



The Pension Boards
United Church of Christ

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May 14, 2013

MEMORANDUM

To: Executive Council United Church of Christ

From: Michael A. Downs, President/CEO

Subject: The Pension Boards' Initiatives and Actions Subsequent to the 2005 Synod Resolution
"Concerning the Economic Leverage in Promoting Peace in the Middle East"

Attachments:

- Letter Dated July 7, 2005 to The Rev. John H. Thomas
- Letter Dated August 2005 with Church-wide Distribution
- UCF Document - *"Responding to the General Synod 25 Resolution Regarding Economic Leverage to Promote Peace in the Middle East"*
- October 12, 2006 Email from Ballard, Spahr to Michael A. Downs

The Pension Boards is pleased that the term "Economic Leverage", coined by us, is now widely used by the UCC and Greater Church. We are happy to report that our investment made in 2011 from unrestricted reserves in the private equity fund Siraj Palestine Fund LP1 (Fund) is directly or indirectly improving the lives of thousands of Palestinians. The Fund is comprised of direct equity investments in viable start-up, distressed, and relatively large enterprises in Palestine across various economic sectors. Siraj's investments are intended to unleash the potential of these Palestinian businesses, while promoting technological advancements and development in the country, spurring economic growth, job creation and innovation in Palestine. The Pension Boards .67% interest in Siraj followed three years of comprehensive due diligence by staff including onsite visits, and review assistance by a large New York-based hedge fund. Companies funded by Siraj in 2012 include the following:

- A family-owned gas distribution company that was serving only residential clients in Nablus City was injected with an investment for expansion to realize the company's vision of becoming the Country's market leader in LPG distribution. Today it is the fastest growing gas distribution company in Palestine serving all market sectors – residential, commercial and industrial. In 2013, the company will expand into the southern region of the West Bank focusing mainly on the industrial sector. They are opening new offices in Hebron and will hire and train staff that will lead expansion in that region.

- A public company with a number of specialized subsidiaries in logistics (mail and package delivery service and land, air and sea freight and shipping services), leasing, security services, organization of events and exhibitions, and sales of Xerox printing and copying machines. The company launched the operations of "Aman" the only licensed money and valuables transportation company with licenses from both the Palestinian and Israeli authorities. New for 2013 will be the introduction of new logistics related products such as supply chain management, security and electronic monitoring, machinery leasing and technology such as DMS and specialized printing.
- A start-up company that specializes in the production and sales of Medjool dates. The Fund's investment, with a possible follow-up investment, was used to finance a more efficient process of planting Medjool palms, the purchase of two existing farms, financing the buildup of the farm's infrastructure (wells, water network, etc.), needed working capital and the addition of a packing house. During 2012, the company tripled the size of its crops and managed to produce and export 230 tons of Medjool dates to several countries such as the U.K., Spain, Turkey, Russia, Indonesia and the U.A.E.
- One of the pioneering engineering and architectural firms in the West Bank that provides architectural design, supervision and production management services. During 2012, the company doubled its professional staff, and building on its unique and solid expertise acquired in developing the city Rawabi, management is currently focusing on acquiring new projects.
- The first licensed company to provide capital and operational leasing services within the Palestinian market. The company's strategy is to provide leasing options for various ranges of equipment and vehicles to the commercial sector and individuals. During 2012, the company was able to reach financing agreements with two major banks, and will capitalize on this to achieve growth and diversification in its product offerings while focusing on the untapped market for machinery and equipment leasing.
- A holding company for media and production that specializes in providing media and production services for local and international TV stations and news agencies. The company's vision is to expand its operations by launching a local commercial mainstream television station that is transmitted over satellite, Al-Falastinyah (FTV). Combined with comprehensive production services, it will address the unmet needs of Palestinians in Palestine and in the diaspora.
- A hospitality services start-up company that has opened three restaurant outlets.
- An integrated internet platform company that provides health information to Arabic speaking internet users, connecting them with health service providers, so that they can better be informed, control their health, and lead healthier lives. Their website includes a series of features popularized on the U.S. sites like WebMD, all in Arabic, including a Q&A section, a physician directory, and original content that the site licenses, translates and publishes. The company continues to provide high-quality healthcare content by cooperating with leading publishers like Harvard Medical School and The Mayo Clinic. During 2013, the company plans to launch a specialized site for diet and lifestyle, pregnancy and parenting; and provide focus-content/events, e.g. Diabetes Day, Cancer Day, Ramadan and health news, with content being created in-house or licensed, translated and customized to the local market.

