



NSW.ACT

Ethical Investment Procedures

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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 in full session has adopted the principles and the procedures are those which have been implemented by the Synod Board of Finance and Property and the Synod Board for Social Responsibility.

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 they employ or seek the help of professionals in this task, this document is also meant to assist 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 the Board for Social Responsibility. The responsibility for the work of the committee is undertaken by the Board for Social Responsibility 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 use of the principles.

PRINCIPLES

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

In examining investments, agencies of the Uniting Church will take into account unacceptable levels of social injury, resulting from activities which:

1. 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;
2. Where a significant [as defined] activity is dependent upon the destruction or wastage of non-renewable resources, for which viable alternatives exist and are generally accepted as feasible by the community;
3. Involves substantial change to the environment, which is not or proposed to be made good at the conclusion of the activity;
4. Create goods and services which have harmful effects on humans and the environment and such harmful effects

cannot be avoided by prudent and practical controls;

5. Damage the health of human beings except when used within guidelines of the producer and/or accepted community standards;
6. Contribute to the serious inhibition of human rights Australia or overseas.
7. Result in discrimination in employment or education on the basis of race or sex.
8. Fraudulently market or deceitfully advertise products or activities;
9. 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 which 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 which 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

1. 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 to hold shares in a company where a significant proportion of its income

was gained through the manufacture or sale of tobacco products. or to loan money on mortgage to persons who consistently abused the rights of tenants.

2. 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 no more than 5% of the organisation's activities, and where such a breach is balanced by positive actions in other areas.

3. Positive Investments

Where an organisation or company devotes itself clearly to a purpose which is recognised as socially useful. For example, producing or marketing products which preserve the environment, providing services to disabled persons, or assisting low income persons with housing, loaning money for religious or educational purposes, etc. It should be possible to show that at least 10% of a total portfolio is in investments in the positive category.

PROCEDURES APPLYING TO DIFFERENT TYPES OF INVESTMENTS

A. SHARES AND SECURITIES

Description

Shares are purchased through the Stock Exchange and the purchaser becomes a part-owner of the company. Securities [such as bonds, debentures, notes, and fixed or floating rate securities] are available through certain corporations and are loan funds to those corporations.

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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 which 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 most recent Annual Report of 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.

Role of Synod Committee

The Committee will obtain portfolio listings in shares and securities of all investing bodies within the Church.

The Committee will seek advice and information where appropriate about any companies listed in the portfolios.

The Committee will publish a list of current share and security holdings in the biennial report to Synod of the Board for Social Responsibility and will invite members of the Church to raise issues of concern about any particular investment.

Where appropriate the Committee will seek information from partner churches in overseas countries.

The Committee will be alert to issues in the public domain which 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.

B. BANKS AND INSURANCE COMPANIES

Description

This category refers to those instances when banks and insurance companies are providing their services.

Ethical Procedures

It is suggested that the main business and activities of banks e.g. lending to others, superannuation, transaction control, should be subject to the Uniting Church principles and procedures not the activities of the banks' customers. 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.

C. GOVERNMENT AND SEMI GOVERNMENT BONDS

Description

Bonds are issued by the Commonwealth and State governments to satisfy their funding requirements. They are issued with maturity dates between three and ten years and pay interest to bond holders in the form of semi-annual coupon payments. A bond is issued at par but may trade at either discount or premium to its face value once issued. At maturity, the full face value is repaid to the investor, irrespective of the level at which it has traded during its life. In

Australia, the secondary trading markets for government bonds are active. Due to the corporatisation and privatisation of semi-government authorities, the turnover of these bonds has declined.

Ethical Procedures

In regard to Government securities, the use of the funds could vary from the development of a housing estate or the provision of public hospitals to the development of projects that damage the environment. For example, funds loaned to the Queensland Government may have been used to build roads through the Daintree National Park. A decision about the appropriateness of the investment would depend on a range of issues. However, where a State Government refused to legislate for Aboriginal land rights, this may well be a sufficient reason not to purchase their securities. In regard to semi-government securities, the activities of the enterprise would need to be taken into account.

D. MONEY MARKET

Description

Money market deposits are generally made through Banks and Merchant Banks and for short term deposits. Some deposits are for a period as short as 24 hours. Deposits are accepted either secured or unsecured. All Uniting Church depositors should lend secured, such security [usually bank bills] to be held in safe custody preferably by the bank.

Ethical Procedures

Particular banks should be assessed in line with procedures set out in sections A and 8 above. A list of banks being used should be included by the Board for Social Responsibility in its report to the Synod.

E. BANK BILLS

Description

Bank Bills of Exchange are used by large and small organisations to finance their operations. A Bill of Exchange is a negotiable instrument issued by an organisation and addressed to a trading bank [the acceptor] requiring the bank to pay the face value to the bearer at a fixed future date. The Bill is sold at a discount

face value. Endorsed bills are similar except that the acceptor is not a trading bank. However, a bank Endorsed Bill is secure as the bank will pay out if the acceptor cannot.

Both are secured authorised trustee investments and at maturity the face value will be paid by the bank. Bills are usually held in safe custody by the bank from whom they were purchased on behalf of the investor.

Ethical Procedures

Similar procedures as those outlined in 'D' above would be appropriate.

F. COMMERCIAL MORTGAGES

Description

A commercial mortgage is the lending of money at interest where the lender has the security of the property. The property may be houses, shops, units, etc, but 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.

A valuation report of the property offered as guarantee 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.

All lending bodies would need to establish a ceiling on the percentage of the valuation which would be made available as a loan. In the NSW Synod loans are limited to between 60% and 70% of the valuation.

A penalty amount for late payment of interest is a normal mortgage condition.

Ethical Procedures

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.

G. TRUSTS

Description

Trusts are investment funds managed by another organisation in which shares or units are purchased. Such investment funds may be exclusive to one type of investment, e.g. share trusts or property trusts, or a particular trust may cover a range of different types of investment.

Ethical Procedures

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. 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. The publication "Ethical Investment" edited by Ross Knowles [Choice Books 1997] provides useful background information on this subject.

H. 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, blocks of units or townhouses, etc.

Ethical Procedures

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 the Board for Social Responsibility and the Board of Finance and Property.

I. SUPERANNUATION FUNDS

Description

Superannuation funds invest the contributions which employees make for provision of retirement benefits. The issue of church superannuation funds is a complex one because superannuation funds owe a primary duty to their contributing members and not to the Church as employer. Also, church superannuation funds usually employ fund managers rather than directly invest themselves. However, issues related to providing employees with options for ethical investment need to be further explored.

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