



Ethical Investing and the Role of Divestment

The General Board of Pension and Health Benefits of The United Methodist Church (General Board) understands that the values we share as a denomination must be reflected in our stewardship of the Church's financial resources. The *Book of Resolutions* (Resolution 4071, *Investment Ethics*) reminds us that "every financial investment has ethical dimensions with consequences that are both fiscal and social." This resolution, first adopted at the 1992 General Conference, has guided the investment decisions of many United Methodist investors, including the General Board. According to the resolution, the investing goals of the Church are:

- To make investments that uphold the goals outlined in the Social Principles;
- To avoid investments that violate long-standing United Methodist values; and
- To encourage companies, through shareholder advocacy, to adopt responsible business practices.

The General Board strives to achieve these goals:

- Our investing and advocacy are guided by the Social Principles;
- We screen our investments in order to exclude companies deriving significant revenue from alcoholic beverages, tobacco-related products, pornography, gambling, weapons, or the management or operation of prison facilities; and
- We engage corporations in which we own stock, through letters, shareholder resolutions, proxy voting and dialogue, to strive for the highest standards of corporate responsibility.

We also have committed significant resources, through our Positive Social Purpose Lending Program, to social impact investing. We undertake these investments, as described in Resolution 4071, "to achieve very specific social outcomes, such as the construction of affordable housing, the renewal of a particular neighborhood or the expansion of business ownership among those traditionally excluded from such ownership."

Divesting shares of held companies is recognized by *The Book of Discipline* (§716) as an advocacy tool ("...boards and agencies are to give careful consideration to shareholder advocacy, including advocacy of corporate divestment.") Calls for divestment frequently center on companies operating in areas where human rights abuses are a concern. The movement to divest from companies operating in South Africa in the 1980s was seen as a repudiation of South Africa's racially segregationist policy of apartheid. Calls to divest from companies operating in Sudan were a response to that country's genocidal policies toward its own citizens. Other countries where human rights abuses have raised concerns include Colombia, the Democratic Republic of the Congo, Indonesia, Myanmar (Burma), Nigeria and Uzbekistan.

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The General Board's Divestment Policy

As a fiduciary, the General Board must consider calls for divestment carefully. *The Book of Discipline* (§1504.14) clearly states that the General Board is to “discharge its fiduciary duties...solely in the interest of the participants and their beneficiaries...” Therefore, calls for divestment must be weighed against any potential financial impact. For example, when considering divestment, the General Board asks:

- What is the company's overall social responsibility profile?
- What risk does the product or service pose to the company's financial position?
- How has the company addressed other issues that are a concern to United Methodists?

In addition, the General Board considers:

- Whether a particular corporation has the appropriate and effective strategic leverage to address a country's human rights abuses,
- If divestment would result in a change in company business practices,
- If there are long-term corporate reputational considerations at stake, and
- If divestment would negatively affect shareholder advocacy on other issues.

The General Board maintains that constructive engagement is the most powerful tool for effective change and subscribes to this approach before considering divestment. The board of directors has established a formal procedure to consider divestment.

The General Board will consider divestment if:

- The Church, either in the Social Principles or *The Book of Resolutions*, has established a position on a specific divestment issue;
- The call for divestment has been thoroughly researched and the business and social case articulated clearly and persuasively by United Methodist and other constituencies;
- There is widespread support for divestment from government and the responsible investing community; and
- A thorough effort to engage the company (including the filing of a shareholder resolution) has taken place.

If no measurable company action is achieved through engagement or shareholder advocacy, the board of directors will consider a recommendation to divest.

Divestment and South Africa

During the 1980s, the Church struggled with the issue of apartheid in South Africa and urged United Methodist investors to consider divestment in response. Although General Conference never formally resolved to divest, the General Board adopted a policy divesting from companies refusing to sign the Sullivan Principles. Signing the Sullivan Principles (developed by The Reverend Leon Sullivan in 1977) committed a company to operating in an ethical manner toward all people.

By 1990, the General Board had divested from 15 companies operating in South Africa.

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Divestment and Sudan

In 2008, General Conference asked United Methodist investors “to prayerfully consider divestment of the personal and pension assets under their control from any company doing business with the government of Sudan....” Even though the Church did not mandate divestment, the General Board divested all of its shares of the Oil and Natural Gas Corporation (ONGC) of India, which was identified by the former Sudan Divestment Task Force as a “highest offender” and unresponsive to repeated General Board engagement efforts.

Divestment and Israel/Palestine

Several annual conferences of The United Methodist Church have called on the General Board to divest from companies identified as supporting the Israeli occupation of Palestinian lands. Many of these calls refer to Resolution 6073, *Opposition to Israeli Settlements in Palestinian Land*, adopted by General Conference 2004. The General Board shares the concern of United Methodists who seek a just peace in the Middle East. Although General Conference 2008 did not adopt any resolutions on divestment of companies, the General Board has been using the traditional tools of shareholder advocacy to engage companies (specifically Caterpillar, Hewlett-Packard and Motorola) operating in this area. These engagements (letters, conversations and shareholder resolutions) seek clarity on company operations, human rights policies and the use of company products. The purpose of these engagements is to highlight investor concern over the risks of operating in the Middle East while encouraging companies to adopt specific policies and procedures that promote human rights. These engagements have been constructive as some of the companies are performing human rights assessments and have made public statements about the expected ethical use of their products.

Because these engagement efforts generally have been productive and because our extensive network of responsible investing partners allows us to engage corporations across a broad spectrum of industries and issues, the General Board has not pursued divestment. Though success cannot be assured, we have demonstrated meaningful progress in informing companies of the importance of protecting human rights.

Upon careful review of the many complex issues on this subject, the General Board has concluded that divestment from the companies perceived as supporting the Israeli occupation is not the proper course of action at this time. Our ability to hasten the peace process through divestment is limited, our engagements on human rights issues in other countries may be compromised, and these companies have consistently demonstrated a willingness to address social concerns raised by investors. New efforts to promote peace are being undertaken by the Obama administration, and several of our engagements are seeing positive progress.

Our position is to pursue engagement rather than divestment as a way to promote the cause of human rights in the Middle East and throughout the world.