INVESTING WITH A CONSCIENCE:

VALUES FOR YOUR MONEY

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THE PROLOGUE

Recently a family had their first child, and decided to invest a small amount of money each year for her education. They decided that since the investments were for their child's future, they should not invest in companies which might jeopardize that future. Instead of financing military products, nuclear technology, and companies which pollute the environment or discriminate in any way, they wanted to promote companies involved in education, housing and renewable resources. For a number of reasons, including a shortage of time and a lack of stock market expertise, they decided to look for a mutual fund to manage their investments. Had the family lived in the United States they would have had a number of "socially responsible" funds to choose from. Since they are Canadians they had a harder time. There are no mutual funds in Canada which apply both social and economic criteria to their investment choices.

This family is part of a growing trend among North American investors.[1] The trend is towards what is commonly referred to as "socially responsible investments" or "ethical investments." As well as individuals, it involves churches, pension funds, foundations, universities and unions, all of whom wish to invest their capital profitably in companies whose products and business practices are consistent with their own values and beliefs. The unions don't want to invest in non-union companies. The churches don't want to invest in companies which make alcohol and tobacco products or operate gambling establishments. The foundations don't want to invest in companies which discriminate against minorities and women. None of these investors want to invest in South Africa, in nuclear technology, or in military products.

In addition to wishing to be true to their values and beliefs, socially responsible investors ". . . recognize that every dollar they invest has a consequence."[2] These investors are people who are concerned about present issues such as military expansion, toxic waste, apartheid, economic and social discrimination. They are looking for ". . . an economic and social return (on their investments) that will eventually improve the quality of life for all."[3] These are undoubtedly commendable goals. But can one mix social goals with economic goals?

This paper sets out to show that social and economic goals are indeed compatible. The analysis will look at the history of the ethical investment concept and the social need for such investments. As well it will examine some different ways in which people have invested ethically, and review the performance of U.S. mutual funds. The paper concludes with a proposal for a Canadian approach to "investing with a conscience."

THE HISTORY

Throughout history there have been individuals and groups which have recognized the interplay between social and economic values. The Amana Society, in the 19th century ". . . successfully combined a philosophy of Christian socialism and economic capitalism." [4] They founded the appliance giant Amana Refrigeration, Inc. The Society still puts its values into action by manufacturing reliable products which improve the quality of life for the purchaser. The profits from this business activity are then put back into the community.

As well, churches have been important leaders in this movement. For many years they have applied social criteria to the investments made by their pension funds. They started out by simply avoiding financing tobacco, alcohol and gambling. In later years they have added a long list of other business activities which they deemed to be unacceptable. The churches have also actively supported community projects which are consistent with their values. They have financed co-operative industries in Latin America and low-cost housing projects in inner-city communities. Some even go so far as to lend money at no interest to finance home construction for low-income rural families. [5] Most churches, however, take their stewardship of assets as seriously as their stewardship of people in need. They look for at least a market rate of return on their investments.

During the late 1960's, and early 1970's, students and academics were pressuring the universities to invest their capital in responsible ways. This period is well remembered for the anti-Viet Nam War movement. While mass demonstrations were the predominant method of protest, some peace activitists ". . . took the Viet Nam War protest from the streets to the boardroom of Dow Chemical Company by demonstrating against the manufacture of Napalm at annual meetings." [6] Many people were also concerned abou malnutrtion and poverty which resulted from the sale of infant formula in economicall developing countries. The boycott of Nestle's, for instance, was successful in changing company practices in this area.

In the 1980's the economy experienced a recession. Many companies attempted to lower their costs by hiring non-union labour. The union-run pension funds naturally have responded by investing only in union-staffed companies. Also in the 1980's there has been increased pressure to boycott investments and trade with oppressive regimes, such as South Africa and Libya.

Pollution and military expansion have become personal issues. Individuals are slowly becoming aware that planetary problems must be addressed not only by governments but also by individuals. They believe they can influence global issues through their own lives. People are again taking the call for change in corporate behaviour to the boardrooms of offending companies. They are doing this through shareholder's resolutions (see glossary), which are voted upon at the companies' Annual Meetings.

THE NEED

As is no doubt apparent from picking up any newspaper or watching any newscast, there are many business activities taking place today which threaten our social and physical environments. Some business and governmental practices are considered to be unethical by many people. Thoughts of rancid tuna, acid rain, PCB spills, star wars, and apartheid immediately spring to mind. Politicians have certainly taken stands on these issues. Unfortunately, those stands have seldom been consistent with the interests of the public. The sale of inferior quality tuna was permitted; acid rain is still being studied; PCBs are still being transported unsafely; companies and universities have been encouraged to participate in Star Wars research.

Many people are saying to themselves, "If governments are powerless to stop these injustices and practices, what can I do?" One answer to this question is to avoid buying the products and services which perpetuate the problems. Ralph Nader's consumer movement and Cesar Chavez's grape boycotts are good examples of the power consumers can wield. Nader has been succesful in positively influencing the safety standards of the auto industry. Chavez has been successful in obtaining competitive wages for immigrant farm workers in California.

Another solution to the question is to take the boycott approach one step further: to refuse to invest in offensive companies and governments. It is people who answer the question in this manner who are likely to be socially responsible investors. They do not want to profit from investing in companies and government agencies which ignore the social consequences of their practices. Rather, they wish to use their investment funds to further social goals.

