension funds present did not stop with thoughtful reflection on the issue. They issued an "investor call for action on climate risk" and agreed to work together to address the issue as fiduciaries. Among the signatories of the call to action were

- Phil Angelides, Treasurer, State of California
- Randall Edwards, Treasurer, State of Oregon
- Dale McCormick, Treasurer, State of Maine
- Jeb Spaulding, Treasurer, State of Vermont
- Robert Vigil, Treasurer, State of New Mexico
- Alan Hevesi, Comptroller, State of New York
- William Thompson, Comptroller, New York City
- Stave Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU)
- William J. Boarman, Chairman of the Board of Trustees CWA / VTU Negotiated Pension Plan
- Tom Keegel, General Secretary-Treasurer, International Brotherhood of Teamsters Trustee, Teamsters Affiliates Pension Plan

The Principles in the call stated: “ As investors, we have come to understand:

- Climate change is one of the greatest challenges of the 21st century. How we address risks posed by climate change to our physical world will impact our economic and environmental future.

- Climate risk has become embedded, to a greater or lesser extent, in every business and investment portfolio in the United States. In order for investors to exercise appropriate judgement and for fiduciaries to act responsibly, disclosure of the potential economic, risks posed by climate change is essential.

- Financial markets need to better understand and acknowledge the economic challenges and opportunities that climate will compel. “ (Full “Call to Action” is on the INCR web site)

The climate change issue is one of the most active social or environmental issues being addressed by pension funds. These “social issues” have a compelling business and financial case that has led ISS to vote in favor of many shareholder resolutions that have been submitted to companies and led investors to be proactive in engaging companies.

This proactive engagement may include

- Correspondence and dialogue with companies

- Proxy voting – in fact many institutional investors from Stanford to Harvard University from the Boston Foundation to the Ford Foundation who are not sponsors of resolutions are thoughtfully voting their shares

- Public letters appealing for a change – public statements released to the media and other investors also stimulates change

- Sponsorship of resolutions – and in a more public way, the sponsorship of resolutions that stimulate debate within the shareholder base and often within the company itself is utilized.

All these actions done by pension funds are stimulated by a sense of fiduciary responsibility.

BUSINESS LEADERSHIP STATEMENTS ON GOOD CORPORATE CITIZENSHIP SUPPORTS PREMISES OF ACTIVE FIDUCIARY INVOLVEMENT

In a sense the proactive engagement for improvement in governance and social / environmental behavior reflects trends in businesses. These pension funds are building their perspective firmly based in business realty.

But just as we asked if there was a case being made by the corporate community itself for good governance, let us ask if there is a corresponding case on corporate responsibility that buttresses pension fund activism.

I believe there is growing and overwhelming evidence that global business leaders believe good corporate citizenship or strong corporate responsibility is also good business and conversely that a poor record will hurt the company and shareholder value.

What are some of the indicators of this trend? We can quickly point to companies increasingly endorsing codes like the United Nations Global compact or agreeing to use the Global Reporting Initiative

- Hundreds of corporate citizenship reports are being published
- Statements by CEO's endorse the importance of corporate responsibility
- Awards given to corporate, social and environmental leaders in the business community
- Business for Socially Responsibility (BSR), exists as an association of companies seeking advice on best practices
- Academic studies are blossoming in this area. One recent example is the Harvard University Program on CSR
- Case studies of companies with controversial or poor records and the damage caused to investors are increasingly found in the academic literature and popular media
- The Conference Board regularly holds conferences on this topic for the business community reflecting the growing market
- In fact France recently required companies to expand their social and environmental disclosure

- As Niall Fitzgerald, the Chairman of Unilever stated in a speech October 2, 2003 at the London Business School ("CSR: Rebuilding Trust in Business") "Business is part of society, not outside it. Business has a responsibility not just to make profits for its shareholders, but to create long-term sustainable business for its stakeholders. So when we talk about corporate social responsibility, we don't see it as something business "does" to society, but as something that is fundamental to everything we do.

  Not just philanthropy or community investment, but the impact of our operations and products as well as the interaction we have with the societies we serve"…

  Corporate social responsibility is not a soft issue or a nice to do activity on the fringe of business. It is central to doing business. It is challenging to manage and it is a hard edged business issue." Mr. Fitzgerald concluded.

  This philosophy would be mirrored multiple times by business leaders from BP to IBM, From Pfzier to Shell, from Proctor and Gamble to Bank of America, from Novartis to Intel.
  Whether they live up to their statement is not the issue on the table! The driving point is that these are not fluffy statements regarding "giving something back to society," they are made with strong and convincing business cases, that it is in the best interests of that corporation and its investors.

  At a conference "Voluntary Codes of Conduct for Multinational Corporations: Promises and Challenges" sponsored by the Zicklin School of Business and the Wharton School (New York City, May 12-15, 2004 attended by 300 academic, business leaders, investors and NGOs), business leaders from Novartis and Mattel as well as the CEO of Deloite & Touche gave forceful presentations on the importance of Codes of Conduct.

  Klaus Leisinger of Novartis presented the Business Case for doing the "Right Thing" noting it

  - Provided a new competitive edge in this area
  - Potentially attracted investors
  - Helps employee morale
  - Reduces reputational and legal risk

  Tom Debrowski, Executive Vice President Worldwide Operations, Mattel who said in his speech confirmed his arguments. "This is a good business decision. If employees are respected, work in safe environments, receive proper healthcare, are educated on site, it builds a more loyal workforce, increases efficiency and lowers turnover of staff. It pays for itself many times. There is a tremendous return on these programs."

  On the other side we fear that "consumers, employers, investors may leave you if you are acting irresponsibly. It is the right thing to do and the right thing to do for our business," he concluded.

