



THE UNITED CHURCH OF CANADA FOUNDATION /  
FONDATION DE L'ÉGLISE UNIE DU CANADA

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3250 Bloor Street West, Suite 300, Toronto, ON M8X 2Y4

416 231-5931 x3410 \* 1 866 340-8223 (toll-free) \* 416 231-3103 (fax)

fdn@united-church.ca \* www.unitedchurchfoundation.ca \* REGISTERED CHARITABLE ORGANIZATION # 863109021 RR0001



*This policy, originally prepared by The United Church of Canada, has been approved for The United Church of Canada Foundation by its Board of Directors.*

## *APPENDIX A - Social and Environmental Screening Criteria*

### *The United Church of Canada*

#### I INTRODUCTION

This document presents a set of screening criteria to be applied to the pension and general funds of The United Church of Canada (the 'Church'). The criteria reflect the general principles on social investment stated in the Church Pension Fund's *Statement of Investment Policies and Procedures*, and are designed to be practical enough to provide clear guidance to the managers of the Church's funds. The criteria are intended to honour the Church's desire to invest its funds in a manner consistent with both its values and mission, and the fiduciary responsibilities of the trustees of the funds.

**Section II** describes briefly the analytical framework of the screening criteria, and **Section III** presents the criteria themselves.

#### II ANALYTICAL FRAMEWORK

The screening criteria stated below are of two basic types: *qualitative criteria and exclusionary criteria*.

*Qualitative criteria* are applicable in issue areas such as employee relations and environment, in which it is possible for a company to perform both positively and negatively. It is therefore possible to implement *positive screening criteria* – that is, screening criteria designed to select companies with desirable attributes – as well as *negative screening criteria* – that is, criteria designed to screen out companies with undesirable attributes. The application of qualitative criteria in each issue area is generally based on an overall assessment of a company's performance, both positive and negative, in that area.

In all of the issue areas below except "Product" there are both positive and negative screening criteria. The inclusion of positive screening criteria reflects one of the goals of the Church as well as most social investors, which is to focus not only on screening out companies with poor records, but also on encouraging positive social performance by "screening in." The positive screening criteria below use the language of "seek to invest" in order to clarify that managers are not bound to adhere strictly to such criteria.

*Exclusionary criteria*, in contrast, are applicable to products and/or services that social investors may wish to avoid. All of the criteria in the "Product" area are exclusionary.

Some of the criteria below, especially the exclusionary criteria, include a threshold pertaining to a company's revenues. A company will be considered to have met a given criterion if it has achieved the specified threshold in two of its last three fiscal years.

The Best-of-Sector Methodology Criteria in two areas – specifically, occupational health and safety and environmental performance – are based on a *best-of-sector* (BoS) approach, in which each company's record is evaluated in relation to that of its industry counterparts. The standard for performance is the best practices in its industry.

The Church uses the Best of Sector (BoS) approach to evaluate safety and environmental records because, in both of these areas, companies in certain sectors face challenges that are inherent to the nature of the operations of their sector. For example, a company within the forestry sector is not expected to eliminate all negative environmental impact, because it is measured against the standard of best practices in its sector.

The BoS approach is incorporated into the Church's investment screening criteria for two reasons. First, it is economically prudent. By evaluating each company in relation to its industry counterparts, the Church can avoid making whole industries ineligible for investment, and can therefore continue to invest in companies across all industries of the economy.

Secondly, and equally important, the BoS approach is consistent with one of the general goals of social investment, which is to effect positive social change. The BoS approach facilitates engagement with companies in sectors that have a high level of exposure to certain safety or environmental issues. It sends the message to such companies that they are not expected to be "perfect" (ie. to eliminate all safety concerns or environmental impact). Instead they are expected to adhere to the best practices of their industry, and if they do so they will be eligible for investment. Thus the BoS approach can provide an incentive for companies in industries facing safety and environmental challenges to improve their performance.

### III SCREENING CRITERIA

The screening criteria are organized as follows:

1. Business Practices
2. Community
3. Employee Relations
4. Environment
5. Product:
  - Product Safety
  - Alcohol
  - Gaming
  - Pornography
  - Tobacco
  - Weapons

## *Business Practices*

### POSITIVE SCREENING CRITERIA

The Church will seek to invest in companies that:

- have a written/formal code of ethics or business conduct, as well as mechanisms to ensure compliance with the code, such as training for all employees, an annual review and sign-off on the code by all employees, etc.

## NEGATIVE SCREENING CRITERIA

The Church will avoid investing in any company that:

- has engaged in fraudulent, deceptive, or highly controversial marketing or advertising practices.
- has been convicted or paid recent fines or civil penalties related to price fixing, antitrust violations, or illegal insider trading.