Socially responsible investors recognize that the ballot box has limited power. They are, therefore, looking for other forms of power which will assist them to create the kind of future in which they believe. They recognize, from watching governments and corporate elites that money and power are closely related. Through their investment portfolios, they believe they have some access to power. Socially responsible investments are ". . . seen as contributing to the empowerment of the disenfranchised, as providing a way for the powerless to play a democratic role in the conduct of business." [7]

THE WAYS TO ETHICALLY INVEST

How do ethical investors exercise this power? There appear to be a number of ways.

The Peace Tax Fund Approach:

There are a small number of Canadians who are expressing their pacifist beliefs to Revenue Canada. They are refusing to pay that portion of their taxes which they believe would be directed towards military uses. "The group, now known as Conscience Canada, established 'The Peace Tax Fund Trust Account' in 1982 to keep withheld funds, pending the outcome of a test case which will be launched when sufficient donations are received." [8] While this is still a small group and its legality and its effectiveness are, as yet, untested it is one way in which people are using the influence of money to show legislators that they ". . . object very strongly to the present insanity of the arms race." [9]

The Loan Fund Approach:

A prime example of a socially responsible loan fund ". . . is PEDCO, set up by the United Presbyterian Church, USA, in 1968." [10] This fund, and others like it, make loans at below the prime interest rate to community projects and co-operative ventures. Loans are made to groups which meet the fund's social criteria and which were unable to obtain funds from conventional sources. These funders are more interested in assisting social development (and protecting their assets) than they are in earning high rates of return. The United Church of Canada has lent money to Canadian housing co-operatives and to Latin American worker co-operatives over the past 10 years. According to William Davis, Director of Finance for the United Church, these loans were successful in that the social goals were met while keeping the capital intact. Other funds, such as the Denver-based "Community Cash Flow Fund", hold on to their capital but use it to guarantee loans to non-profit organizations which are facing short-term cash flow problems. [11] It can be clearly seen that the loan fund approach is socially sound. However, this approach may not be economically sound for those investors who need a competitive rate of return on their investments.

The Avoidance Approach:

The rationale underlying the "Avoidance Approach" is that: ". . . you refuse to invest in companies you dislike - companies that make products you don't support or whose services offend you or whose ways of doing business seem wrong to you." [12] Individual and institutional investors choose this approach ". . . less to draw attention to something than to refuse to profit by it . . . it's the easiest of the ethical investment approaches". [13] This group of investors is more interested in living with a clear conscience than in using investments to effect change.

For "Avoidance Investors", a list of social criteria to be applied to potential investments would look like a list of "Nos": No to South Africa, no to nuclear energy, no unfair labour practices, no military products.

The Positive Approach:

Investors who take the "Positive Approach" not only avoid companies that they don't like, they also ". . . actively invest in companies with products, or services or ways of doing business that (they) do like." [14] For these investors it is not enough to simply keep their investment portfolios free of companies which evidence unethical corporate behaviour. They want to use their investments for positive social and economic ends. For instance, instead of investing in Union Carbide, which is facing many court cases as a result of the explosion at Bhopal, India, they would invest in Levi Strauss and Company which has an excellent record of employee relations and safety. There is an element of enlightened self-interest in this approach. Investors recognize that corporations which enhance the quality of life probably offer a superior investment return. It is there profitable to invest with a conscience.

> "As Dr. Robert Schwartz, vice president of Shearson/American Express and one of ethical investing's earliest advocates, has said, 'It's been my experience that a company that is aware of its community responsibilities to its employees, is also a company that is progressive in its thinking, and this cannot help but carry over into its overall business acumen'." [15]

"Positive Approach" ethical investors believe that their investments encourage socially responsible companies to expand. They hope that this expansion will be at the expense of less responsible companies. The intended outcome is two-fold: good economic returns and increased ethical practices by corporations. Investors who take the "Positive Approach" then, not only have a list of "Nos", they also have a list of "Yeses." They say yes to fair labour practice, yes to alternate energy, yes to education, yes to housing, yes to food production, yes to participatory management.

The Activist Approach:

"Some ethical investors want to do more than avoid bad companies and invest in good ones. They want to change the bad into the good." [16] These investors take what has been called the "Activist Approach." They intentionally invest in companies that are engaged in activities of which they disapprove. Then, as owners (shareholders) they propose resolutions to be voted on at annual shareholders' meetings. While many shareholders' resolutions do not get passed, due to the influence which corporate executives have with shareholders, they are still a valuable exercise. The resolutions are effective in educating management and shareholders about corporate responsibility, and in exposing irresponsible corporate behaviour.

"Activist Investors" view it as their responsibility to use their financial resources as a force for positive social change. This approach is being increasingly used by institutional investors. The United Church of Canada used this approach with the Toronto Dominion Bank: The bank agreed not to approve any further loans to South Africa. Union pension funds have long used their financial clout to improve working conditions for members. Corporate executives are inclined to listen to these investors because "Money definitely talks when one message it carries is that it may walk elsewhere." [17] In order to influence corporate executives through investments, a sizable asset base is required. For this reason, pooled funds and mutual funds (see glossary) have more success with this approach than do individual investors.

The Individual and the Mutual Fund Approaches:

There are two ways in which the "Avoidance," "Positive" and "Activist" approaches can be carried out in the United States. Investors can go it alone or they can put their money into a mutual fund. Presently in Canada the only option is to go it alone.

The advantage of going it alone is that the investor, whether an individual or an institution, can invest according to their own ethical, social and economic criteria. The disadvantages for these investors is that they may not have much financial clout and they must spend considerable time supervising their investments. Many information sources, such as Multi-National Monitor and lists of companies which supply the milatary, are required in order to conduct thorough social audits of companies which are targeted for investment.

