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IS YOUR MONEY WHERE YOUR HEART IS?
Paul Hawken's Explosive New Report on the SRI Industry

Is Your Money Where Your Heart Is?

The Truth About SRI Mutual Funds

BY PAUL HAWKEN

Imagine an organic food trade association any company could join. Members set the standards to suit themselves. Thus, any store or company can label their products "organic" if they choose because there are no rules defining what organic means.

If your company does anything to improve its production methods, no matter how inconsequential, it qualifies for membership and can use the word "organic" on its labels. The association awards an annual prize to an academic paper showing that, if you eliminate six of the twelve pesticides commonly used on lettuce, you still get just as much lettuce as before.

Consumers who want to know about the food they buy can't find out how it is grown or how it is certified. Instead of an independent outside agency, association members hire private for-profit "screening" companies to determine what is organic. The screening companies compete, each has a different screening method, and none reveal how they define or determine what is "organic." The screening standards allow 90% of all food produced in the world to be labeled organic.

Inside this organization a small group of core producers believe that organic should mean no use of synthetic pesticides and fertilizers. The big food companies are amused by their romanticism and see them as "idealists."

Sound ridiculous? Yes, except this trade association exists. It doesn't sell food; it sells investments. It is the international SRI (socially responsible investing) mutual fund industry. Like our imaginary trade group, it has no standards, no definitions, and no regulations other than financial regulations. Anyone can join; anyone can call his or her fund an SRI fund. Over 90% of Fortune 500 companies are included in SRI portfolios (see sidebar, bottom of next page: SRI Holdings).

The term "socially responsible investing" is so broad it is meaningless. If a fund doesn't own companies involved with gambling and pornography, it can be called socially responsible. Never mind that it owns Halliburton and Monsanto. SRI can be determined by what is called a negative screen, i.e., if you don't do something, you qualify. Or if you say you do something even though you really don't (such as screening for environmental responsibility), you also qualify. That's all it takes to be named an SRI mutual fund.

The analogy would be a gang member who is a mugger. If the gang member says he will stop mugging senior citizens over 65, he now qualifies as a socially responsible gang member. By creating an industry that is identified by specific exclusions or inclusions, key information and criteria are conveniently overlooked.

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Bird Carcass, Kenai Fjords, Exxon Valdez oil spill.

Portfolio Creep

There is a difference between buying food and investing money. When people invest, they want a return, the highest return they can get. SRI returns are compared to conventional investments as a test of their worthiness. Industry advertising claims that SRI funds outperform conventional funds. That is true with some funds. When you look at the make-up of these funds, it's not hard to see why: the stocks held are the same as stocks in conventional funds.

Table One has two lists. One list is the 30 US companies that make up the Dow Jones Industrial Average. The other list is the 30 top US holdings in North American SRI mutual funds. Can you tell which is which?

SRI portfolios not only look like the Dow Jones (list "B"), they use the Dow Jones Industrial Average as a benchmark to evaluate their performance. We don't know what a socially responsible rate of return is because no true SRI portfolio has been tracked over time. Because the industry has hooked people on the idea that SRI funds should do as well or better than other mutual funds, they have to demonstrate it, which leads to portfolio creep — porous and spurious criteria about what is a socially responsible company.

Striving for the highest rate of financial return is a cause of social injustice and environmental degradation worldwide. It consistently leads to "externalization" of costs to workers, people, the environment, and the future.

Photo by Capt. Patricia Lang, USAF

US Air Force F-15E Eagle over Northern Iraq.

Colonization, imperialism, slavery, and virtually all wars are directly attributable to oligarchies trying to achieve the highest return on investment. It is called “sacred hunger” in Barry Unsworth’s prize-winning novel of the same name on the slave trade. How the SRI industry came to believe that it could use avarice to reverse the suffering that greed causes has everything to do with marketing and nothing to do with philosophy.

The Sullivan Principles

The history of SRI goes back to the ethical precepts embodied in Jewish law. Quakers and other religious orders starting in the 18th century refused to invest in “sinful” industries such as distilleries and weaponry. In the 1960s, the environment, civil rights, and militarism were all brought to the national foreground. Apartheid, the Vietnam War, Bhopal, and later, Exxon Valdez, spurred public indignation about corporate practices. With the adoption of the Sullivan Principles, created by Rev. Leon Sullivan in 1977 to enlist companies to combat apartheid, there was a clear divide between multinational corporations perceived as responsible and those not. Twenty years later, Rev. Sullivan developed the Global Sullivan Principles of Social Responsibility, which called for equal pay, fair employment practices, and affirmative training and promotion of people of color in all communities.

