Mission and Investing

A GUIDE FOR UNITED CHURCH OF CANADA CONGREGATIONS AND ORGANIZATIONS

The United Church of Canada

DISCLAIMER

Mission and Investing: A Guide for United Church of Canada Congregations and Organizations is a product of the Moderator's Consultation on Faith and the Economy. Neither the *Guide* nor The United Church of Canada advocates, nor seeks to condone or condemn, particular investment opportunities. The purpose of this guide is to inform and educate readers accurately and knowledgeably about the issues and activities of concern to socially responsible investors.

Nothing in this guide should be interpreted as a recommendation to buy, sell or hold any securities. **Readers are strongly urged to consult with a qualified financial advisor before making any investment decision**. Information and opinions found in the guide should be considered background or preliminary data only and should be relied on only after independent verification and professional advice.

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Introduction

During the Moderator's Consultation on Faith and the Economy (July 1998–December 1999, see www.faith-and-the-economy.org), United Church members across Canada debated and discussed the relationship between the spiritual mission of The United Church of Canada and the economic life which surrounds us and in which we participate. This process of consultation has illuminated a crisis of the spirit that manifests itself in the economic ills our communities face, such as poverty and pollution. It has also amplified and stimulated our search for The United Church of Canada's role in building a moral economy.

At one United Church congregation during the Moderator's Consultation, participants in a special Faith and the Economy evening discussed the churches' social obligations in relation to local economic issues such as housing, poverty, health care, and education. Concern was expressed about the many messages in advertising that promote consumerism and the pursuit of individual wealth at the expense of paying attention to the common good. Such responses to the issues of faith and the economy are common in congregations across the country.

The discussion then went on to identify areas where the congregation might more carefully examine the social impact of its own economic choices. For example, is the coffee served at the church grown and processed under fair conditions? How does heating and cooling the church affect the environment?

Often, such discussions about faith and the economy come around to the topic of managing the congregation's finances. United Church of Canada congregations and church-related bodies constantly make choices about how to order their financial activities, where and how to bank, how endowment funds will be invested, and how to respond to community initiatives that require financial credit or investment. When faced with such choices, how do congregations ensure that they act in a manner consistent with their faith?

The purpose of this resource guide is to assist United Church members, particularly trustees of congregations and other church-related organizations who carry special responsibilities for the financial management of church affairs. It addresses issues of uncertainty about legal and practical questions, and provides information on the range of opportunities and sources of assistance for the implementation of socially responsible investment policies and practices.

The financial situations of individual United Church congregations vary greatly. Some carry a mortgage and have only a chequing account and a small savings account at a local bank or credit union. Others have small trust funds. Often the funds in these cases come from the sale of a manse, and the income is used to help pay a housing allowance for ministry personnel. A few congregations have significant endowments and employ professional financial advisors. The income from such endowments is an important source of support for church programs and activities, as well as for the upkeep of property. In all of these situations, opportunities exist to link financial management and the mission of the church.

Today, United Church of Canada congregations are more likely to have funds to invest than in the past. They are also more likely to consider a wider range of possible investments than before. There are several reasons for this. Fundraising aimed at encouraging the creation of endowments is growing in popularity and changing trends in family and work patterns have led to the sale of manses and their conversion to "manse funds." The result is that, in many congregations, responsiblity is shifting from building management to investment management and, consequently, more church trustees are responsible for creating and implementing investment strategies.

A related change is making the task of management more complex. In most provinces, the rules governing investments by trustees have been revised in recent years, shifting from providing a list of the types of permitted investments to a general requirement that trustees invest prudently. As a result, trustees in many provinces are now permitted to invest in a wider variety of investments. Church members are concerned about the effect of inflation on bonds and certificates of deposit, and view the stock market as an opportunity to increase church resources. Many congregations are now asking whether trustees should move beyond the common practice of investing in term deposits and government bonds. Should they embrace investments such as stocks and, in some provinces, mutual funds? Can they invest in community initiatives that require financial credit or investment, such as social housing? As investment opportunities multiply, so too do the potential social impacts of investment decisions.

This resource guide begins with a general introduction to the concepts of socially responsible investment and its application in United Church congregations. It examines financial decision-making in congregations and laws governing the responsibilities and actions of churches and church trustees as they relate to the implementation of a socially responsible investment program. It also suggests some points a congregation can take into account in establishing socially responsible investment policies and practices.

In the final four sections, the resource guide turns to a discussion of what are sometimes called the four pillars of socially responsible finance: investment screening, active shareholdership, investing in community economic development, and banking. Each of these sections provides an in-depth discussion of key issues, case studies, sample documents, and references to other sources of information.

Although the information contained in this guidebook is primarily for congregations, much of the background information and many of the references will be relevant to individuals, as well as to Presbyteries and Conferences, and other United Church bodies that are responsible for investment decision-making.

Peter Chapman
July 2000

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1
Socially Responsible Investment

Because the financial choices we make have social consequences, a popular movement has emerged during the last 30 years that promotes the integration of social criteria in financial decision-making. It is often referred to as socially responsible or "ethical" investing. Church organizations in Canada have been among the leaders in this movement. Looking further back in time, many of the characteristics of the socially responsible investment movement can be seen in the activities of people working to alleviate poverty through the creation of community credit (credit unions and caisse populaires), in the field of international development assistance, and in the cooperative movement, all of which also have strong ties to Canadian churches.

SOCIALLY RESPONSIBLE INVESTMENT AT THE UNITED CHURCH

The notion of using investment funds in a socially responsible way has a long history in The United Church of Canada. For example, in 1968, General Council established a Committee on Investing Church Funds for Social Purposes. The committee focused its attention on how churches can use their investment funds to meet the housing needs of people with low incomes. As a result, the Division of Finance was directed to give priority to municipal and utility commission bonds, and local congregations were urged to consider how their property and investments could help finance housing.[1] The Division of Finance also experimented at this time with conducting social audits on some of the major Canadian corporations in which church funds are invested.

> "I think the church should be represented at stockholder meetings of companies in which it holds shares. Right around the world, and especially in North America, there has been a growing feeling recently that corporations have a clear social duty. This question has been discussed in the investment committee for a long time..."[2]
>
> *Robert Morgan, former chairman of the Toronto Stock Exchange and member of The United Church of Canada Committee on Investing Church Funds for Social Purposes.*

Bill Davis, a former general secretary of The United Church of Canada's Division of Finance and later the Coordinator of the Taskforce on the Churches and Corporate Responsibility, described the Division's special role in socially responsible investment in a paper prepared for the Moderator's Consultation on Faith and the Economy in 1999.

> Perhaps the most important decision was taken quite early, that the investment committee and Treasury Department would assume responsibility for socially responsible investing. As Christian people and members of the United Church, we would receive information from the various mission units about social

[1] Committee on Investing Church Funds for Social Purposes *All That Money Can Buy: The Movement for Corporate Social Responsibility Affects You, Your Money and Your Church* (Toronto: United Church of Canada) 1973, p.2.
[2] "Corporations have a social duty," *The United Church Observer* (Toronto: Observer Publications) July 1974, p. 2.

> concerns. But we, the financial people, would apply those concerns to our investment policies as people charged with the responsibility of investing the church's funds and as people sensitive to the need to witness to the church's faith.[3]

Integration of social and financial criteria were essential, Davis notes.

> In theological terms, it ran counter to a perception in the church that the spiritual and the temporal should be separated. Most local church structures held that the Committee of Stewards handled the financial or temporal affairs, and the Session dealt with the 'really important' spiritual matters. It was about this time that Harold Arnup, General Secretary of the Division of Finance, first made the frequently quoted statement, 'A budget is a theological statement!'[4]

ECUMENICAL ACTION FOR SOCIALLY RESPONSIBLE INVESTMENT

One of Canada's oldest organizations dealing with issues of investor social responsibility has been the Taskforce on the Churches and Corporate Responsibility (www.web.ca/~tccr), established in 1975. Its founding members included The United Church of Canada and nearly a dozen other churches and religious organizations. Building on the tradition of social engagement of church shareholders that had emerged a decade earlier in the United States, the first focus of the Taskforce on the Churches and Corporate Responsibility was Canadian investment in apartheid in South Africa.[5]

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[3] Bill Davis "The United Church of Canada and Socially Responsible Investing," in Moira Hutchinson (ed.) *Moderator's Consultation on Faith and the Economy, Theme IV: Corporate Responsibility*. (Toronto: United Church of Canada) 1999, p. 3. The papers in this volume are also available at (www.faith-and-the-economy.org).

[4] ibid.

[5] For a history of the Taskforce, see Christopher Lind and Joseph Mihevc (eds.) *Coalitions for Justice: The Story of Canada's Interchurch Coalitions.* (Ottawa: Novalis) 1994. For the Taskforce's role in the struggle against apartheid, see Renate Pratt *In Good Faith: Canadian Churches Against Apartheid*. (Waterloo: Wilfred Laurier University Press) 1997.

Its initial mandate soon broadened and for three decades the Taskforce worked steadily on behalf of its member churches and religious organizations to promote social and ecological responsibility in Canadian-based corporations and financial institutions, tackling issues such as the impact of resource development on Aboriginal communities, the effect of the petroleum industry on international human rights in Nigeria and Sudan, bank lending and the debt crisis, the social and environmental impact of logging, and climate change. The Taskforce also addressed issues related to how corporations are governed, particularly as this affects their ability to act in a socially responsible manner. Beginning in 1994, the Taskforce collaborated with counterpart ecumenical organizations in the United Kingdom and the United States on the Benchmarks Project (www.web.net/~tccr/benchmarks), creating a framework for assessing the public commitments made by corporations when they develop or endorse codes of conduct.

On July 1, 2001, the Taskforce on the Churches and Corporate Responsibility was merged into a new ecumenical organization, Canadian Churches for Justice and Peace. Activities related to the social responsibilities of churches and religious communities as investors will continue to be coordinated through a sub-committee of CCJP.

AN UMBRELLA ORGANIZATION FOR SOCIAL INVESTMENT

The Social Investment Organization (www.socialinvestment.ca), established in 1989, is a national, non-profit organization dedicated to advancing socially responsible investment. It is funded primarily from membership dues and is accountable to its membership. The Social Investment Organization has more than 500 members across Canada, including interested individuals, investment professionals, non-governmental organizations with an interest in social investment, foundations, and institutional members such as screened mutual funds, socially responsible financial institutions, and money management firms. The Social Investment Organization is the source of much helpful information about social investing in Canada through its newsletter, Web site, and staff resources.

SOCIALLY RESPONSIBLE INVESTMENTS FOR INDIVIDUALS

Like institutions, individual investors also seek ways of investing that are consistent with their beliefs. Investors with sufficient funds can invest in individual stocks and bonds. A more common approach for individuals is investing in mutual funds. To meet the needs of individual social investors, a special branch of the mutual fund industry has developed to sell funds that are invested according to social and environmental standards. These are often referred to as "screened" mutual funds. According to a study by the Social Investment Orgnization, assets held in screened mutual funds in Canada grew at twice the rate of the mutual fund industry as a whole between June 1998 and June 2000 and have now reached $5.77 billion.[6]

The first mutual fund of this type in Canada was the Ethical Growth Fund, created in 1985 by Vancouver City Savings Credit Union (www.vancity.com). Today it is has grown into the Ethical Funds family of mutual funds (www.ethicalfunds.com), owned by the Canadian credit union system. Other financial institutions have also created screened mutual funds, such as the Investors SUMMA (www.investorsgroup.com) fund, the Universal Global Ethics Fund (www.mackenziefinancial.com), Meritas Mutual Funds (www.meritas.ca), and the Acuity Social Values Fund (www.acuityfunds.com), as well as three environmental funds:

[6] Social Investment Organization *Canadian Social Investment Review 2000*. (Toronto: Social Investment Organization) December 2000, p.4.

Desjardins Environnement (www.desjardins.com/index.html), Clean Environment (www.cleanenvironment.com), and the Mavrix Sustainable Development Fund (www.mavrixfunds.com). In some provinces, trusts, as well as individuals, may invest in mutual funds.

Although investment screening is the primary approach used by socially responsible mutual funds, some mutual funds in North America have extended their activities to include a program of dialogue to address on-going social issues that arise with the companies in which they invest. In Canada, the Ethical Funds family of mutual funds is the leader in this field. (More information about screening and about being an "active shareholder" follows below.)

Finding an investment professional with experience in socially responsible investing can be a great help to individuals. For investors looking for a professional with interest and experience in socially responsible investment, one resource is the list of professional members of the Social Investment Organization (www.socialinvestment.ca). Although the SIO does not certify or recommend individual planners or brokers, the list serves as a helpful starting point.

FOUR PILLARS OF SOCIALLY RESPONSIBLE INVESTMENT

As practised in Canada today, socially responsible investment is often characterized as having four pillars:

- investment screening,
- active shareholdership,
- investing in community economic development, and
- banking.

INVESTMENT SCREENING

The criteria applied to investment choices are often called "screens." Some screens exclude companies that engage in certain businesses, such as the production of tobacco products. Other screens take the opposite approach, focusing on including businesses that provide socially useful goods and services, or play a leading role in meeting social needs. Another approach to screening is to seek out companies within each economic sector (such as mining or telecommunications) that have superior social and environmental performances compared with those of their peers. This is often referred to as the "best-of-sector approach."

Social investors are not the only investors to use screens. So do financial analysts when they sort out companies according to factors such as size, profitablity, and earnings.

ACTIVE SHAREHOLDERSHIP

Applying basic social criteria in the form of screens can help investors avoid investing in companies whose core business activities are contrary to their values. However, companies that pass basic screens may still engage in practices that raise concerns. Similarly, shares of a company with an excellent labour-relations or environmental record can be purchased only to see the company establish a new line of business that does contravene investment criteria. In such situations, shareholders can play an active role engaging company management (and in some situations other shareholders) in dialogue to clarify the situation and explore options for its resolution.

INVESTING IN COMMUNITY ECONOMIC DEVELOPMENT

The range of banking and investment choices available in Canada is limited primarily to those products and services offered by large financial institutions, such as banks or the stock market. At home in our own communities, but not generally available through these large institutions, are investment opportunities that focus specifically on benefitting the community and the individuals living there. Many of these involve basic housing and job opportunities for the unemployed. They are often referred to as "alternative investments" or community economic development financing. Slightly larger in size than community economic development (CED) funds are five "social venture capital" funds, the labour sponsored venture capital funds that have signed onto a statement of principles commiting them to integrating social and environmental criteria into their investment decision-making process.[7]

BANKING

When money is deposited at a bank, trust company, or credit union, the funds become available for those institutions to lend and invest. By paying bank service fees or taking out a mortgage, we create revenue for the bank, trust company, or credit union. Whether it is as a consumer of bank services or as a provider of capital for banks to use in their own lending and investment programs, decisions about banking have social impacts. Some financial institutions are beginning to identify these impacts and make their institutions more accountable for them.

Each of these four approaches to socially responsible investment will be discussed in greater detail in later sections. But first, let's look at some of the reasons why congregations may want to bring social considerations into their investment decision-making.

[7] The statement of principles commits the five labour sponsored funds to seek an equitable rate of return, create and maintain jobs, conduct a social audit of investments, and contribute to regional economic development. Signatories to the principles are The Crocus Fund, sponsored by the Manitoba Federation of Labour; the First Ontario Fund, sponsored by the United Steelworkers, the Communications, Energy and Paperworkers, the Service Employees International Union, the Power Workers Union, and the Ontario Worker Co-operative Federation; Fonds de Solidarité/Solidarity Fund, sponsored by the Québec Federation of Labour; Workers Investment Fund, sponsored by the New Brunswick Federation of Labour; and Working Opportunity Fund, sponsored by seven British Columbia unions.

2
What Motivates Churches to Become Involved in Socially Responsible Investment?

There are many reasons why United Church of Canada congregations are becoming involved in socially responsible investment. The five points below suggest quite different motivations and, as we shall see, each can lead congregations to adopt a variety of approaches and strategies to investing:

- ensuring the mission of the church is not undermined,
- strengthening the mission of the church,
- responding to the obligation of social accountability,
- improving financial performance, and
- fundraising with integrity.

