

MRTI COMMITTEE

2008-2009 PRIORITY ISSUES WORK PLAN

INTRODUCTION

The Committee on Mission Responsibility Through Investment (MRTI) annually adopts a Priority Issues Work Plan consistent with its mandate to promote the mission goals of the General Assembly: pursuit of peace; social and economic justice; racial justice; securing the rights of women and environmental responsibility. The Plan includes issues brought before the committee from several sources. First are issues referred to MRTI by the General Assembly. Second are issues raised by MRTI member bodies (General Assembly Council, Board of Pensions, Presbyterian Church (U.S.A.) Foundation and New Covenant Trust Company, Advisory Committee on Social Witness Policy, Advocacy Committee on Racial Ethnic Concerns and Advocacy Committee on Women's Concerns). Third are issues communicated to MRTI by middle governing bodies and congregations. Finally, MRTI's ecumenical and other partners propose issues needing cooperative attention. Companies approached by MRTI in dialogue, or filing and co-filing shareholder resolutions are marked in **bold**. All references to specific companies will apply to successor companies.

INTERFAITH AND OTHER PARTNER RELATIONSHIPS

MRTI's work on all issues is conducted within an interfaith and cooperative context. Socially responsible investors, including religious organizations are very active on numerous issues, including the priority issues for MRTI, and often coordinate their work through coalitions or organizations.

Much of the coordination occurs at the Interfaith Center on Corporate Responsibility (ICCR) and Ceres (formerly the Coalition on Environmentally Responsible Economies). ICCR's membership includes over 275 Roman Catholic orders, dioceses and health care systems; Protestant denominations and Jewish organizations. The Presbyterian Church (USA) was among the four founding organizations in 1971. Ceres is a coalition of socially responsible investors; environmental, consumer, public interest and labor organizations; and public pension plans. MRTI is very active in both organizations. Rev. Bill Somplatsky-Jarman, MRTI staff, serves on the board of Ceres, and chairs its Nominating Committee. In addition, Mr. Don Kuespert attends all ICCR meetings as MRTI's liaison to the organization.

Other partners include the Investor Network on Climate Risk (Bill Somplatsky-Jarman serves on the Steering Committee), the National Labor Committee (Bill Somplatsky-Jarman serves on the board), the Coalition on Justice in the Maquiladoras (Rev. Jack Ewing and Ms. Sydney Brown,

former MRTI members, are the principle liaisons), CANICCOR Research (formerly the California-Nevada Interfaith Committee on Corporate Responsibility) where Howard Tharsing and Penny De La Rey are PCUSA members on the Board, and the Social Investment Forum.

ENVIRONMENTAL STEWARDSHIP

BACKGROUND: The Committee on Mission Responsibility Through Investment (MRTI) established its focus on environment following the development of a comprehensive policy on environmental issues. The key thrust of the policy involves selecting focus issues (toxic pollution of air, soil and water, and global climate change) with identification of industry groups related to those issues (petro-chemical, paper and forest products, electronics and semi-conductor and utilities).

2007-2008 ACTIVITIES:

Accountability and Disclosure: Ceres sponsors a set of principles designed to spur increased environmental performance by companies coupled with public disclosure. Companies are also encouraged to disclose their performance according to the Global Reporting Initiative (GRI) format. Ceres concentrated on pursuing discussions with companies that had already agreed to dialogue. Many Fortune 500 companies as well as medium and small companies have endorsed the Ceres Principles with Sun Microsystems and Wachovia recently joining.

Ceres coordinates stakeholder teams for the endorsing companies. The teams provide feedback to the companies on their public disclosure reports and new initiatives where stakeholder input can enhance the companies' programs. The teams also assist with the 5-year review of company programs, and the setting of new goals. Bill Somplatsky-Jarman is on the Ceres stakeholder team for Coca-Cola, McDonald's, Sun Microsystems and Timberland. He also participated on the stakeholders' team that met with the senior management of American Electric Power.

Dialogues about endorsing the Ceres Principles are underway with several major corporations, and MRTI supported this process where possible, particularly with companies where MRTI has a long-standing relationship.

Energy and Climate Change: Shareholders approached several electric power companies in 2005 and 2006 asking them to develop reports on the potential impacts of climate change upon the future fiscal viability of the company, the company's plans for adjusting to future regulation of carbon dioxide, and the cost effectiveness of various scenarios to reduce greenhouse gas emissions.

Several companies have produced reports including **Cinergy**, now merged into Duke Energy, American Electric Power, TXU, Southern Company and **FirstEnergy**. In the spring of 2005, **Cinergy** devoted its 2004 annual report to global climate change, and solicited the viewpoints of several stakeholders, including investors. MRTI was featured in the report for its work with the

company on the issue, and its perspective on the relation of climate change risks to shareholder value.

Resolutions, particularly ones calling for setting a greenhouse gas emission reduction target, in 2008 on climate change received significant support. A total of 57 U.S. resolutions were filed, up from 43 last year. In addition, there were also 4 Canadian resolutions filed. Resolutions calling for the target setting received 39.7% at Kroger (the highest vote ever on a climate change resolution), 33.67% at Standard Pacific, 30.9% at ExxonMobil, 29.2% at **ConocoPhillips**, 26.09% at Centex, 25.4% at Ryland Homes and 9% at Chevron. A record 15 resolutions were withdrawn following dialogues, including at **Dominion Resources** and **FirstEnergy** where the companies agreed to produce the requested reports.

