

Corporate Social Responsibility

Screens are just the beginning

Maybe you've heard the phrases "corporate social responsibility" and "socially responsible investing" referred to in the media. Maybe you've read United Church Funds' quarterly newsletter, *Review of Socially Responsible Investing and Corporate Social Responsibility* and you've learned more about investing with a social lens. But what does United Church Funds' Corporate Social Responsibility (CSR) ministry comprise? What practices are considered essential for socially responsible investors like United Church Funds? With whom does United Church Funds align to amplify its voice calling for change? In this issue of our Investor Education Series we offer an overview of the United Church Funds' implementation of CSR.

United Church Funds' corporate social responsibility ministry is founded on the belief that good corporate governance, social justice, and environmental sanctity should be taken into consideration when investing on behalf of church entities. For more than three decades, the CSR ministry has evolved to encompass three procedures that express these core values: screening, proxy voting, and shareholder engagement.

1. Screening, a baseline tactic, is the practice of including or excluding companies from a portfolio based on non-financial criteria. Screening can involve products, country-specific matters, or CSR policies. United Church Funds screens its investments and does not invest in companies which receive a significant amount of their revenues from the production, distribution, or sale of alcohol, tobacco, gambling services, military products or services in the form of conventional weapons and nuclear weapons.

2. United Church Funds' CSR ministry exercises the power of the proxy, voting the ballots (proxies) of companies in which

we have holdings, in accordance with our Proxy Voting Guidelines. These guidelines are designed to promote board diversity, equitable pay structures within companies, global and human rights, and many other improvements. Our Proxy Voting Guidelines (available at unitedchurchfunds.org) are a "living" document; we adapt and change them as new information on best practices becomes available. In 2009, we expect to vote more than 400 proxies — and you can see how we vote our proxies on the website as well. You can also use the proxy tools we provide to guide the way you vote the ballots of any investments you hold.

3. The phrase *shareholder engagement* includes the techniques of shareholder resolutions and corporate dialogues in concert with other concerned investors. A corporate dialogue is an ongoing discussion with a corporation's management where investors make recommendations to a company about how to make positive changes or provide more transparency. If the company takes those recommendations, CSR advocates will help the company through the implementation phase by providing best-practice information learned through the process at other companies, or by creating a bridge between activist groups, researchers, and companies. A shareholder resolution is a recommendation in the form of an item on the ballot of the annual

meeting of a corporation, and offers a great way to educate investors to issues of a corporation's environmental impacts, social impacts or needed governance improvements.

United Church Funds undertakes shareholder engagements because we believe that sustainable corporations will be good long-term investments. This year, United Church Funds co-filed resolutions with IBM on an advisory vote on executive

KEY ELEMENTS OF CSR

- **Screening** avoids investments in companies that derive significant revenue from products that undermine human health and well-being.
- **Power of the Proxy** empowers United Church Funds to use its shares to promote board diversity, equitable pay structures within companies, global and human rights, and many other improvements.
- **Shareholder Engagement** includes the techniques of shareholder resolutions and corporate dialogues in concert with other concerned investors to encourage better corporate practices.

compensation, and with Chevron on greenhouse gas emission reductions. As part of its dialogue with Hershey, United Church Funds staff helped coordinate a summit including chocolate companies, activists and investors concerning inappropriate child labor in West Africa. United Church Funds has also been hard at work on water scarcity issues in India with Coca-Cola, learning more about the situation on the ground in order to enrich the dialogue with the company.

Our shareholder engagement is done in partnership with ecumenically linked socially responsible investors. In 2006, the United Church of Christ was recognized as a founding member of the Interfaith Center on Corporate Responsibility (ICCR), a coalition of nearly 300 faith-based institutional investors representing more than \$100 billion in assets. ICCR recently reorganized into three working groups: People, Place, and Policy. United Church Funds' CSR ministry contributes to all three working groups.

The People group encourages corporations to improve worker safety and sourcing requirements from international vendors, to widen individuals' access to healthcare, to protect human rights, and to protect the right of access to food and water. The Place group focuses on engaging companies on global warming and environmental justice issues, while the Policy group continues to press for greater transparency in executive compensation and inclusivity on corporate boards of directors. This group also advocates for the responsible use of capital.

United Church Funds continually integrates social values into its investing strategies. Through the Corporate Social Responsibility portion of United Church Funds' website, the quarterly *Review of Socially Responsible Investing and Corporate Social Responsibility*, and the periodic CSR update in the *UCFocus*, you can stay in touch and learn more about the CSR ministry's successes and challenges.

CSR Successes

- United Church Funds has filed resolutions calling for a shareholder's right to approve the compensation packages of companies' executives, or "say on pay" resolutions. These resolutions have been a response to what many investors view as "pay for failure" at many companies. In 2007, the only company to agree to the say on pay was AFLAC, Inc.; but the investor resolutions have contributed to a legislative response: all recipients of Troubled Asset Relief Program monies are subject to "say on pay" voting, meaning hundreds of companies will be holding this vote in 2009.
- Advocating on behalf of the Coalition of Immokalee Workers (CIW), the CSR ministry was involved in dialogue and shareholder resolutions for several years. The CIW worked to get tomato farm workers a penny more per pound of tomatoes picked from restaurant companies and retail grocery chains. In 2008, Burger King implemented a policy to pay 1.5 cents per pound more to tomato growers, joining the ranks of several other companies who have instituted this payment adjustment.
- The CSR ministry co-filed a sustainability resolution for Wal-Mart, calling on the company to create a meaningful sustainability report. In 2006, 10.5% of Wal-Mart shareholders supported the resolution. While this is not overwhelming support, this resolution was not reintroduced onto the 2007 ballot because Wal-Mart agreed to publish a sustainability report and agreed to allow ICCR to review the report process and draft versions. Since this successful engagement with ICCR, Wal-Mart has been more receptive to implementing suggestions of shareholders. In 2008, Wal-Mart agreed to make sure that goods in their stores were not made of cotton sourced from Uzbekistan because of that country's forced child labor on cotton farms. When Wal-Mart makes such a decree, it has a huge effect on the marketplace.
- From 2004-2006, the CSR ministry co-filed an ongoing resolution with the Ford Motor Company asking for a report on global warming impacts. This action, over many years, led to the company announcing the details of its plan to reduce by at least 30% the greenhouse gas emissions from its fleet by 2020.