

# THE LUTHERAN WORLD FEDERATION

## **Investment Principles**

The purpose of these principles is to promote positive corporate social responsibility consistent with what we understand as God's purposes in the world. God creates and sustains all that is, and calls us to seek justice, peace, dignity, and sustainable communities for all. We do so as responsible stewards of what God has created and entrusted to us.

How we invest our resources and hold companies accountable for their practices should reflect these faith convictions. Investments play an important role, for good or ill, in societies. In today's global economy, the challenge is for both companies and individuals to ensure that the distribution of economic benefits is equitable, supports sustainable communities and preserves the integrity of creation.

### **A) There are different ways investments can be assessed ethically:**

- Source oriented: How the assets were acquired; what the source of these assets is and how this influences what the LWF is able to say or do
- Performance oriented: How to get the best possible financial results in order to support the work of the LWF
- Value oriented: How the investments themselves express values that the LWF wants to support
- Advocacy oriented: How we can influence the way companies are managed
- User-oriented: How the products of the companies are used, e.g. greenhouse gas emissions, technology used in land mines

### **B) Core values of the LWF investments**

- Equity / justice
  - Respect for human rights; access to knowledge, information and education; solidarity and tolerance; gender equality
  - The Golden Rule: "Do to others as you would have them do to you" Luke 6:31
- Accountability
  - We ourselves are accountable for the assets we are entrusted with
  - We require accountability and transparency from our partners and companies we invest in
  - Codes of Conduct, organisational development, quality of management, professionalism, environment

- Participation
  - Through our resources, we want to participate in the furthering of a more just and sustainable world. We want to support organisations / corporations that promote the participatory involvement of workers and communities affected by business practices.

## C) General Principles for Investments

- Funds will be invested **balancing yield with safety**. Advice from investment experts will be used regularly. The costs related to the investments must be reasonable.
- We try to **minimise the currency risks** by having investments and bank accounts in different currencies: USD-investments/accounts mainly for USD payments, CHF-investments/accounts for CHF-payments and EUR-investments/accounts for EUR- and CHF-payments.
- The investments are **consistent with the values and programs** of the LWF and hence promote **economically, environmentally and socially sustainable development**.
- The investments will have to be **diversified** widely enough. The different entities of the LWF may not hold more than 5% of any class of securities of any one issuer except the Swiss government and cantons.
- The **volatility** of the investments has to be in line with the time frame of the investments, i.e. the shorter the time frame, the less volatility can be accepted.

## D) Three Socially Responsible Investment (SRI) Principles

### 1) Promoting organisations which perform well and are socially responsible

The organisations should follow The Global Corporate Governance Principles issued by The International Corporate Governance Network ([www.icgn.org](http://www.icgn.org)) and The OECD Principles of Corporate Governance ([www.oecd.org](http://www.oecd.org)), and thus take into account:

- Good corporate governance (transparency, remuneration policy, corporate social responsibility, Board/CEO relationships, interests of the stakeholders)
- Environmental protection, climate change, product safety, recycling
- Human rights, gender equality, prevention of forced labour and extreme and exploitative forms of child labour, reasonable working conditions, promotion of freedom of association and recognition of the right to collective bargaining, education opportunities
- Supporting the local community, culture, education
- Fair distribution of wealth, fair trade and micro-credit organisations
- Best-in-class approach
- Industry sectors which satisfy the basic needs of the society like energy, construction, transportation, communication, housing, nutrition, clothing

2) Avoiding investments that further harmful or destructive purposes like:

- Militarism
  - ⇒ Nuclear weapons parts, landmines, chemical/biological warfare materials, small arms etc.
- Gambling
- Pornography
- Distilled alcohol and tobacco
- Exploitation of labour, natural resources, loopholes in legislation etc. (e.g. export processing zones)

3) Exercising shareholder rights

- The LWF may use reliable investment funds / services (e.g. Ethos, ISS), because we are limited in how actively we are able to exercise our shareholder rights.
- Building awareness inside the companies of their social and environmental impacts by conducting dialogue with the management / Board of Directors.
- Making strategic use of shareholder rights in a socially responsible manner.
- Occasionally we may want to invest in companies that do not comply with our values, because our goal together with other shareholders is to change the policies and/or practices of these companies.
- Currently we are concerned e.g. about the following corporate governance issues: environmental corporate governance plan, dual role of CEO/chairperson, fair and transparent executive compensation programmes, majority vote for corporate directors

## E) Principles for Investment Process

1) Direct investments by the LWF Management

- The LWF Management will follow these Investment Principles
- Direct investment in bonds and fixed income products is possible
- Direct investment in shares would require too much time and expertise => not applicable (Exception: Direct investments in investment funds and in the eight biggest Swiss companies are possible).

2) Using professional asset managers

- Letter of Mandate stipulates guidelines for the asset managers
- The asset managers and advisors must take into account these Investment Principles in the portfolio construction and management
- The asset managers should follow the attached Eurosif Transparency Guidelines for SRI Investment Funds ([www.eurosif.org](http://www.eurosif.org))
- OFA monitors the performance of the asset managers regularly

3) Investment methods

- Diversification needed when time frame is more than 3 years
- Investment funds can be used, if they meet our ethical/SRI requirements
- Hedging and Fixed Income Structured Products can be used, if they meet our ethical/SRI requirements
- The LWF funds will not be invested in mainly speculative instruments

*These Investment Principles have been approved by the Finance Committee of the LWF Council on 27 June 2008*

## APPENDIX

### Eurosif Transparency Guidelines

The Eurosif Transparency Guidelines focus on retail SRI funds in order to increase accountability to consumers. The guidelines will also create greater clarity for asset managers, research providers and other stakeholders. All information pertaining to the retail Transparency Guidelines can be found at the following website:

<http://www.eurosif.org/transparency-guidelines-retail>.