Imagine then that you are an executive of a pension fund or a trustee listening to the case made by business itself, doesn't the prudent fiduciary have a strong motivation to support good corporate responsibility as part of their fiduciary duty? In short, the forward looking business community helps make the case for them to be concerned and proactive investors.

INTERNATIONAL GROWTH IN SOCIAL INVESTING

It would be a look in itself to report on the tremendous growth in this field globally. From Canada to Australia from Japan to the EU and United Kingdom there have been monumental shifts in the way investors deal with social and environmental issues.

For example, the Canadian Securities Administrators have just released a deaft rule proposing disclosure of mutual fund proxy votes similar to the SEC ruling requiring such disclosures in the United States.

And of course in the United Kingdom, British regulations require investors to declare IF they take social and environmental factors into account in their investment decisions which has resulted in a huge number of mainstream investors declaring that they do so and how. In addition, many mainstream money managers from ISIS to Henderson Global Investors to Barclays are involved in "engaging" companies in dialogue on social / environmental issues often exploring it as part of their risk assessments.

The United Kingdom models are also transferred to the rest of Europe. France has passed a law that requires every French company to publish an annual social report and European investors are also asked to declare their position on how they take social / environmental factors into investment decisions. In Japan, a number of socially responsible mutual funds have recently been launched.

In short, the faces of this work will not look like the work in the United States but it nonetheless has a validating effect and must be noted.

CONCLUSIONS

What are the trends for the pension fund that believes they have a right and an obligation to address issues of corporate responsibility with their investments?

- Explaining why a long-term perspective impels an investor to consider the overall impact of an issue on a company over 5, 10, 20 years.

- While some screens like tobacco have an appeal, most pension funds are not rushing toward screened portfolios.

- Some funds seek investments with a double bottom line i.e. a competitive return on investments while investing in a project with a positive social impact (low income housing in the Bronx or a solar company). In this case there can not be a lesser return on investment, they seek market returns

- Proxy voting on issues where a strong business case can be made is the wave of the future.

- Shareholder engagement – whether quiet dialogue or the public filing of a shareholder resolution requesting information or a change in policy, shareholder engagement is destined to grow.

- Pressing for changes at the SEC or in legislation.

- All this will be international in scope and not limited to the United States.

All of these actions are consistent with and motivated by fiduciary duty.

In the world of pension funds you can do no other!

Some Brief Comments in Response to the Paper by Prof. Alicia Munnel of Boston College

I very much appreciated the thoroughness and detail of Professor Munnel's paper.

Her thorough review of the literature leading her to conclude that social screening did not result in a financial cost for investors is our experience as well.

Her experience in the Department of Labor working on pension issues adds additional weight to her analysis and her strong warning that pension funds should not move toward socially screened portfolios.

Additional questions could, however, be raised about her absolute standard here.

Many state and city (and some corporate pension funds) offer a social option (or two or three) in their menu of options for employees leaving the final decision in the employee's hands and providing it as a choice just as they offer investment choices e.g. stocks, bonds, international equity, real estate etc.

TIAA-CREF's Social Choice accounts are one such example. Probably it is fair to assume that Prof. Munnel is not referring to these "choice" accounts, but to decisions where the Trustees decide **FOR** the beneficiary. Yet this "choice" approach is also a "social investing" option for pension funds.

Secondly, Professor Munnel seems to focus, almost entirely, on social screening in her firm warning against pension funds embracing social investing. Yet, we have made clear, that many socially concerned pension funds are not rushing toward adopting screens, but are engaging companies using (not avoiding) their shares. They do this based on their sense of fiduciary duty, the exact foundation that Prof. Munnel embraces.

If screening is not on the table, is Prof. Munnel also counseling against an engagement mode to pursue social and environmental goals? One would hope not since the Treasurers and Comptrollers leading this initiative see it as a way of protecting shareholder value and their fiduciary responsibility to pursue it.

She also counsels against special forms of community economic development investing. I would agree and also raise the warning flag here! It is not appropriate for a Trustee taking care of "other people's money" to intentionally seek below labor market returns for a social goal. But the options are more varied than that. Market rate returns that come with an added benefit to community empowerment abound.

For example, New York City Pension Funds have invested over $1 billion in low income housing in the City that also provides a competitive financial return. Likewise, the United Methodist General Board of Pensions has over six hundred million dollars in low income housing investments chosen with the tested goal of market risk adjusted rate return. If such "dual returns" are available should we still counsel against them?

Even the Department of Labor has ruled that a secondary social factor can be taken into account if the primary financial goal is met. This is "social investing", too.

And finally, let us look at the issue of social screening where we have focused on the avoidance approach. While Prof. Munnel acknowledges certain types of screening have not resulted in negative returns for pension funds, she still strongly counsels against allowing screens to be added to pension funds. However, an emerging wave of the future may well be looking at issues like company records on governance, discrimination in employment or assessing environment liabilities as a means of limiting portfolio risks and improving returns.

Recently, State Street Global Advisors announced the creation of a new investment vehicle which would not "screen out" (avoid), but would weight their portfolios more heavily in favor of companies with better environmental policies and practices. They smell risk here and are betting against it. This approach is not for all, but should not be casually discarded. Nor should we discard pension funds seeking to include in their private equity sector or venture capital investments, companies that make a distinct contribution to meeting a social need while being profitable well run business e.g. a solar company, water distillation company, a company that provides jobs in the inner city – all while being good investments.

Is this "social investing" under Professor Munnel's definition? Or are they just examples of diversifying your portfolio using different approaches that include a positive social impact?

In short, as the realm of social investing expands (and in fact may even change its adjective from social) should we be so hasty as to rule this whole universe out of hand for pensions?