In addition, there were some major victories. Ford announced that it would set a reduction target, and Centex announced the day before its annual meeting that it would be implementing an energy efficiency program in all its homes nationally beginning in 2009.

Environmental Racism and Human Rights: Renewed engagement on issues of environmental racism and human rights brought religious shareholders into contact with several companies, including Dow Chemical, Chevron, ConocoPhillips and Exxon. The Sisters of Mercy garnered 22.8% on their proposal at Dow related to the remediation plan for the area around the company's corporate headquarters. The Episcopal Church was the lead filer with Exxon and ConocoPhillips. The resolution asked for a report on how the companies ensure that they are accountable for the environmental hazards their operations may impose on the communities where their facilities are located. At Exxon, the resolution received 10.8%, enough for resubmission, and at ConocoPhillips, the vote was 8.6%, slightly below the 10% threshold for resubmission. At Chevron, a proposal asked the company to assess the adequacy of laws and regulations to protect human health, the environment and the company's reputation in the countries where Chevron operates. The resolution received 8.3%, enough for resubmission.

Sustainability Issues: Twenty-six companies received resolutions on efforts to make the company more sustainable in terms of environmental and social performance. All but five were withdrawn following dialogues. At Densply, the vote was 35.6%. At Dover Corporation, it was 39.5%, up from 34.55% in 2007. Other votes were Southwest Airlines (26.0%), US Airways (22.0%), and Yum Brands (38.3%). In addition, a few companies received a resolution calling for a board-level sustainability committee to be created. The votes were Apple (7.8%), Intel (4.8%) and Kimberly-Clark (4.9%).

Mining Issues: The 2006 General Assembly adopted a resolution opposing the mountaintop removal method of mining, and instructed that its action be communicated to government bodies and mining companies. Some ICCR members have been in dialogue with Arch Coal, Massey Energy, and Peabody Energy. In addition, sixty-five international banks and financial institutions have now adopted the Equator Principles, a benchmark for the financial industry to

manage social and environmental issues in project finance. Some of the projects receiving financing involve extractive industries.

2008-2009 PROGRAM INITIATIVES: These areas will see major work in the coming year. The main question is where MRTI can fit into the process in a manner that both enhances the ecumenical work and is consistent with MRTI's environmental policy. In that regard, the following is proposed:

1. **Climate Change:** In 2009, shareholders are expected to expand corporate engagement on climate change. The various sectors being approached include automotive, building, finance and insurance, manufacturing, electric power, and oil and gas. MRTI in the past has concentrated on the electric power and energy sectors. MRTI will follow up with Duke Energy with a review of its first sustainability report following the merger with Cinergy. Dominion Resources, Inc. produced the requested report, and MRTI will monitor developments. Follow-up dialogues with FirstEnergy and Wisconsin Energy will continue. In the case of FirstEnergy, this will involve a review of the draft report on energy efficiency that is due on December 1, 2008. The final report will be posted on the company's website. MRTI will continue as lead filer with ConocoPhillips, and follow up on the resolution filed last year requesting the company to set a reduction target for greenhouse gas emissions. The resolution (that received 29.2 per cent of the proxy vote) requesting such action will be filed. MRTI will engage Overseas Shipholding Group regarding greenhouse gas reduction strategies. MRTI will continue to participate in the electric power company dialogue, and provide leadership to the Investor Network on Climate Risk.

2. **Ceres:** MRTI will continue efforts to encourage companies to endorse the Ceres Principles, a set of standards aimed at continuous environmental improvement. In addition, MRTI will participate in the stakeholder teams organized by Ceres for McDonald's, Timberland, Sun Microsystems, American Electric Power and Coca-Cola. As additional stakeholder teams are formed, MRTI will assist where requested.

3. **Global Reporting Initiative (GRI):** Ceres has spun off the Global Reporting Initiative (GRI) that seeks to have companies develop sustainability reports on the social, environmental and human rights aspects of their operations. The GRI has its own Board of Directors, and has produced a series of guidelines for the reports. Several companies, including Baxter International and General Motors, have pilot-tested the reporting process that is now followed by nearly 1,500 companies worldwide. MRTI will support efforts to expand the number of companies participating in the GRI.

4. **Environmental Standards:** MRTI has been involved in the engagement of Newmont Mining. The company's Board of Directors has created a committee to develop a policy. Christian Brothers Investment Services is on the stakeholder advisory committee. MRTI will monitor the process and contribute where it can.

5. **Mine Pollution in Montana:** With the assistance of former MRTI member Vernon

Carroll, the committee will monitor the continued cleanup of polluted sites in the Clark Fork watershed in Montana that have resulted from mining operations. The British Petroleum subsidiary, Atlantic Richfield, is active in this area.

6. Mountaintop Removal Mining: MRTI, in collaboration with the Episcopal Church, will engage several banks on the issue of funding of mining companies using mountaintop removal mining methods. The basis for the discussion will be twofold: the General Assembly position opposing the mountaintop mining method, and the Equator Principles, a set of environmental standards for banks and financial institutions to use when evaluating lending for projects for mining and other extractive companies. These banks, with which MRTI and the Episcopal Church have regular dialogues, include Citigroup, Bank of America, Wells Fargo and J.P. MorganChase.