ENSURING THE MISSION OF THE CHURCH IS NOT UNDERMINED

One major reason churches and church-related institutions tackle the task of managing their financial affairs in a socially responsible manner is to ensure that they do not undermine the fundamental purpose of the church or Christian teachings. Explicit socially responsible investment policies and practices that stand up to public scrutiny will minimize the danger of The United Church of Canada's integrity being put at risk, should a congregation or other church institution place financial reward ahead of adherence to church policies. An example of such a policy is The United Church of Canada's policy of not investing in companies with significant involvement in tobacco, alcohol, or gambling.

STRENGTHENING THE MISSION OF THE CHURCH

A second factor is the potential for financial activities to further the mission of the church. For example, a church may make capital available in both traditional and non-traditional ways to initiatives and enterprises that create a healthier and more just society or protect the integrity of creation. This potential offers the opportunity for socially responsible investing to strengthen the mission of The United Church of Canada through the management of our financial affairs. An example of this is money invested by the national church in housing and community economic development funds both in Canada and in developing countries.

RESPONDING TO THE OBLIGATION OF SOCIAL ACCOUNTABILITY

We often think that the obligation to be socially responsible investors is one that stems from our own Christian faith. However, from society at large there is also a growing expectation of accountability for the consequences of investment decisions. Responsibility for the consequences of corporate actions falls on consumers and investors as well as on employees, managers, and directors.[8] Some of these obligations are even expressed in international agreements like the Universal Declaration of Human Rights, which states that "every organ of society" will promote the observance of human rights and freedom. Thus, the church as a responsible institution within society looks outward, as well as inward, for an understanding of its obligation as an investor.

[8] Moira Hutchinson "From Corporate Responsibility to Social Accountability," in Ted Reeve (ed.) *God and the Market*. (Toronto: United Church Publishing House) 2000, p.129.

IMPROVING FINANCIAL PERFORMANCE

Social and environmental performance are increasingly recognized as indicators of financial performance. Growing evidence supports the claim that corporations with better social and environmental records provide investors with lower risks and improved long-term financial returns.[9] For example, good environmental management can reduce the chance of accidents or hidden liabilities. There are also possible indirect factors as well, such as the ability of a firm with superior social and environmental performance to attract high calibre employees.

FUNDRAISING WITH INTEGRITY

Finally, socially responsible investment can be a cornerstone of fundraising. When churches promote planned giving and bequests for endowments or church-linked foundations, donors are reassured if they know care will be taken to reflect the values of The United Church of Canada in the investments of such gifts, as well as in the use of the income they generate.

A TOOL FOR SOCIAL CHANGE

The number of investors that apply social and environmental criteria to their investment decisions and the value of funds being invested in this way is growing steadily. These include pension funds, mutual funds, charities, and foundations, as well as individuals. The results of a study released in December 2000 by the Social Investment Organization show that the size of socially screened assets in Canada has now reached nearly $50 billion, or approximately 3.2 percent of all investment in Canada. The amount is growing significantly faster than non-screened assets. If this trend continues,

[9] See for example, Moskowitz Prize research on the link between social and financial performance (www.socialinvest.org/Areas/Research/Moskowitz/default.htm).

an increasing proportion of investments will be directed toward firms that pass social and environmental criteria.[10]

This growing pool of capital has enormous potential. As Robert Walker, Vice President of Ethics Policy and Research at Ethical Funds Inc., notes, socially responsible investors encourage companies "not only to compete on the basis of their financial performance, but on the basis of their social and environmental records as well."[11] Michael Jantzi of the investment research firm Michael Jantzi Research Associates, views socially responsible investment as, "an effective way to encourage Canadian companies to become more responsible corporate citizens, thereby providing a new economic model or theory of how the free market system can work more equitably and sustainably."[12]

Socially responsible investors, by their example, also encourage greater support for investment in projects run by organizations or cooperatives engaged in social justice, housing, and community economic development.

[10] Social Investment Organization, ibid.
[11] Robert Walker "Socially Responsible Investment: A Primer," *Social Investment Directory*. (Toronto: Social Investment Organization) 1997, p. i.
[12] Michael Jantzi *Mission Based Investing*. (Toronto: Michael Jantzi Research Associates) 2000.

3
Investment Responsibilities and Practices in Congregations

Because socially responsible investing policies are an integral part of a congregation's overall investment program, a look at the investment responsibilities and practices in United Church congregations generally will help us understand how to establish and implement socially responsible investment policies and practices. If your congregation doesn't already have an investment policy, establishing one will help guide the process of considering socially responsible investment. In many provinces, trustees are obligated legally to have a written investment policy.

LEGISLATION DETERMINING INVESTMENT RESPONSIBILITY IN CONGREGATIONS

Three documents are the basis for determining who within a congregation has the authority to set and implement investment policy, and the framework within which they do this:

- the United Church of Canada Act and its provincial counterparts,
- the Trusts of Model Deed of The United Church of Canada, and
- the trustee acts in each province and territory.

THE UNITED CHURCH OF CANADA ACT

The United Church of Canada Act, passed by Parliament in 1924, came into force in June 1925 and established The United Church of Canada. Similar acts were passed subsequently in each province. By-laws established by the United Church's General Council accompanied the Act. The Act stipulates that a congregation's property is to be held in trust under the terms of the Trusts of Model Deed.

TRUSTS OF MODEL DEED

The Trusts of Model Deed is a schedule to The United Church of Canada Act and is also Appendix II, Schedule B to *The Manual.*[13] It sets out provisions for a church's Board of Trustees, whose members are chosen by the congregation, to hold church property in trust for use as directed by the congregation. The property itself, under the Trusts of Model Deed, is considered to belong to the congregation as part of the United Church. The approval of Presbytery is required for any dealings with real property such as church buildings and other kinds of property (including investments) beyond the value set by that Presbytery. However, most decisions regarding the acquisition, accumulation, administration, and disposition of investments, with certain exceptions, are in practice left to congregations. One exception arises with regard to funds left from the sale of a manse. Some Presbyteries have established investment guidelines or rules for funds created by the sale of a manse, whereby such funds are set aside to provide income to support the housing needs of ministry personnel. [14]

TRUSTEE ACTS IN EACH PROVINCE AND TERRITORY

The Trustees of United Church congregations, like the trustees of other organizations, are bound by the terms of trustee acts passed in each province and territory. The precise terms of each act vary, and some of those differences are significant in regard to investments generally and socially responsible investment in particular.

[13] *The Manual, The United Church of Canada*. (Toronto: United Church of Canada) 1998.
[14] Trusts of Model Deed, The United Church of Canada Act, Appendix II.

THE ROLE OF CONGREGATIONS

If trustees are responsible for holding church property in trust, what is the role of the congregation and its Board or Council in establishing either how funds held in trust will be spent or invested? Regarding the spending of trust funds, unless special terms were set out by a donor of an endowment, the congregation is free to instruct the trustees to use income or principal from such funds for the purpose of the congregation as it sees fit. Money could, for example, be used for special building repairs or to hire extra staff. Regarding how the money is invested, decisions of the congregation and its Board or Council cannot contravene the trustees' obligations under the trustee acts, but they can provide reassurance to trustees as they seek to exercise their fiduciary responsibilities in ways that are compatible with the mission of the congregation. [15]

Should the Congregation have an investment policy?

Yes. This gives the Congregation, through the Official Board or Church Board or Church Council, an opportunity to wrestle with issues such as how much return on those assets it needs, how much risk it is willing to undertake, and whether it wishes to make socially responsible investments only. It also protects the Trustees from becoming the object of ill feeling over investment decisions that don't pan out as hoped for.

Congregational Board of Trustees Handbook, The United Church of Canada, page 38.

[15] More information on the duties and responsibilities of trustees is available in *Congregational Board of Trustees Handbook*, The United Church of Canada, 2002.

INVESTMENT RULES IN PROVINCIAL TRUSTEE ACTS

In defining how trustees are to manage investments, the trustee acts of each province and territory typically take one of two approaches. Some acts follow the "legal list" approach, listing the kinds of eligible securities in which trustees may invest. Others use the "prudent person" rule and that places a general duty on trustees to make reasonable investment decisions without undue risk.

The trustee acts in Alberta, British Columbia, Newfoundland and Labrador use the "legal list" approach. Trustees in these provinces meet their obligations under the acts by investing only in securities of the types that are listed. Because of the traditional focus on the responsibility of trustees to preserve the value of the trust, the approved securities and related rules emphasize investment in government-guaranteed bonds and "blue chip" common stocks.

MODERNIZING THE TRUSTEE ACTS

While in earlier times it was considered prudent for trustees to limit themselves to investing in such a narrow set of prescribed securities, today's version of prudence calls for quite a different approach. In all of the provinces except those listed above and in all of the territories, the "legal list" has been removed from the trustee acts and the act amended to apply the "prudent person" rule instead. The exact wording of the rule varies from one act to the next. The Uniform Law Conference of Canada in 1996 suggested that the obligation of a trustee is to "exercise judgment and care that a man [sic] of prudence, discretion, and intelligence would exercise as a trustee of the property of others."[16] In February 2000, the Alberta Law Reform Institute offered this variation: "A trustee shall invest trust funds with a view to obtaining a reasonable return while avoiding undue risk, having regard to the circumstances of the trust."[17]

[16] "Investment by Trustees: The Prudent Investor Rule Revisted," *Uniform Law Conference of Canada*, 1996, p. 3.
[17] Alberta Law Reform Institute *Trustee Investment Powers.* February 2000, p. 113.

Closely linked to the shift from the "legal list" to the "prudent person" rule are two related changes:

- an emphasis on the importance of trustees following an appropriate investment policy and
- performance evaluation based on the entire portfolio, rather than on the basis of individual assets, with a consequent reliance on balance and diversification to manage risk.

To meet the obligations of modernized trustee acts, trustees must act prudently to establish an investment policy that takes into account any criteria that may be specified in the provincial or territorial trustee act (see the examples below and on page 26).

The Ontario Trustee Act

The Ontario Trustee Act sets out seven criteria that trustees must take into account in investment decision-making. They are:

- general economic conditions;
- the possible effect of inflation or deflation on the investment;
- the expected tax consequences of investment decisions or strategies;
- the role that each investment or course of action plays within the trust portfolio;
- the expected total return from income and the appreciation of capital;
- the need for liquidity, regularity of income, and preservation of capital; and
- an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

Manitoba Trustee Act, L.M. 1995, c. 14, art. 2.
Defence based on investment policy

In an action against a trustee for failing to exercise, in respect of a particular investment, the judgment and care that a person of prudence, discretion, and intelligence would exercise in administering the property of others, the trustee is not liable for loss arising from that particular investment if he satisfies the court

(a) that the investment was made as the result of a general policy of investing the funds making up the trust property; and

(b) that the general policy was not speculative and was a policy which a person of prudence, discretion, and intelligence would follow if he were administering the property of others.

FIDUCIARY RESPONSIBILITY

CAUTION ABOUT VARIATIONS IN LOCAL LEGISLATION

Because each province and territory has its own trustee act establishing the responsibilities of trustees, the advice of a lawyer should be sought to help interpret how the act applies in your province or territory.

Having determined that a congregation's trustees are responsible for holding a church's investment assets in trust, and that the trustees are governed by provincial and territorial trustee acts, to what degree are they free to align the church's investment policy with its mission and beliefs? And to what degree are they constrained from doing so?

NOT ALL CONGREGATIONAL TRUST FUNDS ARE THE SAME

The funds held under the care of trustees can be divided roughly into two types: funds that have been left to the church under the terms of a trust and funds that the church has accumulated and given to the trustees to manage.

In the first case, the trust terms may contain specific provisions about either how the trust funds are to be used (e.g., Christian education, maintenance of buildings) or how they are to be invested. If the trust terms stipulate that the funds must be invested using criteria related to social responsibility, then the trustees' duty is clear. Such an instruction, however, is rare. Most often, the trust provisions are silent on this matter, and trustees are guided by what is commonly termed their "fiduciary responsibility" under the trustee act.

In the second case, funds are held in trust at the discretion of the congregation. This gives the congregation a greater range of choices when it comes to deciding on how the funds will be used or invested than may be the case with funds governed by the specific terms of a trust, agreement, or will. However, the obligations of the trustee act still apply.

WHAT IS A FIDUCIARY?

The word "fiduciary" comes from the Latin word for "trust." Trustees are sometimes referred to as "fiduciaries" because they are entrusted with the care of assets belonging to a beneficiary (a person or organization). Thus the members of the Board of Trustees are said to have a "fiduciary responsibility" to the congregation. If a congregation states that it wants to be a socially responsible investor, its trustees should consider this in determining how they exercise their fiduciary responsibility.

Trustees are commonly understood to have two kinds of duties to a trust's beneficiaries: the duty of care and the duty of loyalty. Both of these have an effect on how trustees approach socially responsible investment.

DUTY OF CARE

To fulfill the duty of care, a trustee is expected to invest as would a "prudent person." Earlier we discussed how trustee acts in most parts of Canada are shifting from providing trustees with a list of the types of investments that are legal to instructing trustees to follow the "prudent person" rule. Briefly stated, the "prudent person" rule states that trustees are considered to be prudent if they obtain a reasonable return while avoiding undue risk.

The Manitoba Law Reform Commission makes the following observation:

> Might a prudent business person, in planning the investment of his or her own moneys, take into account ethical as well as financial factors and circumstances before a decision is made? Is ethical use of money among the legitimate expectations beneficiaries may have in relation to a trustee's investment policy? If the duty of prudence simply introduces "reasonableness" as the standard of care to be observed by trustees in making investment decisions, and there is nothing self-evidently "unreasonable" about acknowledging ethical concerns in making those decisions, how is it that some have regarded the practice of ethical investment as imprudent *per se*?[18]

[18] Manitoba Law Reform Commission *Ethical Investments by Trustees.* Report #79, January 1993, p. 3.

DUTY OF UNDIVIDED LOYALTY

Trustees are to administer the assets under their care in the exclusive interest of all of the beneficiaries and without regard for their own interests. This is the trustee's duty of loyalty. In one well-known British court case, a group of trustees was divided over whether to invest pension funds in such a way as to help preserve the jobs of pension plan members. The judge ruled that the policy proposed by the trustees did not take into consideration the effect this had on retirees who were no longer employed and whose benefits depended upon the financial returns of the pension fund. This illustrates a trustee's duty not to unfairly favour one group of beneficiaries over another, in this case two classes of pension plan members: workers and retirees.

Trustees are also bound not to make decisions based on their own personal beliefs or interests. Thus, congregational trustees implementing a socially responsible investment policy based on the faith position of both the congregation and The United Church of Canada, rather than on their own personal views about corporate social responsibility, would fulfill their duty of undivided loyalty in this respect.

The prudent person of the 21st century must be farseeing because we know that corporations do not necessarily serve the public good, that tobacco kills, and that waste has no place to go. To be prudent, farseeing, returns the word to its original 14th century meaning.

Prudence, therefore, requires that institutions which presumably exist for purposes other than making money—foundations, colleges and universities, pension funds, religious institutions—must also be farseeing. It means that they cannot any longer allow a wall to exist between asset management and social purpose. The pursuit of their social goal to improve the quality of life of their clients—through the provision of grants, through education and research, through monthly checks for retirees, and through spiritual leadership—cannot be abstracted from the way the assets are managed.

All investments have consequences—social, political, cultural, environmental—that cannot be treated as side-effects, or by-products or externalities. There are no such things. They are creatures of the reduction that has captured the world, emanating in large measure from places like Harvard. In a system, and there is only one system, there are only products and effects.

From "Prudent Man to Prudent Person: Sustainability and Institutional Investment in the 21st Century," an address to the Harvard Seminar on Environmental Values, by Stephen Viederman, Harvard University, December 12, 1996.

WHAT DOES TRUSTEE LEGISLATION SAY ABOUT SOCIAL RESPONSIBILITY?

