July 10, 2009

M E M O R A N D U M

TO: Board of Directors
Society for the Study of Social Problems

FROM: Susan M. Carlson, Investment Advisor

RE: Report on Investment Performance

Description of Investment Portfolio

As of May 9, 2009 the Society for the Study of Social Problems had an investment portfolio of $541,581 at current market value compared with $714,647 at current market value in May 2008, a drop of 24.2%. This portfolio consists of socially responsible investments of two types: (1) socially responsible mutual funds, and (2) certificates of deposit and money market account with community development financial institutions (CDFI's).

The Society holds investments with two socially responsible mutual funds–the Pax World Balanced Fund (PAXWX) and the Parnassus Equity Income Fund (PRBLX). Over half (55.0%) of the Society's reserve funds are invested with the Pax World Balanced Fund ($256,307 Minority Scholarship; $9,273 Lee Legacy; $32,032 Life Membership). The Pax World Fund was established in 1970 and has a solid performance record. It is classified as a "moderate allocation" fund which includes stocks, bonds, and cash equivalents. The primary investment objective of the fund is income and conservation of principal, with long term growth of capital as a secondary objective. The fund typically invests a minimum of 60% of its assets in U.S. and foreign stocks, and the remainder in high grade U.S. and foreign corporate and treasury bonds and cash and equivalents. About five percent of the fund's assets are invested in community development financial institutions. Based on last year's performance, (see below) Morningstar gives the Pax World Balanced Fund an overall average three-star rating (out of five) when it is compared with all other moderate allocation funds (both socially responsible and non-socially responsible), and an above average risk rating. The Board has restricted the income from part of this investment to be used to fund the minority scholarship.

The Society's second largest investment in socially responsible mutual funds ($17,798) is with the Parnassus Equity Income Fund. This fund is classified as a "large blend" fund. The investment objective of the fund is current income and capital appreciation. At least 80% of the fund's assets are invested in a diversified portfolio of interest- or dividend-paying equity securities, such as common and preferred stocks, and convertible bonds, with the remaining assets invested in non-dividend-paying securities and/or money market securities. About two percent of the fund's assets are invested in community development financial institutions. Based on last year's performance (see below), Morningstar gives the Parnassus Equity Income Fund an overall high five-star rating (out of five), and a low risk rating.

The Society deposits most of the remainder of its cash reserves with one community development bank and two community development credit unions. The Society's money market account is with the ShoreBank in Chicago, the oldest community development lending institution in the nation (https://www.sbk.com/bins/site/templates/splash.asp). Certificates of deposit are held with Winthrop Federal Credit Union in Winthrop Massachusetts ($50,000; http://www.winthropfcu.org) and the Self-Help Credit Union headquartered in North Carolina (the Gittler bequest funds, $50,000; www.selfhelp.org). The Society's community development investments are at market rates of interest. The ShoreBank money market account is insured up to $250,000 by the FDIC. The certificate of deposits with the Winthrop Federal Credit Union and Self-help Credit Union are insured up to $250,000 by the National Credit Union Administration.

The CD with the Tulip Cooperative Credit Union matured on May 2, 2009. The Society invested funds with this CDFI for the past three years. Consistent with the Society's guidelines for investing in CDFI's, the Budget, Finance, and Audit Committee has typically kept these investments with the same institution for a minimum of three years in order to allow the community to benefit from the Society's investment. Consistent with past practice, in August 2008, the BFA Committee decided to move these funds to Hope Community Credit Union based in Jackson Mississippi, serving impoverished communities in Arkansas, Mississippi, Tennessee, and Louisiana (www.hopecu.org).