COMMUNITY INVESTMENT, BANKING AND FINANCIAL ISSUES

BACKGROUND: In the past few years, the religious community has devoted more attention to community reinvestment and equal credit opportunity. The goal is to increase access to capital that is critical to revitalize distressed communities.

This effort has focused on compliance with the Community Reinvestment Act (CRA) that requires depository banking institutions to meet credit needs of their entire communities, including low and moderate income families. The Equal Credit Opportunity Act (ECOA) prohibits all lenders from discriminating on the basis of race or color, religion, national origin, sex, marital status or age. In addition, non-depository financial institutions such as mortgage companies are encouraged to comply voluntarily with the CRA. The religious community supports innovative and effective lending programs in under-served areas and to under-served populations. Most of the work has concentrated on urban areas, but some religious groups have focused on rural community development.

In addition, the issues of sub-prime and payday lending came to the fore with media publicity about predatory abuses. Payday loans are high interest loans where the person borrows against their next paycheck. This often leads to rolling over the loan driving up interest payments, and trapping the person in debt. Most payday lenders are privately held, but can be financed by the major banks that also may allow their state charters to be used to sponsor payday lenders. These issues were addressed by resolutions filed with banks and finance companies.

Also, ICCR members are engaging insurance companies and banks around the rebuilding efforts following Hurricane Katrina. In addition, religious organizations launched the Isaiah Funds, investment vehicles to faith-based groups “to effectively and securely supply capital for post-disaster economic rebuilding.” MRTI will participate in the evaluation of the research, and the development of engagement strategies that may result.

2007-2008 ACTIVITIES: The dialogues in 2007 largely addressed predatory lending, the sub-prime mortgage crisis, and foreclosure policies and practices. MRTI coordinated the approach to

Citigroup, Wells Fargo and JP MorganChase with dialogues held with all three banks. Performance in lending to people of color, and low-to-moderate income communities were also addressed. The 1995 General Assembly passed a resolution strongly supporting CRA and other legislation such as the Equal Credit Opportunity Act. MRTI also participated in the dialogues with **Bank of America and Washington Mutual**. In addition, MRTI continued support for current public policy in the face of proposed regulatory changes that would weaken reporting requirements on mortgage and small business loans.

In addition, Christian Brothers Investment Services filed a resolution with Cash America International asking it to initiate steps to guard against predatory lending. The resolution received 7.8%, enough for refilling.

2008-2009 PROGRAM INITIATIVES:

The mortgage lending crisis precipitated by unsustainable sub-prime loans was predicted by MRTI and others who had encouraged the banks to tighten their scrutiny of loans received from mortgage brokers, and asked financial institutions securitizing sub-prime loans from lenders with troublesome reputations to apply stricter criteria for accepting these loans. However, what reforms were attempted proved too little too late. Now there is a mortgage crisis with a sharp rise in foreclosures.

1. **Foreclosure Avoidance and Loan Servicing:** While MRTI will continue its engagement with banks on community reinvestment, small business lending and response to Katrina and Rita, the committee will devote additional time to monitoring the foreclosure process and loan servicing, especially at non-bank financial institutions such as Merrill Lynch.

2. **Wells Fargo:** This bank has the stated goal of being the largest originator and servicer of mortgages to low-to-moderate income communities and people of color. Dialogue with the company has improved, but has suffered from turnover of bank staff, and wariness of concerns expressed by community groups. Church shareholders are led by the Episcopal Church, and met with the bank on April 22, 2005, regarding sub-prime lending, and policies to prevent predatory lending. It revealed CRA progress by Wells Fargo. Its mortgage lending to African Americans, Hispanics and Low-to-Moderate Income borrowers has improved steadily from 2000 to 2004 when compared with its peers. Wells is also initiating policies to strengthen safeguards against predatory lending. Shareholders also expressed serious reservations about the bank's funding of payday lenders. At the meeting in November 2006, the exposure risk discussion revealed that the bank had reduced its exposure. The consensus of the shareholders was to meet again with the bank to discuss how it was handling delinquencies and foreclosures. Wells Fargo has agreed to pull together its senior management responsible for those issues. A meeting will be scheduled for the fall of 2008 with MRTI coordinating the process with the Episcopal Church.

3. **J. P. Morgan Chase:** The agreed to a policy of reaching the industry lending average at a meeting with major stockholders in 1995. This policy has held through various mergers.

Dialogues following an analysis of their Home Mortgage Disclosure Act data have revealed progress on the bank's commitments. MRTI received a general briefing by the bank in February 2008, and discussed the bank's response to the rebuilding of the Gulf Coast in the aftermath of Katrina and Rita. The bank is restructuring its Community Development department, and MRTI will maintain contact with bank officials.

4. **Citigroup**: MRTI is the lead contact with the dialogue. In 2001, the focus was on **Citigroup**'s purchase of Associates First Capital that had a bad reputation for predatory lending. Two dialogues were held which resulted in the withdrawal of the resolution. Additional dialogues have been held on a regular basis with the most recent in February 2008. Progress has been achieved, but Citigroup recently bought two companies: ABN-AMRO, a mortgage lender, and Ameriquest's mortgage servicing unit. Both are related to sub-prime lending. This is similar to its acquisition of Associates First Capital. Citigroup has also recently restructured its community lending department. Another dialogue will be scheduled in early 2009 to follow up the integration of the acquisitions into Citigroup, and its efforts to modify existing mortgages to avoid foreclosures.