As Edward Waitzer, lawyer and former chair of the Ontario Securities Commission, observed more than a decade ago, there is very little "Canadian legal authority on the extent to which trustees may introduce ethical considerations into their investment decisions."[19] The situation remains unchanged today. Among all of the trustee acts across Canada, only Manitoba's explicitly mentions non-financial criteria as a factor trustees may consider when setting policy and making investment decisions. In all other jurisdictions, trustee acts are silent on this point, neither expressly permitting nor prohibiting trustees from employing investment criteria related to ethical or social criteria. As a result, congregations and their trustees must rely heavily on judgments resulting from court cases and on precedents set by common practice.

Because Canadian courts have not dealt specifically with this issue, the court decisions commonly cited come from the United States and Britain. Several Canadian authors have undertaken reviews of the relationship between trustees' fiduciary responsibility and the implementation of socially responsible investment practices. In general, they conclude that, while trustees are not prohibited from employing non-financial criteria in investment decision-making, they must do so within a framework consistent with their statutory responsibilities.[20]

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[19] Edward Waitzer "Pension Fund Trustees as Shareholders," *Memorandum to the Public Social Responsibility Unit of the Anglican Church of Canada*. (Toronto: Stikeman, Elliot) May 1989, p.3.

[20] For the most recent review of the case law on this subject see Gil Yaron, "The Responsible Pension Trustee," *Estates, Trusts and Pension Journal,* Vol. 20 (2001), p. 204.

Manitoba Trustee Act, sub-section 79.1

Subject to any express provision in the instrument creating the trust, a trustee who uses a non-financial criterion to formulate an investment policy or to make an investment decision does not thereby commit a breach of trust if, in relation to the investment policy or investment decision, the trustee exercises the judgment and care that a person of prudence, discretion, and intelligence would exercise in administering the property of others.

ARE SOCIALLY RESPONSIBLE INVESTMENT AND FIDUCIARY DUTY COMPATIBLE?

Guided by common practice and with the help of some key court judgments, congregations can develop and implement socially responsible investment practices and meet the requirements of fiduciary duty. Trustees act cautiously in caring for church investments because their decisions have important and long lasting consequences for congregations. A poor decision about investing trust funds could result in the loss of capital and in less money being available to support church programs and operations. For this reason, traditionally, trustees have acted conservatively when investing trust funds, usually focusing their attention on three factors when making investment decisions:

- keeping the principal safe,
- generating the highest possible rate of return, and
- offsetting the effects of inflation through capital appreciation.

Trustees are not limited to considering only these three criteria, and their duty to the congregation whose assets they hold in trust compels them to look further. Earlier, we identified five reasons why congregations and congregational trustees will want to consider and implement socially responsible investment policies: (1) to ensure that the mission of the church is not undermined, (2) to strengthen the mission of the church, (3) to respond to obligations of social accountability, (4) to improve the financial performance of the fund, and (5) to provide assurance to donors that endowments are invested with integrity. Each of these reasons is reflected in current practice and, in many cases, is supported by court rulings. The following questions help clarify how socially responsible investing and fiduciary duty are compatible.

1. **Can trustees exclude companies or types of companies from their investment portfolio without regard for the effect it will have on the rate of return of the trust if such investments are contrary to the church's mission?**

The answer to this question is, in two types of situations, yes. Trustees can exclude investments, such as the shares of a particular company or type of company, if to do so is consistent with the strongly held beliefs of the organization for which they are trustees. They can also exclude such investments if it would cause greater damage to the organization not to do so.

In the first instance, trustees are permitted, for example, to exclude investments in certain companies or types of companies if they conflict with the purpose of the organization for which the trustees administer funds. The right of trustees to do so was described in a 1991 British court case in which a judge ruled that if "the objects of the charity are such that investments of a particular type would conflict with the aims of the charity...[the trustees] should not so invest."[21] The judge gave as examples the trustees of a temperance society investing in brewery shares and the Society of Friends investing in the production of armaments. He considered these cases to be straightforward, rare, and unlikely to harm the financial returns

[21] Harries v. Church Commissioners, *The Weekly Law Reports*, 4 December 1992, p. 1246.

of the trust. He concluded that other investments of equal value likely would be available.

In another British case, in this instance involving a coal miners' pension fund, the judge ruled that benefit does not always have to mean financial benefit and agreed that cases could exist in which it was in the beneficiaries' best interest to avoid investment in certain areas. He also used the example of beneficiaries who hold certain strict moral views. But the judge in this case was careful to point out that when making investment decisions, trustees must pay attention to the duty of undivided loyalty. They must act on views held by the whole organization; for them to act on the basis of a majority view is insufficient.

This practice has long been incorporated into the investment policy of the national United Church of Canada, which at present excludes investments in companies that derive substantial income from tobacco, alcohol, gambling, or, in some circumstances, military production.

The right to exclude certain investments under these conditions is the stongest, though most limited, endorsement of a trustee's duty to take into account the purpose of the organization for which he or she acts when making investment decisions. It supports the employment of what are commonly called exclusionary investment screens, which are described in more detail in a later section.

The second instance where trustees may consider not investing in a particular company or sector of the economy is where "holding of particular investments might hamper a charity's work either by making potential recipients of aid unwilling to be helped because of the source of the charity's money, or by alienating some of those who support the charity financially." The trustees, in such cases, have a duty to balance the gain from certain investments against the risk of financial loss or damage to programs.[22]

[22] Ibid., p. 1247

Finally, in both instances cited above, the judges considered that selective investment policies of these types could be carried out without "a risk of signifiant financial detriment."[23]

> **Fiduciary responsibility, Jesse Smith Noyes Foundation Investment Policy, 1998**
> We believe that in light of the social, environmental, and economic challenges of our time, fiduciary responsibility in the coming decades will dictate the integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike. Foundations have a particular role to play in this process, by coming to understand mission not only in terms of the uses of income to fund programmes, but also in terms of the ends toward which endowment assets are managed.

2. Can trustees apply social and environmental criteria to investment decision-making if they reasonably expect it will not negatively affect the financial performance of the fund?

Unless directed otherwise by a the terms of a trust, trustees may apply social and environmental critieria to investment decision-making if they determine that it will not harm the financial performance of the funds under their care. Practically, this means that trustees can develop comprehensive social investment criteria that go beyond the restrictions based on fundamental principles of The United Church of Canada, such as policies against investments in tobacco, alcohol, gambling, and some forms of military production. However, these comprehensive criteria must be applied such that there is a reasonable expectation that investment performance will not be harmed.[24]

[23] Edward Waitzer, ibid., p. 15
[24] Correspondence, Tina Walker, Joseph Rowntree Charitable Trust, York, U.K. to Peter Chapman, Canadian Friends Service Committee, April 1995.

The following conditions, explained in greater detail below, must be met:

- social and environmental criteria are applied when choosing between two investments that are financially equal,
- trustees are taking a long-term view of their investment decisions, and
- the investment is made in a province and territory where trustees are judged not on the performance of individual investments, but on the overall portfolio of investments under their care.

The only review of this issue commissioned by a Canadian church is one done by a Canadian securities lawyer, Edward Waitzer, in the late 1980s, on behalf of the Anglican Church of Canada. Based on legal precedents at the time, he concluded that a prudent investor will have regard primarily for economic return when fulfilling his or her duty to act in the best interests of the beneficiaries. Social, ethical, or environmental criteria may be used, in Waitzer's view, as long as economic return does not fall.[25]

How can trustees meet this obligation? A commonly used method is to first apply financial investment criteria and then select from among two or more choices of equal characteristics (risk and expected rate of return) the one that most closely conforms to the congregation's socially responsible investment policy. Trustees in this case will need to take care that they consider the financial prospects of investment choices. Remembering the trustee's responsibility of loyalty to all beneficiaries, the standards of social and environmental performance that are applied must reflect the church's faith position, not the personal views of trustees.

In investing, rates of return and levels of risk are usually closely related. When risk is higher, a higher rate of return is expected. Inversely, when the risk is lower, a lower rate of return is accepted.

[25] Edward Waitzer, ibid., p.1.

Applying social and environmental screens to investment decisions can affect both. For example, in a five-year trial, a basket of stocks of 60 Canadian companies making up the Jantzi Social Index had a lower than average level of risk. Relative to risk, the companies in the Index provide superior returns.[26]

By carefully taking into account the financial aspects of their decisions, trustees will deal effectively with fears that including social and environmental criteria in investment decision-making of church trust funds will lead to lower rates of return or higher levels of risk. Instead, trustees can focus on what is commonly called "the double bottom line"—financial and social benefit together.

In practice, how rigorous is the financial test for trustees when they compare two investments? In the British court case Evans v. London Co-operative Society Ltd., the judge's ruling suggests that by looking only for short-term maximum monetary returns, trustees are not fulfilling their whole obligation and that to do so, they must also take the long-term view of a beneficiary's interests.[27] In this ruling, the judgment reflects the root meaning of the word "prudence," which comes from the Latin word *providere*, "to see at a distance." Trustees can find further guidance in an American court of appeal decision in which the judge ruled that the trustees' obligation is not to maximize the return on investment, "but rather to secure a just and reasonable return" while avoiding undue risk.[28] Taken together, these views on prudence offer trustees reasonable leeway in undertaking the task of assessing what are financially equivalent investment choices.

Trustees also benefit in this regard from the growing level of public interest in socially responsible investment. As socially responsible investment has grown in popularity, so too have the number of

[26] www.mjra-jsi.com "About the JSI" click on "Quantitative Review."
[27] Manitoba Law Reform Commission, ibid., p. 25.
[28] The Board of Trustees v. The City of Baltimore, 562 A. 2d 720 (Md 1898).

financial products and services available to congregational trustees. These include:

- mutual funds that screen holdings based on social and environmental criteria;
- socially screened "index" funds that provide a rate of return based on standard benchmarks such as the TSE 300 index or the Jantzi Social Index;
- professionally trained investment advisors who specialize in managing investment portfolios for trustees who apply social and environmental screens; and
- socially targeted mortgage and investment funds available through credit unions, venture capital firms, and alternative investment organizations.

In provinces or territories where the Trustee Acts are based on the "prudent person" rule, trustees have an added advantage when considering the place of specific socially responsible investments in their portfolios. Rather than evaluating trustees on the basis of the financial performance of each individual investment, trustees are judged on the basis of the investment decision-making process they used. Modern portfolio theory suggests that risk in investing can be managed by proper diversification. In this context, a prudent trustee can take advantage of opportunities to diversify that also bring social benefits. For example, investing part of a trust fund in a mortgage for low-income housing may provide a lower rate of return than an investment in large, publicly traded companies over a given period of time, but its risk is lower.

3. Can trustees apply social and environmental criteria to investment decision-making if they reasonably expect that applying these criteria will improve the financial performance of their fund?

"Doing well by doing good." That brief phrase encapsulates an idea that is both old and new. It is an old idea because when we step back from the hothouse atmosphere of the investment industry, we remember that the well-being of society and the health of our economy are connected. It is a new idea in the sense that an increasing body of evidence points to social and environmental performance as a tool for finding individual investments that provide a better rate of return and lower risk.

In the same way that a financial analyst might look at a company's debt-to-equity ratio or its market share, a company's labour practices, its environmental compliance record, or its corporate governance practices can also be analyzed. We can see how social and environmental factors can have a significant impact on a company's value to investors if we consider the two fictional examples below:

- A company with extensive international interests estabilishes a new operation in a country with a record of persistent and extreme human rights abuses, such as Burma, Sudan, or Colombia. Its business partner in that country is a government-owned enterprise. The region where the company operates may be in the midst of violent conflict in which government forces are involved. Human rights organizations around the world protest the company's actions, a divestment campaign is launched, and the company's reputation suffers to the point where its stock price sags in relation to its peers. The attention of company management is consumed by the controversy. As the company's share price lags, its ability to grow is sapped. Employee moral suffers, and a law suit from victims looms.
- A pulp and paper company operating in coastal British Columbia has built its business on access to easily accessible high-quality stands of old-growth forest. Buyers of its paper, prompted by consumer concern, begin to question the environmental and social impact of company logging practices. An international effort to certify forest products emerges. Communities have grown up around the company's facilities, drawn by the expectation of long-term employment. Title to the forest lands where the company logs have never been ceded by First Nations, and pressure is mounting for a settlement. Market demands push the company

toward abandoning the clear-cutting of old-growth forests.

Evidence suggests that companies that anticipate and respond to social and environmental factors that affect them are more likely to avoid negative economic shocks and take advantage of new opportunities than companies that don't. As a result, they may financially outperform their peers.[29]

At the broadest scale, the evidence that superior social and environmental performance is a positive investment indicator can be seen in the performance of "social" stock indexes. These are stock indexes constructed in a manner similar to well-known benchmarks such as the Dow Jones Industrial Average and the Toronto Stock Exchange 300 Index, but with an important difference. The companies in these indexes are chosen based on social and environmental performance as well as financial performance.

The Domini Social Index (www.kld.com) was created in 1990 and consists of 400 American companies. Beginning with companies that form the unscreened Standard & Poors 500 Index, those companies whose operations do not qualify (approximately half) were eliminated. To this core of companies were added 100 companies that met the index's criteria, as well as 50 companies chosen specifically for their strong, socially responsible business practices. Throughout its history, the Domini Social Index has outperformed the Standard & Poors 500 as well as several other U.S. stock benchmarks.

A Canadian index, the Jantzi Social Index (www.mjra-jsi.com), was launched in December 1999. It is modelled on the Standard & Poors/Toronto Stock Exchange 60 Index, but includes only companies that have passed a set of broadly based social and environmental screens.

[29] Steven D. Lydenberg and Peter D. Kinder "The Performance of Screened Portfolios," *Mission-Based Investing: Extending the Reach of the Foundations, Endowments and NGOs*. (Boston: KLD & Co., Inc.) 1998, p. 41.

To replace those S&P/TSE 60 companies whose records disqualified them for inclusion in the index, alternative companies were selected to maintain a broad base for the index. The index allows investors who screen their portfolio in a similar manner to compare their own performance with that of the index.

A sign of just how popular such indexes have become is the introduction in 1999 of a series of screened indexes by the well known American business information firm Dow Jones, under the name Dow Jones Sustainability Group Indexes (www.sustainability-index.com). The Dow Jones sustainability indexes identify companies considered to be "sustainability-driven," companies that integrate economic, environmental, and social factors into their business strategies.

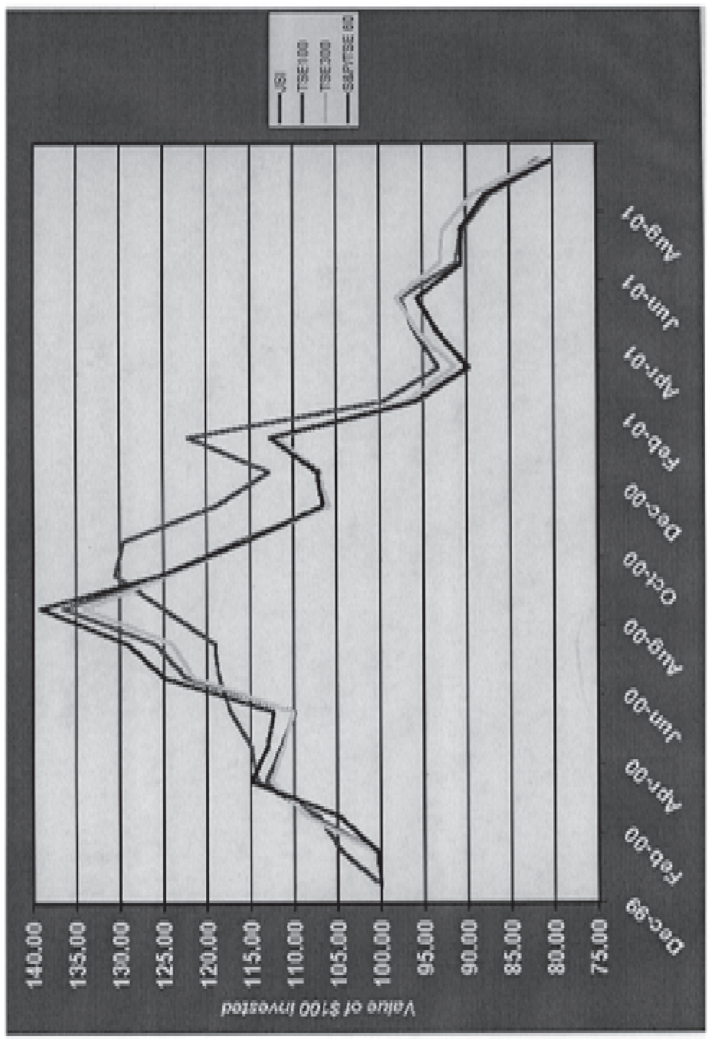
Similarly, Innovest Strategic Value Advisors (www.innovestgroup.com) has built a global reputation by developing and applying environmental and social criteria to help investment companies find investments of superior financial value.

