



# Community of Christ

## Office Policy

### Statement of Investment Policy: Environmental, Social and Corporate Governance (ESG)

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**Reference:** Doctrine and Covenants 129:8a-f; 163:4a-c  
World Conference Resolutions 1177, 1178, 1264.

**Policy Number:** 60.ZZ

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Effective September 2018  
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#### Introduction

Guidelines for Environmental, Social, and Corporate Governance (ESG) investing are consistent with the World Church Financial Policy stated in World Conference Resolution 1264 (Reference *Appendix A* of this Policy). The Presiding Bishopric of Community of Christ, and its Investment Committee that advises on investment strategy and approach, use ESG guidelines to help guide investment Consultants and Investment Managers selected by the church toward decisions that reflect World Conference action, as well as reflect the Enduring Principles of the church., The Investment Consultants and Investment Managers also use the policy when guiding the Asset Class Managers who directly manage church investments.

This document is applicable to the Investment Policy statements for all Community of Christ-related investments, including those managed for benefit of church endowments and affiliated investment pool (AIP) assets, as well as the Retirement Pension Trust. This document will be called by reference into each Investment Policy, as needed.

#### **I. General Investment Policies of the Presiding Bishopric Regarding ESG Investing**

The primary purpose of many institutional investment policies is monetary in nature. They focus on preserving and increasing the assets of their institutional funds with various levels of emphasis on risk and other factors that could affect their bottom line. The investment policies of the Presiding Bishopric have been expanded beyond strictly monetary concerns to ensure that our investment practices are consistent with the mission and values of the church. This includes incorporating ESG principles while structuring and managing the investments of the church.

##### A. Goals

Due to the ever-evolving nature of ESG investing, the Presiding Bishopric, Investment

Committee, and Investment Consultants and Managers hired by the church must stay apprised of current and evolving trends and issues related to environmental and social concerns and how they may influence the church's investment policies. This will occur by developing fiduciary insights using the following guidelines:

1. It is understood that the global economy is continuously evolving in its understanding, focus and application of strong ESG policies. It continues to be difficult to assess the use and efficacy of such policies among companies due to the lack of formal and consistent criteria for reporting and evaluating corporate activities related to ESG.
2. The church's investment vision is to incorporate ESG principles over time, recognizing that flexibility and good faith efforts are necessary to manage both ESG and investment goals.
3. The Presiding Bishopric, in consultation with others, is to determine the proper source of independent measurements to be used for compliance with the intent of ESG investing. Because tools for evaluating ESG policies related to companies and their investment vehicles are somewhat limited and constantly evolving, compliance is required only when such metrics for monitoring and reporting are consistently available and acceptable to the Presiding Bishopric.

## B. Implementation

The implementation of these guidelines will be accomplished through a cooperative effort involving the Presiding Bishopric, the Investment Committee, staff of the International Headquarters, Investment Consultants and Managers. The participation of investment managers in implementing these guidelines will necessitate that they be given metrics for identifying compliance. Compliance monitoring of a more subjective nature will be the responsibility of the other participants listed above.

1. Activities of companies in which church funds are invested
  - a. It is a goal of these investment policies that investments are made in those companies or other entities (hereafter companies) which, in the judgment of the Presiding Bishopric or its designees, meet the following criteria:
    - i. Companies conduct business activities in a legal and ethical manner consistent with church principles and in accordance with World Conference Resolutions.
    - ii. Their activities are compatible with a healthy, reasonable life ethic that upholds the human rights of persons and concepts of peace and justice.
    - iii. Their activities are compatible with a society where economic life and protection of environment work together to sustain life on the planet.

- b. Following are examples of activities that are generally acceptable for investment purposes. The list is not intended to be all-inclusive:
  - i. Health care facilities and pharmaceutical companies.
  - ii. Communication and technology industries.
  - iii. Recycling, biodegradable products, and eco-efficient companies.
  - iv. Financial entities.
  