Even before Sullivan, people were creating SRI funds. The first SRI mutual fund was Pax World Funds, a $1 billion fund created in 1971 by Luther Tyson and Jack Corbett both of whom worked for the United Methodist Church. A parishioner queried Tyson whether there was a fund that screened out companies involved in the Vietnam War. There wasn’t, so Tyson, Corbett and two businessmen started the first public fund to include social criteria in its investment decisions.

Today, Pax advertises aggressively in the alternative media such as *Mother Jones*, *Green Money Journal* and *Utne* magazine. Its ads are bordered by its guiding investment principles with body copy saying: “For over 33 years, we’ve subjected potential investments to rigid social- and environmental-responsibility screens… We believe our lofty ideals don’t hurt our performance.”

In Table 2 (Principles vs. Holdings), we can see some of those principles next to a list of portfolio companies in the Pax World Balanced Fund as of

Continued on next page.

Table 1 DJIA vs. SRI Funds: Which is Which?

LIST "A"	LIST "B"
Microsoft Corp.	Microsoft Corp.
Pfizer Inc.	Pfizer Inc.
Johnson & Johnson	Johnson & Johnson
Citigroup Inc.	Citigroup Inc.
Intel Corporation	Intel Corporation
Exxon Mobil	Exxon Mobil
General Electric Company	General Electric Company
American International Group, Inc.	American International Group, Inc.
Bank of America Corporation	E.I. DuPont de Nemours & Co.
Delphi Corporation	Caterpillar
Medtronic, Inc.	Honeywell Int.
Amgen, Inc.	Boeing
International Business Machines Corp.	International Business Machines Corp.
Fannie Mae	Walt Disney Co.
Home Depot, Inc. (The)	Home Depot, Inc. (The)
Procter & Gamble Company	Procter & Gamble Company
Verizon Communications	Verizon Communications
Comcast Corporation	United Technologies
PepsiCo, Inc.	McDonald's
Wells Fargo & Company	Merck & Co.
3M Company	3M Company
J.P. Morgan Chase & Co.	J.P. Morgan Chase & Co.
SBC Communications, Inc.	SBC Communications, Inc.
American Express Company	American Express Company
The Rouse Company	Altria Group Inc.
Target Corporation	General Motors
The Coca-Cola Company	The Coca-Cola Company
Wal-Mart Stores, Inc.	Wal-Mart Stores, Inc.
Hewlett-Packard Company	Hewlett-Packard Company
Cisco	Alcoa

SRI Holdings as of December 2003

- Coca-Cola was held by 56 SRI funds including the Green Century Equity Fund
- Wal-Mart was held by 33 SRI funds including Ethical Global Equity Fund
- Clear Channel was held by 47 SRI funds including the Sierra Club Mutual Funds
- Altria (formerly Phillip Morris) was held by 12 SRI funds including Global Eco Growth Fund (Mrs. Green)
- Halliburton was held by 23 SRI funds including by the Dow Jones Islamic Index Fund
- McDonald’s was held by 41 SRI funds including Domini Social Index Mutual Fund
- Raytheon (weaponry) was held by 12 SRI funds including Capstone Social Ethics and Religious Values Fund
- ExxonMobil was held by 40 SRI funds including ABF Green Planet
- General Electric was held by 48 SRI funds including the Alger Socially Responsible Growth Fund
- Monsanto was held by 19 funds including the Global Environment Fund
- Dow Chemical Company was held by 43 funds including SAM Sustainability Leaders Fund

SOURCE: Natural Capital Institute database.
Fund holdings constantly change as managers buy and sell stocks, but generally speaking, the number of funds that hold these companies is constant.

SRI practices are not responsible. While SRI investors call for corporate transparency, the industry is closed, proprietary and secret.

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June 2003. I don't think anyone questions Pax's commitment to social equity. It is the interpretation and application that is confusing.

How Green and How Good?

I was unaware of what SRI mutual funds did two years ago. But I knew enough about corporations to be skeptical of how SRI funds could invest "responsibly." In a speech at the 2002 Bioneers conference, I made passing reference to the Domini Social Equity Fund's holdings of McDonald's. Immediately after the speech, an ex-manager of Domini's collared me and said I obviously didn't understand SRI investing. For a moment I didn't know what to say.

Then I realized the person was absolutely correct. I didn't understand SRI investing. It didn't make a whit of sense to me that you could own companies like GE, Monsanto, and Coke and pat yourself on the back. I decided to research the industry. At the Natural Capital Institute, our staff created the world's first comprehensive database of SRI mutual fund equity holdings and then we analyzed them.

