

**REPORT AND RECOMMENDATIONS**  
**OF THE**  
**TASK FORCE ON SOCIALLY RESPONSIBLE INVESTING**  
**OF THE**  
**DIOCESE OF CALIFORNIA**  
**TO THE**  
**DIOCESE OF CALIFORNIA INVESTMENT COMMITTEE**

**September 13, 2016**

## Executive Summary

Based on discussions with a variety of interested parties, including discussions with Deaneries, interactions with interested members of the Diocese, and the results of a Diocesan-wide survey of attitudes concerning socially responsible investing, the Diocesan Task Force of Socially Responsible Investing offers the following conclusions:

- There is significant interest in the Diocese to encourage the Investment Committee to consider the Christian values of the Diocese in the investment of the Diocese's endowment by incorporating principles of socially responsible investment in determining investment policies and practices. This interest has been manifested in the resolutions adopted by the 165<sup>th</sup> Diocesan Convention that created the Task Force and the resolutions adopted by the 166<sup>th</sup> Diocesan Convention calling for divestment from holdings in fossil fuel companies and confirmed both in the Task Force's discussions with members of the Diocese and survey results.
- A strong sentiment exists in the Diocese to shift the Diocese's portfolio toward more socially responsible investment both through investment in screened funds and targeting affirmative investments in areas that embrace Diocesan values, such as alternative energy and investments that promote the alleviation of poverty. However, a strong sentiment also exists that this shift should occur thoughtfully and at a pace that would not cause significant losses (for example, in the payment of higher fees) or significantly reduced returns over time. Lower returns in the short term would be considered acceptable if necessary to enable the Diocese to align its investment strategy with Diocesan values.
- In implementing the resolution adopted by the 166<sup>th</sup> Diocesan Convention on "Environmentally Responsible Investing," the Investment Committee should be encouraged to give preference to divesting as rapidly as prudently practicable from the "dirtiest" fossil fuel companies, such as companies involved in the extraction of coal and tar sands, while taking a more deliberate approach to other fossil fuels such as petroleum and natural gas.
- In addition to environmental concerns, the alleviation of poverty appears to be a significant value that many members of the Diocese would like to see reflected in the Diocese's investment practices.
- Respondents to the Task Force's survey of Diocesan attitudes toward socially responsible investing ranked avoidance of investments in companies having discriminatory policies or benefitting oppressive regimes as a high priority for the Investment Committee to consider in developing the Diocese's investment policies, rating this consideration even ahead of screening out fossil fuel companies and other environmentally irresponsible companies. Exclusion of companies that contribute to poverty (such as payday lenders and companies with

predatory lending practices) would be an important third area to consider in our investment policies.

## **Background**

The Task Force on Socially Responsible Investment was commissioned through a resolution adopted by the 165<sup>th</sup> Convention of the Episcopal Diocese of California that asked the Bishop “to appoint a Social Responsibility Task Force to explore investment policies that would be consistent with the values of the people of the Diocese of California (informed by a process involving, but not limited to, diocesan planned roundtable discussions over the course of 2015) and to make policy recommendations to the Investment Committee. . . .”

The Task Force is comprised of five members, including two clergy and three lay members: Susan Champion, Rector of Christ the Lord Church in Pinole, a longtime advocate of socially responsible investment policies in the Diocese and a co-sponsor of the resolution at the 165<sup>th</sup> Convention commissioning the Task Force and the resolution adopted at the 166<sup>th</sup> Convention on “Environmentally Responsible Investing”; Stephen Hohenrieder, a private equity investor focused on developing a more regenerative model for managing agricultural land and producing healthy food; Georgene Keeler, a long time investment professional who is also a member of the Diocesan Investment Committee; John Quarterman (Chair), the General Counsel of New Island Capital Management, an institutional, mission-focused investment advisory firm focused exclusively on investments with both financial return and positive social and environmental impact; and Kirsten Spalding,<sup>2</sup> Priest-in-Charge of the Church of the Nativity in San Rafael and Regional Director of Investor Programs for Ceres, a non-profit organization working with investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices.

Three members of the Task Force have substantial professional involvement with “socially responsible” or “impact” investing and another member was a co-sponsor of the resolution adopted at the 166<sup>th</sup> Convention calling for the Investment Committee to divest from fossil fuel companies. Accordingly, for the sake of transparency, it should be acknowledged that the Task Force may have a bias in favor of recommending that the Diocese incorporate environmental, social and good governance (ESG) factors in its investment policies and practices. Nevertheless, the professional experience of several Task Force members in evaluating “socially responsible” investments has taught that adopting a program of ESG investment is not a simple process, particularly where prudent investment practices need to be observed. Consequently, it is also fair to say that the Task Force has a decided bias in favor of the Diocese taking a measured, thoughtful approach in determining how to include ESG factors in adopting investment policies which fully take into account the fiduciary responsibilities of the Investment Committee.