- c. Although evaluated through the lens of ESG, the following types of companies/activities are not acceptable for investment purposes because they inherently conflict with the church's enduring principles and/or World Conference Resolutions:
  - i. Tobacco companies.
  - ii. Distilleries, breweries, and wineries.
  - iii. Gambling/casinos.
  - iv. Creators or purveyors of pornographic materials.
  - v. Environmentally or financially irresponsible companies.
  - vi. Manufacturers in defense industry, particularly armaments, weapons, and munitions.

## 2. Criteria for investment

- a. Investments may be made in a company or entity if the primary activities of that company are acceptable and if, in the judgment of the Presiding Bishopric or its designees, it has unacceptable activities that comprise less than 20 percent of its total revenue. Examples of situations where this may occur include, but are not limited to, the following:
  - i. Tobacco and alcoholic beverages sold in grocery stores and restaurants.
  - ii. Pornography sold in bookstores or convenience stores.
  - iii. Gambling arcades in major discount chains.
  
- b. Investments may be made in companies that engage in activities considered acceptable, **but** that have customers that engage in activities that are not acceptable. Example: A utility company (acceptable activity) that sells power to a tobacco company.
  
- c. If the activities of a company or other entity in which church funds are already invested is found to conflict with these policies, no additional funds will be invested. Efforts to promote change and accountability through shareholder activism, direct company dialogue, and/or proxy voting may be initiated. If such efforts are not successful in a timely manner, existing investments will be liquidated as early as practicable.

## 3. It is a goal of these investment policies that the Presiding Bishopric does not

invest in companies that, in the judgment of the Presiding Bishopric or its designees, engage in any of the following:

- a. Activities that are offensive to a significant number of the church membership.
  - b. Activities that are disrespectful of or incompatible with responsible environmental, social, and moral practices.
  - c. Companies or other entities that are degrading to human life in production or distribution of goods and services.
4. Exception for some asset classes
- a. The Presiding Bishopric may choose to add asset classes to the church's portfolio for which it is not possible to apply these investment guidelines on a company by company basis (e.g., commingled funds).
  - b. Such asset classes through vehicles such as commingled funds, mutual funds, exchange-traded funds (ETFs), and index funds are acceptable if the allocation within each fund to unacceptable activities does not cumulatively exceed 15 percent.
  - c. It is the intent of the Presiding Bishopric, working with the investment consultant, to annually survey the commingled funds to ensure that the 15 percent rule in B.4.b. is not being exceeded.

## **II. Additional Guidelines for adopting and Implementing Evolving Environmental, Social, and Corporate Governance Investment Policies**

The Presiding Bishopric has embraced the growing trend among institutional investors to incorporate in their investment policies criteria related to the humane treatment of people, the preservation of the environment, and the ethical behavior of companies in which they invest (Reference *Appendix B* of this policy for additional information). In the absence of widely accepted formal, standardized criteria for monitoring and measuring ESG compliance, the Presiding Bishopric is committed to being proactive and visionary in the adoption and implementation of ESG standards as they evolve.

### **A. General Guidelines on ESG Policies**

1. In considering investments, the Presiding Bishopric is sensitive to both the letter and intent of World Conference Resolutions and the desire of the Community of Christ membership that the church invest in companies with ethical ESG practices.
2. It is anticipated ESG policies are to be adopted/adapted and implemented over time as clarity of ESG applications to institutional investing produces feasible and

effective tools, metrics, and methodologies.