5. **Washington Mutual**: Catholic Healthcare West is the lead filer with **Washington Mutual**. The bank has a sub-prime unit named Long Beach Mortgage Company. The dialogue in June 2007 explored the bank's modest lending record with racial minorities in some markets, but noted improvement in other markets. The bank also noted that it had cut back on sub-prime lending in high-priced markets as it had hardly made any sub-prime loans in New York and California. A continued dialogue is slated for September 2008, and MRTI will continue to participate.

6. **Bank of America**: This is a multi-bank holding company (combining NationsBank and B of A) with retail and commercial banks. It has now bought Fleet Boston. A resolution concerning the impact of the merger was withdrawn, although there is dissatisfaction with whether the bank has met its commitments to shareholders. MRTI participated in a dialogue with the bank where Catholic Healthcare West is the primary filer. An analysis of the HMDA data revealed general progress with some geographic challenges. MRTI will remain a participant in these discussions.

7. **Western Union and Wal-Mart**: MRTI will engage the company on the issue of transaction fees for remittances to transfer funds overseas for family support. The issue had previously been raised with major banks. This led to new programs that cut fees substantially, but the cost remains high. MRTI will also examine Wal-Mart's emerging VISA debit card business.

8. **Wachovia**: The bank has acquired Golden West Financial, a large savings and loan based in California that specialized in adjustable rate mortgages, and made a lot of mortgages to low-income borrowers. MRTI had met several times with Golden West Financial. The Evangelical Lutheran Church in America is taking the lead in a dialogue with Wachovia to

determine which policies and practices will be followed as it integrates Golden West Financial into its operations. A meeting is scheduled for September 2008.

9. **Lehman Brothers**: MRTI had met with Lehman Brothers in 2005 regarding its securitizing of sub-prime loans for placement on the secondary market, a role that helped fuel the growth in sub-prime lending. Lehman Brothers had assured MRTI that it had comprehensive policies in place to assess the quality of the loans, and evaluate loans bought from sub-prime mortgage companies. In some cases, this involved reviewing each loan individually. With the crisis in sub-prime lending affecting banks and other financial institutions, MRTI will coordinate another dialogue with Lehman Brothers on the subject.

GLOBAL CORPORATE ACCOUNTABILITY

BACKGROUND: MRTI's work in this area initially focused largely upon the operations of U.S. companies along the U.S./Mexico border. It has looked into operations in "export processing zones" in other countries, particularly in Central America and the Caribbean. MRTI has supported the Maquiladora Standards of Conduct that address environmental contamination, health and safety of workers, standard of living for workers and community infrastructure. The Standards were issued by the Coalition for Justice in the Maquiladoras (CJM). In recent years, the work has expanded to cover global operations, particularly in China, Bangladesh and the Middle East.

2007-2008 ACTIVITIES: Activity in this area focused on two basic areas: standards for contract suppliers and global human rights standards. Several companies were engaged through dialogue, and in some cases shareholder resolutions were filed.

Contract Supplier and Vendor Standards: This area involves the employment standards required of companies that produce goods and services for a larger company, often under that company's brand name or label. For example, toys and clothing bearing the Walt Disney logo are made in factories scattered across the globe. Many companies have adopted Codes of Conduct for their suppliers and vendors, and have instituted monitoring and inspection programs using both internal employees and outside monitoring firms to verify compliance or pre-qualify potential suppliers and vendors. However, abuses and violations continue to occur.

A resolution asking for the development of a company code along the lines of the International Labor Organization's core standards was filed with several companies. The highest vote was at Urban Outfitters (29.5%, a very high vote as management controls a large block). Other votes included Cummins (16%) and Reynolds American (12%).

MRTI continued engagement with **Time Warner** the company stepped up its implementation of the Ethical Sourcing Guidelines.

Human Rights:

Human Rights Principles: The number of companies approached on human rights grew in 2008. The number of resolutions rose to 32, up from 24 in 2007 and 18 in 2006. Broadly, the resolutions reflected two approaches: requesting a company to adopt or review a human rights policy, or to establish a board-level committee on human rights. In the latter category, resolutions went to Bank of America, Coca-Cola, Google, Halliburton, Hershey, IBM and Walmart.

Sudan: The 2001 General Assembly voted to place Talisman Energy on its divestment list due to the company's involvement in an oil exploration and pipeline project in the southern part of Sudan. Oil had begun flowing through the pipeline, and the Sudanese government started to receive significant revenue. This permitted the Sudanese government to repay previous loans with which it had funded the civil war. However, the mounting pressure on Talisman led to the company selling its interest in the project. The sale was completed in March 2003. MRTI's recommendation that the 2004 General Assembly remove Talisman from the divestment list was approved.

The situation in Darfur, in western Sudan, has been a focus for the Presbyterian Church (USA), and the 2006 General Assembly adopted two overtures calling for a process of phased, selective divestment related to companies operating in Sudan, and those providing arms to the Sudanese government terrorizing Darfur. The situation in Darfur has also sparked a divestment campaign on many college and university campuses and in some public pension funds.

The Sudan Divestment Task Force provides research on corporations doing business in Sudan. MRTI's report to the General Assembly Council in September 2007 noted that no stock was held by any of the investing agencies in companies recommended for divestment by the Sudan Divestment Task Force. Stock was held in some companies recommended for continued engagement as the companies work on pledges made related to their Sudan operations. MRTI will monitor these companies, and assist where possible. In addition, a link to the web site of the Task Force has been added to the MRTI web site to encourage Presbyterians to contact the Task Force for current information.