The advantages of the mutual funds are that by combining with like-minded investors the influence of each investor is significantly increased; the financial risks can be spread over a larger number of investment; and supervision time for the investor is minimized. The disadvantage of mutual funds is that there may be no fund which completely reflects the investor's values and beliefs. It would seem that the advantages of mutual funds out-weigh the disadvantages for many people and institutions. Ethical mutual funds are a ". . . growing force for social responsibility" [18] in the U.S. Today. Currently, there are six major mutual funds in the U.S. which describe themselves as "Ethical" or "Socially Responsible." As alluded to above, each fund has its own set of social and economic criteria (see Appendix 1 for an analysis of these funds).

THE PERFORMANCE OF THE U.S. FUNDS

In order to assess the success of ethical mutual funds in the United States, it is necessary to look at two criteria: financial performance and social performance.

Financial Performance

> "Scholarly studies of the impact of social criteria on financial performance have produced conflicting results. And the record of socially responsible investment advisers and mutual funds is also mixed . . . Yet the enviable profits pulled in by some social investments suggest that relying on social criteria doesn't necessarily hinder profitability." [62]

The track record of the mutual funds, analyzed in the Appendix indicates that they generally perform equally as well as other mutual funds. Amy L. Domini, a financial advisor and author of "Ethical Investing", asserts that "Investors who apply their ethical criteria to investments are more successful than those who do not." [20] She offers the following supporting evidence for this assertion:

Table 2

United States Trust Company of Boston, Massachusetts Performance Comparisons

	Socially Sensitive Accounts United States Trust Company[a]	*United States Trust Company*[b]	*Dow Jones Industrial Average*	*S&P 500*	*90-Day Treasury Bills*	*Corporate Bonds (Salomon Brothers High Grade Index)*	*Inflation (GNP Deflator)*
1980	22.4	19.7	19.8	32.3	12.4	−2.2	9.3
1981	8.4	10.7	−3.6	−5.0	14.7	−1.0	9.4
1982	27.7	26.2	27.2	21.4	10.7	43.7	6.0
1983[c]	15.9	16.2	22.1	20.7	6.5	4.8	3.0
Annual, 1980–1983:	19.7	19.4	16.9	17.7	11.8	10.6	7.4
Growth of $1,000,000 Invested, 1980–1983:	$1.964	$1.943	$1.794	$1.842	$1.520	$1.458	$1.306

a. Median discretionary account. Prior to 1980, socially sensitive accounts are included in the median discretionary accounts of United States Trust Company. Asset allocation actively managed among stocks, bonds, & money market instruments.
b. Median discretionary account through 1980. UST pooled pension and profit sharing account, thereafter Asset allocation actively managed among stocks, bonds, & money market instruments.
c. Through the Third Quarter of 1983.

Source: U.S. Trust Co., Asset Management Division, PO Box 373, Boston, Massachusetts, 02101

Conventional financial advisors, however, challenge the viability of the concept. They believe that limiting the universe of investment options also limits the likelihood of financial success. One financial expert recognizes that the ethical mutual funds ". . . are currently doing well financially, (but) is unconvinced that this success is due to anything other than good luck." [21]

One indicator of success for socially responsible investments, however, may be the rapid expansion in the United States of an infra-structure to support the industry. Individuals and groups who are establishing this infra-structure have faith in both the social and economic benefits of the concept. There are now newsletters, books and articles written on the subject whereas fifteen years ago the topic was virtually unheard of. The number of mutual funds catering to this market continues to grow. Finally, there are growing numbers of financial advisors who specialize in developing individualized ethical portfolios. These advisors appear to be doing quite well. For example, the United States Trust Company, a leader in individualized ethical investment portfolios, ". . . report(ed) a 150% increase in social investing from 1980 to 1981. By 1981, the social investments, represented about 17% of the (U.S. Trust Company's) existing accounts and 30% of new accounts." [22]

Social Performance

If it is difficult to assess the financial performance of ethical investments, it is even harder to assess the social performance. There does not appear to be any scholarly studies on the impact of ethical investments on corporate behaviour. Any information which is available is anecdotal and subjective. As Steven Lydenberg, a Research Associate with the Council on Economic Priorities, has pointed out:

> "In the literature of the movement one sees little discussion of bringing about a transformed, conscienticized capitalism. Whether a breakthrough ever comes, however, investors using the (ethical) funds can at least take satisfaction in knowing that their money is being used in socially responsible ways that do not offend their consciences." [23]

William Davis, of the United Church asserts that "Both Canadian and American banks have substantially altered their lending practices vis-a-vis South Africa as a result of shareholder (pressure) . . ." [24] Most other commentators, as Lydenberg has pointed out, make the assumption that the movement is "socially successful" if the investors consciences are clear. Regardless of how one defines success, it would seem that further research is required to asses the effects of ethical investments on corporate behaviour.

THE CANADIAN CONTEXT

In Canada today there are a few groups who are "going it alone." The mainstream Canadian Churches, with the assistance of The Task Force on Church and Corporate Responsibility, are perhaps the most active and best informed ethical investors. Canadian pension funds, foundations and individuals are not yet as aware of the concept as are their U.S. counterparts.

Richard G. Chambers, of the United Church's Finance Committee, has pointed out, "There is no Canadian equivalent to the many clearing houses, and publishing firms that encourage American responsible investments." [25] In spite of the lack of a supporting infra-structure, there are a number of reasons why the time may be appropriate for establishing a Canadian ethical investment fund. Support for such a fund comes from both the economic and social spheres of Canadian life.

