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Suggested Title: Investment Ethics

Resolution #: 4071

General Church Budget Implications: None

Global Implications: Yes

Agency Name: General Board of Pension and Health Benefits

Amend Resolution 4071 as follows:

Introduction:

Churches in the Wesleyan tradition have a long history of witness for justice in the economic order. John Wesley and the early Methodists, for example, were firmly opposed to the slave trade, to smuggling and to ~~what we today call~~ conspicuous consumption. Beginning in 1908, social creeds adopted by our predecessor churches focused attention especially on working conditions and child labor.

For decades, the Church has promoted safe and humane working conditions and the right to organize and bargain collectively. It has opposed discrimination in the workplace based on race, ethnic background, gender, age or disability as well as investing in companies whose products and services violate United Methodist values. Recently, the Church has promoted sustainable and responsible corporate environmental practices and heightened stewardship of the natural world.

Because every financial investment has ethical dimensions with consequences that are both fiscal and social, The United Methodist Church's ~~investment philosophy is based on the biblical concept that all resources are God-given and can be used to promote the reign of God on earth.~~ believes that social ~~justice~~ concerns must be given consideration together with financial security

and financial yield in the investment of funds by individuals, churches, agencies and institutions in the United Methodist family. Consequently,

~~The Social Principles recognize that “corporations are responsible not only to their stockholders, but also to other stakeholders: their workers, suppliers, vendors, customers, the communities in which they do business, and for the earth, which supports them” (§163I). United Methodist investors, therefore, are active owners, calling upon the companies in which they invest to be good corporate citizens. Significantly, the 2010 Dodd Frank Wall Street Reform and Consumer Protection Act (also known as the Dodd Frank Act) provides investors additional tools to influence corporations. The legislation gives shareholders increased rights to vote on executive compensation and to nominate directors to serve on corporate boards. It also requires US companies to disclose minerals originating in the Democratic Republic of the Congo, a country where mining activity has been linked to violence and the violation of human rights.~~

General Conference has instructed all Church-related investors to “make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles...” This values-aligned investment philosophy is based soundly on the biblical concept that all resources are God-given and may be used to promote the reign of God on earth both now and into the future.

In recent years, leaders across The United Methodist Church have identified four areas of focus to continue and deepen the transforming work of Methodism in the world (Engaging in Ministry with the Poor, Improving Global Health, Developing Principled Christian Leaders, Creating New

and Renewed Congregations). ~~Two of the focus areas, engaging 1. in ministry with the poor and eradicating deadly diseases by improving health globally, are especially important as we consider the investment ethics of Investors in the Church. investors community are well-positioned to promote the Church's ministry in these two areas of the focus areas: Engaging in Ministry with the Poor and Improving Global Health.~~

Preamble:

The United Methodist Church strongly urges all of its member institutions to invest in a sustainable and socially responsible manner, which is an investment discipline that integrates environmental, social and corporate governance (ESG) factors to achieve suitable financial returns and positive societal and environmental impact. Investing sustainably demands that United Methodist investors consider the moral and ethical dimensions, as specified in *the Social Principles*, of the policies and practices of the institutions in which they invest. They must also be cognizant of their fiduciary obligations as stipulated in *The Book of Discipline*.

Trustees, individuals, and committees responsible for the oversight of United Methodist assets are first legally bound to execute their responsibilities in a prudent manner. This responsibility is broadly referred to as “fiduciary duty”. *The Book of Discipline* is consistently clear in its directive to local churches, boards, and agencies at all levels of the denomination that these entities must discharge their fiduciary duties in conformity with the laws of the country, state, or like political unit in which they are located.

However, fiduciaries must also be mindful of Paragraph 717 of *The Book of Discipline* that states it shall be the policy of the United Methodist Church that these same denominational entities “make a **conscious effort** (emphasis added) to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the *Social Principles*...”. This two-tier directive presents both unique challenges and opportunities to those responsible for investing United Methodist assets.

Socially Responsible Investment Policy

~~The investment policy goals of The United Methodist Church are to:~~

Investment Policy Goals for The United Methodist Church’s Investment Community

The United Methodist Church aspires to have members of its investment community pursue the following investment policy goals, reflecting Church values and financial responsibilities:

1. avoid investments in companies whose products and/or services are not aligned with the *Social Principles* of The United Methodist Church;

~~12. invest in corporations, companies, institutions or funds~~seek investments in corporations, companies, institutions, funds or ventures making a positive contribution to the realization of the goals outlined in the *Social Principles* and *The Book of Resolutions*;

~~2. exclude from investment companies that violate Church values;~~

~~3. persuade corporations to integrate responsible business~~ promote sustainable investment practices ~~on~~ by integrating environmental, social, and governance (ESG) factors into the investment decision-making process;