In addition, three banks (Citigroup, JP Morgan Chase and Wells Fargo) were asked to review their human rights policies to consider adding policies and procedures on the appropriateness of investing in companies "contributing to human rights violations through their businesses or operations in a country with a clear pattern of mass atrocities or genocide." Similar proposals were withdrawn at T. Rowe Price, Merrill Lynch and Morgan Stanley.

Israel and Palestine: The 2004 General Assembly adopted an overture on the Geneva Accords involving Israel and Palestine, and urged both parties to revive negotiations toward a just and peaceful resolution of the dispute that would result in two states: an Israel within safe and secure borders, and an economically and geographically viable Palestine within safe and secure borders. The assembly also directed MRTI to initiate a process of phased, selective divestment of companies doing business in Israel. MRTI developed a set of six criteria focused on General Assembly concerns about violence against Palestinians and Israelis, the occupation, Israeli

settlements in the occupied territories, and the Separation Barrier. Five companies were identified for engagement according to the criteria: **Caterpillar, Citigroup, ITT Industries, Motorola and United Technologies**. Initial meetings were held with Citigroup, Motorola and ITT Industries. Follow-up meetings have been held with Citigroup and Motorola.

In 2006, the General Assembly replaced those instructions. The General Assembly said that for investments in companies doing business in Israel, Gaza, East Jerusalem and the West Bank, they should be only in companies engaged in peaceful pursuits. The General Assembly also said that the customary MRTI process of corporate engagement is the proper vehicle for determining whether or not a company is involved in peaceful pursuits.

The 2006 General Assembly also instructed the Stated Clerk to communicate with companies doing business in Israel and Palestine urging them to practice equal employment opportunity, promote respect for human rights and seek proactive ways to support efforts to achieve a just peace in the region.

MRTI's report on corporate engagement was submitted to the 2008 General Assembly which directed that the corporate engagement process continue. It also called upon all corporations doing business in the region to confine their business activity solely to peaceful pursuits, and refrain from allowing their products or services to support or facilitate violent acts by Israelis or Palestinians against innocent civilians, construction and maintenance of settlements or Israeli-only roads in East Jerusalem and the West Bank, the Israeli military occupation of Palestinian territory, and construction of the Separation Barrier as it extends beyond the 1967 "Green Line" into Palestinian territories. Corporations were also urged to seek proactive ways to promote respect for human rights, peacebuilding, and equal employment opportunity.

Corporate Engagement

In 2007, MRTI concluded productive dialogue with **Citigroup**, and removed the company from the focus list for corporate engagement. Conversations on micro-credit lending will continue.

For 2008, **Caterpillar, ITT Industries, Motorola and United Technologies** all received shareholder proposals from Protestant and Roman Catholic groups working on the issue. The MRTI continued its work with considerable time devoted to fostering ecumenical cooperation on engagement. To that end, an informal table called the Ecumenical Action Group: Investment for a Just Peace in Israel /Palestine was created. As a result, corporate dialogues were expanded to include participation by representatives of other Protestant denominations and Roman Catholic religious orders. These have included the Episcopal Church, Evangelical Lutheran Church in America, United Church of Christ, United Methodist Church (General Board of Global Ministries, General Board of Church and Society, General Board of Pensions and Benefits and the New England Conference), United Church of Canada, Mercy Asset Management, Ursuline Sisters, and the Dominican Sisters. Also participating has been KAIROS Canada and the World Council of Churches.

The **Motorola** dialogue focused on human rights standards and conventions, and explored the company's involvement in the occupation through sales of military communications products, fuses for bombs, and security technology for Jewish Israeli settlements on the West Bank. **Motorola** denied that any of its activities implicate it in the Israeli occupation, or raise human rights concerns. A shareholder resolution addressing broader human rights issues was filed by several religious shareholders in the fall of 2007. In response, **Motorola** requested a follow-up meeting, which occurred in January 2008. The company indicated its intent to review and amend its policies but would not specify the particular changes under consideration and made clear that its human rights policies would not be applied to their business relationships with foreign governments. This lack of clarity and limited scope led the religious investors, including MRTI representatives, to decline to withdraw their resolution, which went before the annual shareholders meeting on May 5, and received 12.9% of the vote

The resolution at **Caterpillar** requests the board of directors to review the company's human rights policies and amend them where applicable. Caterpillar also received a resolution on foreign military sales from a coalition of shareholders including several Roman Catholic religious orders and Jewish Voice for Peace. The resolutions at **ITT Industries** requested a report on foreign military sales, and at United Technologies requested that ethical criteria be applied to foreign military contracts. The United Technologies resolution, filed by the Episcopal Church, was supported by 23.8 percent of shareholders voting at the annual meeting; a very strong showing, considering resolutions of this nature submitted to major defense contractors routinely receive 3 to 5 percent of the shareholder vote. The vote was sufficient to qualify the resolution for automatic reconsideration at next year's annual meeting, should the shareholders decide to resubmit it.

In the case of **Caterpillar**, there were two developments. First, several religious shareholders sent a letter to the company requesting a meeting to discuss non-military sales of company products in Israel and Palestine. The company replied by letter on December 13, 2007. While not responding to the request for a meeting, the company said for the first time that "As an industry leader, Caterpillar advocates responsible use of our equipment. We expect our customers to sue the products they purchase from us in environmentally responsible ways and consistent with human rights and requirements of international humanitarian law."