Economic Support

There are in Canada huge pools of investment capital. Pension funds alone have assets in excess of $100 billion. The recent Federal Budget proposed a formula which would encourage those pension funds to invest their assets in small Canadian businesses. (Small in this context means capitalization of under $35 million.) Pension funds have traditionally avoided small businesses because they require more financial supervision. An ethical investment fund which provided investment in small businesses following ethical practice, and supervision of those investments may now be attractive to pension fund managers. The ethical aspect of the fund would be made attractive to these managers by showing that ethical small businesses can provide a safe and profitable investment for them. While still on the topic of pension funds, it should be pointed out that ". . . public employee retirement funds (are) . . . increasingly concerned with socially useful investments (and) private sector retirement funds have . . . the same ideas and desire for socially useful investment." [26] These funds are beginning to recognize that they have a social responsibility to invest their capital in businesses which strengthen the Canadian economy and the Canadian way of life.

Small businesses tend to be more responsive to their various stakeholders, including investors. An ethical fund would undoubtedly have some success in promoting ethical business practices with these companies. As these small companies develop through the injection of new pension fund capital there will be incentives for other investors to purchase their shares. Individuals and small institutional investors will benefit economically and socially from the growth of socially responsible small businesses.

Not only are there reasons for pension fund interest, there are also reasons for individual interest in ethical investments. The recent Federal Budget allows for $500,000 capital gains, tax free. An individual can earn this amount of money in his or her lifetime from buying and selling shares and pay no taxes. The tax break coincides with a boom in mutual fund investments in Canada. "About one million Canadians now have money invested in mutual funds, up dramatically from 80,000 people in 1984."[27] An ethical mutual fund would undoubtedly be of interest to a number of these investors, and would allow them to take advantage of the tax free capital gains.

Social Support

There is, in Canada today, growing concern that the world is in a spiral of self-destruction. Groups which have in the past not spoken on social and economic issues are beginning to do so, such as the Canadian Conference of Catholic Bishops' Statement on the Economy and physicians speaking out against nuclear armament. There is growing concern at all levels of Canadian society that our ecology is being destroyed by strip mining, toxic waste disposal, and acid rain. Canadians, represented by their government and by their churches, are involved in the movement to exert economic sanctions on South Africa. The peace and the ecological movements, which were once seen as nests of radicals are now receiving support from Canadians from all walks of life. Canadian parents and grandparents are voicing concern about the kind of world our children will inherit.

The mainstream Canadian churches, as has been mentioned elsewhere in this paper, are actively representing their congregations' concerns through The Taskforce on Churches and Corporate Responsibility. "In raising questions about the social impact of business decisions with Canadian corporations and government, the churches speak not only as shareholders, but also as major Canadian institutions."[28] In 1983-84 the Taskforce addressed environmental, energy and native rights issues, as well as shareholder's rights. In addition to preparing briefs on various issues, "The Taskforce frequently receives inquiries from individuals and groups seeking advice about alternative or socially responsible investment."[29] In response to these inquiries the Taskforce has researched the Canadian investment community. Their research was ". . . unable to identify any investment advisors or mutual funds specializing in the search for such socially responsible investment."[30] The churches fully believe that such services should be available to Canadian investors. "A member of the Taskforce has agreed to explore with members of the investment community the possibilities for a Canadian investment service or mutual fund specializing in socially responsible investment."[31]

Another avenue of support comes from conservative ideology which is dominant in Canada today. This ideology asserts that government should not regulate Canadian economic life or supply most social services. If there is a need, the market place will supply it. As such, it is highly unlikely that the present Federal Government will be very involved in monitoring the social impact of businesses. The deregulation of the airline and transportation industries, the move towards "for-profit" social services and the expected partial dismantling of the Unemployment Insurance program all support this belief. An ethical investment fund which offers a good rate of return to its investors would be an appropriate way of ensuring that the market place does, in fact, contribute towards a greater degree of corporate social responsibility.

All of the above factors combine to suggest that Canadians may now be ready to invest in this concept.

THE PROPOSED MODEL FOR CANADA

Before attempting to establish an ethical investment fund in Canada further research is required. The research should identify sources of information for both the social and the economic records of companies. These information sources then would be utilized to research a sampling of companies. The research would attempt to prove that companies which meet, or exceed, the proposed social criteria provide better-than-market rates of return for investors. It is necessary to prove this before establishing a fund as it appears unlikely that investors would be interested in applying social criteria to their investments, unless such investments offer a good rate of return.

The management of an ethical investment fund should have expertise in financial management and social issues. An Advisory Board would be established to assist the management of the fund. The Advisory Board would consist of individuals with backgrounds in law, ethics, social issues, finance, education, business, labour and religion. The Board would continually refine the social criteria and oversee the operation of the fund.

In order to determine the target companies for investment, the fund would first specify the industries in which it was interested. It would then identify the companies which performed best financially. Finally, it would apply the social criteria to the best performing companies. The fund would only invest in companies which perform well economically and socially. An interview with company management, utilizing a questionnaire, would be conducted prior to making any investments.

It would appear appropriate to apply the following social criteria to both the initial research and to the subsequent ethical investment fund:

Excluded:

> Companies which produce liquor, tobacco, or non-life supporting products used for military purposes; which in any way are involved in nuclear energy or technology, gambling or South Africa; which are known to discriminate, pollute, produce unsafe products or have unsafe working conditions; which "dump" unsafe products in

economically developing countries; which are Canadian subsidiaries of transnational corporations.