Performance of Socially Responsible Mutual Funds

In 2008, the stock market lost over a third of its value during the worst financial crisis since the Great Depression. SSSP's investments in mutual funds dropped 29.0%, less than the market overall. Figure 1 shows the performance of the Pax World Balanced Fund, the Parnassus Equity Income Fund, and the Standard & Poor Index. The net assets of the Pax fund declined by 31.9%, the Parnassus fund by 23.0%, and the S&P 500 by 33.8%. Figure 1 shows the superior performance of the Parnassus Fund, which hovered around 0 until the major drop in the market in October. The Pax fund and S&P 500 both began to decline in May, with the Pax fund dropping slightly less than the S&P 500. What I think can account for the superior performance of the Parnassus Fund in a rapidly deteriorating market is the difference across funds in investment objectives. The Pax World Balanced Fund's primary objective is "to seek income and conservation of principal" with long-term growth of capital as a secondary objective. To conserve principal as the market began to decline, Pax fund managers (like many individual investors who are retired or near retirement age) began to shift investments from stocks to bonds, selling stocks at a loss resulting in a decline in net asset value. Stock holdings of the Pax World Balanced Fund dropped from 72.6% in December 2007 to 62.1% in December 2008. The Parnassus Equity Income Fund's objective, on the other hand, is capital appreciation and current income. Accordingly, fund managers did not move fund assets from the stock to the bond market, holding 92.7% in stocks in December 2007 and 90.5 % in December 2008. As a result, the Parnassus fund did not suffer net asset value loss until October, and sustained less of a loss overall compared with the Pax fund and S&P 500.

Figure 1. One-year Comparison of the % Change in the Net Asset Value (NAV) of the Pax World Balanced Fund (PAXWX), the Parnassus Equity Income Fund (PRBLX), and the S&P 500 Index (SP500): Week Beginning December 31, 2007-Week Beginning December 29, 2008

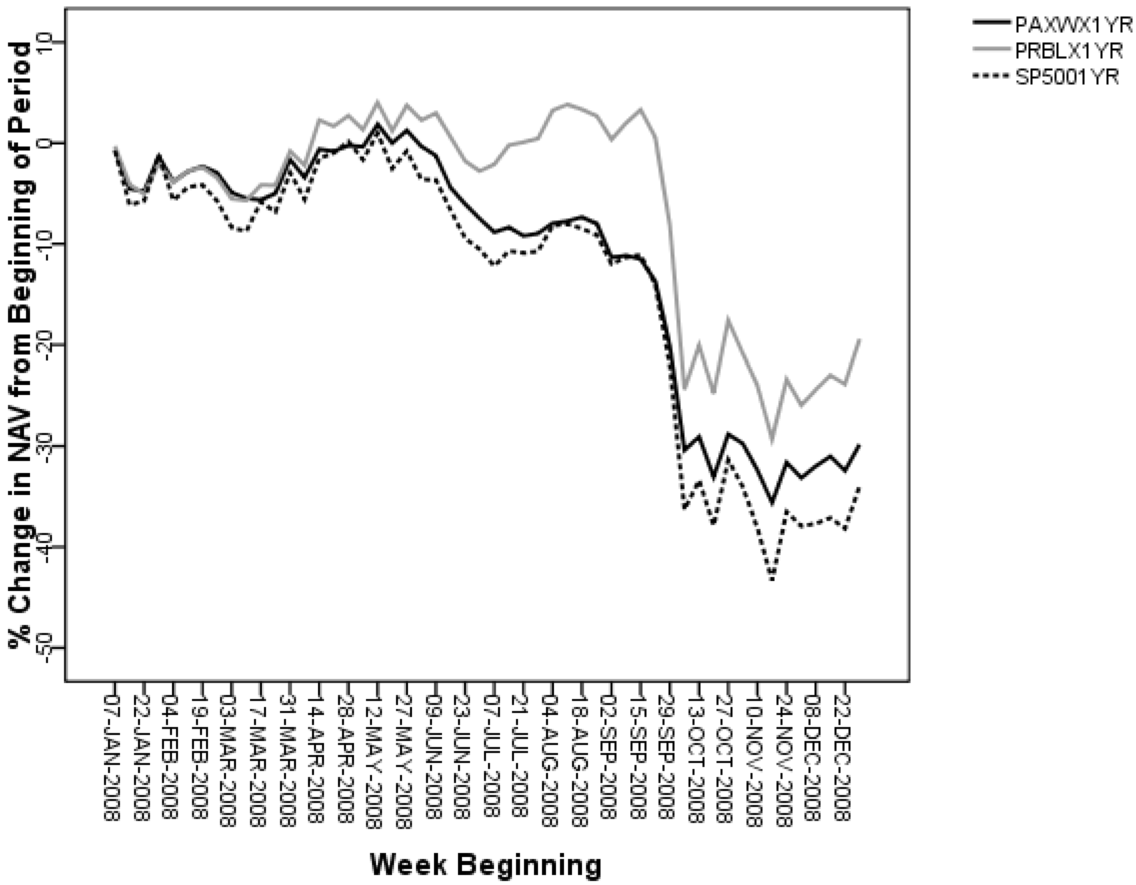


Figure 2 compares the performance of the Pax fund, Parnassus fund, and S&P 500 from the last week of December 2008 to the week beginning June 29, 2009. This figure shows that the movement of Pax fund assets into the bond market buffered the principal from further major declines in value. At the end of the second quarter, the Pax fund recorded a modest gain of 3.6% over its value at the end of 2008, while the Parnassus fund gained 1.2% and S&P 500 recorded a loss of 1.3%.