For 2013 thru 2015 there are 28 additional companies that have been vetted from a list of 55 possibilities. 20 of these companies have initial contracts in place for investments by Sarij.

The investment in Siraj Palestine Fund LP1 is connected to the development of the city of Rawabi – the largest project and by far the largest private sector investment in Palestine’s history, at a cost of well-above \$850 million U.S. Rawabi will provide more than 5,000 well priced contemporary housing units with nine different floor plans to choose from, spread across 23 neighborhoods. The city will also include a commercial center, business district, a hotel and convention center, public and private schools, medical facilities, mosque, and a church, as well as extensive green recreation space. Rawabi will initially be home to 25,000 residents with additional residential and commercial units slated for subsequent construction phases that ultimately will serve a city with a population of 40,000. There are currently 3,000 construction workers employed in the building of Rawabi growing to 8,000 employed within 18 months.

In October 2012, the city of Rawabi was accepted as the first Palestinian member of the U.S. Green Building Council (USGBC). Palestine is third country in the region (after the U.A.E. and Jordan) to join this esteemed professional group, an international organization dedicated to the development and construction of cost-efficient, energy saving green buildings across the globe.

On February 12, 2013, His Beatitude Theophilos III, Patriarch of Jerusalem, and all Palestine and Jordan, blessed the Cornerstone of Rawabi’s first Run Orthodox Church in the presence of among others, Ziad Bandak, Palestinian President’s Advisor for Christian Relations Affairs. During the laying of the Cornerstone, His Beatitude Theophilos III remarked his satisfaction with the central placement of the Christian Church in Rawabi’s residential area.

At his recent visit to Rawabi, Palestinian Minister of Prisoners’ Affairs H. E. Issa Qaraqe said, “The City of Rawabi is like a Palestinian Paradise – A Paradise in that it offers hope of a new life for released prisoners and their families. For those who spent many years detained in Israeli prisons, this new City gives a glimpse of a new future in Palestine.”

See Rawabi online:

- www.rawabi.ps/cams.php
- [www.Facebook.com/RawabiCity](https://www.facebook.com/RawabiCity)
- [www.Youtube.com/RawabiCity](https://www.youtube.com/RawabiCity)
- [www.Twitter.com/RawabiCity](https://www.twitter.com/RawabiCity)
- www.rawabi.ps/panorama.php

In spite of hyper unemployment exceeding 30% throughout most of the Middle East, and deteriorating GDP growth, year over year unemployment in Palestine has been declining since 2008. At year-end 2012, the unemployment rate in the Palestine territory was 24.3% (West Bank 20.4%. Gaza 31.9%). And, despite the economic constraints, a report by the I.M.F. still expects a 5.6% GDP growth for Palestine for 2013 and a GDP per capita increase of 2.6%.

The Pension Boards continues to work with Palestinian relationships to assist raising desperately needed investment capital to spur private sector growth. The Palestinian Stock Exchange (PSE) includes 33 publicly traded companies, the largest with a market capitalization of \$600 million. It is our hope that within the next two years, a Palestinian Exchange Traded Fund (ETF) will be available to investors worldwide. Additionally, the Pension Boards is working closely with our decades-old relationships in retirement benefit plans from ecumenical partners, seeking investment opportunities worldwide including those that may be suitable in the Middle East. These important discussions continue.