Included:

Companies which produce environmentally sound and safe products; which improve the quality of life of individuals and communities; which have fair labour practices and are conscious of, or produce products for, health and safety; which are involved in food production, renewable energy, housing or education.

In order to establish the fund, initial attention would be given to attracting investments from pension funds and institutional investors. Once the initial fund has been established a good track record and attracted a sizable asset base, the ethical mutual fund would be designed to attract investments from individuals and small institutional investors. The Board may consider establishing, in addition to the funds, a Foundation which would sponsor projects designed to further the fund's social goals. This Foundation could be financed by fund investors, as is the Pax World Foundation. Also, the establishment of a news service, which publicizes issues related to corporate social behaviour, may be considered.

THE CONCLUSION

"Investing with a Conscience" represents a relatively new approach to economic and social issues in Canada. In the past, economics and ethics have not always been seen as strong allies. The ethical investment movement provides a vision of the future in which both social and financial goals can be furthered through the power of the investment dollar.

The success of the U.S. mutual funds, and the current Canadian political and financial climate offer strong supports for establishing such funds in Canada. Canadians may now be ready for an investment fund which ". . . reflects a search for new moral principles that show a concern for <u>both</u> individual and collective gain and well-being." [32]

Ethical investments attempt to balance human values and economic values both for the individual and for society, as such the concept offers a unique opportunity for investors to transcend their political ideologies while improving the quality of life for all Canadians and earning themselves a competitive return on their investments.

The proposed ethical investment funds should attract support from Canadians from all political leanings for:

> ". . . social investors are not necessarily for or against capitalism, socialism, or any 'ism'. They see the world afflicted by a host of potentially devastating problems. If there is any chance of resolving some of these problems through peaceful and economic means, they are willing to explore this alternative." [33]

"Investing with a Conscience" may well be the new paradigm for social action and for sound investment decisions.

Since preparing the original draft of this paper, the author has established an ethical investment company. If you wish to obtain additional information please contact:

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APPENDIX I

AN ANALYSIS OF THE U.S. ETHICAL MUTUAL FUNDS

Before analyzing the U.S. mutual funds in detail it might be helpful to define a few of the terms used in the investment field.

"Mutual funds pool investors' money to buy a portfolio of securities." [34] These securities may take the form of either debt or equity instruments. Debt instruments are, in effect, a loan to either a company or a government. The most familiar types of debt instruments are bonds and certificates of deposit. Equity instruments, usually called shares, are the purchase of part of the company. Mutual funds which purchase shares usually stress either shares which they expect to increase in value over time (a growth fund) or shares which pay high annual dividends (an income fund). By virtue of owning shares, equity investors have the right to speak to management and shareholders on issues which are of concern. This is not the case for money market (debt) investors. Two of the six mutual funds analyzed here are money market funds, the other four are equity funds (see Glossary).

PAX WORLD FUND

The Pax World Fund was the first socially responsible investment fund to be established. It was organized in 1970 and began accepting investments in August of 1971. The fund was ". . . formed during the Viet Nam War by members of the United Methodist Church to contribute to world peace by investing in companies that produce life supporting goods and services." [35] The initiators of this fund had a vision of applying Christian principles to the world of financial investments.

Social Goals and Criteria

The fund's prospectus states that "the fund endeavors through its investment objectives to make a contribution to world peace." [36] It goes on to say that the fund "invests in firms producing life-supporting goods and services." [37] In order to operationalize these goals the fund attempts ". . . to invest in companies which have adopted and administer fair employment and pollution control policies. . ." [38] In addition it invests ". . . in companies that are not to any degree engaged in manufacturing defense or weapons-related products." [39] Thus, this fund can be seen as promoting fair labour practices and environmental safety. As such, it invests in health care, education, pollution control, food, retail, housing, renewable energy and leisure products. It avoids weapons, liquor, tobacco and gambling industries.

Selection Process

The fund has an investment committee which applies the social criteria to economically sound companies operating in approved industires. Once a company has passed this screening process, company officers are interviewed by representatives from the fund. At that time the officers are asked to complete a four-page social responsibility questionnaire. The fund also investigates the company's record by using a wide array of documentary data.

Once a company has passed all of these tests, it is approved for investment. However, should a company's status change with regard to these criteria, the fund will eliminate it from its portfolio by selling its shares as soon as it is economically feasible to do so. (The fund's rules state that such shares must be sold within six months, even if it is financially unrewarding to do so.) The fund also invests in government bonds which meet the social criteria.

Economic Goals and Performances

The economic goal of Pax World Fund is to provide an investor ". . . with a diversified holding of securities . . . which offer primarily income and conservation of principal and secondarily possible long-term growth of capital . . . "[40] Thus, this fund is primarily an income fund rather than a growth fund.

At the end of 1984, Pax World Fund was responsible for investing assets of 16 million. The fund claims to have earned 14.1% average annual return rate over the last 10 years. Lipper Analytical Services states that Pax World Fund achieved an 18.5% return for the year ending 25/4/85.[41] This rate places it second (in terms of return on investment) of the "socially responsible" funds reviewed. (The Cabinet Managed Growth Portfolio, analyzed later, was the only ethical mutual fund to out-perform Pax World Fund.) It is interesting to note that the fund's rate of return was above the average for funds which do not use any social criteria.

