

Socially Responsible Investing

What is socially responsible investing?

Socially responsible investing is a portfolio management process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.

Socially responsible investing has changed significantly beyond its roots in 1960s-style activism. Today it encompasses practically every set of values, from funds that invest according to faith-based principles to those that screen for such concerns as tobacco, weapons, human rights and the environment. In addition, a growing number of institutions are practicing an alternative means of socially responsible investing by exercising their voting power at the shareholder meetings of their publicly-traded stock holdings.

How does it work?

Since the 1960s, three key socially responsible strategies have evolved:

- **Shareholder activism** describes investor efforts to submit and vote corporate proxy resolutions as a means of influencing company behavior.
- **Screening** describes the inclusion or exclusion of corporate securities in investment portfolios based on social or environmental criteria.
- **Community investing** refers to financing that creates resources and opportunities for economically disadvantaged people who are underserved by traditional financial institutions.

Used alone or in combination, these strategies can have a powerful influence on corporate policies and make better citizens out of our corporate leaders.

How has the Rhode Island Foundation incorporated socially responsible investing into its own portfolio?

In addition to offering an alternative investment option for donors whose values influence their investment approach, the Foundation has identified a way to incorporate shareholder activism into its own portfolio management. One of the most proactive means of socially responsible investing, shareholder activism has been credited for such measures as ending apartheid, reversing unsustainable environmental practices and ousting unprincipled chief executives.

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Socially Responsible Investing, continued

By contracting with Institutional Shareholder Services (ISS) to monitor the publicly held companies in our portfolio, we have combined our commitment to outstanding investment performance with our long-standing dedication to social change. Instead of following the common practice of delegating shareholder voting to investment managers, we use ISS's research and proxy services to help us take a stand on social, workforce and environmental proposals affecting our corporate holdings. With no fundamental change in the careful asset allocation strategy that has delivered such strong results over time, we can proactively support measures that foster good corporate citizenship while enhancing long-term shareholder value.

Are there alternatives for social investment at the Foundation?

We also offer a socially responsible investment pool using the following two mutual funds in a 70%/30% allocation:

- **The Parnassus Equity Income Fund (70%)** uses social screens and investments primarily in a diversified portfolio of equity securities that pay above-average dividends while offering capital appreciation potential. The Fund may invest up to 10% of its assets in community loan funds that finance economic development and low-income housing.
- **The Parnassus Fixed Income Fund (30%)** places a special emphasis on securities that finance housing and socially responsible corporations. This fund may also invest up to 10% of its assets in community development loan funds.

HOW DOES SOCIAL INVESTMENT PERFORM FINANCIALLY?

Although socially responsible investments can perform as well as conventional investments and sometimes even better, historically this investment approach has not always competed favorably with more traditional alternatives. The returns of The Rhode Island Foundation's portfolio and its socially responsible investment pool are as follows as of 3/31/09.

| | 1-YEAR | 5-YEAR |
|------------------------------------|--------|--------|
| Rhode Island Foundation portfolio | -29.1% | .8% |
| Parnassus Socially Responsive Fund | -18.3% | 1.1% |

To learn more about The Rhode Island Foundation's investment portfolio and the Parnassus Socially Responsible Fund, contact the Development Office at (401) 274-4564.