The Task Force strived to approach its work with an open mind and a spirit of listening, with no preconceived notion what the outcome of its work would be or even whether the people of the Diocese would ultimately determine that SRI investment is the

right thing for the Diocese to do. The Task Force believed that a more thoughtful discussion of the Diocese's investment strategies and policies could be facilitated by enabling participants in that discussion to have access to fundamental information about the endowment to ensure that such discussions were grounded in reality. Accordingly, the Task Force made a concerted effort to provide members the Diocese with appropriate information about the Diocese's endowment and current investment practices, including the size, sources, purpose and uses of the endowment, the Investment Committee's stewardship of the endowment and fiduciary responsibilities in overseeing its investment, the Diocese's need to maintain a diversified portfolio and our needs for income for operational and programmatic purposes, and the composition of the endowment. In addition, the Task Force presented information about potential opportunities and alternatives for adopting socially responsible investing principles in the investment of the endowment.

The Task Force also wanted to ensure that participants in its discussions regarding socially responsible investing understood that the development of investment policies and strategies involve many competing considerations and trade-offs. Accordingly, the Task Force asked participants not just to opine whether a certain type of investment or investment strategy might be desirable, but instead to offer their opinions as to how they might prioritize choices among many potentially competing investment strategies and policies. For example, in evaluating whether the Diocese should adopt SRI principles in developing its investment policies, members of the Diocese would need to understand that such a decision might involve unintended consequences, such as higher costs of managing the Diocese's investments and potentially reduced returns. In addition, if the Diocese does determine to adopt SRI principles in its investment policies, members of the Diocese would still need to determine what values the Diocese should emphasize in its investment policy, whether it would be feasible to pursue investments embodying such values consistent with prudent investment practices, whether suitable investment opportunities in the chosen area(s) of impact even exist, whether the Diocese could invest in such opportunities consistent with the Diocese's need to maintain a diversified portfolio and our needs for income for operational and programmatic purposes, and, finally, whether and how in the context of a relatively modest endowment, the Diocese could achieve maximum impact without compromising the Investment Committee's fiduciary responsibilities to those who have entrusted their funds to its stewardship.

The Task Force believed that it could best serve the Investment Committee by gathering information that obtained a sense of the specific priorities favored by the people of Diocese in the investment of the Diocese's financial resources. This report reflects the results of our efforts to do so.

### **Activities of the Task Force**

Following its formation and introductory meetings, the Task Force began its public work by organizing and hosting an informational webinar in October 2015 to provide interested participants with basic information concerning the endowment and what alternatives might exist for adopting socially responsible investing principles in

developing investment policies and practices. The webinar was moderated by the Task Force, and speakers included Janet Brown, Chair of the Investment Committee; Mona ElNaggar, a representative of The Investment Fund for Foundations (“TIFF”); and Lauryn Agnew, a principal of Seal Cove Financial and the head of the Bay Area Impact Investing Initiative. Ms. Brown spoke about the size and purpose of the endowment, its sources and uses, the amounts of income derived from the endowment for operational and programmatic purposes, and the responsibilities of the Investment Committee in overseeing the investment of the endowment. Ms. ElNaggar provided information about TIFF’s background and objectives and its investment funds, as well as the composition of the investment portfolio in TIFF’s Multi-Asset Fund, including the percentage of the Multi-Asset Fund portfolio’s investments in areas of particular concern for Episcopal Church and the Diocese, such as the percentage invested in fossil fuel companies, aerospace and defense, for profit prisons, distillers and vintners, and casinos and gaming. From these percentages, webinar participants could determine the amount of the Diocese’s portfolio invested in these areas of concern. In addition, Ms. ElNaggar spoke about TIFF’s efforts to develop a new investment fund that would include screening of portfolio investments for environmental, social and governance (ESG) considerations. Ms. Agnew spoke about the process adopted by the United Way Bay Area (UWBA) to incorporate socially responsible investing principles in the formulation of the investment policies for its own relatively modest endowment (which is approximately one-third the size of the Diocese’s endowment), including a process of discernment and prioritization of the values that the UWBA wished to incorporate into its investment policies and the development of a test portfolio to reflect such values. The webinar was recorded, and audio for the webinar can be found on the Diocese’s website at <http://diocal.org/socially-responsible-investing-webinar-video>. The slideshows presented at the webinar can be found at the following addresses:

<http://www.diocal.org/sites/default/files/media/PDF%20Docs/SRI-Webinar-John-Quarterman.pdf>