## B. Guidelines for Interpreting Evolving ESG Policies

1. The Presiding Bishopric endeavors to invest in companies which, in the judgment of the Presiding Bishopric, meet the following criteria:

a. Environmentally, they demonstrate a high awareness of and strive toward products, operations and distribution processes that are environmentally friendly, leaving a minimal footprint, thereby promoting sustainability for the earth and its inhabitants. Examples of such practices include the following:

- i. Recycles with a focus on green and sustainable products and processes.
- ii. Emphasizes clean water and air.
- iii. Respects limited resources and utilities.
- iv. Proactively addresses global warming challenges.
- v. Advocates environmentally friendly policies.

b. Socially, they convey a high respect for, promote, and implement internationally recognized human rights standards. Examples of such practices include the following:

- i. Human resource policies that support and encourage healthy family life.
- ii. Access to health care for all persons.
- iii. Active involvement in strengthening communities.
- iv. Alignment with concepts of justice and peace.

c. Corporately, they uphold financial, social, and ethical standards through governance structures. Examples of such practices include the following:

- i. Integrity and transparency in all business and financial processes with shareholders and community stakeholders.
- ii. Collaborative and open dialogue regarding current issues and resolutions.
- iii. Strong board independence, diversity, accountability and responsibility.
- iv. Strong policies in all areas of ESG.

2. The Presiding Bishopric endeavors not to invest in companies which, in the judgment of the Presiding Bishopric or its designees, engage in any of the following practices:

a. Environmentally, they produce products, conduct operations, or follow distribution processes that are highly toxic to the environment. Examples of such practices include the following:

- i. Knowingly violate current legal standards for air or water pollution.
  - ii. Blatantly disrespect environmentally friendly products and processes.
- b. Socially, they produce products, conduct operations, or follow distribution processes that are harmful to persons. Examples of such practices include the following:
  - i. Manufactures defense industry equipment, such as armaments, weapons, or munitions. While the current investment policy applies to the entire defense industry, as methods become available to better classify and separate products designed for offensive versus defensive purposes, the blanket prohibition against defense industry investments may be amended. In the future, for example, it may be acceptable to invest church funds in defense products such as radar systems and body armor that are designed to protect people and countries from assault.
  - ii. Supports or uses child labor and sweatshops.
  - iii. Generates tobacco, alcohol, gaming, or pornography.
- c. Corporately, they demonstrate financial, social, and ethical governance irregularities. Examples of such practices include the following:
  - i. Detrimental human resource policies.
  - ii. Lack of integrity in financial reporting.
  - iii. Blatant workers' rights violations.
  - iv. Overt discrimination policies.
  - v. Conflicts of interest.

### C. Metrics for Monitoring and Reporting on Evolving ESG Investment Practices

1. ESG metrics are set forth in these policies with the understanding that the Presiding Bishopric intends to work cooperatively with the Investment Committee, Investment Consultants, and Managers to identify additional, meaningful metrics relevant to ESG investing as knowledge and application of the new principles unfold.
2. The Presiding Bishopric, in consultation with the Investment Committee, Investment Consultants, and Managers, will determine the proper source of independent measures to be used for compliance with the intent of these guidelines by the Investment Managers and Asset Class Managers. Compliance is required only when such metrics for monitoring and reporting are available and acceptable to the Presiding Bishopric.
3. The Presiding Bishopric, however, does hold the following expectations of all

Investment Managers and Asset Class Managers:

- a. Investment and Asset Class Managers are to be alert to the evolving ESG field.
  - b. Investment and Asset Class Managers are to avail themselves of ESG tools, metrics and analyses that are relevant to their industry as such industry measures become available.
  - c. Investment Managers, using information obtained from Asset Class Managers, are to report to the Presiding Bishopric and Investment Committee at least once a year on the progress made toward identifying and implementing ESG practices.
  - d. Investment Managers are to notify the Presiding Bishopric who will notify the Investment Committee, immediately upon becoming aware of any potential ESG issues within the portfolio as well as their response and action to such issues.
4. In the future, it is anticipated that as the ability to implement ESG policies increases, Asset Class Managers will be able to report through the Investment Managers to the Presiding Bishopric and the Investment Committee in the following manner:
- a. Annual Reports. Written reports are to include a brief paragraph in the Market Commentary section on ESG. Such paragraphs shall speak to the market's awareness, adaptation, and other issues regarding ESG.
  - b. ESG Investment Ideas. Asset Class Managers and Investment Managers are to bring new ideas, as they arise, through the Investment Manager to the Presiding Bishopric and Investment Committee that promote and enhance ESG.
5. Proxy Votes. The execution of all proxy vote ballots shall be consistent with the policies and guidelines of this document. It is acceptable to the Presiding Bishopric for Investment Managers to outsource proxy voting. Investment managers will request the Presiding Bishopric authorize one or more proxy voting outsource providers.
- a. Investment managers are to vote, within the guidelines of this document, on behalf of the Community of Christ.
  - b. The Presiding Bishopric retains the right to review all proxy votes and provide redirection for future ballots, recognizing that commingled funds must be handled differently and, therefore, placed under their discretion.
  - c. Special attention shall be given to ESG issues when extending proxy votes