With respect to historical documents, please note the letter dated July 7, 2005 to The Rev. John H. Thomas, General Minister and President from me with the unanimous support of the Pension Boards of Trustees. Copied were the Collegium, Pension Boards' Trustees, Conference Ministers, Norm Jackson, General Synod Moderator and Donald Hart representing United Church Foundation. The letter speaks to the Pension Boards' view then and now regarding the process leading to the presentation of the Substitute Resolution, and the Vote itself. We never received a response from John Thomas.

Note also the letter dated August 2005 with distribution across the Church regarding those things that the Pension Boards can and cannot do in relation to our fiduciary duties. Included were comments regarding successes in Socially Responsible Investment (SRI) strategies through our relationship as a founding member of the Interfaith Center on Corporate Responsibility (ICCR).

From September 2005 thru November 2006, the then Pension Boards' CFO, Julie Oliver, participated on all calls related to implementation of the 2005 Substitute Resolution, and kept detailed notes of each meeting which we have retained. The September 12, 2006 UCF document "Responding to the General Synod 25 Resolution regarding Economic Leverage to Promote Peace in the Middle East" was referred to Pension Boards' General Counsel for review and comment. This review is attached in her e-mail to me dated October 12, 2006. You will note three specific comments:

1. The PBUCC's Funds are Plan Assets not Church Assets.
2. A Plan Fiduciary may engage in Economic Leveraging activities but only to the extent that they are secondary to and consistent with the investment policies of the Plan and do not harm investment performance.
3. The PBUCC cannot delegate its fiduciary responsibility to the Church.

Further, there was a recommendation that the committee insert a paragraph in any statement adopted for the entire Church in reference to the Resolution. This statement by external legal counsel was unanimously approved by the Pension Boards' Board of Trustees at its November 2006 Board Meeting and sent to the Collegium for a response. It was assumed that this statement along with previous documents would be forwarded to Executive Council for review, consideration and action. This was not the case. There are more documents and notes related to this part of history, and the Pension Boards response to the General Synod 25 Substitute Resolution Concerning Economic Leverage to Promote Peace in the Middle East. We would be happy to provide these materials and discuss further with the new United Church Unified Board if felt relevant for that Body.

Sincerely,



Michael A. Downs
President/CEO

CC: *Pension Boards Board of Trustees*

March 15, 2013

Mr. Michael A. Downs
The Pension Boards of the United Church of Christ
475 Riverside Drive, Room 1020
New York, NY 10115

Dear Mike:

On Saturday, March 9, 2013 the Executive Council of the Twenty-ninth General Synod acted to make Mr. Curtis O. Rueter eligible for election as a Trustee of The Pension Boards of the United Church of Christ.

Please also recall the request of the Chair, Ms. Lowes, for a report from The Pension Boards to the Executive Council's June 27, 2013 meeting in Long Beach regarding The Pensions Boards' initiatives and actions subsequent to the 2005 Synod Resolution Concerning the Economic Leverage in Promoting Peace in the Middle East. The report can be forwarded to me when it is ready.

Mike, I know everybody in the room appreciated your heartfelt personal witness at Sloan-Kettering and your testimonial Saturday to the healing power of prayer.

Thank you,



Lee Foley
Secretary to the Corporation-
The Executive Council of the General Synod of the United Church of Christ



COLLEGIUM OF OFFICERS

Geoffrey A. Black
GENERAL MINISTER AND PRESIDENT

W. Mark Clark
ASSOCIATE GENERAL MINISTER

M. Linda Jaramillo
JUSTICE AND WITNESS MINISTRIES

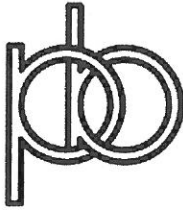
J. Bennett Guess
LOCAL CHURCH MINISTRIES

James A. Moos
WIDER CHURCH MINISTRIES

cc: Penny Lowes

God is still speaking,





July 7, 2005

Rev. John H. Thomas
General Minister and President
United Church of Christ
700 Prospect Avenue East
Cleveland, OH 44115-1100

Dear John:

Greetings in the name of our Lord Jesus Christ

The Pension Boards affirms covenantal understandings among the settings of the United Church of Christ. Upon receipt of *"Proposed Substitute Resolution Concerning Use Of Economic Leverage In Promoting Peace In The Middle East"*, we will carefully consider its language and respond as we are able within the constraints of our fiduciary responsibilities. We assume that there will be thorough review of the process leading to the action taken by parliamentary experts to determine if this is a legal resolution.