Although past performance is not a guarantee of what will happen in the future, the record of the Domini Social Index and the promise of more recently created indexes suggest that screening for superior social and environmental performance does not reduce returns.

The growth of information sources and financial products that link financial performance with social and environmental criteria offers trustees new opportunities for meeting their fiduciary responsibility while applying investment criteria that reflect congregational values.

(*continued on page 44*)

Jantzi Social Index Comparative Returns (through September 28, 2001)



	JSI	TSE 100	TSE 300	S&P/TSE 60
Since Inception	-18.20%	-19.89%	-18.72%	-19.70%

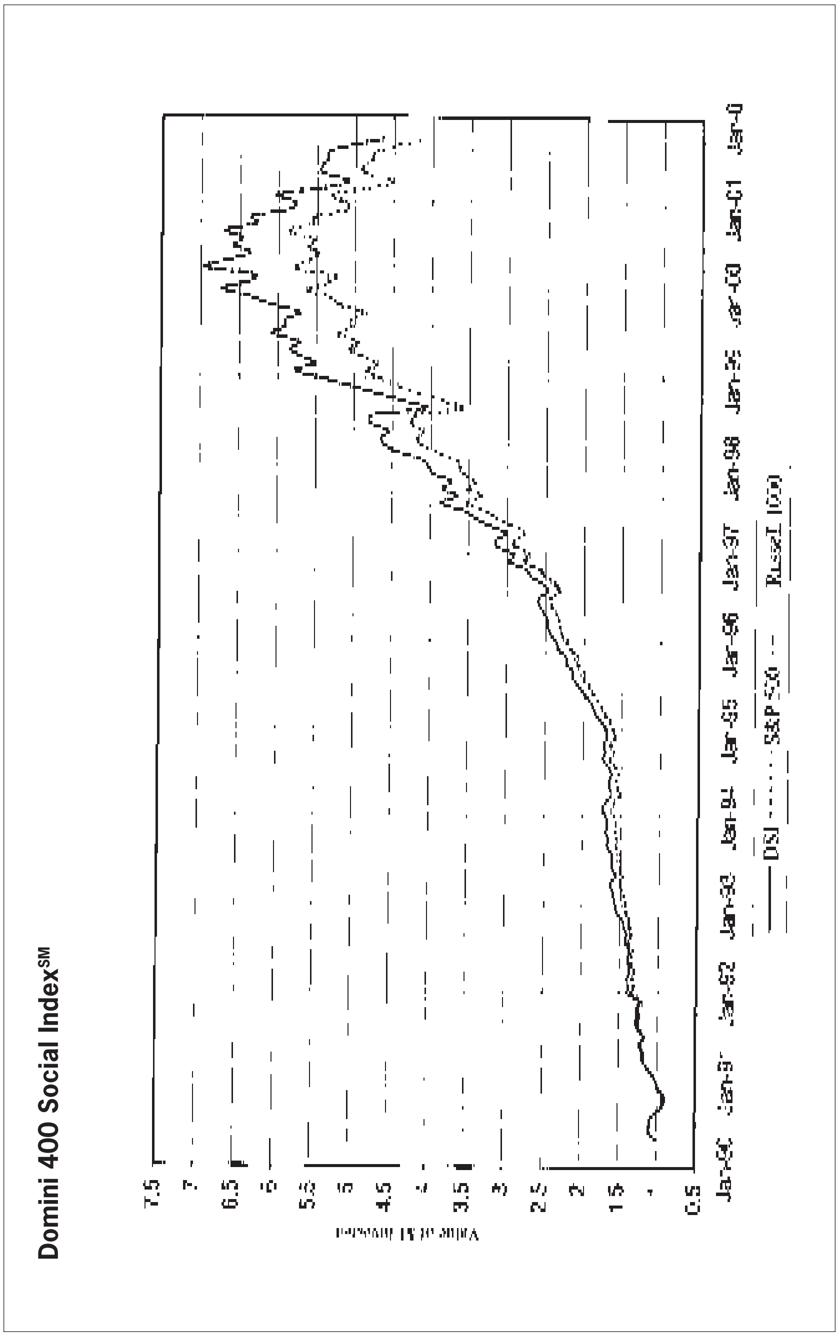


*Chart: Copyright © 2001 by KLD Research & Analytics, Inc. Reproduced by permission. The "Domini 400 Social Index" is a service mark of KLD Research & Analytics, Inc.

4. Can a congregation make investments that fulfill the mission of the congregation, but do not meet the normal criteria for risk or rate of return?

When trustees and congregations move beyond the investment options offered through conventional financial institutions and consider opportunities to invest in ways that meet the congregation's mission goals more directly, they are often challenged to assess the suitability of such investments. However, because an investment is unconventional does not mean that trustees are prohibited from considering it.

Some investments with high social benefit offer surprising financial security. All or some of the risk may be assumed by another party. For example, deposits in Four Corners Community Savings in downtown Vancouver are guaranteed by the provincial government (www.fourcorners.bc.ca). Four Corners is a community bank created in 1996 to meet the needs of a neighbourhood where a high percentage of the people receive income assistance. Term deposits there earn competitive rates of return and are guaranteed by the British Columbia government.

Where the level of risk for one particular investment is higher than is acceptable to trustees, opportunities may exist to pool investments with others to share the risk. For example, the Canadian Alternative Investment Co-operative (www.caic.ca), a national investment organization founded by religious organizations, operates four investment funds with varying social goals and risk levels. Among CAIC's member-investors is the United Church. Investors share in supporting a variety of projects, thereby eliminating the situation where the burden of a single failed enterprise falls solely on one lender.

In the same way that trustees often seek the advice of financial professionals to assist them in evaluating investments in stocks and bonds, they may also want to seek advice from financial professionals experienced in assessment of other options for investment. Court rulings on fiduciary responsibility have emphasized the importance of the investment decision-making process used by trustees, as well as the outcome. Hindsight may prove a particular investment to have been profitable or unprofitable, but trustees will be judged for the reasonableness of their approach to reaching a decision, not whether they were financially successful.

If after careful consideration trustees conclude that a particular initiative is an unsuitable investment, a congregation may still be able to provide financial support. For example, the congregation can agree to provide support from its operating funds. In such a case, any loss will be considered an expenditure by the congregation and therefore be subject to federal government rules governing charities. The congregation will want to ensure that it conforms with applicable regulations for registered charities. In 1999 the Canada Customs and Revenue Agency issued a bulletin clarifying the terms under which Canadian charities can make such investments.[30]

[30] Charities Division of the Canada Customs and Revenue Agency, *RC4143 Registered Charities: Community Economic Development Programmes*. The guide is available online at (www.ccra-adrc.gc.ca/tax/charities/menu-e.html) (Brochures and Guides) or can be requested from the Charities Branch at 1-800-267-2384.

4

Getting Started in Socially Responsible Investing

Having identified who is responsible for guiding church investment decision-making, and having examined the basic legal framework within which this occurs, we can now turn to the question of how churches can implement socially responsible investment practices within this framework.

One place to start is to determine whether your congregation has investments and, if so, to understand how they are currently invested and managed. This information is normally available from the congregation's trustees. If your congregation does not have investments, you may wish to turn to the final chapter of this guidebook, which addresses the issue of social responsibility in banking (see page 87).

If your congregation is unfamiliar with socially responsible investment, you may want to learn more (e.g. through study groups and speakers). Information on all aspects of socially responsible investment is available from many of the organizations listed in this guide. The next step is to develop an investment policy or, if your congregation already has a policy, to develop a section of the policy addressing socially responsible investment. In one congregation, the process of considering socially responsible investing began with a member's motion at a congregational annual meeting asking the trustees to look into the concept of ethical investment. In others, the initiative can come from the Board or the trustees themselves.

ESTABLISHING AN INVESTMENT POLICY

An investment policy sets out goals for the investment of church funds and policies for how investment funds are administered. Although investment decisions are the responsibility of the trustees, the investment policy should be considered and approved by the church Board or Council. The Board may also ask that the policy by reviewed by the congregation as a whole.

In developing an investment policy, consulting lawyers and investment professionals will assist in ensuring that the policy complies with the trustee act of the province or territory where the congregation is located and meets the financial needs of the congregation. Among the points an investment policy might address, depending upon its size, are:

- the amount of income needed from the fund;
- the level of acceptable risk;
- the mix of different types of assets (fixed income, equities, cash, real estate, community economic development funds);
- the way the assets will be held (directly or through a financial institution);
- the selection, hiring, evaluation, and termination of an investment manager;
- criteria for evaluating investments, including social and environmental performance and corporate governance;
- roles and responsibilities of those responsible for investment decisions;
- rules for dealing with conflicts of interest;
- the process for regularly reviewing investment performance;
- the process for periodically reviewing objectives and policies;
- reporting to the congregation and other church bodies.

Many investment choices are available to congregations, including term deposits, bonds, common and preferred shares, as well as international development and community-based investment vehicles. The differing characteristics of each of these should be con-

Choosing an investment advisor/stock broker

When interviewing prospective investment advisors, what questions should an investment committee or Board of Trustees ask? In addition to questions related to the candidate's abilities in the financial realm, interviewers will also want to assess the candidate's knowledge of and capacity to work with the church's socially responsible investment goals. Here are a few suggestions for questions:

1. Are you willing to include corporate social and environmental responsibility as one of the criteria you use in making investment recommendations?
2. What range of socially and environmentally screened investments do you offer (stocks, mutual funds, index funds)?
3. What sources of independent information on social and environmental performance do you use?
4. Are you a member of the Social Investment Organization or any similar organization?
5. Do your clients include any other churches or charitable trusts? Do you have other clients who use social and environmental performance criteria in selecting investments? If so, what percentage of your business is socially responsible investment?
6. Do you have any connection with The United Church of Canada?

A congregation making investments in community economic development funds or other, alternative investments will need other sources of advice about selecting these investments, but should ensure that the financial advisor takes these investments into account in making recommendations.

sidered when creating an investment policy. An example of an investment policy from one United Church of Canada congregation, Trinity-St. Paul's United Church in Toronto, is contained in Appendix II (see page 103).

INVESTMENT SUB-COMMITTEE

Because the care of a congregation's investment is only one of the many duties of church trustees, the trustees of congregations with substantial investments may appoint an investment sub-committee. An investment sub-committee can assist and advise the trustees on matters such as the development of policy and assessing investment performance.

DELEGATING INVESTMENT DECISION-MAKING

Trustees often rely on the advice of professional managers to assess investment strategies and choices, but the trustees themselves are responsible for all final investment decisions. This has, in the past, created confusion about the extent to which trustees are permitted to delegate investment decision-making to financial professionals. One advantage of the new Ontario Trustee Act is that investments in mutual funds or common funds are now explicitly permitted. In the past they were considered to be a form of delegated decision-making and therefore unsuitable. Other than in the case of mutual funds or common funds, the right of trustees to rely on investment managers for the selection of individual stocks is not defined in the Act. Trustees may use the services of a financial institution to carry out the purchase or sale of investments, but investment decisions cannot be delegated.

EVALUATING INVESTMENT PERFORMANCE

Part of overseeing church investments is evaluating the financial results of investment decisions. One way to do this is to compare the financial returns of the church's investment against a benchmark such as the Toronto Stock Exchange 300 Index. If the church applies social and environmental screens to its investment program, however, measuring the performance of the screened investments against an unscreened index is not a valid comparison. A more accurate assessment of the performance of a congregation's investment manager is achieved by comparing the church's performance with the performance of a similary screened index. The Jantzi Social Index in Canada and the Domini Social Index in the United States mentioned earlier (pages 40–43) are designed exactly for this purpose. Benchmark performance measures for screened bond investments and for typical community economic development investments have not been developed.

POLICIES OF THE NATIONAL FINANCIAL SERVICES UNIT

The investments of the national United Church of Canada are managed by external managers overseen by a committee of volunteers. The church's socially responsible investment policies are implemented with the assistance of information gained through cooperation with ecumenical bodies such as KAIROS: Canadian Ecumenical Justice Initiatives whose combined work incorporates that of the former Taskforce on the Churches and Corporate Responsibility. Regular and business news sources and the church's members, staff, and overseas partners are also valuable resources.

Many individual congregations look to the Financial Services Unit of The United Church of Canada for help in managing their investments. By law, the national church is prohibited from offering investment advice or recommending investments. As a result, staff of the Unit cannot advise local congregations on whether to purchase shares in a particular company.

Notwithstanding this restriction, the socially responsible investment policies and practices developed over many years by the Investment Committee of the Division of Finance can serve as examples to congregations.[31] The basic statement of policy on socially responsible investment is contained in the Statement of Investment Policies and Procedures for The United Church of Canada Defined Benefit Pension Plan.[32]

[31] Bill Davis "The United Church of Canada and Socially Responsible Investing," in Moira Hutchinson (ed.) *Moderator's Consultation on Faith & the Economy, Theme IV: Corporate Responsibility*. (Toronto: United Church of Canada) 1999. On-line at www.faith-and-the-economy.org.
[32] Statement of Investment Policies and Procedures for The United Church of Canada Defined Benefit Pension Plan available from the Financial Services Unit, General Council Offices.

5
Investment Screening and Evaluation

One of the most common methods for ensuring appropriate investment choices is the development of social and environmental criteria that embody the values and beliefs of the congregation. These criteria are often refered to as "screens." Companies that pass through the screens are suitable for investment from a socially responsible investment viewpoint. Social and environmental screens can be coordinated with the investment selection process in several ways. Some investors provide their investment managers with lists of acceptable companies from which potential investments may be chosen. Other investors consider financial suitability first and then use social and environmental screens to select between equals.

Approaches to investment screening are often divided into two types: exclusionary screens and qualitative screens.

EXCLUSIONARY SCREENS

Exclusionary screens eliminate companies that engage in activities that conflict directly with the core values of the investor. Examples of commonly used exclusionary screens are:

- tobacco product manufacturing,
- gambling,
- brewing and distilling, and
- the production of components for nuclear weapons systems.

Companies that engage in excluded activities might produce other goods and services. In developing exclusionary screens, congregations will consider which kinds of economic activity conflict fundamentally with their purpose.

Exclusionary screens often set a threshold for the maximum percentage of excluded activities in which a company can engage.

Ethical Funds Inc.

The Ethical family of mutual funds, sold through the credit union system, uses both exclusionary and qualitative screens:

- Ethical Funds invests in companies that do not derive a significant portion of their income from the production of tobacco products.
- Ethical Funds invests in companies that provide products and services primarily for civilian, rather than military purposes.
- Ethical Funds does not invest in companies that derive their income from the generation of power from nuclear fuel sources, or from companies engaged in the exploration, mining, milling or refining of uranium.
- Ethical Funds looks for companies that encourage progressive community, industrial, and employee relations.
- Ethical Funds looks for companies that respect human rights and, when possible, encourage governments to establish progressive human rights practices.
- Ethical Funds looks for companies that show leadership in environmentally conscious practices.[33]

[33] Ethical Funds Inc., *Annual Report 1999*, Vancouver, B.C.

QUALITATIVE SCREENS

Exclusionary screens do not suit all social and environmental critiera. Some screens identify preferences for certain activities. In other cases, they may influence the decision between two similar investment opportunities. Such screens are often referred to as "qualitative" screens. For example, the policy of the Friends Provident Stewardship Fund (a pioneer in British ethical investing) is "to invest in companies which make a positive contribution to society." Among the qualitative investment screens used to assess social and environmental issues are: employee relations, environment, community, diversity, and human rights.

