

Ethical Investment Principles and Procedures



Introduction

The purpose of this document is to set out both the principles and the procedures adopted by the NSW Synod in order to ensure that the investments of the Church are consistent with the Church's faith and with the way in which the Church seeks to live in the world. The Synod adopted these Ethical principles, and the procedures have been implemented by the Synod Board of Finance and Property and Uniting Care NSW.ACT.

The principles and procedures are set out for the benefit of those bodies within the NSW Synod who are engaged in the process of investing Church funds. Where the Synod employs or seeks the advice of professionals in this task, this document should also be provided to them.

The Synod has also authorised the establishment of the Investments Monitoring Committee which oversees the implementation of the principles and procedures. The Committee comprises three persons appointed by the Board of Finance and Property and three persons appointed by UnitingCare NSW.ACT. The responsibility for the work of the committee is undertaken by UnitingCare NSW.ACT, which reports on the work of the Committee in the report of its Board to the Synod. The purpose of the Committee is not to make decisions on behalf of investing bodies. The Committee believes that such bodies should exercise their own responsibility in decision-making in regard to the principles and procedures. However, when reviewing investment portfolios or when looking at particular investments the Committee may from time to time, having undertaken appropriate investigation, decide to recommend that some investments are no longer appropriate because they infringe the principles. When this occurs the Committee advises the organisation holding the investment and requests that it be discontinued. In the case of a dispute, the matter would be referred to the Council of Synod or to the Synod itself.

It is clear that different forms of investment require different steps in order to apply the principles adopted by the Synod. In this document we attempt to describe the different types of investment and then outline the steps required to ensure the appropriate implementation of the principles.

Principles

The current principles as adopted and amended by the Synod are as follows:

In examining investments, Boards, Community Services, Congregations and Presbyteries of the Uniting Church will take into account unacceptable levels of social injury, resulting from activities that:

- 01** Are known not to comply with the appropriate Australian regulations regarding pollution control or in an international context, do not comply with acceptable international minimum standards for pollution control;
- 02** Are dependent upon the destruction or wastage of non-renewable resources, for which viable alternatives exist and are generally accepted as feasible by the community;
- 03** Involve substantial change to the environment, which is not or proposed to be made good at the conclusion of the activity;
- 04** Create goods and services that have harmful effects on humans and the environment and such harmful effects cannot be avoided by prudent and practical controls;
- 05** Damage the health of human beings except when used within guidelines of the producer and/or accepted community standards;
- 06** Contribute to the serious inhibition of human rights [in Australia or overseas];
- 07** Result in discrimination in employment or education on the basis of race or gender;
- 08** Fraudulently market or deceitfully advertise products or activities;
- 09** Entice the poor into financial over commitment;
- 10** Exploit the poor through unfair housing arrangements;
- 11** Exploit underprivileged persons by providing wages or working conditions that are significantly below the accepted norms in the society in which the activity is undertaken;
- 12** Participate in, enable or encourage, the illegal evasion of the payment of taxes;
- 13** Create or perpetuate excessive reliance on militarism;
- 14** Engage in the manufacture of armaments or means of mass destruction, other than those that would reasonably be required in internationally accepted law enforcement;
- 15** Denigrate or hold up to ridicule, individuals or groups in the community in a manner inconsistent with the dignity of the person as affirmed in the Christian faith: express racist, sexist, or ethnic slurs or promote discrimination or hatred.

Classes of Investment

01 Negative Investments

This is where an entity in which shares or units were held, or a party to whom funds were loaned, consistently engaged in one or more of the practices outlined in the principles. For example, it would be inappropriate for Uniting Church organisations to hold shares in a company whose income was directly gained through the manufacture or sale of tobacco products; or to loan money on mortgage to persons who consistently abused the rights of tenants.

02 Neutral Investments

This would include the following:

- Where a company or party were known to breach some of the principles, but not as a consistent practice, and where genuine efforts were being made to change the operations.
- Where a breach of these categories constituted less than 5% of the organisation's activities and where such a breach is balanced by positive actions in other areas.

03 Positive Investments

A positive company has significant direct business interest with a positive impact on society or the environment. Categories include environmental, social, health and other activities that may have a positive impact. The company should also have an above average sustainability ranking as defined by Corporate Monitor. Positive companies also have no other activities that would disqualify them as negative investments.

It should be possible to show that at least 10 per cent of the total shares portfolio is comprised of positive investments.

Procedures Applying to Different Types of Investments

A Shares and Other Corporate Backed Securities

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- Ascertain that the person recommending the investment is aware of the Church's principles. If so, on the basis of the information in their possession, does the investment offend any of the principles?
- Seek information from the broker/investment advisor/fund manager/dealer relating to the prospective investment in the company and ascertain whether they are aware of any activities of the company that would or may contravene the principles. Consideration can be given to seeking from the stockbroker/dealer a letter of compliance with the policy of the Church.
- Undertake to study the company concerned and ascertain whether the activities and objectives of the company suggest compliance with the principles.