~~4. influence corporations to manage ESG issues into their operations and to report on these practices publicly~~ be transparent in monitoring and documenting these practices in public reports;

~~45. seek to invest investments in corporations with environmental “best practice” companies, institutions, funds or ventures whose policies and strategies that address conservation, sustainable development, renewable energy, practices help protect the reduction of natural world by, among other things, recycling, eliminating toxic chemicals and materials and reducing greenhouse gas emissions; increased and pursue investments in companies that provide products, technology and services that seek to increase energy efficiency, recycling, eliminating the use of toxic chemicals and materials, and the disclosure of environmental risk and mitigate and/or adapt to climate change;~~

~~56. seek opportunities to invest in~~ pursue investments in corporations, companies, banks, institutions, funds or ventures with positive records in hiring and promoting women and persons of color and/or that are owned by women and persons of color, racial and ethnic persons or other underrepresented segments of society;

~~67. pursue investments in the Native American community financial institutions, non-gambling-related economic enterprises and community development projects that support and/or are owned by Native American and indigenous communities;~~

~~78. seek opportunities to invest in~~pursue investments in underserved communities through affordable housing and community development projects;

~~9. seek investments in corporations, companies, institutions, funds or ventures that respect international human rights and labor standards by avoiding the manufacture, or purchase through subcontracting, of products made with sweatshop, forced, or child labor and adhering to business practices detailed in the Universal Declaration of Human Rights, the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights (also known as the Ruggie Principles) and the International Labour Organization's core labor standards; and encourage companies that have not adopted the foregoing standards to do so;~~

~~10. seek investments in companies that publish and enforce supplier codes of conduct and hold suppliers accountable for any breaches of conduct;~~

~~9. encourage companies to adopt, implement, and monitor for compliance a supplier code of conduct that is consistent with the International Labor Organization's core labor standards and designed to prevent the manufacture, or purchase through subcontracting, of products made with sweatshop, forced, or child labor;~~

~~10. encourage companies to honor and promote human rights and the dignity of human life consistent with the ten principles of the United Nations Global Compact and provide disclosure and transparency consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act;~~

~~9~~11. seek ~~opportunities to invest~~investments in corporations, companies, ~~banks~~institutions, funds; or ventures located in ~~developing countries~~or dedicated to alleviating poverty in developing countries, provided that those countries respect human and labor rights and have a record of pursuing improvements in national living standards while working to maintain ecological integrity;

~~11~~12. seekpursue opportunities to encourage companies to work in partnerships to address major health challenges, including treatment for HIV/AIDS, tuberculosis, and malaria and to promote access to medicines and global health care;

13. ~~seek opportunities~~endeavor to commend corporations ~~publicly~~for their transparency, disclosure, ~~socially responsible behavior~~sustainable business practices and efforts to raise industry standards on ~~environmental, social, and governance~~ESG issues that are of major concern to The United Methodist Church; and

14. ~~consider using investment portfolio managers and funds that specialize in corporate social responsibility screening or are owned by women and persons of color~~actively evaluate external

consultants, investment advisors and funds regarding their commitment to sustainable investment practices and diversity within their workforce and governance structure.

Socially Responsible Investing Investment Strategies

~~The Church shall pursue~~ The United Methodist Church's investment community is encouraged to use widely practiced sustainable investment strategies to fulfill its investment policy goals through widely practiced socially responsible investing tools such as. These include:

1. ~~Portfolio Screening~~ Avoidance (“Screening” or “Ethical Exclusions”)

~~Based on long-standing~~ United Methodist values, the Church does not invest in companies deriving significant revenue (usually 10 percent or more) from:

- ~~alcoholic beverages~~
- ~~tobacco products;~~
- ~~gambling equipment or enterprises;~~
- ~~pornography;~~
- ~~operating or managing prison facilities;~~

~~antipersonnel weapons, armaments, ammunition, or weapons-related systems provided for commercial and private markets and nuclear weapons. investors should endeavor to exclude from their investment portfolios companies whose products or services do not align with long-standing Church values and/or ethical considerations in accordance with ¶717 of *The Book of Discipline.*~~

2. ~~Social Impact Investing~~ Advocacy (“Engagement” or “Active Ownership”)

~~General Conference has instructed all Church-related investors to “make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles....” Investment strategy, therefore, is based on careful consideration not only of financial returns, but also of social returns across a wide range of issues. Some investments are designed to achieve very specific social outcomes, such as the construction of affordable housing, the renewal of neighborhoods, or the expansion of business ownership among those traditionally excluded from such ownership.~~ The Social Principles (*Book of Discipline* ¶163I) recognize “that corporations are responsible not only to their stockholders, but also to other stakeholders: their workers, suppliers, vendors, customers, the communities in which they do business, and for the earth, which supports them.”