United Methodist Church

The United Methodist Church, U.S.A. uses the following qualitative screens:

To the extent that investments are consistent with the trust imposed upon the General Board, investments in those industries, companies, corporations, and funds deemed likely to make positive social, moral, and economic impact on society shall be sought, which are expected to fulfill one or more of the following:

- nurture climates in which human communities are maintained and strengthened for the good of every person;
- support the concepts of family and equal opportunity of life, health, and sustenance of persons;
- provide opportunities for persons with handicapping conditions, and for all persons irrespective of sex, age or race; and
- support the rights and opportunties of children, youth, and the aging.[34]

[34] From *Investment Policy, General Board of Pension and Health Benefits of the United Methodist Church, U.S.A.*

THE BEST COMPANIES IN EACH SECTOR

A third approach to investment screening is to choose from within each economic sector — such as forest products, communications, or manufacturing — the companies with the best overall social and environmental record. In this approach to social investment evaluation, each company's record is assessed in relation to that of its industry counterparts. This recognizes that some sectors of the economy — such as the forestry, mining, and petroleum industries — have significant and direct social and environmental impacts. However, rather than eliminating all companies in a particular sector, this approach to investing identifies socially responsible leaders in each sector.

Such assessments necessarily recognize that a company may have strengths in one area and concerns in another. In the end, decisions about whether to invest in a company that has both strengths and weaknesses requires trustees to balance competing interests and expectations. By seeking out those companies in each sector that have the strongest social and environmental record, rather then ruling out whole sectors, portfolios can retain greater diversity and can reward companies that are leaders in social responsibility.

COMBINING SCREENING AND THE "BEST OF SECTOR" APPROACH

Exclusionary screens, qualitative screens, and the identification of the most socially responsible companies in each sector can be used together to develop a comprehensive program for selecting investments:

- Companies and sectors whose businesses fundamentally conflict with the mission of the congregation (e.g. gambling, tobacco) are excluded.
- Qualitative criteria are established to rank the performance of corporations according to a broad range of themes.
- Leading companies in each sector (except those excluded) are identified.

FROM INVESTMENT POLICY TO INVESTMENT CHOICE

As trustees move from creating an investment policy to making investment choices, they face a new set of questions. What are the standards used to measure whether a company's operations conform to social and environmental aspects of investment policy? How do trustees determine whether a particular company meets these standards? What resources are required to implement a socially reponsible investment policy?

STANDARDS FOR COMPANY PERFORMANCE TO GUIDE INVESTMENT DECISIONS

A church investment policy expresses in a few words the congregation's commitment to socially responsible investment. Clarifying and interpreting the meaning of this policy in particular situations calls for more detailed criteria or guidelines. Fortuntately, trustees can make use of much work that has already been done in this area by other investors.

One valuable resource for congregations is the *Principles for Global Corporate Responsibility: Benchmarks for Measuring Business Performance* (www.web.net/~tccr/benchmarks). The Taskforce on the Churches and Corporate Responsibility, in conjunction with its British and American counterpart organizations, created this series of "benchmarks" for corporate social responsibility and along with it compiled and published nearly two dozen examples of other international principles and standards developed by governments, corporations, and non-governmental organizations.[35]

In some sectors, such as textiles, forest products, and coffee, non-governmental organizations or joint NGO–industry initiatives are

[35] Taskforce on the Churches and Corporate Responsibility *Principles for Global Corporate Responsibility: Benchmarks for Measuring Business Performance.* (Toronto: Taskforce on the Churches and Corporate Responsibility) 1998. (www.web.net/~tccr/benchmarks)

developing certification and labelling schemes. If a company operates in a sector where certification or labelling has been developed, whether or not it meets these criteria, this is another form of standards against which corporate performance can be measured.[36]

If your church uses the services of a professional investment advisor who is unfamiliar with socially responsible investment criteria, extra guidance may be required to clarify how the church's investments translate into recommendations for the purchase or sale of securities. There are many existing standards that establish useful criteria for assessing a company's performance in relation to church policy. Examples include:

- codes of conduct with independent verification,
- government legislation and standards set by multilateral institutions,
- International Labour Organization core labour rights, and
- corporate governance standards regarding maximizing access to information and corporate decision-making processes such as those developed by the Pension Investment Association of Canada.[37]

ASSESSING WHETHER INDIVIDUAL COMPANIES COMPLY

Many sources of information are available to investors to assist in interpreting whether a particular investment meets the criteria of a socially responsible investment policy. These include:

- information available from the company, such as the quarterly and annual reports, environmental reports, policy statements, and news releases;

[36] See for example: Forest Stewardship Council Canada (www.fsccanada.org), Transfair Canada (formerly Fair TradeMark Canada) (www.transfair.ca), and the Maquila Solidarity Network (for information about apparel industry certification systems) (www.maquilasolidarity.org).

[37] Moira Hutchinson "From Corporate Responsibility to Social Accountability," in Ted Reeve (ed.) *God and the Market.* (Toronto: United Church Publishing House) 2000, p. 131.

- information from regular and business news sources; and
- information from services that specialize in providing social and environmental profiles of publicly traded corporations. These services are often too expensive for a single congregation, but an investment advisor who is making recommendations on the basis of such information will likely be a subscriber to such a service, and trustees may request copies of the profiles on the companies being recommended for investment.

The two primary Canadian sources of this information are EthicScan Canada (www.ethicscan.on.ca) and Michael Jantzi Research Associates (www.mjra-jsi.com). EthicScan Canada provides ethics consulting services, corporate social responsibility research, and education in ethical investing and screening. Michael Jantzi Research Associates monitors and reports on the environmental, labour, and social performance of more than 400 Canadian corporations. It also provides consulting services to help institutions define, develop, and implement investment screens. Profiles of the social and environmental performance of Canadian publicly traded corporations are available from both companies.

FINDING HELP IN IMPLEMENTING A SOCIALLY RESPONSIBLE INVESTMENT POLICY

As socially responsible investment grows in Canada, so too does the number of products and services available to assist trustees.

- Some professional investment advisors specialize in managing investment portfolios that apply social and environmental screens. One source of information on investment professionals is the Social Investment Organization (www.socialinvestment.ca), which makes available a list of its professional members.
- Canada now has several screened mutual funds, and these may be considered by trustees in provinces and territories where trustees are permitted to invest in mutual funds. Some funds apply

broad social screens covering a wide range of criteria.[38] Others apply narrower critera or a single criterion.[39]

- Socially screened "index" funds have been available in the U.S. for several years and in Canada beginning in 2000. Index funds own shares in all companies that make up a standard benchmark stock index. This guarantees average returns and minimal management fees. A screened index fund holds stock in only those companies that pass social and environmental screens. In Canada, United Investment Counsel offers two screened index funds: the Socially Responsible TSE300 and the United Socially Responsible U.S. equity index funds. They are designed to match the returns of the TSE 300 and the Standard & Poors 500, but only hold shares in companies that meet the funds' social and environmental screens.[40] A new screened index fund is also available, Real Assets Investment Management (www.realassets.ca).

Screening is a basic tool for socially responsible investors. By choosing investments that are consistent with the mission of The United Church of Canada, congregations and church-related institutions demonstrate responsibility for the social and environmental consequences of their financial decisions. Corporations, however, are complex and changing. What happens when, after the application of careful selection criteria, congregations find that a company in which they own shares is engaged in an activity that causes concern? This is the question we will take up in the next chapter.

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[38] Investors SUMMA (www.investorsgroup.com), Ethical Funds (www.ethicalfunds.com), the Universal Global Ethics Fund (www.mackenziefinancial.com), and the Acuity Social Values Mutual Funds (www.acuityfunds.com).

[39] Desjardins Environnement (www.desjardins.com), Clean Environment (www.cleanenvironment.com), and the Mavrix Sustainable Development Fund (www.mavrixfunds.com).

[40] United Investment Counsel Inc., Vancouver, B.C.

"The limits to screening," Jesse Smith Noyes Foundation investment policy (1998)

The Foundation recognizes that screening is a blunt instrument for achieving change. The screens typically employed by money managers are broad and imprecise with respect to the Foundation's mission. Companies that are deemed acceptable by many social investment screens may not be acceptable to the Foundation. Further, the impact of screening portfolios on the behaviour of investee companies is generally indirect and limited. Screening has limited impact on the cost of capital to companies, although that impact might increase in the case of small capital companies and over time as the cumulative capital under management in screened accounts increases. On the positive side, interactions among committed money managers who screen, the Foundation Board and staff, and investee companies can play a role in influencing corporate behaviour and changing corporate culture.

6

Shareholder Activism:
Communicating with Corporations and Shareholders

Even after exclusionary and qualitative screens have been applied and only those companies with the best social performance have been chosen from each sector of the economy, concerns about the social and environmental impact of corporate behaviour might still arise. When such problems occur, one response is to divest or sell the investments. This is based on the idea that, if you don't like how the company is acting, you should "vote with your feet" and sell its stock.

An alternative approach in such situations is to raise concerns with management, directors, and other shareholders and, where appropriate, to seek changes in corporate policy and operations. In such a case, the shareholder may become involved in activities such as meetings with senior managment, raising questions at annual meetings, and filing formal shareholder resolutions on which each shareholder may vote at the annual meeting. Engaging in this process offers the potential to clarify issues and bring about an appropriate, constructive resolution. Being such an active shareholder is an option primarily when trustees hold equities directly, rather than through a mutual fund. (We will review the options for investors in mutual funds on page 74.)

For smaller investors, such as an individual congregation, being an active shareholder can begin with a few simple steps:

- Periodically review the congregation's investments to ensure that the companies in which church funds are invested are consistent with the church's mission as expressed through its investment policy.
- When a concern arises, gather information about the situation. Write to the corporation involved to alert it to your concern and solicit its views. If a fair resolution of the matter presents itself, put this forward in a follow-up letter once you have heard the corporation's side of the story.
- Contact other organizations, such as the Taskforce on the Churches and Corporate Responsibility and the Canadian Churches for Justice and Peace, to determine whether they too are aware of and concerned about the issue (www.web.net/~tccr).

The dialogue between concerned shareholders and a corporation usually begins with correspondence and is followed by a request for a meeting with senior management. If an issue remains unresolved, shareholders may attend the company's annual meeting and ask a question from the floor.

SHAREHOLDER RESOLUTIONS

If letters, meetings, and public questioning of a corporation do not resolve matters, shareholders may file a shareholder resolution. A shareholder resolution is a proposal submitted by one or more shareholders for consideration and voting by all of the corporation's shareholders. The text of the resolution is circulated by the corporation to all shareholders at the time of its annual meeting along with a ballot.

Filing a resolution is a shareholder's right under the Canada Business Corporations Act and most similar provincial statutes. If the shareholder and the resolution meet the requirements of the Act, a corporation is required to distribute it. Unfortunately for shareholders in Canadian companies, however, the application of the shareholder resolution provision gives a great deal of leeway to corporations to interpret when they are or are not required to circulate them. The result is that at best no more than one or two resolutions addressing the social consequences of corporate operations are circulated each year. In addition, several dozen proposals related to corporate governance issues are also circulated. Legislation in the United States is much less restrictive in this regard. As a result, more than a hundred "social" proposals are circulated for voting annually. Below is a typical shareholder resolution, in this case, one filed with Talisman Energy Inc., a Calgary-based petroleum company.

Talisman Energy Inc. Shareholder Proposal (2000)

BE IT RESOLVED that the shareholders ask the Board of Directors to:

(a) issue within 180 days an independently verified report on the company's compliance with the International Code of Ethics for Canadian Business and with internationally accepted standards of human rights, including steps taken by the company to ensure, to the extent feasible, that revenues which are received by the Sudanese government from the company's involvement in the Greater Nile Petroleum Operating Company are not being used to finance the government's war efforts;

(b) provide shareholders a summary of the report and make the full report available to shareholders and the public upon request; and

(c) in consultation with an independent third party, develop and implement procedures for monitoring the company's compliance with the International Code of Ethics for Canadian Business and with internationally accepted standards of human rights, and issue annually to shareholders an independently verified report on the company's compliance.

Supporting Statement

Because Talisman Energy owns a 25% interest in the Greater Nile Petroleum Operating Company in Sudan, our company risks sanctions by investors and governments that could harm shareholders financially. These threatened sanctions arise from the Sudanese Government's record of human rights abuse, from a civil war in Sudan that has resulted in two million civilian deaths, and from the major role of petroleum in that conflict.

As shareholders in Talisman Energy, we believe such risks are best dealt with by the company adhering to internationally accepted standards of human rights and providing shareholders, governments, and the general public with independent verification of the company's compliance with these standards. The company's adoption of the International Code of Ethics for Canadian Business will limit shareholders' exposure to significant negative impacts only if its implementation is accompanied by independent monitoring and reporting. Shareholders require adequate factual information on which to base their judgments.

If through such a process the Board concludes that it cannot operate in Sudan in a manner consistent with internationally accepted human rights standards, the Board should consider ceasing operations there until such time as the Board determines that it can meet those standards.

FILING RESOLUTIONS ENCOURAGES CORPORATIONS TO DISCUSS ISSUES

The filing of a resolution by shareholders is a strong incentive to corporations to engage in further dialogue with shareholders even without the matter coming to a vote. In many cases a solution is found before the resolution comes to the floor of the annual meeting. If an agreement is reached, the resolution can be withdrawn, avoiding adverse publicity for the company.

The United Church of Canada was a pioneer in filing shareholder resolutions in Canada 20 years ago. It was one of the first Canadian shareholders to file, along with other church organizations, a proposal related to the social consequences of a corporation's activities and it continues to be active in this way.

Filing shareholder resolutions can be a complex and demanding process, and one in which individual United Church congregations may not be prepared to engage. Voting on shareholder resolutions is a much simpler exercise of corporate responsibility, yet, without specific proxy voting procedures in place, many church organizations that own shares inadvertently vote against proposals put forward by other church organizations without the benefit of thoughtful deliberation. The reason is that, in most cases, proxy voting has been handled by investment managers who vote according to their own standards. This situation can be addressed by including proxy voting guidelines and procedures in your congregation's investment policy. (*A discussion of proxy voting continues on page 71.*)

Shareholder Resolutions Submitted by The United Church of Canada, 1990-2000

The United Church of Canada uses the proxies it holds in companies through its General Funds and its Pension Fund to encourage corporate social and environmental responsibility. Its representatives have corresponded and met with the senior management of companies, attended the companies' annual meetings to make statements and ask questions, and have filed shareholder resolutions. The filing of shareholder resolutions constitutes the most public form of shareholder action. The United Church of Canada was a pioneer in this, co-filing with other church shareholders the first shareholder resolution to address the social impact of a Canadian corporation's activities. The company was Alcan, the year was 1981, and the issue was apartheid in South Africa.

In this first foray into the filing of a shareholder resolution, The United Church of Canada and other filers asked Alcan Aluminum to examine its operations in South Africa, particularly its minority stake in Hulett Aluminum, and report back to shareholders prior to the next annual meeting. By the time they filed the resolution, the churches had been corresponding with Alcan about apartheid for almost a decade. The results of the vote surprised everyone. Nearly 9 percent of shareholders supported the church resolution, a level of support still considered significant by corporate managers and observers.

The following list sumarizes 15 United Church shareholder resolutions filed in just the last 10 years and provides a snapshot of this one aspect of shareholder responsibility by The United Church of Canada. Not all resolutions reached a vote on the floor of the company annual meeting. In four cases (three of which were in the petroleum sector), the companies refused to circulate shareholder proposals. In seven cases, the proposals were withdrawn after filing because the company agreed to take steps in keeping with the intent of the proposal. Two proposals were defeated, and one was carried. Much of this work has been carried out in coordination with other church members of the Taskforce on the Churches and Corporate Responsibility.

A more complete report of United Church shareholder actions would also include its participation in meetings with the senior management of companies and its voting of its proxy on shareholder resolutions put forward by other shareholders and by management. (See TCCR annual reports.)