What became apparent is that the criteria that are being employed by SRI screening companies are upside-down and backwards. The most important criterion to determine a company's social responsibility is whether it should exist at all. In other words, is the company helpful to the world and its people? Although every company believes in its mission, the *raison d'etre* of SRI is to challenge the process and purpose of publicly held corporations.

McDonald's spends upwards of $2 billion a year on advertising, much of it aimed at young children. Obesity and Type 2 diabetes in youth are major news stories. The connection to fatty, sugary junk food is undeniable. Yet McDonald's fights all legislative or regulatory moves that would limit its practices. For Domini to cite McDonald's waste management practices as valid criteria for inclusion avoids the real issue: Why is McDonald's wasting our children?

In fact, few SRI funds screen for environmental responsibility. Some funds exclude companies that flagrantly violate environmental law; but, with the exception of Portfolio 21 and a handful of other US and European funds, just about any company is acceptable. Take the Sierra Club Stock Fund. There are few companies in its portfolio that address the environment in a proactive way; only one (Starbucks) that measures its ecological footprint, and no alternative energy companies. Sierra invests in companies that make surge protectors, fastening screws, steakhouses, anti-wrinkle creams, and candy bars.

The Sierra Club invests in Cousins Properties, one of the major contributors to sprawl in Atlanta ("From the time Cousins was founded, the Company has understood the value of land and has sought to control large tracts of strategically located land holdings for future commercial and residential development"). I single out the Sierra Club because it is one of the oldest and most respected NGOs in the world working for land conservation.

Table 2 **Principles vs. Holdings**

Environmental Stewardship	Fluor Corporation (builds refineries, oil and gas production, and chemical plants for other companies)
Green, not Greed	Microsoft Corporation (synonymous with only one of these words)
No Weapons	Intersil (produces radiation hardened circuits for the military)
Treat Toxic Wastes	UGI Corporation (natural gas and coal-fired electrical generation)
Reduce, Reuse, Recycle	Pepsi Bottling Group (negligible recycled content in plastic containers)
Prevent Pollution	General Motors (How do you spell Hummer?)
Clean Air, Clean Water, Clean Energy	DPL, Inc. (coal-fired power plants in Ohio)
Equal Opportunity	Apogent, Comcast, Nokia and many other holdings (each has only one woman on the board)
Diverse Independent Boards	Chesapeake Energy Corp (natural gas producer w/only white men on the board, only one women in senior management). Tidewater, Inc. (services for offshore oil and gas; all officers and board are white men)
Conserve Earth's Resources	Baker Hughes (oilfield services, like Halliburton)
Restore Ecosystems	Corn Products Int. (produces high fructose syrup for soft drinks)
Encourage Alternative Energy	Apache Corporation (oil and gas exploration and development)
Equal Pay for Equal Work	Bed, Bath and Beyond (many products made in China)

(Pax World Balanced Fund as of June, 2003).

But it is not just the Sierra Club. Their performance is duplicated by other funds because they use the same investment advisor, Harris Bretall Sullivan & Smith LLC.

The SRI industry needs to change. While SRI investors call for corporate transparency, the industry is closed, proprietary and secret. While SRI calls for workplace diversity, it is an almost entirely white industry. While the industry calls for environmental responsibility, it meets at luxury resort hotels that are far from being environmentally responsible. To put it plainly: if the SRI industry were a corporation, it wouldn't qualify in a rigorously screened portfolio.

Either the industry has to reform in toto (or rename itself), or that portion of the industry that wants to maintain credibility must break off from the pretenders and create an association with real standards, enforceability, and transparency. It needs to model the behavior it purportedly demands in other companies. In the US, there are funds that make real contributions to corporate reform and accountability: Portfolio 21, Calvert, Domini, Citizens, Walden, and Women's Equity are rightfully considered leaders. But they are the minority.

The world needs true fiscal and social responsibility, the ability to respond to poverty, inequity, environmental degradation, income polarization, women's rights, global warming, and the global corporate takeover of the commons. There are companies that meet, or are striving to meet, that standard. If others want to invest in Wal-Mart, ExxonMobil and Clear Channel, so be it, but let us at least have the grace not to confuse funds holding those companies with responsible and ethical investing.

Paul Hawken is an environmentalist, entrepreneur, journalist, and best-selling author. He is founder and director of the Natural Capital Institute (NCI).

(The full NCI report on SRI mutual funds can be viewed after October 15 online at http://www.naturalcapital.org)