<http://www.diocal.org/sites/default/files/media/PDF%20Docs/SRI-Webinar-Mona-ElNaggar.pdf>

<http://www.diocal.org/sites/default/files/media/PDF%20Docs/SRI-Webinar-Lauryn-Agnew.pdf>

Following this webinar, the Task Force conducted meetings with most of the Deaneries in the Diocese to discuss the Task Force’s work and to solicit feedback from the Deaneries regarding priorities for adopting socially responsible investing principles in the Diocese’s investment policies and practices. (The Task Force was unable to schedule meetings with all of the Deaneries due to scheduling conflicts.) The discussions with the Deaneries were in some cases highly spirited, with a high diversity of opinion, ranging from skepticism concerning SRI to strong support for inclusion of SRI considerations in investment decisions.

The Task Force also held several meetings with Mona ElNaggar of TIFF, who was leading TIFF's efforts to develop an ESG-screened investment fund for its institutional clients (which include a number of faith-based organizations). These meetings offered the Task Force an opportunity to understand how TIFF was going about to create its new ESG-screened fund (for example, what screens and ESG scoring methods were being contemplated) and also provided the Task Force with an opportunity to provide input to TIFF about the Diocese's own areas of concern in order to encourage TIFF to take the Diocese's views into account in developing its new fund. For example, the Task Force advised Ms. ElNaggar of the "Environmentally Responsible Investing" resolution adopted by the Diocese at its 166<sup>th</sup> Convention to stress the importance which the people of the Diocese have placed on avoiding investments in fossil fuel companies in the hopes that TIFF will attempt to screen out investments in such companies when it develops the new fund. Ms. ElNaggar had originally advised the Task Force that TIFF anticipated rolling out this new fund in the middle of 2016. Unfortunately, Ms. ElNaggar left TIFF, and TIFF's efforts to create the new ESG-screened fund may have lost momentum.

In an attempt to gather specific, actionable information regarding SRI priorities from a wide range of participants, the Task Force developed an online survey to solicit direct input from members of the Diocese. The survey can be found at this link: <https://www.surveymonkey.com/r/DSD2S6W>. The results of this survey to date are attached as an exhibit to this Report. The Task Force hosted a Socially Responsible Investing Roundtable meeting on April 7, 2016 to discuss SRI priorities using the questions on the survey to facilitate group discussion. Unfortunately, this Roundtable was poorly attended, and the Task Force, with the assistance of the Executive Council focused on wider and more visible publicity of the survey to encourage greater participation. These efforts succeeded to some degree, and the survey has had more than a hundred participants.

### **Resolution of the 166<sup>th</sup> Convention Regarding "Environmentally Responsible Investing"**

At the 166<sup>th</sup> Convention of the Diocese of California in October 2015, the Diocese adopted resolution concerning "Environmentally Responsible Investing." This resolution specifically called upon the Diocese "while always acting in a fiscally responsible manner and consistently with its fiduciary obligations, to divest from existing and refrain from future holdings of fossil fuel companies." This resolution expressly constituted "an additional instruction to the Socially Responsible Task Force created by the resolution of the 165th Convention entitled 'Socially Responsible Investing,' and shall be regarded as an expression of the "values of the people of the Diocese of California" within the meaning of that resolution.

By force of this resolution, the Task Force must report to the Investment Committee that it does appear to be the clear will of the people of the Diocese to include socially responsible investing principles, specifically those related to environmental

concerns and the avoidance of investments in fossil fuel companies (including active divestment of existing positions and refraining from new investments), consistent with fiduciary practices and in a fiscally sound manner, in the development and execution of the Diocese's investment policies and practices.

### **Findings of the Task Force and Survey Results**

The on-line SRI Task Force Survey covered three key areas for input and potential recommendations to the Investment Committee: 1) potential trade-offs between returns and mission-oriented investments, 2) areas of particular focus for mission-oriented investments and 3) areas of particular focus for mission-oriented divestment. The Task Force acknowledges that survey participants constitute a self-selected group of participants who care enough about socially responsible investing to take the time to complete the survey. Nevertheless, the Task Force has found the survey results to be generally consistent with the input that the Task Force has been receiving through its other activities.

#### Trade-Offs (Diocesan Values vs. Financial Returns)

When asked what was more important “matching our investments to our values” or “maximizing financial gains”, just under 50 percent of survey respondents indicated that values were more important, as compared to just under 20 percent who felt that returns were more important. (31 percent of respondents felt that matching values is “much more important than maximum financial gains.”) The remaining 31 percent indicated that values and returns were equally important. (See survey Q1.)

When asked if they would be willing to have the Diocese pay significant fees to move investments from TIFP to an ESG or SRI manager, nearly 70% said that they would prefer a more gradual approach that would not incur fees. (See survey Q2.)