Management Structure

The fund is managed by an advisory corporation, Pax World Management Corporation, for a fee. The fee is paid from fund income to the management corporation. The fund is also guided by a Board of Directors. The individuals who are identified as managers are also Directors of the fund. In addition to the fund and the management corporation, there is Pax World Foundation. "The Foundation provides financial support to organizations and projects which encourage international understanding, reconciliation and development."[42] The Foundation has sponsored "distribution of the Giant Leucaena, a fast-growing tree especially good for firewood in the Third World,"[43] along with many other projects.

THE DREYFUS THIRD CENTURY FUND

Dreyfus Third Century Fund was incorporated in 1971 and began operations in May of 1972. This fund, like Pax World, was formed at the end of the Viet Nam War. The name "Third Century" was chosen to symbolize the goal of social change and progess in the quality of life in America's third century. This fund displays a vision of the future and a strong commitment to social progress, as do the other ethical investment funds.

Social Goals and Criteria

The Dreyfus Fund appears to be motivated equally by economic and social goals. The fund ". . . was established out of the conviction that investment in enterprises that do the best job in trying to improve the quality of American life would be rewarding to the individual investor." [44]

To assess the appropriateness of investing in a company, the fund looks at its record in:

1) Protection and improvement of the environment and the proper use of . . . natural resources
2) Occupational health and safety
3) Consumer protection and product purity
4) Equal employment opportunity [45]

The fund emphasizes investment in the fields of health, housing, education and transportation. However, it does ". . . not preclude investment in the securities of companies in any industry." [46] The Dreyfus Fund is described as being ". . . not nearly as strict as other (funds) in its genre," [47] since its rules could permit investment in military products or nuclear energy.

Selection Process

The Dreyfus Fund selects companies in which to invest by initially analyzing the social performance (by applying the above criteria) of companies within an identified industry. Secondly, it applies traditional financial criteria to those firms which pass the first test. Thirdly, once a company has passed both the social and financial tests, the company is investigated in more detail. This investigation takes the form of interviewing company officials, inspecting facilities and products from both qualitive and quantitative perspectives. Finally, public information sources are reviewed for further quantitative data.

Once these steps have been taken, companies are ranked within the industry under review. This list, with staff comments attached, is reviewed by the Board. The Board then sets a level of performance required in the industry and approves those companies which perform above this level.

Economic Goals and Performance

The Dreyfus Third Century Fund's ". . . primary investment objective is capital appreciation." [48] Current income is the fund's secondary goal. The fund appears to have performed extremely well since its inception. By the end of 1984 the fund had attracted assets of $125 million, thus making it the largest of the ethical mutual funds. In 1984, The Lipper Index ranked the fund 50th when compared to a field of 500 best-performing mutual funds. "An investment . . . (in the fund) in late 1974 would have increased 373% by 1982. For the same period, an investment in the Dow Jones Industrial Average would have risen only about 110% . . ." [49] The rate of return for 1984 was 18.2%. As with the previous fund, the rate of return is above the average for mutual funds which do not apply social criteria. The fund's outstanding rate of return gives credance to the theory that applying ethical criteria to investment choices can be financially rewarding.

Management Structure

The fund is managed by The Dreyfus Corporation. The Corporation has been in existence since 1947 and is responsible for managing other investment funds as well. It is responsible for supervising assets of over $20 billion. The Third Century Fund represents less than 1% of the total assets managed by the Dreyfus Corporation. The fund pays 3/4 of 1% of its average daily net assets to the adviser for management services. The fund's operations are ultimately the responsibility of a Board of Directors.

CALVERT SOCIAL INVESTMENT FUND

The Calvert Social Investment Fund was established in 1981, although the Calvert Group began in 1976. The fund, like the previous one, appears to have been established in order to capture a portion of the investment market by offering a "socially responsible" fund. It does not appear to have been established with the view to influencing social conditions through investments, as Pax World Fund was. In fact, information provided by the Calvert Group states:

> "The first investment objective of the fund is to provide investment return for its investors. The second investment objective of the fund is to direct the investment of its shareholders' money into enterprises which make a positive contribution to society." [51]

Social Goals and Criteria

In order to ensure the fund invests primarily in companies which ". . . make a positive contribution to society" [52] a number of criteria must be met. The fund will only invest in a company which:

"1. Delivers safe products and services in ways that sustain our natural environment.
2. Is managed with participation throughout the organization in defining and achieving objectives.
3. Negotiates fairly with its workers, provides an environment supportive of their wellness, and provides opportunities for women, disadvantaged minorities and others for whom social opportunities have often been denied.
4. Fosters awareness of a commitment to human goals such as creativity, productivity, self-respect and responsibility within the organization and the world, and continaully recreates a context within which these goals can be realized.

The fund will not invest in an issuer (company) primarily (emphasis added) engaged in:

1. The production of nuclear energy or the manufacture of equipment to produce nuclear energy.
2. Business activities in South Africa.
3. The manufacture of weapons systems."[53]

While these criteria show a concern for social issues, they are not as stringent as those of the Pax World Fund. For instance, should a company produce as one of its products an item which is designed for military use, an investment may still be made in that company. In addition, it does not specifically prohibit investment in alcohol or tobacco companies, in spite of the known health hazards of these products.

Selection Process

The fund screens companies which are being considered for investment for financial soundness first, then it applies its social criteria. A minimum level of performance in both areas is set and companies must perform above this level. The social screen also attempts to consider societal trends and political and economic trends in relation to the company in question.

In addition to these screens the fund turns to ". . . government agencies, public interest groups and the companies under consideration to decide whether they meet the fund's ethical expectations."[54] (See Social Goals and Criteria, page 25.)