For your information, I have been contacted by a substantial number of committee members that are dissatisfied with the process. None were invited to participate in the after hours discussion that led to the substitute motion. All believe that they worked prayerfully and tirelessly to craft a resolution that combined and captured the spirit and intent of the three resolutions presented to them for consideration. All parties, including Wider Church staff, had ample opportunity to contribute to the discussion. After lengthy debate until 11:30 pm, the resolution was approved unanimously by the committee. More than one committee member has stated to me *"Why did the UCC spend more than \$1,000.00 to bring me to Atlanta and totally disregard my efforts."*

During Plenary discussion of the second substitute resolution, the Committee Chair responded *"There were some that were dissatisfied with the Committee resolution and wrote their own."* This was the case during the Committee meeting when no more than five minutes into the discussion, and before any debate, a Wider Church representative read language for a completely new resolution as an alternative to the three resolutions approved for business.

On a personal note, I am dismayed that neither I nor Don Hart were invited to participate in the after hours discussion.

Letter to John Thomas
2/5/2013
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Further, we were never informed of the recommended substitution in advance of the debate until we received a copy of the motion from a volunteer minutes before it was presented to Synod. This is all the more disturbing to me because a Collegium member was present during the after hours discussion. As you know, Pension Boards and United Church Foundation staff have been fully transparent during the last several months in meetings and conference calls chaired by you regarding educational materials and SRI/CSR activities. It is ironic that as the not clearly defined group was gathering to prepare a substitute motion, Don Hart and I were in a meeting with the Pension Boards' Trustees present at Synod to build support for the resolution crafted in committee, even though we did not agree with substantial portions of the text.

Finally, the point of this letter has little to do with the above matters - it has everything to do with the precedent setting implications of voted actions, integrity of process and trust. What will the process be next week, next month or next Synod when an important matter with similar complexities must be considered for action?

Our members are protected by court directives that are very clear on the roll and responsibilities of a fiduciary. I am thankful for the "*polity wisdom*" of past church leaders that understood and appreciated the necessity of discrete decision making oversight. The Pension Boards will adhere to a strict interpretation of our fiduciary responsibility, governance and UCC polity.

Faithfully,

Michael A. Downs

CC: Collegium - United Church of Christ
Board of Trustees - Pension Boards - UCC
Conference Ministers - UCC
Norman W. Jackson - Moderator
Donald G. Hart - United Church Foundation



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August 2005

Dear Friends:

The enclosed information is intended to serve as a reference for the Conference on matters of fiduciary duty, and the Pension Boards' commitment to Socially Responsible Investment (SRI) strategies and Corporate Social Responsibility (CSR).

The U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Labor (DOL) have jointly issued guidance for retirement plan fiduciaries. Fiduciaries of employee benefit plans, such as plan sponsors and trustees, must administer and manage their plans prudently and in the interest of the plans' participants and beneficiaries. Specifically, they are required to discharge their investment duties with respect to their plans (a) for the exclusive purpose of providing benefits to plan participants and beneficiaries (and for defraying "reasonable expenses" of administering the plan), (b) with the care, skill, prudence and diligence that a prudent person acting in a like capacity under like circumstances and familiar with such matters would use in the conduct of a similar enterprise with similar aims, (c) by diversifying plan investments to minimize risks of loss (unless to do so would be imprudent), and (d) in accordance with the plan documents to the extent that the plan terms are consistent with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Plan fiduciaries are responsible (and liable) for the selection, hiring and monitoring of service providers, such as investment advisors, as well as for the selection and monitoring of investment options for participants.