to ensure that the votes are aligned with and express the values of these policies.

- d. Investment Managers are to report annually, or as needed, on proxy votes and any potential violations or issues.

#### D. Conclusion

1. The Presiding Bishopric in consultation with the Investment Committee are committed to maturing and evolving in its investment practices as related to ESG issues and principles, recognizing that at the current time some asset classes may be difficult to align with the ESG guidelines and thus require flexibility until those classes develop greater ESG awareness.
2. Monitoring and reporting shall be reviewed annually, or as needed, for potential improvements and enhancements.

## Appendix A

### Relevant World Conference Resolutions

The following are World Conference Resolutions that relate to Socially Responsible Investing. (1990 Edition of Rules and Resolutions)

#### 1177: Peace (1982)

“...IV. We, as a church, urge nations toward responsible reduction of the instruments of mass destruction. It is the urgent and sobering obligation of persons of goodwill to influence individuals, organizations, and governments everywhere toward this end....”

#### 1178: Nuclear Arms Reduction (1982)

“... we, as a church, through appropriate administrative representatives at every jurisdictional level...shall inform the appropriate governmental officials of the need for responsible reduction and eventual elimination of nuclear armament; and be it further Resolved, that we, as a church, encourage our people to set aside one day per month to pray and fast for peace and disarmament: and be it further... Resolved, that we, as a church, join with other organizations that are constructively promoting a reduction of instruments of mass destruction.”

#### 1264: World Church Financial Policy (2000)

##### World Church Financial Philosophy

The church, as a prophetic witness, called to be a worldwide church dedicated to the pursuit of peace, reconciliation, and healing of the spirit, will align its financial resources to fulfill its mission to proclaim Jesus Christ and promote communities of joy, hope, love, and peace.

##### World Church Financial Principles

Implementation of the World Church Financial Policy will

- a. **reflect** the basic understanding of the disciple as steward accountable to God in the context of community and creation;
- b. **celebrate** all gifts given in response to the ministry of Jesus Christ;
- c. **recognize** that disciples’ offerings are the foundational source of funding for church mission;
- d. **combine** visionary leadership with the participation and common consent of a prophetic people;
- e. **respond** to the scriptural witness of God’s generosity by utilizing church assets flexibly, efficiently, and in a manner that maximizes impact on mission;
- f. **provide** a strong financial foundation on which future generations of the church can build;
- g. **operate** in a manner consistent with applicable laws and policies of both church and government; and
- h. **require** wisdom, planning, and prudence.

## Appendix B

### The Principles for Responsible Investment (PRI)

An initiative of the UN Secretary-General implemented by UNEP Finance Initiative and the UN Global Compact

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

#### 1) We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

#### 2) We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

#### 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardized reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

#### 4) We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)

- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

**5) We will work together to enhance our effectiveness in implementing the Principles.**

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

**6) We will each report on our activities and progress towards implementing the Principles.**

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'<sup>1</sup> approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

<sup>1</sup>The Comply or Explain approach requires signatories to report on how they implement the Principles or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social, and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the Principles.

<http://www.unpri.org/principles/>