Secondly, the resolution submitted by the Presbyterian Church (USA) and the Dominican Sisters produced a dialogue on January 30, 2008. Company representatives reviewed their Worldwide Code of Business Conduct. Discussion focused on the human rights dimensions of the Code, what it included or omitted, and who beyond the company's employees it affected or not. Religious shareholders, including MRTI representatives, raised the need to address the end-use of company products, particularly in countries with human rights challenges. After further discussions, the shareholders agreed to withdraw the resolution from consideration at the 2008 annual meeting in exchange for an ecumenical dialogue with the company on human rights and the end use of **Caterpillar** products.

The dialogue was held on July 18, 2008, at the Chicago offices of the Evangelical Lutheran

Church in America. The conversation centered on the company's stated desire regarding the use of its products. At issue is the nature and scope of the company's relationship to its dealers and the dealer's customers, particularly those customers with a history of using the products in ways that are inconsistent with international humanitarian law.

On March 4, 2008, religious shareholders, including MRTI representatives, met with **ITT Industries**. The company wanted to discuss its new corporate ethics program rather than foreign military sales. The position of **ITT** is that it will not disclose its foreign military sales claiming that all the information is publicly available. **ITT** had challenged the resolution at the Securities and Exchange Commission. The SEC's decision upholding the shareholders was announced later in March. The resolution was considered at the **ITT Industries** annual meeting on May 13, 2008, and received 7.4%.

Columbia: The shareholder resolution with Coca-Cola requesting the company to conduct a completely independent investigation into the labor and human rights situation at the bottling plants in Columbia was not refiled as it had fallen just short of the 6% needed for refiling in 2007. The situation remains tense. Several employees and family members of the bottling company have been murdered or assaulted over the past several years, including one on company property. Coca-Cola had promised a couple of years ago that an investigation into the labor situation would be held. Even though the investigation would not review the history of assaults, it has yet to begin. Meanwhile, Coca-Cola continues to be questioned about its labor record (as well as its global water use practices) on campuses around the United States and Europe. Around 45 universities, colleges and high schools have dropped Coke completely, or ended their exclusive contracts. These include University of Illinois, Smith, New York University, Rutgers, DePaul and Union Theological Seminary (NYC).

2008-2009 PROGRAM INITIATIVES

1. Contract Suppliers and Standards: MRTI will continue engagement with Hasbro and Wal-Mart, and resolutions will be co-filed where warranted. The Episcopal Church is the lead with Hasbro, and the United Methodist Church General Board of Pensions and Benefits is the lead with Wal-Mart. Several companies currently in the investment portfolios have not been engaged on the issues of contract supplier policies, and standards governing the production of goods sold in their stores or marketed under their brands. MRTI will engage several of these companies including Dick's Sporting Goods, J. Crew, Skechers, Macy's and Quicksilver. MRTI has also been requested to take the lead in reinstating a dialogue with J.C. Penney, and co-filing with Urban Outfitters and Mattel. Finally, MRTI will continue engagement with Time Warner where a regular check-in every six months is scheduled as the company implements its *Ethical Sourcing Guidelines*, and Nordstrom where MRTI has a long-standing relationship.

2. Sweat Shop Awareness Campaigns: Periodically, the National Labor Committee, the International Labor Rights and the U.S.-Guatemala Labor Education Project release

reports on working conditions in factories around the globe. Recently, for example, the NLC released a report on conditions in toy factories and swim gear in China (some factories recently were in the news for lead paint use). MRTI will also engage the companies that sponsored the 2008 Olympics on whether migrant Chinese workers who built the Olympic facilities have been paid fully for their work. The NLC is also organizing support for anti-sweatshop legislation sponsored by Senator Dorgan. MRTI will help publicize these studies in cooperation with the Presbyterian Hunger Program and the Women's Program.

3. Human Rights in Columbia: MRTI supported efforts to engage Coca-Cola around possible human rights violations at the bottling plants in Columbia where union leaders have been targeted by para-military organizations. The New York City Comptroller's office filed a shareholder resolution requesting an independent investigation of the allegations and other labor relations issues. The resolution received 5.8% of the vote, not enough for automatic refiling for 2007. In 2008, a resolution asking that a Board Committee on Human Rights be formed received about 3.6% of the proxy vote, enough for resubmission. Coca-Cola was also dropped from the Socially Responsible Investing index by KLD Research, a listing followed by many investors to determine whether to purchase a stock or not. This includes TIAA-CREF's social fund. MRTI will also monitor the effort to eliminate collective bargaining protections for bottling plant workers. MRTI will co-file the Board Committee on Human Rights resolution if refiled, and continue to publicize the situation.

