

Investors Against Genocide

Draw the line at investing in genocide

Presentation at the American Funds shareholder meeting on November 24, 2009

My name is Eric Cohen, chairperson of Investors Against Genocide. I am here today to introduce the shareholder proposal on genocide-free investing, representing American Funds shareholders who submitted it to 16 American Funds mutual funds.

Many would suppose that, today, 64 years after the end of the Holocaust and 15 years after the genocide in Rwanda, no company that values the public trust would attempt to profit from connections to genocide. Looking back, who would invest in firms that sought to profit by selling Zyklon-B gas to the Nazis or machetes for the genocide in Rwanda? Looking forward, who wants their savings invested in companies that help fund genocide?

Sadly, today, more than six years since the beginning of the genocide in Darfur, Sudan, and five years since the genocide was publicly acknowledged by the US Congress, we see that this problem is neither theoretical nor historical. American Funds, along with most other major financial institutions, still invests in the small set of problem companies that fund the regime in Khartoum.

Thus, ordinary individuals, through their investments in American Funds' mutual funds, inadvertently invest in companies funding genocide. Since no policy prevents these investments, holdings in these problem companies may increase or involve additional funds in the future. Mutual fund investors cannot practically avoid investing in genocide, unless the fund makes a commitment to genocide-free investing. Adopting the proposal directly resolves this problem.

Mutual funds are the most common investment vehicle for family savings and retirement plans of Americans. That's why it is so important for American Funds, one of the largest mutual fund companies in the country and the world, to commit to genocide-free investing.

Therefore be it resolved: Shareholders request that the Board institute procedures to prevent holding investments in companies that, in the judgment of the Board, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights.

There is no compelling reason to invest in companies funding genocide. No fiduciary responsibility requires such investments, even with funds that track to an index. As noted by Gary Brinson's classic study, investment returns are affected much more by asset allocation choices, than by individual stock selections. So, avoiding a small number of problem companies need not result in any significant effect on performance.

The proposal specifically references PetroChina, because PetroChina is widely recognized as the most complicit in the Darfur genocide. American Funds does not attempt to deny the connection between PetroChina and genocide, nor argue that investing in genocide is somehow better.

So, why does American Funds oppose the proposal? Its statement of opposition seems reassuring. It says, "Human rights issues are important" and "Any human rights issues that may affect companies are considered by our investment professionals as part of the investment management process." They conclude saying, "We believe considering these issues on a company-by-company basis and as part of the investment management process is preferable ... to having the fund boards make these decisions."

And what are the results of American Funds "preferred approach"? Multiple funds continue to invest hundreds of millions of dollars in the worst company supporting Sudan. This result is a serious failure from an investment firm that makes such strong claims about its "extensive global research effort" which results in a "well-rounded view" of a company's operations and which promises that its investment professionals "get to know a company inside and out." Clearly, American Funds investment professionals are not adequately addressing even the most egregious human rights problems as part of their investment management process.

We see that since American Funds' Trustees has not set guiding policies on human rights for its funds, there are none. Clearly, a fundamental principle is missing from American Funds' guiding principles, since, even in the face of the ultimate crime against humanity, no ethical guidelines regulate American Funds portfolio managers' investment choices. Ethical investing may mean different things to different people, but surely there is a minimum standard upon which nearly everyone agrees. We draw the line at investing in genocide. The shareholder proposal

on genocide-free investing sets this minimum standard for all mutual funds. But American Funds' position is that they prefer an alternative process that sets no ethical standards.

We asked American Funds to take a neutral position on the proposal so that the voting results would give a better indication of the voice of American Funds' customers. Instead, American Funds chose to oppose the proposal, knowing that active opposition would skew the results of the vote and hoping that the skewed results would not result in a strong message from shareholders. Make no mistake about interpreting the results of the voting today. Millions of people have already voted for genocide-free investing, and large numbers of American Funds customers will do so today. By actively opposing the proposal, American Funds has decided it does not want to know the strength of the voice of its customers.

While American Funds insists on retaining its flexibility to invest in genocide, recognition of the problem of investing in companies complicit in genocide is broad-based and awareness among individual investors is mounting. The US Congress passed the Sudan Accountability and Divestment Act by unanimous vote. Last year, both the Republican and Democratic candidates for president took personal action to ensure their savings were not invested in these problem companies and both spoke powerfully against investments that contribute to genocide. American Funds is out of touch with America's broad political support to avoid investing in genocide.

Americans are overwhelmingly opposed to being financially connected to genocide. In KRC Research's 2007 study, 71% of respondents said companies should take extreme cases of human rights abuses, such as genocide, into account rather than base investment decisions solely on economic criteria. In that same study, 77% said they would switch to a different investment company if they learned that those managing their funds had significant investments in firms that were active in Sudan. Every one of the 27 states, 61 colleges, and mutual funds that has taken action on Sudan has targeted PetroChina. American Funds is out of touch with the American people.

I ask American Funds to consider its business perspective as a trillion dollar asset manager. Customers who notice the shareholder proposal on genocide-free investing, who are not misled by the statement of opposition, are typically angry with American Funds for opposing it and eager to vote for the proposal, whether they have shares in the 16 funds or not. American Funds is missing an opportunity to establish itself as a leader in the industry, choosing instead to add large numbers of its customers to the millions of customers already unhappy with the industry giants for insisting on investing in genocide. Note that your customers have an increasing number of readily available alternatives to investing with American Funds. Customers can choose from a large number of relatively small SRIs, socially responsible investment firms, such as Domini Social Investments and Calvert. In addition, TIAA-CREF, a giant financial services firm, has adopted strong policies to draw the line at investing in companies that contribute to genocide. Just last week, Barclays' iShares announced their intention to create a new, international genocide-free fund. I ask American Funds to reconsider. What is the future of American Funds' hopes for a leadership position in an increasingly competitive market, if American Funds continues in a course to alienate customers by insisting on investing in genocide?

Today's voting is another step forward to the day when American Funds and other mutual fund companies make a commitment to genocide-free investing. Individual investors who vote their values have the power to make that change come to fruition.

American Funds Trustees, it is never too late to do the right thing. So I ask you to live up to the ideal you published in "What Makes Us Different," which says "Our investment philosophy is based on doing what's right for our shareholders." You emphasize the importance of understanding the value of the trust that customers place in American Funds. You say, "Our goal is to earn that trust each and every day." So I ask you now to earn that trust today, to reconsider and make a commitment to genocide-free investing. I ask you to get back in touch with the values of your customers who do not want their savings to support genocide, today in Darfur or anywhere in the future. Drawing the line at investing in genocide may be an unusual problem for you to confront, but it is not difficult and it is well within your abilities. Moreover, in the face of genocide, it is the right choice, the right thing for your customers, and a good thing for your business.