



**uniting  
church**  
in Australia,  
Synod of NSW & ACT

# **Ethical and ESG Investment Policy**

**This version endorsed by the Synod  
Standing Committee in June 2016**

The policy of the Uniting Church in Australia (Synod of NSW and ACT) is to avoid making investments which encourage or profit from activities which create goods or services that have unacceptable harmful effects on people or the environment and which cannot be avoided by prudent, practical controls. Investments by any Church body are to be evaluated against the Principles contained in this document and only those classified as positive or neutral may be undertaken. An Ethical Investments Monitoring Committee has been established to oversee the implementation of this Policy in accordance with this document. Where the Synod of NSW and ACT (Synod) employs or seeks the advice of professionals in this task, this document should also be provided to them.

## Introduction

The Uniting Church was one of the earliest adopters of ethical investment principles which went beyond merely excluding a narrow list of 'sin stocks'. The Church has long sought to holistically integrate beliefs and investment decision-making.

This included elements which have since become quite commonplace in the global investment scene. Today, many investment firms make their decisions after taking into account a wide range of environmental, social and governance issues (ESG). The United Nations has established the Principles for Responsible Investment (PRI) to encourage investors to take ESG factors into account and most of the world's largest fund managers have become signatories.

Within the general sphere of ESG there are, however, many different investment approaches. Each investor, including the Uniting Church, needs to decide how such matters will be incorporated into their decision making processes and to document those principles.

This document describes the Church's ethical investment principles and how they relate to different types of investments. It outlines the methodology for evaluating different investments against the Principles and summarises the role of the Ethical Investments Monitoring Committee (EIMC) in the Governance of the Policy.

These rules apply to all kinds of investments, including, but not limited to shares, loans, fixed income securities and property, held directly or via a collective investment vehicle.

## Principles

The Church does not wish to encourage or profit from activities which create goods or services that have unacceptable harmful effects on people or the environment which cannot be avoided by prudent and practical controls.

Such activities include those that:

1. Contribute to the serious inhibition of human rights, either in Australia or overseas;
2. Result in discrimination in employment or education on the basis of race or gender;

3. Fraudulently market or deceitfully advertise products or activities;
4. Entice the poor into financial over-commitment;
5. Exploit the poor through unfair housing arrangements;
6. 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;
7. Denigrate, or hold up to ridicule, individuals or groups in a manner inconsistent with the dignity of the person as affirmed in the Christian faith. These include activities which express racist, sexist, or ethnic slurs or promote discrimination or hatred;
8. Damage the health of human beings (physically and relationally) even when used in moderation, for example through the activity being highly addictive;
9. Participate in, enable or encourage, the illegal evasion of the payment of taxes;
10. 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;
11. 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;
12. Involve substantial damage to the environment – adverse change which is not made good, nor proposed to be made good, at the conclusion of the activity;
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.

The Church also wishes to encourage positive activities, where doing so is also sound from an investment perspective. Activities will be favourably regarded which accomplish outcomes such as:

- reducing human suffering;
- improving human health, dignity and well-being;
- eradication of unethical practices;
- amelioration of pollution or other environmental damage; or the development of sustainable buildings, practices, etc.

# Procedures

## Screening Investments

Investing is a process of purchasing a future stream of cash flows – interest, rent, dividends, etc. which are paid by individual borrowers, lessees, listed or unlisted companies, governments, agencies or other entities. For simplicity, this document uses the generic term ‘entity’ to represent these investments.

The activities of investment entities are to be evaluated for their alignment with these Principles. A list of excluded investments will be maintained by the EIMC, as discussed later in this document.

Where an entity engages in a range of activities, not all of which are precluded, the materiality of the activity to the entity’s financial situation needs to be determined. Normally an activity is regarded as material if it contributes more than 5% of earnings.

The screening process may also include a rating of the entity’s performance under environmental, social and governance principles (its ESG rating).

### 1. Negative Investments (Investment is not allowed)

Where the entity ultimately responsible for providing the investment return consistently engages in one or more of the practices outlined in the Principles, then this is treated as a ‘negative’ investment.

While many of these entities will also have a negative ESG rating, it is possible that this may not be the case because some of the activities included in the Principles are not regarded negatively by others. A positive ESG rating does not overcome a negative rating against the Principles.

In respect to Principles 11 and 12, the 2013 Synod resolved that the Church should avoid investing in the extraction of fossil fuels. A detailed policy on this has been developed by the EIMC.