#### Guiding Principle

Signatories to the Guidelines should be open and honest and disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the SRI policies and practices relating to the fund.

#### Commitments from Signatories

- Retail SRI funds sign up to the Eurosif Transparency Guidelines on a voluntary basis. However, signatories are expected to provide a Statement of Commitment to the Transparency Guideline requirements outlining the extent to which and how they comply with the Guidelines. This should explain where and why there may be exceptions to some questions and indicate where a whole category of the Guidelines does not apply to a fund.
- Signatories should provide information in response to as many of the questions within each Guideline category as possible. However, it is acknowledged that a fund may be unable to provide detailed information on all the questions at a particular time. This may be due to reasons such as legal regulations (which vary country by country) or the stage in the fund's development. Thus, the reasons preventing the fund from providing the required information should be clearly stated. Signatories should systematically state if and when they hope to comply with the questions they cannot answer at this time.
- Answers to the questions should be made publicly available. Signatories may choose the most appropriate media and format to communicate the information required by the Guidelines (e.g. web-based and/or printed materials). However, the fund manager should make it very clear where consumers are able to find the information required by the Guidelines.
- As a minimum, information should be communicated on an annual basis.

#### Commitments from Eurosif

- Eurosif will be responsible for maintaining and publicising the Transparency Guidelines.
- Eurosif will highlight signatories to the guidelines on its website and in its publications relating to retail SRI.
- Eurosif will create a 'logo' that is trademarked and awarded to those institutions using the Guidelines. This logo will be updated by Eurosif and renewed by the financial institution on an annual basis.
- Eurosif commits to reviewing the Guidelines, initially once a year. The process for reviewing the Guidelines will be open and inclusive.

#### Currency of Reporting

Funds should report data in the currency that they use for other reporting purposes.

#### Guidelines Categories

##### *Basic Details*

**1 Signatories should be clear about who they are and provide background information on the fund, and the fund manager.**

1a Provide the name of the fund(s) and fund manager to which these guidelines apply.

1b Provide contact details for further information regarding the funds.

1c What is the size of the fund? In currency at a specified date.

1d Where can financial performance history data about the fund be found?

1e Provide details of the content, frequency and means of communicating information to investors.

Additional: Briefly describe the corporate responsibility policies of the organisation that manages or promotes the fund(s), or give direction to where this information can be located.

##### *SRI Investment Criteria*

**2 Signatories should be clear about their purpose and investment criteria.**

2a How does the fund define SRI?

- 2b What are the SRI investment criteria of the fund?  
2c How are the SRI criteria defined, how frequently and by whom are the criteria reviewed?  
2d How are criteria changes communicated to investors?

### **Research Process**

#### **3 Signatories should provide information on their research process.**

- 3a Describe your SRI research methodology and process.  
3b Does the fund manager use an in-house research team and/or an external research team? Please explain.  
3c Is there an external control or external verification process in place for the research process? Where an advisory Committee is used, please state its responsibilities.  
3d Does the research process include stakeholder consultation? If yes, please provide details.  
3e Do companies have the opportunity to see their profile or analysis? If yes, how often?  
3f How frequently is the research process reviewed?  
3g What research findings are disclosed to the public? How?

### **Evaluation and Implementation**

#### **4 Signatories should provide information on how the research is used to build and maintain their portfolio.**

- 4a How are the results of research integrated into the investment process, including selection and approval of companies for investment?  
4b What internal or external measures are in place to ensure portfolio holdings comply with SRI investment criteria?  
4c What is the policy and procedure for divestments on SRI grounds?  
4d Are investors informed about divestments on SRI grounds? If yes, how frequently and by what means?  
4e Does the fund manager inform companies of portfolio exclusions or divestments due to non-compliance with its SRI policy and criteria?  
Additional: To what extent do any results of engagement activities feed into company selection?

### **Engagement Approach**

#### **5 Signatories should explain their approach to engagement if the fund has such a policy.**

- 5a What are the aims of the engagement policy?  
5b How does the fund prioritise which companies it will engage with?  
5c Who undertakes engagement on behalf of the fund?  
5d What methods of engagement are employed?  
5e How is the effectiveness of engagement activity monitored/addressed?  
5f What further steps, if any, are taken if engagement is considered unsuccessful?  
5g How, and how frequently, are engagement activities communicated to investors and other stakeholders?

### **Voting Policy**

#### **6 Signatories should make clear their policies on voting.**

- 6a Does the fund have a voting policy? If so, what is it?  
6b Does the fund disclose its voting practices and reasoning for decisions? If so, where can this information be found?  
6c Does the fund sponsor/co-sponsor shareholder resolutions?

### **Periodical Activities**

#### **7 Signatories should periodically disclose information about their activities. This should be done at least on an annual basis.**

- 7a List the fund holdings at a specified date within the last 6 months.  
7b What engagement activity has been carried out on behalf of the fund during the past year?  
7c What voting actions occurred that were related to the SRI fund criteria?  
Additional: What divestments occurred in the past year related to the SRI fund criteria?  
Additional: What were the amount of donations and the percentage of management fees that the fund gave to charities this past year?