Figure 2. Year-to-date Comparison of the % Change in the Net Asset Value (NAV) of the Pax World Balanced Fund (PAXWX), the Parnassus Equity Income Fund (PRBLX), and the S&P 500 Index (SP500): Week Beginning December 29, 2008- Week Beginning June 29, 2009

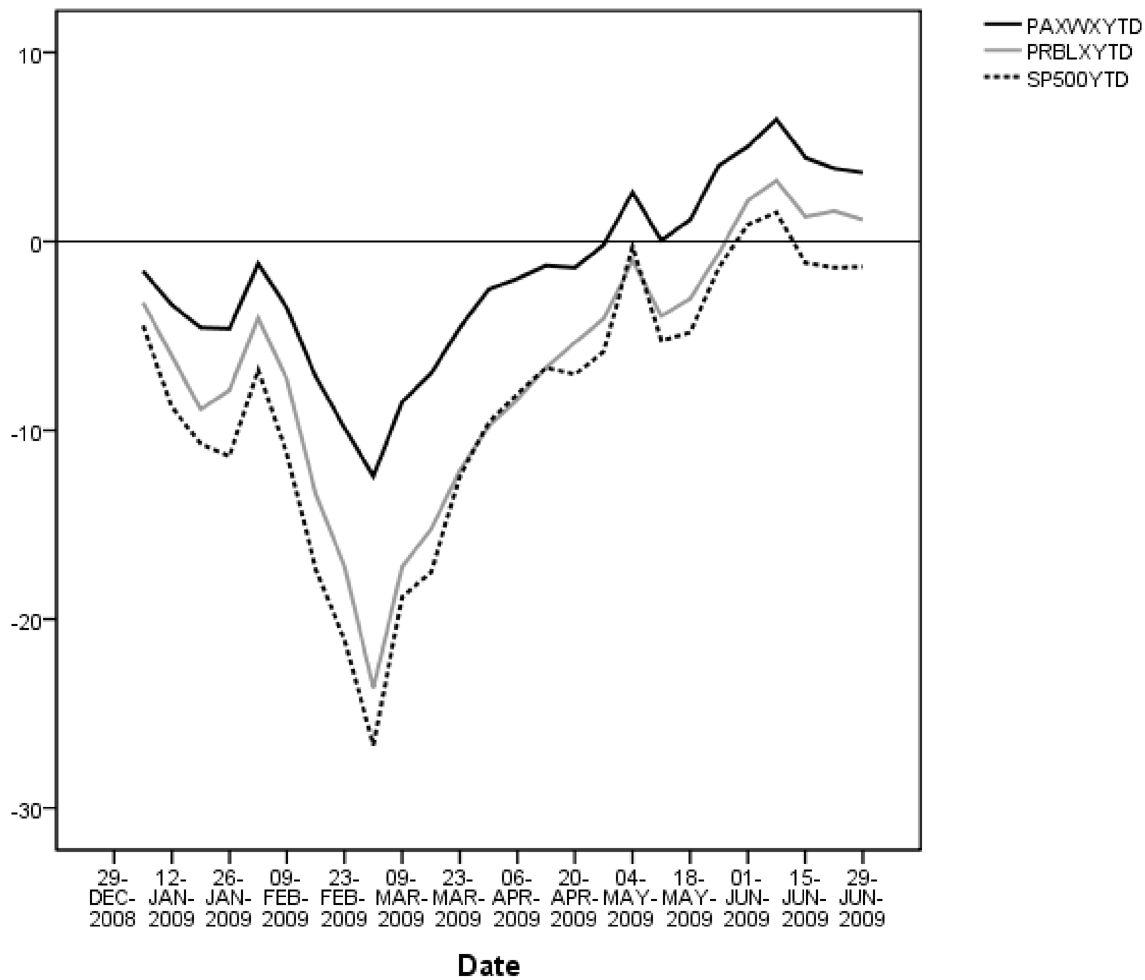
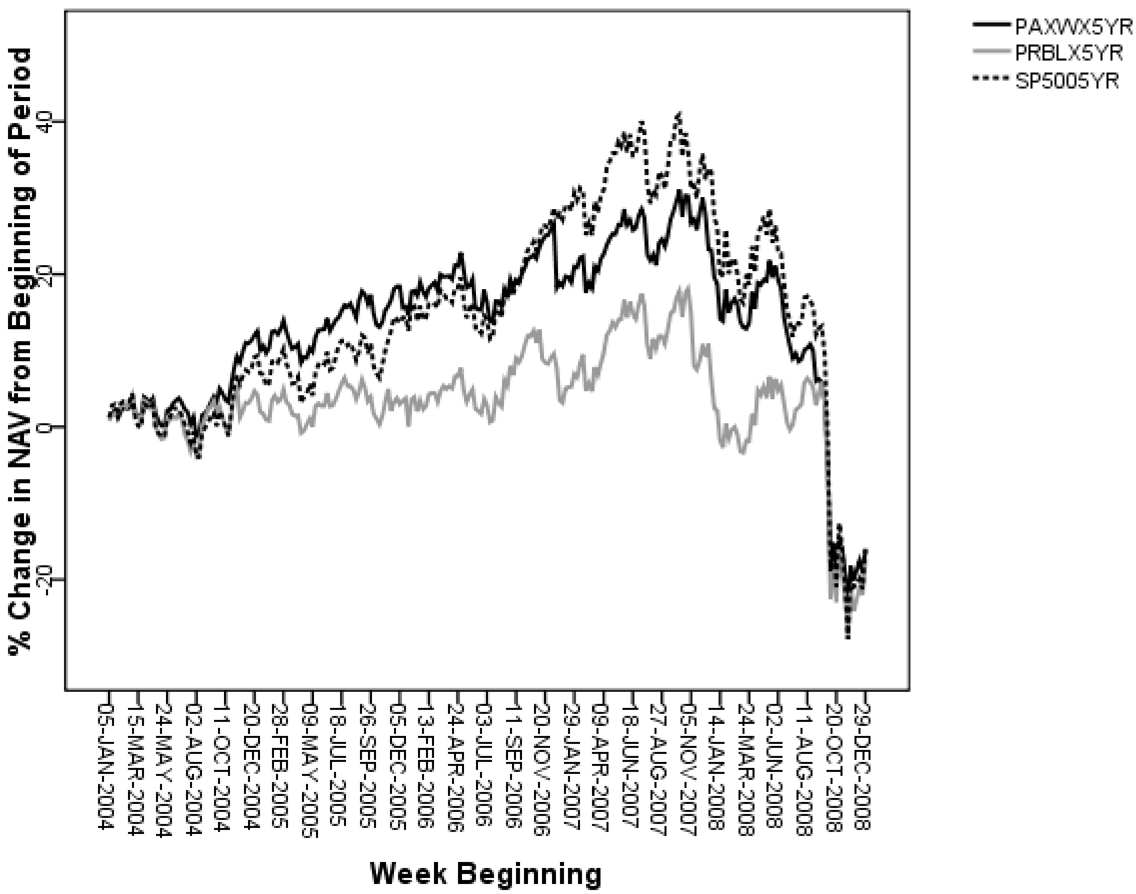