4. Human Rights in Israel and Palestine: The 2006 General Assembly stated that investments in companies doing business in Israel, Gaza, East Jerusalem and the West Bank be only in companies engaged in peaceful pursuits. The normal MRTI process of corporate engagement is the proper vehicle for achieving this goal. MRTI will continue its work to fulfill the General Assembly's goal by continuing to engage the five corporations (Caterpillar, Citigroup, ITT Industries, Motorola and United Technologies) previously identified by the MRTI criteria and process adopted in November 2005. This will involve dialogues and filing or co-filing shareholder resolutions with some of the companies, and will be done in cooperation with several ecumenical partners. The ecumenical partners include the Episcopal Church, United Church of Christ, Mercy Asset Management, Evangelical Lutheran Church, the United Methodist Church (General Board of Pensions and Benefits, General Board of Global Ministries and the General Board of Church and Society), the Passionist Brothers, Sisters of Loretto and United Church of Canada. The criteria were designed to identify corporations involved in actions detrimental to the peace process that had been lifted up by the General Assembly. These actions include the continued occupation of Palestinian territory; building, expansion and maintenance of Israeli settlements on occupied land; construction of the Separation Barrier on occupied territory; acts of violence against innocent Israelis and Palestinians; and making the Palestinian territory economically and geographically nonviable.

This year several ecumenical partners are prepared to file or co-file shareholder resolutions addressing the broader human rights and foreign military sales context. This includes the issue of foreign military sales with ITT Corporation and Caterpillar, and corporate human rights policies with Motorola, Caterpillar and United Technologies.

The dialogue with Caterpillar will continue. The resolutions with ITT Industries and United Technologies will be refiled. The resolution with Motorola will be altered to request a report on how the company's revised human rights policies are applied to countries with human rights challenges. MRTI will continue to ascertain whether action with these companies is necessary in preparation for a report to the 219th General Assembly (2010). In addition, any newly identified companies will be engaged to determine whether their involvement is only in peaceful pursuits.

5. Sudan: MRTI will utilize research on corporations doing business in Sudan developed by the Sudan Divestment Task Force. In MRTI's report to the General Assembly Council in September 2007, it was noted that no stock is held by any of the investing agencies in companies recommended for divestment by the Sudan Divestment Task Force. Stock is held in three companies recommended for continued engagement as the companies work on pledges made related to their Sudan operations. MRTI will monitor these companies, and assist where possible. In addition, a link to the web site of the Task Force is on the MRTI web site to encourage Presbyterians to contact the Task Force for current information.

EMPLOYMENT PRACTICES

BACKGROUND: Over the years, MRTI has been concerned about employment-related issues such as equal employment opportunity, affirmative action, pay equity and occupational safety and health. The ecumenical community has focused largely on EEO disclosure and diversity on the Boards of Directors. The latter is receiving more attention as it relates to corporate governance.

2007-2008 ACTIVITIES: Resolutions on Equal Employment Opportunity reporting, pay equity, non-discrimination on the basis of sexual orientation, glass ceiling, indigenous land rights and Board diversity continued to be filed.

At least 34 resolutions were filed in this area. Some received significant vote totals. At Home Depot, 25% of shares supported a resolution asking for a report on what the company is doing to advance women and racial minorities. This marked the sixth time similar proposals have been voted on at Home Depot. At ExxonMobil, a resolution requesting a policy of non-discrimination based on sexual orientation went to a vote for the 10th year in a row. The proposal received 39.6% of the vote, its highest to date.

2008-2009 PROGRAM INITIATIVES: The ecumenical community will pursue a modest

program of EEO disclosure and diversity on boards of directors and in top management. MRTI will support these efforts through proxy voting.

MEDIA STANDARDS AND FAMILY ISSUES

BACKGROUND: This issue has been addressed in a variety of ways over the years. Originally, this involved meetings with television companies about programming standards, and working on the expansion of the movie rating system. Most recently, the religious community has focused new attention on video games containing violence, racial hatred, and sexual abuse. In addition, an initial engagement was begun with a hotel chain regarding best practices to prevent its hotels from being used for sexual exploitation of children. Resources from ECPAT were used in this dialogue. The 2006 General Assembly adopted a resolution regarding the sexual exploitation and trafficking of children that also drew upon the work of ECPAT.

2007-2008 ACTIVITIES: The past year was successful in several respects. Many retailers strengthened their procedures to insure that video games are not sold to children or young teens when the games possess mature or adult labels. The ratings system for video games was expanded to include several new categories of concern, a development urged by religious shareholders for years. While direct contact with the Entertainment Software Ratings Board (ESRB) were less productive, religious shareholders noted that the ESRB developed a system of fines for the first time, and penalized Take Two Interactive, the maker of Grand Theft Auto, for hidden pornographic segments in one of its video games. MRTI also helped distribute a brochure prepared by the PCUSA Child Advocacy Office on video game violence. In a significant victory, Target removed the “Manhunt 2” video game from its shelves. The game had already been banned from sale in the United Kingdom.

The 2006 General Assembly adopted a resolution regarding the sexual exploitation and trafficking of children that also drew upon the work of ECPAT. The issue has been a historic concern for Presbyterian Women as well. Several ecumenical partners are active in engaging the leisure and hotel industry. Shareholder proposals were withdrawn at Choice Hotels and Wyndham Hotels as well as at Continental Airlines. With Hilton Hotels being bought out, contact has ceased. The company informed MRTI that it would adopt some language in its Manual of Operations, and has not answered any further inquiries from MRTI and other religious organizations on what specifically Hilton is doing to combat child trafficking.

2008-2009 PROGRAM INITIATIVES:

- 1. Video Game Producers: MRTI will support efforts to enhance the rating standards for video games that presently are self-regulated by the industry. This may include meetings with the ESRB.**
- 2. Consumer Education and Advocacy: MRTI will promote a “Don’t Buy Violent Video**

Games” message during the holiday season for 2008 in conjunction with the Child Advocacy Office and other religious groups.