Year	Company	Subject	Result
1990	Royal Bank	International debt crisis	Withdrawn. Bank agreed to enclose with the proxy circular a church position statement and the bank's response.
1990	Noranda Inc	Forest land management	Defeated. 8% in favour. Company soon after agreed to publish an environmental report for its forest and mining divisions.
1991	Royal Bank	Link tax relief to international debt relief	Bank agreed to enclose with the proxy circular a church position statement and the bank's response.
1993	Petro-Canada	Establish a code of conduct	Withdrawn. Company agreed to establish policy.
1993	BCE Inc	Confidential voting	Withdrawn. Company agreed to establish a policy.
1994	Thomson Corp.	Confidential voting	Withdrawn. Company agreed to establish a policy. (Filed by Bloor Street United Church Trustees.)
1994	Placer Dome Inc	Confidential voting	Carried (51.5% in favour).
1995	BC Telcom	Confidential voting	Withdrawn. Company agreed to establish a policy.
1996	Ranger Oil Ltd	Board diversity	Refused to circulate.
1996	IPL Energy Inc	Board diversity	Withdrawn. Company agreed to develop a policy.
1996	Barrick Gold	Board diversity	Withdrawn. Company agreed to develop a policy.
1997	Northern Telecom	Board diversity	Withdrawn. Company agreed to develop a policy.
1999	Imperial Oil	Climate change	Refused to circulate.
1999	Talisman Energy	Human rights & Sudan	Refused to circulate.
2000	Talisman Energy	Code of conduct for Sudan	Defeated (27% in favour).

PROXY VOTING

Prior to each corporate annual meeting, and occasionally when special decisions must be approved, corporations send to all shareholders a form of ballot known as a proxy. On the proxy form are listed items on which shareholders vote. The most common of these are the election of directors and the appointment of an auditor. In addition to such regular items of business, the proxy circular can also include:

- financial issues such as mergers and other corporate actions,
- corporate governance issues,
- social and environmental proposals.

Proxy voting is emerging as an issue of increasing importance, as trustees in many countries are required to demonstrate that they are voting in the best interests of their beneficiaries. At the same time, institutional investors are adopting a more active approach to the governance of the corporations in which they own shares. Such matters as the suitability of directors, the independence of auditors, poison pills, and executive compensation are coming under scrutiny.

WHO VOTES THE PROXY?

Depending upon the way a congregation's investment funds are invested and managed, the authority for voting proxies varies. For example, if funds are invested in individual common stocks, then trustees may choose to vote their own proxies or to delegate the voting to their manager. If funds are invested in pooled or mutual funds or in most index funds, then the fund manager will decide about issues pertaining to the companies held in the fund. In cases where trustees do not directly control the voting of proxies, they may still indicate their preferred vote to fund managers, ask for a report on how the manager voted, and make the proxy voting record part of the manager's evaluation.

Each proxy vote comes with a recommendation from the management of the corporation issuing the proxy. Investment firms generally vote according to this recommendation. In the case of shareholder resolutions addressing a corporation's social responsibilities, management almost universally recommends voting against the proposal.

The capacity to direct the voting of proxies is one criterion trustees may consider when assessing various investment management options. If the trustees maintain the authority to vote, this can be carried out by directly voting the proxies, by delegating proxy voting to an investment manager, or by delegating voting to a proxy voting service. In the latter two cases, general direction is often provided by proxy voting guidelines.

ESTABLISHING GUIDELINES ABOUT HOW TO VOTE

The practical aspects of proxy voting entail developing guidelines for how to vote and putting in place a voting procedure. The proxy voting guidelines of The United Church of Canada are reproduced in Appendix III (see page 113) and serve as a guide for the kinds of issues a policy can address, such as the election of boards of directors, shareholder rights, and takeover protection. When voting on social and environmental proposals, The United Church of Canada guidelines state that,

> On a case by case basis we will support shareholder resolutions, either from TCCR or any other sponsor, so long as they are objective and reasonable, and in accordance with these guidelines.[41]

Additional guidance about social and environmental proxy voting criteria can be obtained by consulting the guidelines applied by some major institutional investors. Examples include the Proxy Voting Guidelines of the Domini Social Equity Fund (www.domini.com/

[41] Division of Finance *Proxy Voting Guidelines and Procedures.* (Toronto: The United Church of Canada) March 1998.

shareholder-advocacy/Proxy-Voting/index.htm#), the Ontario Municipal Employees Retirement System (www.omers.com/investments/proxyvoting_guidelines/contents.htm), Working Enterprises Ltd.[42], and the Corporate Governance Standards of the Pension Investment Association of Canada (www.piacweb.org/about_/corp_gov_standards.cfm). These guidelines address topics such as environmental protection, labour rights, human rights, nuclear energy, and military issues.

HOW DO WE KNOW HOW TO VOTE?

To help trustees decide how they will vote, advice is available from investment research firms and other organizations. The Taskforce on the Churches and Corporate Responsbility (tccr@web.ca) issues alerts to members and supporters describing social and environmental proposals on the ballots of Canadian corporations. The Interfaith Center on Corporate Responsibility publishes an annual list of American social responsibility shareholder resolutions.[43]

In Canada, Fairvest Proxy Monitor Corporation (www.fairvest.com) provides detailed analysis of corporate governance issues, but generally does not comment on social and environmental shareholder resolutions. Several large American-based proxy services provide commentary on a wide range of proxy issues for major companies in the United States, Canada, and other countries.[44]

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[42] Susan Sanderson *Investing in our Future; Proxy Guidelines for Union Trustees.* (Vancouver: Working Enterprises Ltd.) May 1999.

[43] Interfaith Center on Corporate Responsibility, 475 Riverside Drive, Room 50, New York, New York 10115; tel: 212-870-2295; info@iccr.org; www.iccr.org;

[44] Three U.S. proxy advisory services providing analysis of social and corporate governance proposals in the U.S. and internationally are ProxyMonitor Socially Responsible Investor Service (www.proxymonitor.com/services/serv5.htm), Investor Responsibility Research Center Proxy Voting Agency Service (www.irrc.org/products/gss/globalpv.html), and Institutional Shareholder Services Social Investment Research Service (www.isstf.com/products/sirs/index.html).

Proxy Voting Options

Three options for managing proxy voting according to the congregation's policy are to:

- receive and vote proxies directly (this can be done by telephone, Internet, fax, and mail);
- delegate voting to your investment manager with arrangements to ensure that voting is consistent with the congregation's policy; or
- delegate voting to a specialized proxy voting service.

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

A corporation's effect on society and the environment is linked to how it is governed, so socially responsible investors often pay close attention to corporate governance issues. Such issues include board diversity, auditor conflict-of-interest guidelines, executive compensation, and the dilution of shareholder value from granting of excessive options. The Corporate Governance Sub-Committee of the former Taskforce on the Churches and Corporate Responsibility has paid special attention to these issues.

SHAREHOLDER ACTION AND MUTUAL FUNDS

If a congregation's investments are held in a mutual fund, its options for communicating with companies whose stock is held by the fund are limited. It can keep abreast of current issues in relation to companies held by the fund, and communicate concerns about any of these companies through letters to the managers of the mutual fund or to management of the companies if possible. However, the large number of companies held in most mutual funds makes such monitoring and research difficult for small institutional investors.

Some socially screened mutual funds have started to augment their screening with a program of corporate dialogue and the filing of shareholder resolutions. For example, in December 2000, Ethical Funds Inc. filed shareholder resolutions on predatory lending practices with New York–based Citigroup and on sweatshop and child labour standards with U.S. retail giant Walmart. Activist funds communicate with company management when issues of concern arise that are not addressed in the screening process. So far, only one screened mutual fund in Canada has published its proxy voting guidelines. They can be found at Ethical Funds (www.ethicalfunds.com/content/sri/index.asp).

7
Community Economic Development Finance

Anticipate charity by preventing poverty[45]

Within local communities, both at home and abroad, opportunities exist to invest in ways that bring benefit to individuals and the community alike. However, conventional sources of investment are often not available to fill these needs because the people involved have low incomes or few assets, or because they have chosen a form of organization such as a cooperative or non-profit society. The United Church of Canada and its members have a long tradition of engagement in community economic development. This chapter of the guidebook explores some approaches to congregational involvement in community economic development finance.

INVESTING LOCALLY

Community economic development focuses on helping overcome poverty and on promoting social well-being at the local level. It encourages initiatives that grow out of the needs of communities and counteracts the downward spiral of job loss, business closures, and

[45] Moses ben Maimon (Maimonides, 1134–1204) quoted in "Religious Institutions as Actors in Community-based Economic Development." (New York: SEEDCO) 1988.

service withdrawals that communities may experience in times of economic distress.

Investments are often small-scale and community-based or regional initiatives. The most common purposes are the construction or renovation of affordable housing, job creation, and the provision of community services. In less developed countries, the provision of small amounts of capital (often as little as a hundred dollars) to support "micro-enterprises" is an expanding activity.

> If there be among you a needy person, one of your brothers, within any of your gates, in the land which the Eternal your God gives you, you shall not shut your hand from your needy brother; but you shall surely open your hand to him and shall surely lend him sufficient for his need, as to that which he is lacking. (Deut. 15:7–8)

Because neither investors nor those needing investment for community economic development are readily served by traditional financial institutions, such as the major banks or investment underwriters, alternative institutions are emerging to perform the functions of connecting those in need of financing with those who seek to invest in ways that target social needs. The role of an investor in a situation like this is best illustrated by an example.

Imagine a town that needs a shelter for homeless youth. A non-profit society is prepared to purchase and operate a residence for this purpose. It has secured operating funds, but traditional lenders are unwilling to provide a mortgage because the organization cannot provide adequate security. A local community loan fund confirms the sources of operating funding, assesses the capacity of the board of directors of the non-profit society, and determines that the local community has a need for this service. The fund agrees to finance the purchase and the new shelter at normal mortgage rates.

The community gains a new, much-needed service and the investors receive a fair rate of return. The difference between the traditional lender and the community loan fund is in the latter's capacity and willingness to assess the risk of lending in a situation like this.

Often, organizations seeking loans or investments to finance the development of community enterprises require special support. Extra time and resources may be required from the investor or from an associated organization, to help applicants fill out forms, to evaluate and approve the application, and to support applicants if they are approved for financing.

UNITED CHURCH EXPERIENCE

From Vancouver Island to Newfoundland, The United Church of Canada both nationally and locally invests in community economic development. Sometimes it is undertaken directly, and at other times the United Church has worked through other organizations. Here are four examples:

- The Montreal City Mission is a social justice ministry of The United Church of Canada that works together with marginalized populations in the inner-city core of Montreal. The Mission has been involved for many years in helping develop and manage non-profit housing. Recently, when it received a bequest, the principle was invested traditionally, and the income was used to support programs. After several years, however, the Mission decided that its goals would be better met if the funds were invested more directly in the community. Now, through the Montreal Community Loan Association and other organizations, the Mission is receiving both a financial and social return in the community where it works.

- In the 1980s, the former Division of Mission in Canada received a grant for community economic development activities from a foundation in the 1980s. Some of these funds were earmarked for community economic development finance. After several years of operating a loan fund internally, the Division joined the Canadian Alternative Investment Co-operative (CAIC). CAIC was founded in 1984 by 10 Catholic religious organizations as a cooperative vehicle for investing in socially beneficial projects in Canada. Today, CAIC has more than 50 members and operates three funds, each targeting a slightly different social benefit, totalling $6.5 million.

- The United Church's Riverdale Economic Ministry serves as a catalyst for economic and community development projects in the downtown Toronto neighbourhood of Riverdale. Its focus is on job creation and skills development through business development. Established in 1989 and directed by an ordained United Church minister, Riverdale Economic Ministry offers practical business counselling and support, including inexpensive shop space and office facilities. Small loans, with financial backing from Toronto-area congregations, provide initial credit to new businesses developed with the ministry's help.

- In 1975, a church-related international organization was founded to facilitate investments in self-help enterprises in less developed countries. The Division of World Outreach, United Church congregations, and individuals across Canada are among its investors. It is known as Oikocredit, formerly the Ecumenical Development Co-operative Society. To receive an investment from Oikocredit, projects must
  - provide benefits to poor and disadvantaged people;
  - produce wide benefit, not just benefit a few;
  - contribute to the communities in which they are located; and
  - demonstrate a clear need for foreign investment.

There are four other criteria projects must meet. Today, share capital in Oikocredit stands at more than $150 million.

More examples of United Church involvement in community economic development are documented in several recently published books.[46]

DIRECT INVESTMENT IN COMMUNITY ECONOMIC DEVELOPMENT

Investing in local initiatives provides a congregation with the opportunity to participate directly in community economic development. This hands-on relationship can bring both greater financial and social benefits to the congregation than less direct forms of investment. It also requires that a structure be put in place to undertake the investment, including:

- assessing the financial risk to the congregation,
- negotiating the terms of the investment,
- establishing an administrative arrangement for overseeing the loan, and
- ensuring that the new community enterprise has or acquires the necessary business and management skills.

Inevitably, not all new initiatives succeed. One way an investing institution can lessen the consequences of a single failure is sharing the risk with other investors or by investing in several enterprises at the same time. Seeking efficient ways of sharing risk, making risk assessments, and administering investments can lead the congregation to cooperate with other investors.

[46] See for example, Murray MacAdam *From Corporate Greed to Common Good; Canadian Churches and Community Economic Development*. (Toronto: Novalis) 1998; Ted Reeve (ed.) *Moderator's Consultation on Faith & the Economy, Theme V; Pushing the Boundaries: Christian Action*. (Toronto: United Church of Canada) 2000, available on-line at (www.faith-and-the-economy.org); and United Church of Canada *A Leap of Faith; From Christian Charity to Community Revitalization*. (Toronto: United Church of Canada) 2000.

WORKING WITH INTERMEDIARY ORGANIZATIONS

The number and variety of community investment organizations in Canada is growing quickly. Some serve investment needs in their own communities. Others link Canadians with community investment organizations in less developed nations. Many credit unions in cities such as Vancouver, Edmonton, Saskatoon, Winnipeg, and Toronto now host community loan funds or similar organizations. (See, for example, the Jubilee Fund in Winnipeg, page 85.) Some funds operate nationally, such as the Canadian Alternative Investment Co-operative (www.caic.ca) and the Grindstone Co-operative Venture Fund (www.grindstone.org). Others, such as the Mennonite Economic Development Associates (www.meda.org) and the Co-operative Development Foundation (www.coopcca.com) operate international community development investment funds. Intermediary organizations provide:

- a capacity for assessing the risk of investment proposals,
- legal and administrative capacity,
- pooling of risk, and
- monitoring of investment performance.

Because the costs of operating the intermediary organization are usually charged against income from investments, the income flowing to the congregation in such cases may be less than from direct investment. Investing through such organizations still requires careful assessment and monitoring. However, the demand on church volunteers is less and the consequences to the congregation if one investment fails are cushioned by the pooling of many investments. More information on community loan funds, investment cooperatives, and other intermediary organizations is available from organizations listed in Appendix I.

A new national association of loan funds

The Canadian Association of Alternative Finance (www.communityworks.ab.ca) was created in 2000 to provide alternative financing organizations, such as community loan funds, with training, information, and support. The association will help its nine founding members grow and develop to better serve their goal of providing investment capital to initiatives that relieve poverty and improve economic and social well-being.

How will CAAF support its members?

- CAAF will facilitate and increase communication and access to information for its members.
- CAAF will conduct research on alternative financing issues, such as delivery of services, impact evaluation, benchmarking development and performance, government policy, and any other issue its members deem relevant.
- CAAF will provide training and technical assistance through national training institutes, an operational manual and tool kit, and through one-on-one consultation.
- CAAF will educate the public and private sectors on alternative financing in order to create a better climate for the development of its member organizations.