Within the scope of this primary and fundamental duty, Pension Boards' Trustees have affirmed a commitment to Socially Responsible Investing (SRI). In 1967, the Sixth General Synod of the United Church of Christ established the principle that *"social values and justice ought to be given consideration together with security and yield in the investment of funds held by religious organizations."* In 1969, the Seventh General Synod appointed a Committee on Financial Investments (COFI), which was charged with establishing criteria and making recommendations towards the substantial use of investments of all National Instrumentalities and Conferences to promote maximum social impact on established General Synod policies (69-GS-118). In 1971, the four recognized instrumentalities holding the major shares of investment funds within the UCC (Pension Boards, United Church Board of Homeland Ministries, United Church Board of World Ministries and United Church Foundation) initiated a joint Corporate Social Responsibility (CSR) ministry to set overall policy and share the cost of staffing and administering the program. Since 1971, CSR has served the church by utilizing the economic power of the church's ministries as corporate shareholders to:

- Reform rather than reject.
- Encourage corporations to increase their socially beneficial operations.
- Persuade corporations to decrease or end the socially injurious effects of certain of their policies.

To the extent permitted by our fiduciary duty, the Pension Boards leverages its economic power to bring about change in corporate policies and practices on social and environmental performance through three Socially Responsible Investment (SRI) strategies: screening, shareholder advocacy and proxy voting.

The majority of the Pension Boards faith-based investment activities are through expressions of shareholder activism – including both social and corporate governance issues. As shareholders, there are a variety of actions we can take to influence the policies and behavior of a company in which we hold stock:

- Engagement and constructive dialogue with companies and/or holdings over areas of concern.
- Monitoring emerging shareholder issues each year and actively voting each company proxy statement in a manner that supports our social and corporate governance standards.
- Exercising the option of filing or co-filing shareholder proposals at stockholder meetings.

To achieve meaningful corporate social progress and/or change, a multifaceted approach involving these SRI strategies, in tangent with the activities of other stakeholders, is usually required. In 1971, the UCC became one of the founding members of the Interfaith Center on Corporate Responsibility (ICCR). ICCR now includes over 275 faith-based institutional investors, with combined portfolio assets of \$110 billion.

Materials enclosed with this letter include a summary of 2005 success stories in human rights and global labor standards, 2005 shareholder victories in promoting human rights, 2005 season highlights including concerns about energy and the environment and a wrap-up of the 2005 shareholder season. *(Note that out of the 355 social policy proposals filed in 2005, 111 were withdrawn by their proponents. Most of these withdrawals have resulted from negotiations between companies and the proponents.)* In some cases companies have agreed to fulfill the terms of the resolutions exactly; in others, proponents were willing to withdraw because they were satisfied that they had gotten management's attention and were promised continued access and discussion.

Lastly, it is important to re-emphasize that the Pension Boards' Investment Committee operates within Board-approved investment objectives and guidelines. Please note from the attached PBUCC Investment Objectives and Proxy Voting Guidelines that *"in selecting among the investment alternatives which are suitable for the Pension Boards portfolio based on the Pension Boards Investment Guidelines, investments should be avoided in companies or industries that the Investment Committee has determined adversely affect human rights, contribute to the denial of such rights or threaten the quality of human life or the environment, provided that the investment manager is able to identify alternatives with the same or superior reward risk relationships. The Investment Committee has decided that companies in the tobacco, liquor and gambling industries should be avoided to the extent possible within the above policy."*

Note further that the Investment Policy establishes guidelines for corporate governance issues, board independence and leadership, and shareowner rights and executive compensation.

In addition to the summary materials provided, you may visit the PBUCC website and link to www.pbucc.org/csr/index.php for complete information on our Corporate Social Responsibility (CSR) mission and activities related to the companies we own and proxies we vote.

Thank you for your interest in this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael A. Downs". The signature is fluid and cursive, with the first name "Michael" being more prominent.

