

The General Board of Pension and Health Benefits of The United Methodist Church and the United Nations' Principles for Responsible Investment

In 2005, the General Board of Pension and Health Benefits of The United Methodist Church (General Board) was invited by Kofi Annan, then-United Nations Secretary-General, to join a group of 20 institutional investors representing 12 countries to develop the Principles for Responsible Investment (PRI).

The Principles encourage investors to consider environmental, social and governance (ESG) issues in their investment decision-making processes. The principles “are in essence a set of global best practices for responsible investment,” according to Ban Ki-moon, the current United Nations Secretary-General. Supporters of the Principles believe that applying them will improve long-term financial returns while simultaneously aligning the goals of institutional investors with those of society at large. Becoming a signatory is voluntary, yet demonstrates a clear commitment to the Principles.

The General Board was one of the original 25 signatories to the Principles. Since the Principles were first launched in 2006, the number of signatories has expanded and now includes more than 600 asset owners, investment managers and service providers worldwide. Every year, signatories are required to complete a survey indicating how they are applying the Principles. Below are the six Principles and the ways in which the General Board is applying them.

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

The General Board strives to invest all of its equity, fixed-income and real estate assets in a socially responsible manner consistent with the values of the Church.

Our [investment policy](#) shows how investment managers are held accountable for reporting on the integration of ESG issues into investment decision-making and ownership practices. Our investment policy is documented in our:

- Statement of Administrative Investment Policy,
- Investment Manager Due Diligence Questionnaire,
- Investment Manager Mandates, and
- Alternative Investment Annual Information Request.

In 2009, we revised these documents to better communicate our expectations regarding ESG issues. In addition, during meetings with our external investment managers, the General Board asked questions to ascertain how the managers are integrating ESG analyses into their investment strategies.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

The General Board communicates directly with many of the companies in which it invests by writing letters, meeting with senior management and filing shareholder resolutions. In 2009, the General Board filed 15 resolutions and held dialogues with 25 companies regarding such issues as public sustainability

reporting, climate change risk, human rights, labor standards, food safety, protection of water, HIV/AIDS and governance policies. Seven resolutions were voted on by investors, and five received double-digit support ranging from 15.3% to 42.2% of the total shareholder vote. Eight resolutions were withdrawn when the companies agreed to take actions that were responsive to the resolution requests.

The General Board demonstrates its active ownership of investments by voting the proxy ballot of each company it owns. The General Board's [proxy voting guidelines](#) provide clear indications of how it votes on various ESG issues that are frequently addressed at annual company meetings. A [record of the General Board's votes](#) is posted in the "[SRI & Funds](#)" section of its Web site, and we disclose proxy votes in advance of each annual company meeting, whenever possible.

In order to stay abreast of ESG issues and research, General Board staff regularly participate in educational and training events, such as those offered through the PRI webinars.

The General Board, in collaboration with others, has effected changes in company policies, helped improve corporate disclosure, persuaded companies to establish new programs and initiatives and convinced companies to work with investors and other stakeholders.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

The General Board regularly encourages companies to disclose relevant ESG information, believing that increased transparency facilitates responsible corporate behavior and improves investment decision-making processes. In 2009, the General Board provided input to the following companies regarding their corporate sustainability reports:

- Comcast,
- Dell,
- Ford Motors,
- General Motors,
- Kellogg,
- McDonald's,
- State Street Corp.,
- Sunoco, and
- Timberland.

The General Board urges companies to review various frameworks and international standards to guide their actions and disclosures. These include the Global Reporting Initiative, the International Labour Code, the Carbon Disclosure Project, the United Nations Global Compact and the Universal Declaration of Human Rights.

All General Board investment managers are required to report periodically on how they are integrating ESG criteria into their investment analysis and fiduciary decision-making processes.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

The General Board routinely discusses ESG issues with its investment managers and other investors. In its relationships with managers, peer organizations and others, the General Board encourages the adoption and implementation of the Principles.

In 2009, the General Board's Chief Investment Officer sent two letters to all of our investment managers providing them with the status of PRI achievements and encouraging nonsignatories to consider signing the Principles. These letter-writing efforts persuaded two investment managers to become signatories. To date, one third of the General Board's investment managers are PRI signatories.

During workshops, General Board staff regularly invite members of the Church Benefits Association (CBA) to adopt the Principles and become signatories. The CBA is a coalition of approximately 50 church pension boards, religious orders and denominational benefit programs for clergy and lay employees.

The General Board collaborated with other investors to develop a strategy encouraging proxy research providers to consider favorable vote recommendations for shareholder resolutions on ESG issues. In 2010, the General Board participated in a Glass, Lewis Proxy Talk Forum and held conference calls with analysts of Risk Metrics and Proxy Governance to present the business case for requesting Tyson to enhance its sustainability report by including additional ESG information.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

The General Board collaborates with a number of organizations to promote a better understanding of ESG issues, coordinate activities and encourage the development of new research and tools. The General Board actively participates in the Interfaith Center on Corporate Responsibility, Ceres, the Investor Network on Climate Risk, the Social Investment Forum and the Carbon Disclosure Project.

In 2009, the General Board collaborated with other investors in their corporate engagement initiatives that were posted on the PRI Clearinghouse Web site, including:

- disclosure related to the United Nations Global Compact, and
- electronics manufacturers that use conflict minerals from the Democratic Republic of the Congo.

Last year, the General Board also posted its engagement opportunities on the PRI Clearinghouse Web site and sought investor support for:

- a resolution urging Halliburton to develop a policy on conducting business in a low-carbon environment,
- a letter written to Total recommending that it reform its business operations in Burma, and
- a resolution calling for Ultra Petroleum to separate the roles of chairman and chief executive officer.

Last year, in collaboration with other investors, the General Board provided comments on three occasions to the Securities and Exchange Commission (SEC) recommending that it require ESG issues to be addressed in public corporate disclosure. The SEC's response to these efforts was very encouraging. On February 2, 2010, the SEC issued interpretive guidance on climate change disclosure. The report acknowledges that the SEC "also has had the opportunity to consider the thoughtful suggestions that many organizations have provided us recently about how the Commission could direct registrants to enhance their disclosure about climate change related matters." The report concludes by stating, "This interpretive release is intended to remind companies of their obligations under existing federal securities laws and regulations to consider climate change and its consequences as they prepare disclosure documents to be filed with us and provided to investors."

Principle 6: We will each report on our activities and progress towards implementing the Principles.

Six times a year, the General Board publishes [SRI Connection](#), an e-newsletter that discusses how ESG issues are integrated into investment practices. A bi-monthly e-newsletter, *On Your Behalf*, highlights a

specific socially responsible investing issue. These e-newsletters contain periodic updates about the General Board's implementation of the six Principles.

The General Board's [portfolio screening](#) and [proxy voting guidelines](#), [proxy voting record](#) and [list of companies](#) that have failed to meet its investment criteria and are thus barred from purchase are posted to its Web site. A [list of companies the General Board has engaged](#), including those where shareholder proposals have been filed, is also available on its Web site. These e-newsletters contained periodic updates about the General Board's implementation of the six Principles.

In 2009, General Board published a new booklet, [Socially Responsible Investing for a Sustainable Future](#), which provides plan participants, peer organizations, investment managers and other interested stakeholders with information about our efforts to influence corporate behavior on ESG issues.

Staff also made verbal presentations at various conferences, workshops and other forums about the General Board's efforts to implement the Principles.