

Investors Against Genocide

Draw the line at investing in genocide

Presentation at the Fidelity shareholder meetings on March 19, 2008

My name is Eric Cohen, chairperson of Investors Against Genocide. I am here today to introduce the shareholder proposal on genocide-free investing, representing Fidelity shareholders who have submitted this proposal to 12 different Fidelity mutual funds holding shareholder meetings today.

Fidelity sought to prevent this proposal from coming to a vote, but its efforts to block the issue failed. Fidelity continues to oppose the proposal, and its opposition will also ultimately fail; if not today, then in another shareholder vote in the future. The reason Fidelity will fail is simple. Fidelity's customers do not want their family savings and pension funds invested in companies that help to fund genocide, whether that genocide is occurring today in Darfur or somewhere else in the future.

Once they become aware, people are overwhelmingly opposed to being financially connected to genocide. Nearly 200,000 customers and potential customers have objected to Fidelity and other mutual fund companies. In KRC Research's 2007 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. 23 states have made the decision to divest from Sudan, as have at least 60 colleges and universities. Recently, President Bush signed into law the Sudan Accountability and Divestment Act, after it was unanimously approved by Congress. Recognition of the problem is broad-based and awareness among individual investors is mounting.

Fidelity's proxy ballot summarizes the proposal as a "shareholder proposal concerning board oversight procedures to screen out investments in companies that substantially contribute to genocide." The proxy ballot states that Fidelity management recommends voting against the proposal. What does this say about Fidelity?

Since we began raising this issue with Fidelity one and a half years ago, Fidelity has been consistent. It has repeatedly maintained that Fidelity portfolio managers are expected to follow only two fundamental principles – make money and obey the law – and has insisted on continuing large investments in companies funding genocide. Clearly, a fundamental principle is missing, since even in the face of the most egregious violations of human rights, apparently no ethical guidelines regulate Fidelity portfolio managers' investment choices. Investment managers may worry that they cannot hope to satisfy a varying myriad of social concerns of a broad customer base. Ethical investing may mean different things to different people. However, 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.

Many would suppose that, today, 63 years after the end of the Holocaust and 14 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 support the idea of investing 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, as we mark the beginning of the 6th year of the genocide in Darfur, Sudan, we see that this problem is neither theoretical nor historical. Fidelity has been one of the largest holders of PetroChina, which, through its closely related parent, China National Petroleum Company, is providing funding that the Government of Sudan uses to conduct genocide in Darfur.

Thus, ordinary individuals, through their investments in Fidelity 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 mutual funds to commit to genocide-free investing. As SEC Chairman Cox has said, "No investor should ever have to wonder whether his or her investments or retirement savings are indirectly subsidizing a ... genocidal state."

There is no compelling reason to invest in companies funding genocide. No fiduciary responsibility requires such investments. The universe of investment opportunities is replete with options in every sector. There are ample competitive alternatives and flexibility of investment choices, even with index funds. Further, as noted by Gary Brinson's

classic study, investment returns are affected much more by asset allocation, by sector, and style choices, than individual stock picks or security selections. So, avoiding a small number of problem companies need not result in any significant effect on performance.

Fidelity's insistence on a policy that allows and supports investments in companies that substantially contribute to genocide puts shareholders in a morally untenable position. This problem can be remedied by shareholder action. In the face of the most extreme human rights crises we all share responsibility to act, individually and collectively.

Therefore, be it resolved:

In order to ensure that Fidelity is an ethically managed company that respects the spirit of international law and is a responsible member of society, shareholders request that the Board institute oversight procedures to screen out investments in companies that, in the judgment of the Board, substantially contribute to genocide, patterns of extraordinary and egregious violations of human rights, or crimes against humanity.