WCRC INVESTMENTS AND POLICIES

Background

In 2014, the World Communion of Reformed Churches received a significant donation from the Council for World Mission of one million British pounds. This, along with generous donations from several churches in Germany, allowed the WCRC to stabilize its reserves. (The CWM money was also meant to stimulate a fundraising campaign to create an endowment fund, something which has not yet occurred.)

These donations, along with concerns over how money was lost through poor investment in the past, prompted the Executive Committee to agree with the Finance Committee's list of criteria for interviewing prospective banks and fund managers in order to ensure that investments are safe, ethically screened and will provide maximum return. A draft of investment policy guidelines was also presented (see Appendix A), and the Executive Committee authorized the general treasurer and general secretary to invest the monies.

The 2015 Executive Committee decided to divide the money into four major investment areas: the Presbyterian Foundation, the Barnabas Foundation (both based in the United States) and two different funds in Germany through the *Bank für Kirche und Diakonie* (KD Bank). 400,000 euros were invested in each fund with KD Bank and 350,000 in each of the US-based foundations following the draft investment policy guidelines (along with the adopted financial management policy).

The Presbyterian Foundation, which is affiliated with the Presbyterian Church (USA) but is a separate corporation, "manages financial resources of individuals and institutions to further Christ's mission." They follow the investment guidelines of the PC(USA)'s General Assembly, "drawing on the Presbyterian values of theological, social and economic considerations" and use three main ways to execute their investment strategy: 1) shareholder advocacy, 2) community investing and 3) screening (both positive and negative).

They have been very responsive to requests to ensure WCRC funds are being ethically invested and provided a "Socially Conscious Due Diligence Report" just last summer (see Appendix B; NB: the New Covenant Trust Company is a wholly owned subsidiary of the Presbyterian Foundation).

The Barnabas Foundation, also an independent corporation, partners with the Christian Reformed Church in North America, its congregations and other Christian non-profits organizations, including the Reformed Church in America. Their core mission is to help "generous Christians give more effectively to the churches and ministries close to their hearts." They obviously also invest these donations—and other monies—for these organizations.

Their ethically responsible investment guidelines are summed up in this paragraph (from their Investment Policy Statement):

> **Social Responsibility**
> Barnabas Foundation will not knowingly directly invest in institutions or corporations with business activities that contribute to the decline of Christian morals in our society. This guideline specifically prohibits Barnabas Foundation from directly investing in companies with a core business purpose of gaming or gambling, pornography or the manufacturing of

> alcohol, tobacco, fire arms or abortion-related drugs or products. In addition, Barnabas Foundation will not knowingly invest in any fund whereby the underlying investments of that fund would be in institutions or corporations engaging in these business activities.

Both US-based foundations meet basic criteria for ethical investing, although their approaches differ. The Presbyterian Foundation takes a more “Christian witness” approach, actively involving themselves in the areas in which they invest.

The KD Bank has been active with churches and diakonical organizations for more than eight decades. For their investment policies, they use a variety of means to tailor specific investments to the needs of their customer. For instance, in defining exclusion criteria, they are guided by the goals of the conciliar process initiated by the World Council of Churches in Vancouver in 1983, which includes a shared commitment of the world churches to justice, peace and the integrity of creation. They are also guided by national and international standards, such as the 10 principles of the UN Global Compact, the UN Principles of Responsible Investments and the guideline for ethical-sustainable investments of the EKD.

Both funds in which the WCRC has invested thus meet the basic ethnical investment criteria under which the WCRC has been operating (see Appendices C and D).

At their meeting last November, the WCRC Officers heard a report from Karin Bassler, an expert in ethical investing. She provided an introduction to the investment policy of the EKD and then participated in a discussion with the officers about potential modifications to the WCRC’s draft ethical investment policy (see Appendix E). She has been invited to make a presentation and serve as an advisor at the Executive Committee when the investment policy is considered.

Draft WCRC Investment Guidelines

I. Objective and Basis

1. The assets of the Church have a serving function. These guidelines are intended to create and manage the entire financial assets according to the ecclesiastical mandate.

2. The investment strategy is aimed at achieving the greatest possible degree of security with adequate financial profitability. In particular, investments with a corresponding rating are considered safe. In all cases the Investment Restrictions according to III. of these guidelines must be taken into account; aspects of sustainability are also to be considered.

3. The investment strategy is directed at securing the necessary liquidity.

II. Sustainable Aspects of Securities

1. The investment of financial assets may not contradict the ecclesiastical mission.

2. In principle, investments should *not* be made in companies which:
    a. produce weapons and weapons systems,
    b. violate any of the five core labour standards (child labour, forced labour, discrimination, freedom of association, the right to collective bargaining),
    c. seriously violate environmental laws or generally accepted minimum environmental standards,
    d. *produce nuclear energy*,
    e. *produce genetically modified plants and animals*,
    f. produce tobacco *or alcohol*,
    g. produce pornography or are sex tourism providers,
    h. *have demonstrably conducted research on the human embryo or on embryonic cells*,
    i. *produce or promote fossil fuels*.

3. In principle, investments should not be made in securities of countries:
    a. which systematically violate human rights (e.g. the death penalty, torture, political arbitrariness, freedom of movement, religious freedom, child labour),
    b. where there is a high level of corruption,
    c. whose climate protection services are classified as very poor according to the Germanwatch Climate Protection Index,
    d. which visibly restrict freedom of the press and the media,
    e. which have a disproportionately high armaments budget,
    f. where women are given significantly less social and economic development opportunities than men,
    g. responsible for extreme economic and social inequality.

4. When investing in funds and asset managements, it is important to ensure that an investment approach is pursued that meets the requirements set out in 1 to 3.