- Because the activities of any company change and companies often acquire new companies and new activities, investing organisations in the Church will need to keep themselves abreast of the operations of companies in which they hold shares or securities. This may be by reading published reports, seeking information from time to time from the broker/ advisor/fund manager, and being alert to issues in the public domain.

In assessing the significance of particular activities within a company, and making a decision as to whether those activities constitute the placing of the particular investment in the negative category and therefore inappropriate for the Church, the rule should be applied that where the identified activity of the investment does not comply with the principles, it is recommended that investment in that company is considered inappropriate if the activity involved more than 5% of the company's overall activities. In applying this rule it may nevertheless be the case that the breach of the principles is of such a flagrant nature that continued investment is no longer appropriate by the Church.

The Role of the Synod Committee is to:

- Obtain portfolio listings in shares and securities of all investing bodies within the Church.
- Seek advice and information where appropriate about any companies listed in the portfolios.
- Publish a list of current share and security holdings in the biennial report to Synod of UnitingCare NSW.ACT and will invite members of the Church to raise issues of concern about any particular investment.
- Seek information from partner churches in overseas countries.
- Be alert to issues in the public domain that concern companies in which shares or securities are held.
- Advise investing bodies in the Church when an investment is in the negative category and this has not been identified in the first instance by the investing body.
- Advise all investing bodies in the Church of decisions by the Committee in regard to particular investments.

Methodology for analysing business activities

It is suggested that the main business and activities of a company or organisation should be subject to the Uniting Church principles and procedures and not the activities of the customers or suppliers of the business. For instance, a bank would not be precluded by virtue of it lending funds to a company who is involved in uranium mining. A bank would be precluded, however, if its lending practices were shown to entice people into financial over commitment or where there was evidence that a bank had acted unfairly in dealings with rural clients, or where a bank had discriminatory employment procedures.

B Government and Semi-government Bonds

Description

In regard to Government securities it is usually difficult to identify the purpose for which the funds are loaned. It is also difficult to make ethical judgements about overall government activities. For example, if a State Government continues to log old growth native forests or states continue to increase their dependency on gaming taxes. But generally speaking government securities will remain allowable investments unless an extreme case of unethical conduct by a sitting government arises. In regard to semi-government securities, the activities of the government business enterprise would need to be taken into account in the same way as if they were a company.

C Money Market, Bank Bills and Corporate Bonds

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Particular banks should be assessed in line with the procedures set out in sections A and B above. A list of banks being used should be included by UnitingCare NSW.ACT in its report to the Synod. Corporate bonds are assessed in the same manner as shares – by evaluating the business activities of the corporate issuer of the bond against the procedures.

D Mortgages

Church lending bodies should normally avoid residential mortgages on owner-occupied properties. However, the NSW Trust Association does loan money on domestic mortgages to ministers through the Housing Fund, and it is appropriate for church investing bodies to give consideration to investment in schemes which are aimed at providing domestic accommodation, especially to low income people.

The negotiation to arrange a commercial mortgage is usually handled by a solicitor. There is, therefore, opportunity for professional assessment of the investment proposal.

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A valuation report of the property offered as security for a mortgage loan should accompany any application and this report should indicate the nature of the property and the purpose for which it is used. This makes it possible to ensure that the property is acceptable within the Synod principles. For example, if a property were to be used as a gambling outlet, associated with environmental degradation or for military purposes it would not be suitable.

It is necessary to give the recommending solicitor a copy of these procedures and seek assurance that the property does not raise difficulties in regard to the principles. Also, the investing body should ascertain the purposes and use of the property. Because of the difficulties involved in direct domestic mortgages, investing bodies should seek advice on ways in which they can indirectly fund appropriate housing projects.

When the investment is a mortgage backed security it is not possible to apply this procedure to all the loans in that mortgage pool. However, it is possible to make enquiries about the general nature of the mortgages (e.g. for housing only) and whether they are first mortgage securities on competitive terms (i.e. unlikely to induce financial over commitment).

E Managed Investment Trusts

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There are great difficulties in using trusts as a form of investment because there can be no assurance that the Church's ethical principles will be followed by all companies in the trust portfolio. For this reason pooled trusts cannot be recommended. Some trust managers can be prepared to establish a separate trust whose guidelines would be consistent with those of the Church, but it would require a larger investment sum than would normally be practical. Where fund managers are used they must work in accordance with these procedures. Trust investments are best directed to established trusts which are set up under a specific ethical charter and of which there are now a number of operating examples.

F Commercial Property

Description

This refers to property purchased by the Church as an investment rather than property acquired for use by the Church for one of its activities. This may include commercial properties, office buildings, apartments, units or townhouses.

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Before purchasing property attention should be given to ensuring that the use of the property does not conflict with the Synod principles. The Synod Property Board or UCTA should ensure that this is the case before giving approval. For instance, property should not be leased to a company in the same way as shares would not be purchased in the company if its operations were not in accordance with the principles. Where investment property is in the form of housing, attention should be given to the guidelines on rental of Church property prepared by UnitingCare NSW.ACT and the Board of Finance and Property.