## *Community*

The word “community” refers primarily to the residents of local communities in which a company operates. In the case of many resource companies in Canada, this often means local First Nations communities upon whose traditional land a company is operating. The word “community” may also refer to the larger areas, such as a province or nation, to the extent that society in such larger areas is affected by a company’s operations.

## POSITIVE SCREENING CRITERIA

The Church will seek to invest in companies that:

- contribute directly to the development of communities in which they operate.

## NEGATIVE SCREENING CRITERIA

The Church will avoid investing in any company that:

- has ignored or failed to take into account the needs and interests of communities affected negatively by its operations or planned operations. Evidence of such failure may be found in a lack of engagement in public consultation, especially in the face of community opposition, or in fines, civil penalties, or civil suits related to the company’s activities.
- has ignored or failed to take into account the needs, interests, and rights of aboriginal communities affected by its operations or planned operations.
- has been implicated, through its international operations, in the violation of human rights.

In applying criteria in the area of human rights, the Church employs a *company-specific* rather than a *country-specific* approach. It does so on the grounds that, even in the context of countries governed by oppressive regimes, it is generally possible for companies to have either a positive impact or a negative impact. It is therefore important to view the social record of each company individually. This approach also recognizes that it would be financially imprudent to screen out all companies that have operations in any country that has a poor human rights record.

There can be exceptions to this approach. In some cases human rights violations may be so extreme that no investment is appropriate.

## *Employee Relations*

### POSITIVE SCREENING CRITERIA

The Church will seek to invest in companies that:

- offer good benefits packages to their employees. In addition to basic benefits, this may include programs to encourage employee ownership (through stock option or share purchase plans), profit sharing plans, and the extension of spousal benefits to the same-sex partners of gay and lesbian employees.
- have implemented policies and management systems to ensure the health and safety of their employees.

## NEGATIVE SCREENING CRITERIA

The Church will avoid investing in any company that:

- provides inadequate benefits to its employees.
- has a health and safety record that is poor relative to its industry counterparts.
- is involved directly or through its major suppliers in the use of child, prison, or “sweatshop” labour.
- has faced major controversies or legal action related to discrimination in the workplace or employment equity issues.

## *Environment*

### POSITIVE SCREENING CRITERION

The Church will seek to invest in companies that have a good environmental record relative to their industry counterparts.

### NEGATIVE SCREENING CRITERION

The Church will avoid investing in companies whose environmental performance is among the worst in their industry.

In assessing each company’s environmental performance, consideration will be given to the following elements:

- environmental management and reporting systems.
- the company’s record of compliance with applicable environmental laws, regulations, and operating permits.
- methods of use/extraction of natural resources (includes consideration of use of recycled materials in production processes, the use of alternative energy sources, or resource extraction methods that minimize environmental impact).
- level of emissions of hazardous or toxic substances or substances that increase the threat of climate change or contribute significantly to ozone depletion or the formation of acid rain.
- impact on natural ecosystems, including the health and viability of wildlife populations (includes consideration of development projects or other planned operations that are likely have such an impact).
- measures to reduce the environmental impact of operations (includes consideration of reductions in the use and/or release of toxins, hazardous substances, and other pollutants).
- the impact of the company’s product (includes consideration of the provision remediation or other environmental services, or products with environmental benefits, as well as the manufacture of products, such as pesticides or other harmful chemicals, that have a negative impact on the environment).
- the company’s public stance regarding major environmental issues.

## *Product*

The Church will avoid investing in companies that meet any of the following criteria:

### PRODUCT SAFETY

- One or more of the company’s products, though used responsibly and for their intended use, have caused life-threatening injuries, illness, or death. Or, major lawsuits or regulatory actions allege that the company’s products have caused such injury.
- Alcohol
- The company is directly involved in the production of alcoholic beverages.
- The company derives 10% or greater of revenues from activities related to the production of alcoholic beverages.

- Gaming
- The company is directly involved in the gaming or lottery industries.
- The company derives 10% or greater of revenues from the production of goods and services related to gaming or lottery industries.

The Church will avoid investing in companies that meet any of the following criteria:

#### PORNOGRAPHY

- The company is directly involved in the pornography industry.

#### TOBACCO

- The company manufactures tobacco products.
- The company derives 10% or greater of revenues from activities closely associated with the production of tobacco products.

#### WEAPONS

- The company develops and/or manufactures weapons.
- The company manufactures weapons delivery systems (such as jet fighters, battleships, military submarines, tanks, and armoured personnel carriers).
- The company derives more than 2% of its annual revenues from the design and/or manufacture of highly specialized components of weapons.
- The company derives more than 25% of its annual revenues from the design and/or manufacture of components/parts for weapons or weapons delivery systems.
- The company derives more than 25% of its annual revenues from the provision of support services for weapons delivery systems, such as the repair and overhaul jet fighters, military flight training services, etc.

SIPG (approved)

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