3. **Retailers:** MRTI will join other religious shareholders in engaging retailers and their industry coalition about selling practices. Particular attention will be paid to **Target, Circuit City, Sony, Sears and GameStop.** The shareholders are concerned that young teens and children can purchase games with mature or restricted ratings. This will involve dialogues, and possibly filing of shareholder resolutions.

4. **Leisure and Hotel Industry:** ICCR members will be engaging several hotel chains, travel agencies, and cruise lines seeking their cooperation with ECPAT’s efforts to have the industry adopt basic principles against child prostitution and trafficking, educate their employees, and adopt policies and practices to prevent their properties or services from being involved in any way with child prostitution and trafficking. After several months, **Hilton Hotels** responded to MRTI’s request for information and development of a policy. Hilton was then bought out, and has ceased responding to public inquiry. MRTI will publicize this as it can. MRTI also will file shareholder resolutions with **Carnival Corporation** and **Royal Caribbean Cruises,** and engage **Disney** and **Host Hotels.**

WEAPONS PRODUCTION

BACKGROUND: MRTI has focused its energy on the implementation of the military-related investment guidelines. However, Don Kuespert has been able to attend ICCR meetings and has been active in the Policy Cluster that covers weapons production issues.

2007-2008 ACTIVITIES: The two main areas of involvement were foreign military sales and offsets and ethical criteria for military contracts. Resolutions on foreign military sales went to a vote at United Technologies (4.9%), Boeing (awaiting tally), General Dynamics (4.2%), Northrop Grumman (6.6%), and Textron (7.3%). A resolution at Lockheed Martin on the use of depleted uranium in weapons garnered 9.7%.

2008-2009 PROGRAM INITIATIVES:

1. **MRIG:** MRTI will continue interpretation work around the newly revised military-related investment guidelines.

2. **Landmines and cluster bombs and artillery shells:** Policy implementation will require letters to companies connected with landmine production to ascertain their policies about future work, and research into the producers of cluster bombs and artillery shells.

HEALTH CARE

BACKGROUND: MRTI became more involved in the issue of HIV/AIDS, malaria and TB at the request of the Social Responsibility Committee of the Board of Pensions. Dialogues were held and on occasion a shareholder resolution was co-filed. The 2006 General Assembly adopted an overture commending MRTI for this work, and urging continued advocacy with pharmaceutical companies.

2007-2008 ACTIVITIES: Shareholder activity with the main pharmaceutical companies continued with meetings at the highest levels of management and the boards of directors. Most of the activity involved advocacy with companies on comprehensive health care reform based upon a set of principles developed by an arm of the National Academy of Sciences, the Institute of Medicine. The principles assert that health care coverage should be universal, continuous, and affordable to individuals and families. Resolutions generally received enough votes to be resubmitted.

2008-2009 PROGRAM INITIATIVES: MRTI will participate in dialogues on the accessibility of drugs with Abbott, Merck and Pfizer where possible.

CORPORATE GOVERNANCE

BACKGROUND: The 2004 General Assembly referred an overture from the Presbytery of New Hope to MRTI. It called for more involvement in raising the issue of excessive executive compensation with companies in which the church owns stock. This issue has become more important to members of ICCR and other groups through the development of the Say On Pay campaign. Say On Pay advocates that shareholders be permitted an advisory vote on compensation packages. MRTI will join with other religious shareholders to explore new strategies to engage corporations on governance standards, executive compensation and transparency. This may lead to filing shareholder resolutions that could include linking executive compensation to performance on social and environmental criteria, or disclosure of compensation of top officers in comparison with other employees.

2007-2008 ACTIVITIES: MRTI recommended that proxies be voted in favor of resolutions raising the issue of Say On Pay. The proxy votes were fairly substantial; for example, Apple Computer (50.7%), Abbott Labs (37%), Valero Energy (53.7%), Capital One Financial (34.7%), Citigroup (41.9%), Clear Channel Communications (50%), Coca-Cola (31.6%), ExxonMobil (40.7%), J.P. Morgan Chase (39.2%), Merck (48.3%), Morgan Stanley (37.8%), Occidental Petroleum (44.4%), Motorola (54%), Bank of New York Mellon Corp. (46.2%), U.S. Bancorp (35.7%), Wachovia (38.68%) and Wells Fargo (30%).

2008-2009 PROGRAM INITIATIVES: MRTI will participate in the 2009 Say On Pay effort, continue educational efforts on the issues, particularly executive compensation. This will include being lead filer where needed as with Freeport McMoran, and possibly

Honeywell and Avnet. Co-filing with Oracle and Goldman Sachs is also possible. This may also include co-filing a shareholder resolution with Take Two Interactive on linking executive compensation to performance on social and environmental criteria.

ADDITIONAL MRTI WORK

The program priorities should be seen as supplemented by the on-going work of publicity, servicing congregations and individuals who contact MRTI for information and advice, developing educational materials, the Corporate Achievement Awards program and general public relations with corporations and social investing organizations. In particular, MRTI will promote distribution of the September-October 2002 *Church & Society* issue on the theme of socially responsible investing. It also contains a history of MRTI's thirty years of work in the field. MRTI will continue a program of education for its members, and interested individuals. A basic brochure was developed by the Protestant ecumenical community. MRTI tailored the brochure to the PCUSA, and will promote its use.