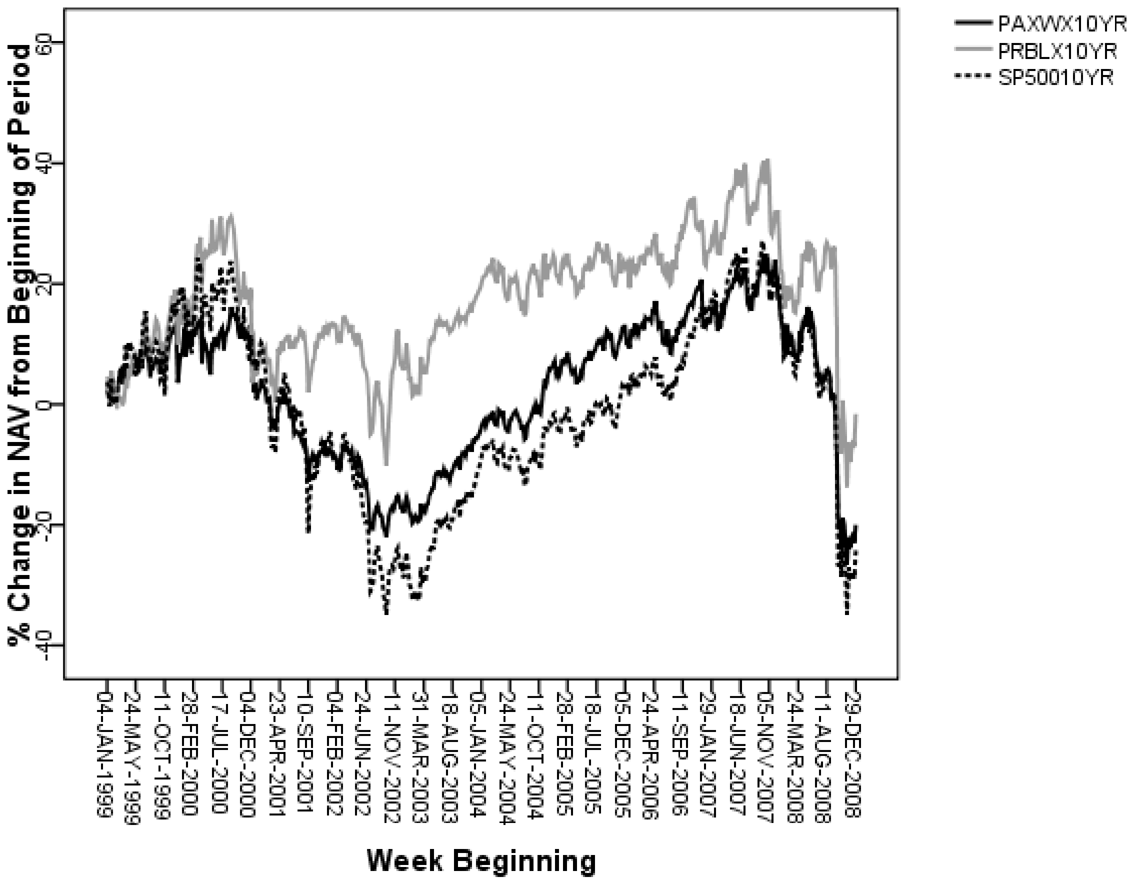
Figure 3 presents a five-year comparison of the two mutual funds and the S&P 500. The Pax fund performed slightly better than the S&P 500 when the market was growing modestly, but performed less well when the market experienced more robust growth in 2006 and 2007. This is as expected due to the balanced nature of the fund and its commitment to income and capital preservation. The Parnassus fund performed worse than both the Pax fund and S&P 500 throughout the five-year period.