In respect to Principle 8 (harm to human health), the production, marketing or distribution of tobacco products, illicit drugs and gambling services are explicitly excluded. Alcohol production and sale is not ruled out, unless the activity promotes consumption beyond recommended limits and/or accepted community standards.

### 2. Neutral Investments (Investment is allowed)

Most entities engage in activities which are not objectionable and they will be regarded as neutral under the Principles. However, some entities are involved in a range of activities, some of which may be questionable. An entity may be regarded as neutral in circumstances

such as the following:

- Where an entity is known to breach some of the Principles, but the activity is not a material part of their activities, or is not a consistent practice, or if the earnings from that activity are trending lower and genuine efforts are being made to continue to change the operations.
- Where a breach of these Principles constitutes a material part of the entity’s activities, but where such a breach is balanced by positive actions in other areas and the entity’s strategy is to reduce the materiality of the unacceptable activity.

### 3. Positive Investments (Investment is allowed)

An entity that has significant direct business interests with a healthy, beneficial impact on society or the environment – such as those listed above – may be classified as a positive investment under these Principles. This category also includes investments in entities which engage in neutral activities, but which have a high ESG rating. Positive entities also have no other activities that would disqualify them as negative investments.

#### Category Migration

Some entities may move from one category to another as they change their activities or because of changes in the relative value of different businesses within their operations.

In situations where a neutral investment has some element of problematic activity, the investor is encouraged to engage with the company about possible strategies to change the operations. This may be done directly or through participation in engagement undertaken by a suitable industry body e.g. the Responsible Investment Association Australasia (RIAA).

## Methodology for analysing business activities

In classifying investments according to these Principles a key input may be the ESG rating assigned to an entity by a reputable research organisation or consultant. However, ESG ratings are not to be relied upon solely to determine the acceptability or otherwise of an investment. This section provides guidance on evaluating how an investment entity is to be assessed.

#### Companies – Listed or Unlisted

The materiality of a precluded activity to a company’s financial situation needs to be assessed. This could be determined by quantitative measures (e.g. 5% of the activity’s contribution to profit, or revenue) as well as by taking account of the company’s brand and corporate culture. It may also be appropriate to consider the trends in the company’s operations – e.g. a company that has

historically earned a material proportion of its earnings from gambling, but which has been exiting those activities and is well on the way to re-shaping itself may be viewed more favourably than a company that continues to focus on gambling as a significant activity.

Evaluation should focus on the main business and activities of the company rather than the activities of the customers or suppliers of the business. For instance, a bank need not be precluded because it lends to a company involved in gambling. A bank could be precluded, however, if its lending practices were shown to entice people into financial over commitment, where there was evidence that a bank consistently acts unfairly in dealings with rural clients or where a bank has discriminatory employment practices.

The Principles are to apply to any investment backed by a company – shares, preferred notes, senior debt, subordinated debt, hybrids, money market securities or any other security wherever it sits in the corporate capital structure.

### Government and Semi-government Bonds

Governments typically borrow for general purposes, in particular to finance overall budget deficits, rather than for specific purposes. It is difficult to make ethical judgements about overall government activities, but the Australian and State governments are normally to be regarded as Neutral. Therefore, domestic government bonds and semi-government securities (issued by treasury corporations on behalf of state governments) are allowable investments. This could be overruled in extreme cases of unethical conduct by a sitting government.

Where a bond is issued by a business that is owned, operated or guaranteed by a government (e.g. Australia Post), then that business is to be evaluated similarly to a company.

Most foreign government and provincial bonds are generally acceptable, but each must be thoroughly researched to be sure that the government does not treat its citizens or environment in a manner that breaches these Principles. Sovereign ESG ratings will be important inputs to this evaluation process.

### Mortgages – Residential

Church bodies should normally avoid residential mortgages on owner-occupied properties, owing to the relationship dilemma that may arise if the borrower goes into default and foreclosure becomes a possibility. However, it is acceptable for Treasury & Investment Services to invest in residential mortgage-backed securities that are sold in the public capital markets. Treasury & Investment Services also may provide owner occupied housing loans to ministers, deacons and employees of the Synod.

It is also acceptable for church investing bodies to give consideration to investment in schemes which are aimed at providing “affordable” domestic accommodation, especially to low income people. However, these would normally be expected to be direct investments rather than mortgage loans.

### Mortgages – Commercial

Treasury & Investment Services may provide commercial mortgage loans as part of its portfolio. The process for approving these loans needs to include adequate steps to check compliance of the borrower and the key tenants of the security properties with these Principles. Steps would include originating brokers being informed of the type of properties that would be unacceptable, valuation reports clearly specifying the use of the property and the in-house lending team providing sign-off that the property is acceptable.