Economic Goals and Performance

The Calvert Social Investment Fund is unique in the socially responsible investment field in that it offers two portfolios. One is a "Managed Growth Portfolio", the other is a "Money Market Portfolio." The former invests in stocks, bonds and money market instruments which show a high potential for asset appreciation. The latter invests almost exclusively in ". . . high grade, short-term money market instruments . . ."[55] with the intention of obtaining

". . . the highest level of current income . . ."[56] At March, 1985 the fund had assets of $42 million invested in its Money Market Portfolio and $15 million in its Managed Growth Portfolio.

Lipper Analytical Services rates the Managed Growth Portfolio as the best performing socially responsible investment fund in 1984. The rate of return for this portfolio was 21.6% for 1984. This is 2% above the market average return rate.[57] Unfortunately, Lipper did not publish the rate for the Money Market Portfolio. One report, which does not acknowledge its source, credits this fund with a 10.26% return on equity for 1984.[58]

Management Structure

The day-to-day management of the fund is the responsibility of Calvert Asset Management Company, Inc. This company is a subsidiary of Acacia Mutual Life Insurance Company. The fund also has a sub-advisor, the United States Trust Company of Boston. The sub-advisor is responsible for the screening of investments. The fund is also supervised by a Board of Trustees. As with all the other funds, the executives from the management company are also members of the Board of Trustees. The fund also has an Advisory Council. The Council functions as a communications network, and it assists in applying and refining the fund's social criteria. Fourteen people including such noteworthy individuals as Julian Bond, State Senator for Georgia, Hazel Henderson, author, lecturer and economist, Amory Lovins, author and lecturer make up the Advisory Council. The Council does not hold any administrative authority over the fund.

NEW ALTERNATIVES FUND, INC.

The New Alternatives Fund was incorporated in 1978 and began operation as a mutual fund in 1982. It was initiated by one individual, Maurice Schoenwald, as a direct result of his interest in solar and alternate energy. The fund operates from the premise that ". . . both conservation of energy, and alternative forms of energy will continue to be profitable investments and make inroads into the present importance of oil and nuclear power." [59] This premise is dependent upon increasing oil prices and decreasing costs of alternate energy technology. The recent drop in world oil prices suggests that, at least in the short run, the premise is invalid. The long run validity of this premise has yet to be seen. The fund also believes " . . . that alternative energy and conservation are socially useful and responsible." [60]

Social Goals and Criteria

As stated above the social goals of this fund are to reduce dependency on petroleum and nuclear energy sources and to encourage development of new energy technology. As such, the fund invests in companies which are involved in specific energy areas. These areas include: "Biomas, Cogeneration, Conservation, Fuel Cells, Fluidized Bed Burning, Geothermal, Photovoltaic, and Solar (Power)." [61] (See Glossary.)

Selection Process

The selection process is quite simple for this fund since it invests in only specified areas. Having selected a company by virtue of its activities in solar and alternate energy, the fund applies traditional, conservative, economic criteria. "At least 75% of the companies in which the fund invests are those listed on the New York or American Stock Exchanges." As such, these are likely to be larger, more stable companies. Smaller companies which are involved in these innovative technologies run greater risks than do larger ones. Investing in these small companies, therefore, may be contrary to the goal of asset protection. The fund limits its investments in these companies to 25%.

Economic Goals and Performance

"The primary objective of the fund is long-term growth through investing in common stocks of campanies in the solar and alternative energy industry."[62] As a growth fund there is little interest in assessing the income potential of its investments.

Due to the fact that The New Alternatives Fund has been in operation only since 1982 it is difficult to assess its performance. Lipper Analytical Services assessed its rate of return at 18.3% for the 12 months ending 25/4/85.[63] This places its performances at about the same level as Pax World and Dreyfus. Another assessment, however, believes that the 1984 rate of return on equity was minus five percent (-5%).[64] This would be the poorest performance of the ethical mutual funds. This difference is the result of different methodologies being used to calculate performance. The fund is a relatively new entry in the mutual fund field. Its track record has yet to be established. This is the smallest of the socially responsible investment mutual funds with assets at the end of 1984 of only $430,000.[65]

Management Structure

The fund is managed in its day-to-day business by Accrued Equities Incorporated. It is owned entirely by Maurice L. Schoenwald who is also the president and founder of the fund. The overall management of the fund is the responsibility of the four members of the Board of Directors. In addition to the President, there is an expert in cash management, an engineer with expertize in alternate energy and the Dean of a law school.

WORKING ASSETS MONEY FUND

Working Assets Money Fund is the newest socially responsible mutual fund. It was founded in August, 1983. The fund was established to ". . . invest in money market instruments that have a positive social and economic impact." [66]

Social Goals and Criteria

The fund does not invest in firms that are known to ". . . pollute the environment, manufacture or distribute weapons as a principle (emphasis added) business activity or generate nuclear power." [67] It is unclear from the information available the percentage of a company's business which is permitted, by the fund's rules, to be weapons related. The fund will not invest in any company known to discriminate against minority groups and women in its hiring practice, or which ". . . have a substantial presence in or are part of a strategic industry in a foreign nation controlled by a repressive regime . . ." [68] The fund does invest in companies involved in the areas of "housing, education, farming, small business and energy conservation." [69] In particular the fund seeks out companies which ". . . contribute to the quality of life through the goods and services they produce, promote economic advancement of women and ethnic minorities, and bargain fairly with their employees." [70] The fund also chooses financial instruments which strengthen local financial institutions, or promote higher education.