5. An investment in food and agricultural commodities is excluded.

III. Investment Restrictions

1. Framework

Basically, the WCRC pursues a defensive investment strategy for all financial assets. This means that the investments follow the rule "security before yield". It is important to ensure a balanced distribution of risks. The base currencies are EURO, USD and CHF; the foreign currency portion can be a maximum of 10% of the total financial assets.

2. Maximum value for the investment of total financial assets

The following maximum values of total financial assets are determined:

Liquidity - short-term investments (e.g., current account, money market account (overnight money account), money market funds, time deposits) up to 100%

Yields - medium and long-term investments (e.g., growth savings, annual deposits, savings bonds, fixed income securities) up to 100%

Real Value - Participation in the substance of a company (e.g., shares, equity funds, shares in mixed forms of investment) up to 50%

Tangible Assets (e.g., open-ended real estate funds) up to 20%

Alternative Investments (e.g., microcredit, infrastructure, renewable energy) up to 20%

It is permissible to exceed the quotas in the short term for Real Value, Tangible Assets, and for Alternative Investments as a result of price gains. “Short term” is understood as being a period of up to six months.

The basis for calculating the maximum values of the various asset classes is the average holding during a budgetary or calendar year.

3. Minimum rating

At least 80% of investments must be of investment grade.

Draft WCRC Investment Guidelines with Possible Changes

I. Objective and Basis

1. The assets of the Church have a serving function. These guidelines are intended to create and manage the entire financial assets according to the ecclesiastical mandate.

2. The investment strategy is aimed at achieving the greatest possible degree of security with adequate financial profitability. In particular, investments with a corresponding rating are considered safe. In all cases the Investment Restrictions according to III. of these guidelines must be taken into account; aspects of sustainability are also to be considered.

3. The investment strategy is directed at securing the necessary liquidity.

II. Ethically-Sustainable Aspects of Financial Investments

The investment of financial assets may not contradict the ecclesiastical mission but should support it if possible.

1. Exclusion criteria
Exclusion criteria are used to filter out those security issuers from a previously defined investment universe that should be excluded from investment.
a. Exclusion criteria for companies

As long as the share of the business division in the total company turnover does not amount to more than ten percent maximum, exclusion should be discouraged for the sake of proportionality.
Excluded are due to the following business divisions:

- Companies involved in the development or manufacture of armaments (in terms of the appendix to the War Weapons Control Act) as well as companies involved in the development or manufacture of banned weapons, regardless of their turnover share
- Companies producing liquors (minimum alcohol content 15 percentage by volume)
- Companies manufacturing tobacco products
- Companies manufacturing products that violate human dignity with denigrating and degrading portrayals of persons
- Companies producing genetically modified crops
- Companies producing coal or oil from oil/bitumen sands, and oil shale or provide significant reserves of these raw materials
- Companies producing nuclear energy
- Companies demonstrably conducting research on the human embryo or on embryonic cells.

Excluded are due to controversial business practices:

- Companies, who themselves or whose suppliers systematically violate human rights, (in terms of United Nations Guiding Principles on Business and Human Rights), in particular companies manufacturing products that are produced in support or toleration of inhumane labour conditions and child labour (in terms of violating one of the fundamental ILO core labour standards)–including the supply chain,
- Companies, who themselves or whose suppliers systematically violate environmental laws or generally accepted minimum environmental standards.

b. Exclusion criteria for countries

The funds of church investors should, on principle, never flow into the budgets of countries that significantly go against church investment guidelines, especially when they

- act as warmongers,
- violate human rights, or
- endanger Creation.

The following exclusion criteria may serve as useful indicators in analysing government bonds:

- Countries whose level of peacefulness ranks “very low” according to the Global Peace Index (GPI), produced by the Institute for Economics and Peace
- Countries practicing the death penalty
- Countries classified “not free” (in the terms of the organization and research institution Freedom House)
- Countries perceived as highly corrupt (in terms of the Transparency International CPI (Rating < 40)
- Countries whose climate performance ranks in the “very poor” category of Germanwatch’s Climate Change Performance Index (CCPI).

2. Positive criteria

Among investment options of the same kind, it is the objective of positive criteria to identify and favour

- those that have a better rating in terms of ethics/sustainability
- those with whom a contribution can be made to the 17 Sustainable Development Goals of the United Nations.

a. Positive criteria for companies (samples):

- Preference for companies that have formulated directives on the employees’ right to assemble, on reasonable working hours, and/or that are in favour of living wages–including the supply chain
- Preference for companies that further develop and promote the application of regenerative energy sources
- Preference for companies that actively promote in all regions measures for infrastructural development and the construction of schools and/or expansion of water and power supply systems.

b. Positive criteria for countries

- Preference for countries that are fair, liberal, democratic and constitutional. An increased level of public welfare can be established with improvement of the following indices and measures (samples):
    - the Human Development Index of the United Nations Development Programme,
    - the Gini coefficient,
    - the Shared Prosperity Indicator of the World Bank
    - the Press Freedom Index

- Preference for countries that conserve Creation. The following indices may provide guidance for this decision (samples):
    - Climate Risk Index of Germanwatch
    - World Development Indicator Deforestation and Biodiversity of the World Bank

- Preference for countries that assume responsibility for future generations and keep the peace. An improvement of the situation can be identified by using the following indices

(samples):
- UNESCO's Education for All Development Index
- Global Militarization Index of the Bonn International Center for Conversion

3. All categories of commodity and agricultural investments are excluded (i.e. direct acquisition, acquisition via future markets, indirect acquisition via certificates and funds).

4. When investing in funds and asset managements, it is important to ensure that an investment approach is pursued that meets the requirements set out in 1 to 4.

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1. Framework

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