For information about CAAF contact: Colin Bérubé, ACEM – Community Loan Fund 3680, Jeanne-Mance, suite 319, Montréal QC H2X 2K5; tel: 514-843-7296; fax: 514-843-6832; acem@total.net; www.total.net/~acem

COMMUNITY INVESTMENT AND FIDUCIARY RESPONSIBILITY

Working through intermediary organizations, such as community loan funds or investment cooperatives, helps with many of the challenges associated with community economic development finance, but the question remains whether such investments constitute an acceptable risk. Surprisingly, some investments carry the same protection against loss as a deposit in a chartered bank. For example, deposits at Four Corners Community Bank (www.fourcorners.bc.ca) in Vancouver or International Community Investment Deposits (www.vancity.com) at VanCity Savings and Credit Union are insured under a provincial deposit insurance plan. Investments in affordable housing can be secured against the value of the land and buildings. Sometimes it is the small size or the form of the community investments, not the risk, that causes traditional financial institutions to ignore them.

The fiduciary responsibility section of this resource discusses aspects of fiduciary responsibility in situations where there is a concern that investments may not meet risk and rate of return objectives of trustees. Among the key points made were:

- Follow well-defined investment policies.
- In those provinces and territories where appropriate, assess individual securities for their effect on the overall portfolio.
- Take advantage of risk-sharing opportunities, such as pooled funds or government guarantees.
- Consider provisions of the Canada Customs and Revenue Agency that allow registered charities to engage in community economic development.[47]

[47] Charities Division of the Canada Customs and Revenue Agency *RC4143 Registered Charities: Community Economic Development Programmes*. Available on-line at (www.ccra-adrc.gc.ca/tax/charities/guides-e.html) (Brochures and Guides) or can be requested from the Charities Directorate at 1-800-267-2384.

Jubilee Fund in Winnipeg

In Winnipeg, staff and members of the Manitoba and Northwestern Ontario Conference of The United Church of Canada are playing a key role in a new community investment program. The Jubilee Fund, launched in January 2000, is a partnership of faith organizations, including several Roman Catholic orders and the Mennonite Central Committee, as well as The United Church of Canada, working in close cooperation with Assiniboine Credit Union.

The fund was created to help people overcome problems associated with economic and social deprivation, particularly in Winnipeg's inner-city neighbourhoods. It promotes cooperative, community-based businesses, housing, and social programs by making credit available to them. Assiniboine Credit Union (www.assiniboine.mb.ca), which has a strong history of involvement in the community, will administer loans secured by the fund and sell Jubilee Investment Certificates. In less than two years of operation, the fund has reached $378,000 and 34 percent of the fund has been used to support community projects.

The Jubilee Investment Certificates are available to depositors in three- and five-year terms and pay interest at 2 percent below the rate for regular term deposits. The 2 percent is used to help pay the costs of operating the fund and to cover loan losses. The loan fund has its own manager and also makes use of the lending expertise of Assiniboine Credit Union.

Unlike regular credit union term deposits, Jubilee Investment Certificates are not a credit union product and are not insured. As a result, investors in the fund bear a higher financial risk. The founders of the fund hope to offset this risk by ensuring that the projects to which the fund extends credit have strong internal capacity, effective mentorships, and social and technical support.[48]

[48] For more information, contact the Winnipeg Jubilee Fund at 204-975-2650; jubileefund@shaw.ca.

8
Banks and Credit Unions

One of the most common and important financial relationships that a congregation establishes is with its bank branch or local credit union. Banking is the most common financial activity of United Church congregations. By depositing funds in chequing and savings accounts and term deposits at banks and credit unions, congregations make funds available for those institutions to lend and invest. In return, the church receives interest payments. Some churches are also customers of the banks through mortgages on church properties.

Often a congregation will establish its banking arrangements based on important practical considerations, such as the convenience of the branch's location, its fee schedule, or its reputation for service. Congregations may have built important long-standing relationships with the staff of local banks or credit unions.

SOCIAL EXPECTATIONS OF FINANCIAL INSTITUTIONS

What issues of social responsibility are important when choosing a financial institution? In recent years, many social concerns have arisen regarding the banking sector, such as access and affordability of services for the poor, staff availability, employment of local people, and poor service for clients who receive social assistance.

One challenge in assessing the social impact of your financial institution can be its lack of transparency. Banks, particularly the major Canadian banks, are complex, with varied lines of business including investment, insurance, credit cards, and commercial banking, as well as the more familiar retail banking services available in local bank branches. Two Canadian credit unions, VanCity Savings (www.vancity.com) in Vancouver and Metro Credit Union (www.metrocu.com) in Toronto, have conducted "social audits" of their operations focused on assessing the quality of their relationships with society. At credit unions, typically more than 80 percent of assets are loaned back to members in the form of mortgages and small business loans.

In another attempt to address the lack of transparency about how banks use their customers' money, Citizens Bank of Canada has developed an ethical policy to guide its business activities (see pages 90–91) and is conducting annual independent social audits to measure compliance with the policy. VanCity Savings Credit Union has adopted the CERES principles, a set of environmental guidelines established following the massive *Exxon Valdez* oil spill. Both have put in place processes to measure and report publicly on their compliance with these policies.

Citizens Bank of Canada, which opened its doors in 1997 and is owned by VanCity Savings Credit Union, is modelled on the "social banks" of United States and Europe, such as South Shore Bank (www.sbk.com) and Triodos Bank (www.triodos.co.uk). Social or ethical banks design banking products to meet social needs. For example, Triodos has teamed up with the Religious Society of Friends (Quakers) in England to create a special social housing account. Funds deposited in these accounts are used to finance affordable housing.

SERVING COMMUNITY NEEDS

Because credit unions are locally owned and governed, they have been often in the forefront of developing new services to meet community needs. Like banks, credit unions have rules about lending that often mean they are unable to respond directly to some of the credit needs of their communities. As a result, many credit unions have partnered with local community agencies to help serve currently under-served parts of the community. The Jubilee Fund described in the previous section is just such an example. In Toronto, Metro Credit Union has joined with the Calmeadow Foundation to deliver micro-enterprise loans through the Calmeadow Metro Fund. Such local community partnerships are a hallmark of the credit union movement.

In Vancouver, a community bank, Four Corners Community Savings (www.fourcorners.bc.ca), has been serving the Downtown Eastside neighbourhood since 1996. This Vancouver community has a high proportion of people on social assistance, and their needs were poorly meet by existing banks and credit unions. Operating from a single location at the corner of Hastings and Main Streets, Four Corners Savings is revolutionizing local banking services. The bank employs people who live in the area and designs its products to meet their special needs, encouraging small withdrawals, using appropriate identification processes, and stressing equal service to all. Vancouver's First United Church is just one block away, and the on-going informal exchange between First United and Four Courners has helped both better serve the local community.

THE MOVEMENT FOR COMMUNITY REINVESTMENT

In the United States, the Community Reinvestment Act has created a requirement that banks provide credit in the communities where they take deposits. This act was passed in part as a response to the illicit practice of "red-lining," refusing credit in certain low-income neighbourhoods. The Canadian Community Reinvestment Coali-

(*continued on page 92*)

Citizens Bank of Canada Ethical Policy

At Citizens Bank of Canada, we believe we are stewards of the money our members place with us. Therefore, we must be responsible about how we use that money.

This policy is our guide in fulfilling this mandate. It was developed through consultation with our members and employees, and with representatives of non-profit organizations working for positive social change. We will work to ensure that this policy is applied in all areas of our operations. We will never knowingly invest in or do business with companies whose practices conflict with the direction our members have given us.

Human Rights

Citizens Bank will not invest in or do business with companies that profit from forced labour, that operate or invest in countries with repressive regimes, or violate the fundamental rights of children. The Bank will actively seek relationships with companies and organizations that support fair trade, humane working conditions, and international standards of human rights.

Employee Relations

Citizens Bank will not invest in or do business with any company that has a poor record of employee relations. The Bank will be a fair employer and will actively strive to be progressive in employee relations.

Military Weapons
Citizens Bank will not invest in or do business with any company involved in the manufacture or trade of weapons, instruments of warfare or torture, or technologies primarily used for military purposes.

The Environment
Citizens Bank will not invest in or do business with companies that cause excessive environmental harm. The Bank will actively strive to minimize any environmental harm caused by its activities and seek suppliers and business members with progressive environmental practices and products.

Treatment of Animals
Citizens Bank supports the humane treatment of animals.

Sustainable Energy
Citizens Bank will not invest in or do business with any company involved in the production of nuclear energy. The Bank will support energy conservation and the use of renewable non-polluting energy by seeking suppliers and business members with similar goals.

Tobacco
Citizens Bank will not invest in or do business with any company that manufactures tobacco products or derives significant revenue from tobacco production.

Business Conduct
Citizens Bank ensures that its operations comply with the highest legal and professional standards demanded of a bank. (see www.citizensbank.ca/menuId/60841)

tion (www.cancrc.org) is a broad coalition of labour, church, and non-governmental organizations campaigning for similar legislation in Canada. In June 2001, Bill C-8, which addresses some of these concerns, became federal law, although many of its regulations will not be in effect until June 2002. The Coalition also promotes policies that it believes will bring greater transparency and accountability to banking in Canada.

BANKING AND YOUR CONGREGATION

Many congregations, particularly those in smaller communities, have few choices among financial institutions. The discussion above provides a snapshot of the range of innovative ways banks and credit unions in Canada are meeting social needs. Even where banking choices are limited, congregations may be interested in learning more about these innovations and discussing them with the institutions with which they bank.

Conclusion

Meeting the economic crisis of the spirit that we face today requires a consciousness about the relationship between the spiritual mission of The United Church of Canada and the economic life of Christian institutions. Investment is one aspect of this economic life that calls for such attention. Trustees, official Boards or Councils, and congregations all have a role to play in ensuring that investment decisions do not undermine the integrity of the church in society and take advantage of opportunities for mission.

Fortunately, socially responsible investing has grown in popularity, and many resources are available to local congregations. We are aided particularly by the leadership and example of organizations such as the Taskforce on the Churches and Corporate Responsibility and by our own Financial Services Unit.

The people appointed by congregations to serve as trustees carry an obligation both in spirit and in law to care for the assets of the church. The laws governing the actions of trustees do not explicitly define the role which the congregation's religious conviction can play in fulfilling their duties. However, decisions rendered by judges in relevant court cases offer some guidance. These point to the legitimacy of trustees giving full accord to the fundamental mission and goals of the organization on whose behalf they hold investments in trust.

Screening of investments to eliminate those that conflict fundamentally with the mission of The United Church of Canada is a long-standing church practice. Through the combined application of normal financial criteria and of "qualitative screens" that emphasise investments reflecting the church's social values, trustees may construct a portfolio of investments that provides a reasonable rate of return while paying attention to the social consequences of those investments. When situations of concern arise, as owners of shares in corporations, congregations can engage in dialogue with the management, directors, and other shareholders of companies to clarify and advance social responsibility. Opportunities for community economic development finance exist through an increasing number and variety of community investment organizations. Even in the banking arrangements congregations make, opportunities exist to connect financial decisions with the congregation's mission.

I

Appendix I
Resources

GENERAL ORGANIZATIONS

Canadian Business for Social Responsibility
620-220 Cambie Street
Vancouver, BC V6B 2M9
tel: 604-323-2714
fax: 604-323-2715
e-mail: info@cbsr.ca
www.cbsr.bc.ca

Interfaith Center on Corporate Responsibility
475 Riverside Drive, Room 550
New York, New York 10115
tel: 212-870-2295
fax: 212-870-2023
e-mail: info@iccr.org
www.iccr.org

Shareholder Association for Research and Education (SHARE)
702 – 1166 Alberni Street
Vancouver, BC V5E 3Z3
tel: 604-408-2456
fax: 604-408-2525
e-mail: info@share.ca
www.share.ca

Social Investment Forum
1612 K Street NW, Suite 650
Washington, DC 20006
tel: 202-872-5319
fax: 202-822-8471
e-mail: info@socialinvest.org
www.socialinvest.org

The Social Investment Organization
409 - 658 Danforth Avenue
Toronto, ON M4J 5B9
tel: 416-461-6042
fax: 416-461-2481
e-mail: info@socialinvestment.ca
www.socialinvestment.ca

Taskforce on the Churches and Corporate Responsibility
129 St. Clair Avenue West, Suite 21
Toronto, ON M4V 1N5
tel: 416-923-1758
fax: 416-927-7554
e-mail: tccr@web.ca
www.web.net/~tccr (General Web site)
www.web.net/~tccr/benchmarks/index.html (Benchmarks Project)

SHAREHOLDER ACTIVISM

Shareholder Activism Handbook
Friends of the Earth
1025 Vermont Ave., NW
Washington, DC 20005
tel: 202-783-7400
fax: 202-783-0444
1-877-843-8687
e-mail: foe@foe.org
www.foe.org/international/shareholder

SRI World Group, Inc.
74 Cotton Mill Hill, Suite A-255
Brattleboro, VT 05301
tel: 802-251-0500
fax: 802-251-0555
www.socialfunds.com

The Shareholder Action Network
1612 K Street NW, Suite 650
Washington, DC 20006
tel: 202-872-5313
fax: 202-331-8166
e-mail: san@socialinvest.org
www.shareholderaction.org

INVESTOR INFORMATION

EthicScan Canada Limited
Lawrence Plaza Postal Outlet
P.O. Box 54034
Toronto, ON M6A 3B7
tel: 416-783-6776
fax: 416-783-7386
e-mail: info@ethicscan.ca
www.ethicscan.ca

Investor Responsibility Research Center
1350 Connecticut Ave., NW, Suite 700
Washington, DC 20036-1702
tel: 202-833-0700
fax: 202-833-3555
www.irrc.org

KLD Research & Analytics, Inc.
Russia Wharf
530 Atlantic Avenue, 7th fl.
Boston, MA 02210
tel: 617-426-5270
fax: 617-426-5299
www.kld.com

Domini Social Investments
P.O. Box 60494
King of Prussia, PA 19406-0494
1-800-582-6757
www.domini.com

Michael Jantzi Research Associates
1906 – 372 Bay Street
Toronto, ON M5H 2W9
tel: 416-861-0403
fax: 416-861-0183
www.mjra-jsi.com

PROXY SERVICES

Fairvest Proxy Monitor Corporation
(now owned by Institutional Shareholder
Services but Web site is still live)
www.fairvest.com

Institutional Shareholder Services
2099 Gaither Road, Suite 501
Rockville MD 20850-4045
tel: 301-556-0500
fax: 301-556-0491
e-mail: ISSmarketing@issproxy.com
www.isstf.com
www.issproxy.com

Investor Responsibility Research Center
See page 97

Proxy Monitor
61 Broadway, Suite 2610
New York, NY 10006
tel: 212-785-3450
fax: 212-363-9619
e-mail: lwarren@proxymonitor.com
www.proxymonitor.com

COMMUNITY INVESTMENT

Canadian Alternative Investment Co-operative
146 Laird Street, Suite 108
Toronto, ON M4G 3V7
tel: 416-467-7797
fax: 416-467-8946
e-mail: caic@caic.ca
www.caic.ca

Canadian Association of Alternative Finance
c/o ACEM – Community Loan Fund
3680, Jeanne-Mance, suite 319
Montréal, QC H2X 2K5
tel: 514-843-7296
fax: 514-843-6832
e-mail: acem@total.net
www.total.net/~acem

Canadian Community Economic Development Network
C.P. 24
Victoriaville, QC G6P 6S4
1-877-202-2268
fax: 819-758-2906
e-mail: rdowning@canadiancednetwork.org
www.canadiancednetwork.org

Canadian Community Reinvestment Coalition
P.O. Box 1040, Station B
Ottawa, ON K1P 5R1
tel: 613-789-5753
fax: 613-241-4758
e-mail: cancrc@web.net
www.cancrc.org

Canadian Co-operative Association/Co-operative Development Foundation
400 – 275 Bank Street
Ottawa, ON K2P 2L6
tel: 613-238-6711
fax: 613-567-0658
e-mail: info@coopcca.com
www.coopcca.com

Centre for Community Enterprise
www.cedworks.com

Community Economic Development
New View Productions Ltd.
P.O. Box 1201
Sydney, NS B1P 1J6
tel: 902-567-0000
fax: 902-539-5107
e-mail: infor@ced.ns.ca
www.ced.ns.ca

Community Economic Development Technical Assistance Program
c/o CSTIER
Rm. 314, Social Science Research Building
Carleton University
1125 Colonel By Drive
Ottawa, ON K1S 5B6
tel: 613-520-2600, ext. 1588
fax: 613-520-3561
e-mail: cstier@carleton.ca
www.carleton.ca/cedtap

National Congress for Community Economic Development
Faith-Based Community Economic Development Initiative
1030 15th Street NW, Suite 325
Washington, DC 20005
tel: 202-289-9020
fax: 202-289-7051
www.ncced.org/fbi/

Oikocredit Ecumenical Development Cooperative Society
Dundurn P.O.
P.O. Box 33515
50 Dundurn Street South
Hamilton ON L8P 4W3
tel: 905-616-3112
e-mail: canada.sa@oikocredit.org
www.oikocredit.org

Oikocredit British Columbia
e-mail: vcrbc.sa@oikocredit.org/ca

II

Appendix II
Investment Policy of Trinity-St. Paul's

The following guidelines were approved by the Official Board and congregation of Trinity-St.Paul's United Church in Toronto, Ontario.