Selection Process

Most funds detail their selection process in their prospectus. Working Assets, unfortunately does not include this information.

Economic Goals and Performance

Working Assets seeks ". . . as high a level of current income as possible, while maintaining liquidity and safety of capital . . . (The fund seeks) to achieve these goals by investing in a portfolio that consists of short-term debt securities meeting high quality standards . . ." [71] This fund differs from most of the other mutual funds described in that it invests in debt instruments rather than equities.

Information on the performance of this fund is scarce. One source, however, places its assets at $41 million and its 1984 return on equity at 8.73%.[72]

Management Structure

The fund is managed by the three individuals who formed Working Assets Limited Partnership. In addition, there is a Board of Trustees which supervises activities, reviews contracts and appoints individuals to an Advisory Committee. This Committee has no legal authority with regard to the fund but does serve in an advisory capacity.

Similarities Between Funds

These funds can all be described as taking the "Positive Approach" to ethical investments. They all have "No" criteria which rule out offensive companies and "Yes" criteria which seek to include exemplary companies. Pax World Fund and The Dreyfus Third Century Fund could probably also be described as taking the "Activist Approach." Both of these funds interview corporate executives prior to making an investment. According to Jack Corbett, Vice-President of Pax World Fund, these interviews often produce positive changes in corporate behaviours.

Additional similarities and differences can be seen in Table 1.

TABLE 1

FUND (1)	START UP DATE	ADVISORY FEE FORMULA	FUND TYPE Equity: Growth	Equity: Income	Debt	1984 TOTAL ASSETS	MINIMUM INVESTMENT	1984 RATE OF RETURN
PAX WORLD FUND	1971	3/4 of 1% on first $25M 1/2 of 1% on excess		x		$16M	$250	18.5% (2)
DREYFUS THIRD CENTURY FUND	1972	3/4 of 1%	X			$125M	$2,500	18.2% (2)
CALVERT SOCIAL INVESTMENT FUND — Money Market Portfolio	1981	1/2 of 1%			X	$37M	$1,000	5.3% (2)
CALVERT SOCIAL INVESTMENT FUND — Managed Growth Portfolio		7/10 of 1%	X			$15M	$1,000	21.6% (2)
NEW ALTERNATIVE FUND	1982	1% on first $10M 3/4 of 1% on next $20M 1/2 of 1% on assets over $30M	X			$430,000	$2,650	18.3% (2)
WORKING ASSETS MONEY MARKET FUND	1983	1/2 of 1%			X	$41M	$1,000	8.73% (3)

INVESTMENT CRITERIA INCLUDES:

FUND	Environmental Protection	Equal Employment Opportunity	Fair Labour Practices	Higher Education	Housing	Occupational Health & Safety	Participatory Management	Safe Products	Small Business	Health Care	Food	Renewable Energy	Transportation	Farming
PAX WORLD FUND	X	X	X	X	X					X	X	X		
DREYFUS THIRD CENTURY FUND	X	X		X	X	X		X	X			X		
CALVERT SOCIAL INVESTMENT FUND	X	X	X				X	X						
NEW ALTERNATIVE FUND	X											X		
WORKING ASSETS MONEY MARKET FUND	X	X		X	X				X			X		X

EXCLUDES:

FUND	Liquor	Tobacco	Munitions	Nuclear Power	South Africa	Gambling	Known Discrimination	Known Pollution
PAX WORLD FUND	X	X	X	X		X		
DREYFUS THIRD CENTURY FUND								
CALVERT SOCIAL INVESTMENT FUND			X	X	X			
NEW ALTERNATIVE FUND	X	X	X	X	X		X	
WORKING ASSETS MONEY MARKET FUND			X	X	X		X	X

SOURCES: (1) The Fund Prospectuses (see bibliography for exact details)
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GLOSSARY

ASSET: Anything owned by a company that has value and is measurable in terms of money.

APPRECIATION: An increase in economic worth caused by rising market prices.

BOND: A certificate of indebtedness . . . (see debt).

CERTIFICATE OF DEPOSIT: A receipt for a bank deposit in certificate rather than passbook form. Time certificates are payable either on a specific date or after the passage of a specified amount of time; they can bear interest and are therefore widely used by companies and institutions as short-term investment vehicles.

CURRENT INCOME: Income earned within the current year or current accounting period.

DEBT: An oral or written obligation to pay an amount incurred in exchange for money and usually carrying a specified maturity and interest rate. Debt may take many forms, such as note, bond, or debenture, and can be for a short, intermediate or long-term period.

DEBENTURE: A certificate of indebtedness of a company which is not secured by any specific asset but which is backed by its general credit.

EQUITY CAPITAL: Money supplied by the owners of a company in return for common stock or other evidence of ownership and share of profits.

GROWTH FUND: A mutual fund oriented primarily to the purchase of common stocks of companies thought to be growing fast, with stocks therefore thought to be excellent prospects for rapid appreciation.

INCOME FUND: A mutual fund oriented primarily toward the generation of current income for its holders, rather than toward growth securities.

MONEY MARKET FUNDS: Short-term investment vehicles, oriented primarily to individuals who wish to take advantage of high short-term rates.

MUTUAL FUND: An open-end investment company, which sells its shares to the public and is ready to buy them back in the future.

PORTFOLIO: A group of investment securities held by an individual or institution and managed by them or by outside advisors. It generally denotes a mixture of bonds, preferred stocks and common stocks of many companies.

SHARE: An evidence of equity ownership in a corporation in which ownership interest is related to the number of shares owned.