Most respondents would take a gradual approach to alignment even if there will be some loss of shorter term returns. A significant minority (over 30%) of survey participants would move money quickly to align our investments with Diocesan values even if there are financial consequences to these actions.

#### Priorities for Affirmative Investment

When asked to rank three potential SRI strategies—affirmative investing in opportunities that actively promote the values the people of the Diocese care about, avoidance /divestment of companies whose activities are contrary to the social and moral values of the Diocese, and corporate advocacy and engagement in activism seeking to influence corporate behavior constructively, respondents ranked affirmative investing strategies and divestment/avoidance strategies nearly equally, with a slight preference toward divestment/avoidance strategies, with a lower percentage favoring corporate engagement activities. (See survey Q3.)

Of eleven suggested priorities for affirmative investment, alternative energy and poverty alleviation ranked highest. Energy efficiency, waste and pollution reduction and water conservation also ranked highly as did providing financial resources to underserved communities. Specific job creation investments, health and medical investments and general environmental stewardship investments were not as much of a priority for survey respondents. (See survey Q6.)

#### Priorities for Avoidance/Divestment

Most important to survey participants for “screened” investment funds is avoiding companies benefiting oppressive regimes and companies with discriminatory policies. Screening out environmental bad actors (like fossil fuels) was a second priority and excluding companies who contribute to poverty (such as pay day lenders and banks with predatory lending policies) were a third focus. (See survey Q4.) One important comment suggested that the Diocese “Pay attention to the Report on Racial Reconciliation 3 years ago--divest in companies benefiting from UN definition of enslaved labor.” Another comment offered: “I am very much against investments in big pharma and also big food corporations promoting high fructose corn syrup and chemicals (Monsanto).”

A few comments cautioned careful consideration before expanding divestment, while others felt that the options suggested for both divestment and affirmative investments were too limited (or could not be ranked).

Survey respondents were asked their views on how to implement the resolution adopted at the 166<sup>th</sup> Diocesan Convention calling for fossil fuel divestment, and most felt the priority should be on divesting from the “dirtiest” fossil fuel companies with a focus on coal and tar sands while taking a more deliberate approach to other fossil fuels such as petroleum and natural gas. (See survey Q5.)

### **Conclusions and Recommendations**

The Task Force believes that the results of the survey represent the “pulse” of church members who are interested in this subject. The survey was neither intended, nor can it be viewed as the “will of the Diocese”. While the Task Force attempted to provide education and outreach prior to launching the survey, we can assume that with more education and discussion with investment professionals the survey responses could change or be refined. It is notable that of the 111 survey respondents 16 (14%) indicated a willingness to participate in SRI Task Force work.

The recommendation of the Task Force on Socially Responsible Investing, based on our conversations with Deaneries, workshops and the survey results are as follows:

1. The Diocese should encourage TIFF to explore options and investment funds for socially responsible investment with all due haste. If TIFF is unable or unwilling to develop SRI investment options, then Diocese should gradually shift the

investment of the endowment to other managers in a fiscally prudent manner (without incurring significant penalties to the extent practicable) and new funds contributed to the endowment should be invested with managers that are willing to invest such funds in accordance with the Diocese's values.

2. The Investment Committee should consider shifting our portfolio towards more socially responsible investment through both screened funds and targeting investments at a speed that will not cause significant losses (including the payment of higher fees) or significantly lower returns over time. We believe that the members of the Diocese would be willing to accept lower returns on the endowment portfolio in the short term if necessary to align the Diocese's investment strategy with Diocesan values.

3. In applying socially responsible investment principles and values in developing the investment policies and strategies and in determining which values to prioritize in the Diocese's investment policies, the Investment Committee should give priority to poverty alleviation strategies and exclusion of companies that contribute to poverty, in addition to considering avoidance of fossil fuel companies and promoting sound, sustainable environmental stewardship.

4. In implementing the resolution adopted by the 166<sup>th</sup> Diocesan Convention on "Environmentally Responsible Investing," the Investment Committee should be encouraged to give preference to divesting as rapidly as prudently practicable from the "dirtiest" fossil fuel companies, such as companies involved in the extraction of coal and tar sands, while taking a more deliberate approach to other fossil fuels such as petroleum and natural gas.

5. Meaningful engagement in the Investment Committee's work by lay and clergy members of the church will require continuous education and open forums for discussion about investment alternatives and strategies. We believe this work is not best achieved through convention resolutions. We recommend that the Investment Committee (or another appropriately designated body) continue to work with interested individuals and congregations to facilitate continued dialogue concerning the alignment of the Diocese's investment policies and practices with our Christian values.