TRINITY-ST. PAUL'S UNITED CHURCH
BOARD OF TRUSTEES

Investments: Objectives, responsibilities, guidelines, and administration

Introduction

The Terms of Reference (approved by the Official Board of The Trinity-St. Paul's Pastoral Charge of The United Church of Canada) of the Board of Trustees (hereinafter the "Board"), amongst other duties, require the Board "To administer and invest all capital funds on behalf of the Congregation."

The capital funds for investment are made up primarily of the Endowment Fund and the Heritage Fund as well as any temporary balance in the 21st Century Fund, prior to expenditure on the Renovation Programme (each Fund is individually a "Fund" and collectively the "Funds").

Over the years, the Endowment Fund has been the beneficiary of many generous bequests—the two largest being from the estates of Percy G. Might and Bessie V. Sinclair. There is no restriction on the use of capital or income, which has enabled the Congregation to draw annually on the Fund to support a share of its current operating expenses as well as to finance major building repairs/replacements from time to time.

The Heritage Fund was established in 1991, with $450,000 from the proceeds of two matured mortgages from the sale of the St. Paul's Avenue Road property. The Official Board made a commitment to Toronto South Presbytery at the time to maintain the Fund in perpetuity and use its earnings to sustain the Congregation's current operations and support its outreach programmes.

The 21st Century Fund was created to provide monies to the Congregation and its Board of Trustees to complete repairs and renovations to the church building and pipe organ.

The amount of Congregational capital funds available for investment, the volatility of capital markets, and the uncertainty of the Canadian economy point to the need for a more detailed elaboration of the Terms of Reference. In addition, the Trustees think it is in their interest as well as the Congregation's to have a clearer understanding of the Board's fiduciary responsibilities with respect to The United Church of Canada (under the Model Trust Deed), the TSP Official Board (in connection with the Congregation's Mission Statement), and the requirements of the Trustee Act of Ontario.

This statement has been prepared in response to such needs. It should be noted that the Trustees are also subject to the supervision of Presbytery under the provisions of the Trusts of Model Deed, including the responsibilities outlined therein.

I. Performance Objectives

1. Subject to paragraph 2 and 3 of this section, to maximize the rate of return on investment funds based on prudent judgment.

2. To recognize the need for a degree of liquidity, regularity of income, and appreciation of capital to ensure availability of funds for transfer to satisfy both short and long term needs of the Congregation. Any transfers to the current operations of the Congregation shall be within the total designated in the approved budget or separately approved by the Official Board.

3. To allocate funds for investment in support of the Congregation's Mission Statement commitment to social justice and The United Church of Canada policy with respect to corporate social responsibility, whereby funds may be directed to categories of investment considered to be more socially desirable than financially attractive.

4. Having in mind the need to support the Congregation's operating account, so far as feasible, to maintain the capital value of the Endowment and Heritage Funds on a going-concern basis.

II. Assignment of Responsibilities

1. The Board of Trustees will be responsible for holding, investing, and administering all money and property received for the purposes of the Congregation, with the exception of the funds administered under the current operations budget. The Board shall be authorized:

   a. To dispose of the Funds in accordance with the lawful orders and directions of the Official Board of the Congregation, the Presbytery, and the Conference.
   b. To invest and re-invest the Funds, without distinction between capital and income, subject to any applicable legislation.

c. To exercise authority in the administration of the Funds, in addition to any other powers to which Trustees may be entitled by law. The Trustees shall also be entitled to employ lawyers, accountants, and other experts, advisors or agents and to appoint a custodian of all assets constituting the Funds.
d. To maintain records of all investments, receipts and disbursements, and other transactions relating to the Funds.
e. To forward to the Official Board and the Annual Congregational meeting, after the close of each calendar year, Financial Statements, as audited or authenticated through an Engagement Letter issued by a registered Chartered Accountant.
f. To receive information and advice from the Sub-Committee on Investment, when considered to be appropriate.

2. The Sub-Committee on Investment

(i) Membership

a. The Committee shall consist of at least three members and not more than five members appointed by the Board of Trustees, preferably each member will have experience in the area of financial management, law, and/or investment management.
b. The term of office is three years, with a member being eligible for re-election.
c. A quorum shall be two thirds of the membership.
d. The majority of members shall be members of the Board of Trustees.
e. The Chair and Secretary shall be elected by the members of the Sub-Committee.

(ii) Duties

a. To develop Investment Guidelines and measurable Performance Objectives, and submit these to the Board of Trustees and to the Official Board, for approval.
b. To review general economic and investment market conditions.

c. To evaluate the performance of investments by comparing performance of the investments to the Performance Objectives and Investment Guidelines.
d. To consider and, if thought advisable, to recommend the appointment and termination of an Investment Manager(s) to give advice regarding portfolio analysis and potential investments.
e. To review and submit to the Board of Trustees for approval a short term investment strategy not less frequently than annually.
f. To assess the performance of the Investment Manager(s), by means of regular reviews, to be held at least quarterly.
g. To communicate investment policy and directives approved by the Board of Trustees to the Investment Managers.
h. To consider good corporate governance, corporate social responsibility, and responsible and responsive management a major determinant of investment selections.
i. To exercise proxy voting power through the development of proxy voting guidelines which will provide guidance to the voting fiduciary in the following categories: Boards of Directors, Management and Director Compensation, Takeover Protection, Shareholder Rights, and Social Responsibility. The proxy voting guidelines will require that the voting fiduciary provide the Board with an annual report on how proxy voting power has been exercised.
j. To use external resources to assist in evaluating a corporation's governance and/or management, when appropriate.
k. To review with the Investment Manager(s) the sections of the Performance Objectives and Investment Guidelines relevant to his/her (their) responsibilities.
l. To recommend the appointment and termination of a custodian and/or a fund evaluation/measurement service, if such professionals are considered to be required by the Board of Trustees.

(iii) Meetings

Meetings shall be held at least quarterly at the call of the Chair or on the written request of at least two members of the Sub-Committee. Meetings may be held by conference telephone call.

3. The Investment Managers will be responsible, if and when appointed, for:

a. Presenting to the Sub-Committee on Investment of the Board of Trustees, at least quarterly, a written report setting out:
   (i) The cost and market value of all securities;
   (ii) The asset distribution of all securities;
   (iii) The market sector distribution of all securities;
   (iv) Commentary regarding equities on those areas of equity performance set out below in section IV.B; and,
   (v) The investment performance for each quarter of the current year and for the past year, by each asset category, and a comparison with investment guidelines and benchmarks established by the Sub-Committee on Investment.
b. Recommending the asset mix for the Funds for which they are responsible, subject to any constraints imposed herein. The recommended asset mix will be considered by the Sub-Committee on Investment as part of the regular reviews of investment strategy and performance results.
c. Recommending securities within each asset category without undue risk of loss or impairment and with reasonable expectation of fair return and appreciation, subject to the constraints imposed herein.

4. The Custodian will be responsible for:

   a. Fulfilling the regular duties of a custodian required by law.
   b. Providing quarterly to the Sub-Committee on Investment such statements as required to reflect clearly the book and market value of the funds invested, the assets held under each major

category, and the income received and disbursements made during the designated period.

III. Protection from Liability

The Congregation of Trinity-St. Paul's United Church shall indemnify and save harmless the Trustees against and from any and all losses, liability, claims, and demands by reason of their acting as Trustees hereunder, and for all reasonable legal expenses, except in respect of liability, claims, and demands arising out of their own wilful misconduct or gross negligence. In the event of any claim or demand the officers of the Board of Trustee(s) shall notify all other Trustees and the Official Board. The Trustees shall provide to the Official Board any necessary assistance, information, and cooperation to investigate, respond to, or defend any claim or action. No Trustee shall make any public statement, provide information to a claimant, or settle any claim or action without prior notice to the Official Board and all other Trustees.

IV. Investment Guidelines and Administration

A. General

Investments will be managed in order to achieve the objectives set out in Section I. In selecting, retaining, and disposing of investments the Sub-Committee on Investment shall consider diversification, asset allocation, and performance of individual securities.

B. Diversification

Diversification will be considered an important aspect of management of investments. The Sub-Committee on Investment shall attempt to achieve reasonable diversification with respect to asset classes, market sectors, term of interest bearing securities, and risk associated with investments.

C. Asset Allocation

Category	Minimum	Maximum
Equities (Canadian or non-Canadian)	25%	75%
Fixed Income	10%	50%
Real Estate	0%	25%
Cash	0%	10%

D. Performance

Performance will be measured by comparison against quantitative benchmarks, through evaluation of qualitative factors, and by measuring costs associated with managing the security.

(i) Qualitative Factors
- (1) Material Changes in
  - (a) Senior Management
  - (b) Accounting Practices
  - (c) Business Strategy
  - (d) Potential Legal Liabilities
  - (e) Market Structure
- (2) Insider Trading
- (3) Long-term intrinsic value of investment
- (4) Corporate Governance
- (5) Corporate Social Responsibility

(ii) Cost of Administration

- (1) Investment Costs
  - Investment Manager Fees
  - Trading Fees

(2) Other Costs
- Legal
- Accounting
- Research

(iii) Quantitative Benchmarks

V. Administration

Purchase and Sale of Securities

Any two of the Chair of the Board of Trustees, the Secretary Treasurer of the Board of Trustees or the Secretary of the Sub-Committee on Investment is authorized to purchase and sell securities, provided that such actions are consistent with these guidelines and that at least one of the two is a member of the Sub-Committee on Investment.

VI. Ratification

1. The investments and disposition of Funds by the Board of Trustees and the employment of any person(s) (as set out in II.1 c, above), shall be submitted annually for consideration and approval by the Official Board. This approval shall be ratified at the annual general congregational meeting. As well, the Board of Trustees may seek ratification by such other Courts of the Church as may be deemed advisable by the Board of Trustees.

VII. Sunset Provision

1. This statement and the powers and responsibilities set out herein shall expire five years following its approval by the Board of Trustees and the Official Board.

2 June 1999

III

Appendix III
The United Church of Canada Proxy Voting Guidelines and Procedures

Purpose

The purpose of these Proxy Voting Procedures is to serve as a guideline to our External Investment Manager/s, to support resolutions that will ultimately benefit shareholders, and be in line with The United Church of Canada's corporate and social responsibility investing (SRI) guidelines.

Items 1 to 4 are summarized from PIAC (Pension Investment Association of Canada) Corporate Governance Standards, the Fairvest Proxy Monitor Corp., and other sources. The United Church of Canada has no strong objection to any of these documents. Where The United Church of Canada may take a more activist role, are those non-financial issues such as Board Diversity, business activities with companies and/or countries having poor human rights and labour regimes, poor environmental records, etc.

Representation United Church Proxies

We delegate to the External Manager/s, who have agreed to these guidelines, to vote our proxies on our behalf.

The United Church of Canada reserves the right to have access to a company's proxy should an appointed Church representative wish to speak or dialogue with a company, or attend annual meetings using The United Church of Canada's proxy.

In situations where a United Church of Canada representative, related organization, or individual(s) wish to use a United Church's proxy, the Chair of the Investment Committee or his delegate must approve.

1. Boards of Directors

Independence and Nominating Committee

The preferred numbers on any Board is 10 to 15 members. A majority of independent directors is preferred. However, many Canadian companies are majority controlled. To the extent that the corporation's performance is satisfactory and is majority controlled, we would not vote against a majority of related directors.

The same applies to the independence of the nominating, audit, and compensation committees.

Confidential Voting

We support confidential voting on the premise this encourages free elections rather than coercive pressures on shareholders to exercise their proxies in a specific manner.

Cumulative Voting

Generally we are against cumulative voting. It may allow shareholders representing special interests to elect directors. This may not result in a long-term benefit to the company. An occasion when we would support cumulative voting would be to vote for a slate of independent directors where the existing directors are unresponsive to the performance of the corporation.

Classified/Staggered Boards

We prefer annual election of all directors. We would not support a proposal that proposes to move from annual to staggered voting for directors.

For companies that we invest in and have in place staggered voting for directors, that for example, votes annually for one-third of the directors for a three-year term, we are not strenuously opposed. This assumes the directors that we are voting for are serving the best interests in the company's shareholders.

Director Liability and Indemnification

Directors' liability should be limited. So long as the directors are acting in the best interests of the corporation, there should be no personal recourse from shareholder lawsuits.

Separation of Board and Management Roles

We support the principle that the Chair and the CEO should be separate.

Board Diversity

On the premise that both gender diversity and diversity of personal and professional backgrounds makes for a better board composition, we support and encourage statements committing corporations to Board Diversity.

2. Management and Director Compensation

- Executive compensation should coincide with the long-term interests of shareholders; that is, its purpose should be to motivate and retain individuals without being excessively generous.

- Directors serving on the Compensation Committee should be independent of management. Shareholders should be advised annually about the principles and structure of executive compensation.

- Stock options should be issued at not less than 100% of their current fair market value. They should expire in five years (ten years being the absolute maximum). The plan should not allow the Board to lower the purchase price of options already granted; that is, options repricing at a lower level than originally granted. In the event of a takeover or change in control, stock option plans should not allow beneficiaries to receive more for their options than shareholders would receive for their shares.

- Directors who are not executives of the company may receive options so long as they are limited and subject to shareholder approval. The plan for these Directors should be separate to that for executives. Loans to directors and executives should be reasonable and within their ability to pay.

- The total dilution should be no more than 10% of the outstanding common shares or 2% per annum over the life of the five-year options; 1% per annum over the life of the ten-year options.

3. Takeover Protection

We support resolutions that benefit shareholders and vote against those that do not. The standards for anti-takeover proposals have become well documented by PIAC and Fairvest. In Canada, the Ontario Securities Commission and stock exchanges require corporations to submit shareholder rights plans to shareholders for their approval.

U.S. regulation is less restrictive. There, boards without going forward for shareholder approval can adopt shareholder rights plans.

We do not support:

- ‘crown jewel defense’ where a company sells its most valuable assets to a convenient third party
- ‘going private transactions’ without the approval of a majority of the minority shareholders
- ‘leveraged buyouts’ without an independent fairness opinion
- ‘lock-up arrangements’ where some shareholders agree to tender their stock to the target company or to a third party.

4. Shareholder Rights

- We support one class of common voting shares and one vote for each common share owned.

- We do not support the issuance of new stock with rights not available to existing shareholders.

- We support proposals for the authorization of additional common shares so long as it is for good business reasons.

- We do not support unlimited (blank cheque) share issues or preferred shares.

5. Shareholder and Stakeholder Proposals

These must be evaluated on a case-by-case basis. We will support management when the proposal/s are deemed unnecessary, arbitrary or peripheral to the business of the company.

6. Other: Social, Environmental, and Political

We support issues and invest in companies having: fair labour practices, good environmental records, good business arrangements with other organizations and countries that have similar good labour, environmental and human rights practices.

7. Reporting

Our External Manager/s is/are to notify The United Church of Canada of any conflicts of interest and to disclose any situation where our manager/s are acting as insiders.

In accordance with Section 7.4 in the Statement of Policies and Procedures, each manager 'shall prepare an annual report to the Committee outlining and explaining any departures from, or exceptions to, the policies, any issues where the Manager has voted against corporate management, and any other extraordinary matters.'

April 2001

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