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 for security of a loan.

### Commercial Property

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 or security properties supporting a commercial mortgage. This may include industrial properties, shopping centres, office buildings, houses, apartments, units or townhouses.

Before purchasing property, and in the on-going management of the tenancies, attention should be given to ensuring that the use of the property does not conflict with these Principles. This assessment can take the investor's proposed strategy for the property into account. For instance, an acceptable strategy would be to acquire buildings that have low environmental impact ratings where the investment plan is to upgrade the building to enhance both the rating and its investment value.

### Managed Investment Trusts

The preferred situation when investing is for a discrete mandate that is managed in strict alignment to these Principles.

However, the managed funds industry has seen significant movement in the 21st century towards the provision of Managed Investment Trusts with investment processes that have ESG principles at the forefront. This potentially makes available a wider range of trusts for Church bodies to invest in than has been the case in the past. Careful evaluation of the ethical charter of a trust investment needs to be undertaken, with a thorough understanding of the manager's screening process, use of ESG ratings and capacity to engage with

underlying companies when issues arise. Where a trust substantially aligns with these Principles, and a competitive discrete mandate is not available, the trust may be approved as an allowable investment vehicle.

## Governance

### Ethical Investments Monitoring Committee

The Synod has authorised the Ethical Investments Monitoring Committee (EIMC) to oversee the implementation of this Policy.

The EIMC comprises three persons appointed by Treasury & Investment Services and three persons appointed by Uniting NSW.ACT. The responsibility for the work of the Committee is undertaken by Treasury & Investment Services, which reports on the Committee's work in its Board report to the Synod.

The role of the EIMC is to: (a) undertake research into individual investments; and (b) review investment portfolios of Uniting Church bodies. Specifically, the EIMC is to:

- Obtain portfolio listings of all assets held by any investing body within the Church.
- Seek advice and information from an ethical perspective about any entities listed in the portfolios.
- Seek information from partner churches overseas.
- Be alert to issues in the public domain that concern companies in which shares or securities are held.
- Make and review specific policies where more detailed assessment is required in order to appropriately implement elements of these Principles.
- Maintain a list of assets deemed not appropriate for Church bodies to hold because they infringe these Principles – which may be known as the Excluded Investments List or similar.
- Advise investing bodies in the Church when an investment is in the negative category and has been placed on the Excluded Investments List.
- Advise all investing bodies in the Church of decisions by the Committee in regard to particular investments.

In conducting investment research, the EIMC may engage the services of independent analysts with expertise in evaluating investments according to principles similar to those set out in this Policy.

The purpose of portfolio review is not to take over investment decision-making by appropriate bodies. Rather, the EIMC is responsible for providing advice on the compliance of investment portfolios with these principles, including informing investors of changes to the Excluded Investments List. If an excluded investment is held in a

portfolio, the EIMC advises the organisation holding the investment and requests that it be discontinued.

In the case of a dispute that cannot first be resolved by discussion, the matter would be referred to the Synod Standing Committee.

### Uniting Financial Services

Treasury & Investment Services (which trades as Uniting Financial Services, or UFS) has been established to provide financial leadership and advice to the Synod and "to be the body authorised to invest funds for any of the purposes of the Church or any activity of the Church" (By-law 9.1.1(d)). This includes the key role that UFS plays on the EIMC and in championing the Church's investment approach. UFS exists to support the Church to live out our beliefs in appropriate ways.

Therefore, not only for the investment expertise UFS provides, but because of its role in implementing this Policy, Synod Standing Committee has made decisions that church bodies with funds to invest will do so through an investment product offered, managed or recommended by UFS. For example, it is preferable to have exposure to the share market through the Uniting Church (NSW) Trust Association Australian Equity Fund rather than holding shares directly. This will ensure that no church body breaches these Principles in its investment activities.

This is in addition to the Synod's expectation that all cash investments are held with UFS.

Direct investments in real assets – e.g. rental property, commercial offices – may be made by church bodies, with the approval of the Uniting Church Property Trust (in whose name all such assets are held). However, UFS should be consulted before such investments are made to check if a more suitable investment option is available.

In any case, the church body responsible for an investment should:

- Ensure that the person recommending or managing the investment (e.g. a professional fund manager) is aware of these Principles and commits to making decisions in the portfolio that align with them;
- Contact the EIMC to inform them of the portfolio and to seek confirmation that it does not breach these Principles;
- Monitor the activities of the company or other entity in which the investment has been made to make sure that those activities don't change in a negative fashion, which may require divestment of the asset.