Companies may meet the broad investing guidelines of the Church but still fall short of the goals outlined in the Social Principles and *The Book of Resolutions*.

United Methodist investors, therefore, should endeavor to be active owners, engaging the companies in which they invest to manage ESG issues and exhibit high standards of corporate responsibility.

Engagement with companies may take many forms, including written communications, dialogues (including face-to-face meetings,) proxy voting and the filing of shareholder resolutions.

Sustainable investment is also dependent on actions beyond engagement with individual corporations and may involve influencing public policy and regulatory bodies where the long-term sustainability of investment funds can be enhanced and priority ESG issues can be addressed.

3. ~~Shareholder Advocacy~~ Positive Impact Investments

~~Companies may meet the broad investing guidelines of the Church but still fall short of the goals outlined in the Social Principles and the *Book of Resolutions*. Responsible Christian investing includes seeking to change company business practices to match more closely articulated Church values. As shareholders of corporations, Church investors may engage corporate management in a variety of ways from writing letters to voting proxies, filing shareholder resolutions, building investor coalitions, and engaging in corporate dialogues.~~ Some investments may be designed to achieve specific positive outcomes, such as the construction of affordable housing, the renewal of neighborhoods or the provision of clean energy. United Methodist investors are encouraged to pursue such opportunities around the world.

4. Strategic Partnerships

Working in collaboration with ~~others~~ like-minded partners strengthens and magnifies the ~~socially~~ responsible sustainable investment voice ~~and allows the convergence of strategies to engage corporations more forcefully on.~~ Strategic partners may include United Methodist boards, agencies, foundations and universities, other faith-based investors, domestic and global nongovernmental organizations, ~~responsible investing affinity groups~~ and other global sustainable investors, such as ~~those connected with~~ signatories to the United Nations Principles for Responsible Investment (PRI), ~~and other socially responsible investors.~~

5. Divestment

Divestment is ~~one of the socially responsible investing tools~~ a strategy available to United Methodist investors but it should be considered an investment strategy of last resort. Shareholder advocacy/engagement – though it takes time – generally is a more effective, and constructive way to influence corporate decision-making.

6. Public Policy Initiatives

Investors, as shareholders, ~~work directly with companies to promote greater corporate responsibility; but good corporate responsibility also is dependent on actions beyond the individual corporate boardroom.~~ Policies emanating from the Securities and Exchange Commission, the Federal Reserve, state and federal legislatures, and other regulatory bodies play a ~~significant role in the operation and behavior of companies.~~ Responsible investing involves

~~influencing these bodies to craft policies and procedures that promote greater corporate responsibility.~~

Investing Guidelines for Program Agencies

The General Council on Finance and Administration (GCFA) is responsible for preparing and distributing the ~~socially responsible~~ investment guidelines that are to be used by all general agencies receiving general Church funds. ~~GCFA~~~~The council~~ shall review and update these guidelines periodically, inviting the input of the agencies and other interested sectors of the Church. GCFA encourages investing agencies to be involved actively ~~involved~~ in the overview of ~~socially~~sustainable and responsible investing as described in this policy.

Each general agency receiving general Church funds shall provide GCFA with a copy of its investment policy. The policy shall be made available upon request to any interested member of the Church.

All organizations affiliated with The United Methodist Church, including annual conferences, local churches, foundations, health-care systems, and colleges, and universities are strongly urged to follow these guidelines and to make public, either on the Internet or by request, their specific investing policies. Investing organizations may want to consider disclosing all of their ~~socially responsible~~sustainable investing activities on publicly accessible web sites.

Where financial considerations preclude immediate ~~divestment~~exclusion of securities held in violation of the above policies, the affected boards, agencies, and institutions of The United Methodist Church shall develop a plan for complying with the guidelines no later than the ~~2016~~2020 General Conference.

All United Methodist investors and users of financial services, whether institutional or individual, are strongly encouraged to use these guidelines.

ADOPTED 1992
AMENDED AND ADOPTED 2000
AMENDED AND READOPTED 2004
AMENDED AND READOPTED 2008
AMENDED AND READOPTED 2012
AMENDED AND READOPTED 2016
Resolution #4071, 2008 *Book of Resolutions*
Resolution #213, 2004 *Book of Resolutions*
Resolution #202, 2000 *Book of Resolutions*

See Social Principles, ¶ 163D.

Date: August 10, 2015

RATIONALE: These changes reflect an evolution in sustainable investment since the 2012 General Conference and reflect the GBPHB view of a prudent proactive approach to sustainable investing