Figure 3. Five-year Comparison of the % Change in the Net Asset Value (NAV) of the Pax World Balanced Fund (PAXWX), the Parnassus Equity Income Fund (PRBLX), and the S&P 500 Index (SP500): Week Beginning December 29, 2003-Week Beginning December 29, 2008



Finally, Figure 4 compares the performance of the two mutual funds and the S&P 500 over a ten-year period from the end of December 1998 through the end of December 2008. Throughout nearly all of the ten-year period, the Parnassus fund outperformed both the Pax fund and the S&P 500, while the Pax fund was on par with or exceeded the performance of the S&P 500. By the end of December 2008, the S&P 500 had lost 24.2% of its 1998value, the Pax fund 20.0%, and the Parnassus fund 1.59%.

Figure 4. Ten-year Comparison of the % Change in the Net Asset Value (NAV) of the Pax World Balanced Fund (PAXWX), the Parnassus Equity Income Fund (PRBLX), and the S&P 500 Index (SP500): Week Beginning December 28, 1998-Week Beginning December 29, 2008



In sum, the Society's investments in socially responsible mutual funds performed well relative to the S&P 500 market standard, particularly the Parnassus Equity Income Fund. My recommendation is that we continue to hold our present investments and wait for the market to recover so that our unrealized losses will remain that way. Once the market has recovered sufficiently, I would suggest moving more of the Society's reserves into the Parnassus Equity Income Fund. This fund has become the "jewel in the crown" of the Parnassus family of funds. The fund lead manager, Todd Ahisten, has been named in the top 100 fund managers by Barrons in 2003, 2004, and 2007. Morningstar now gives the fund an overall five-star rating, and rates it as low risk. At present, only 3.3% of the Society's investments are in the Parnassus Equity Income Fund. I recommend moving some of the Society's reserves from the Pax World Balanced Fund to the Parnassus Equity Income Fund when it becomes financially feasible to do so.