Michael A. Downs
President/Chief Executive Officer

RESPONDING TO THE GENERAL SYNOD XXV RESOLUTION CONCERNING ECONOMIC LEVERAGE TO PROMOTE PEACE IN THE MIDDLE EAST

THE RESOLUTION APPROVED AT GENERAL SYNOD XXV

Note: The complete text of the resolution can be found in the Appendix to this document

In response to the continuing conflict between Israel and the Palestinian people, the General Synod of the United Church of Christ voted in July of 2005 to use the economic leverage available to the church to promote peace in the Middle East. Leading one of the Covenanted Ministries named in the Resolution, the Board of Directors of the United Church Foundation must consider its response to Synod's call. The elements of the Resolution most relevant to the Foundation's business include —

- ▶ **challenging the practices of corporations that gain from the continuation of the conflict**
- ▶ **divesting from those companies that refuse to change their practices of gain from the perpetuation of violence, including the Occupation**

The Resolution also calls on the settings named to —

- **make positive contributions** to groups and partners committed to the non-violent resolution of the conflict
- **remain committed to inter-religious dialogue** and participation with Jewish, Christian and Muslim partners to work for peace in Israel-Palestine
- **provide materials ... to discern how economic leverage can be used** to support the development of Palestine and Israel as two independent, secure, economically viable states
- **create for and disseminate ...study materials on the range of issues** contributing to violence and oppression in the Middle East and ways to be involved in promoting peace

CRITERIA FOR CONSIDERING CORPORATE ENGAGEMENT

The United Church Foundation seeks first to fulfill its fiduciary responsibility to its client, investing in a cross-section of corporations to provide a stable and attractive return on the funds entrusted to its care. When the interests of investors come into potential conflict with the mission of the church to be a voice and force for peace and justice in the world, the staff and advisors of the Foundation believe the church's mission is best served by a program of engagement with the corporations in which the Foundation is invested. Divestment from selected companies remains an action of last resort, a point reached only after efforts to encourage more ethical corporate behavior have been exhausted.

Many American and multinational corporations operate in Israel — not all are profiting from the Occupation. Much of the profit garnered from the Occupation goes to producers of military equipment and weapons — corporations in which the United Church Foundation has not invested for many years, consistent with existing screens and policies.

In responding to the new resolution, the Foundation will seek to engage in constructive conversation with corporations who are —

1. **selling products or services, including financial services, that are used by any party to support or facilitate violent acts against civilian populations**
Examples may include companies providing —
 - ▶ Banking
 - ▶ Military arms and ammunition — rubber bullets
2. **selling products, services (including financial services) or technology of strategic importance to the maintenance and/or expansion of the Occupation of the West Bank and control of the Gaza Strip, including products or services used by the Israeli Defense Force**
Examples may include companies providing —
 - ▶ Telecommunications — equipment, wireless services, cell phones/service
 - ▶ Heavy construction equipment — for construction and expansion of settlements, construction of Israeli-only roads through the OT, construction of the Separation Barrier/Wall, demolition of Palestinian homes and agricultural land
 - ▶ Infrastructure & economic viability — railway systems, settlement-based manufacturing facilities
 - ▶ Equipment or services to build and maintain border crossing/terminal facilities
 - ▶ Military equipment — trucks, tanks, helicopters, missiles, arms, ammunition (*corporations in which the Foundation is unlikely to be invested*)
3. **selling products or services, including financial services and franchise rights, to establish, expand or maintain businesses in Israeli settlements**
Examples may include companies providing —
 - ▶ Retail franchises and products — food service, entertainment, household goods
 - ▶ Infrastructure & economic viability — water systems, settlement-based manufacturing facilities and businesses
 - ▶ Banking — mortgage loans, commercial and personal banking services
4. **purchasing products or services, for use or resale, produced in Israeli settlements**
Examples may include companies purchasing —
 - ▶ bottled water
 - ▶ fruits and vegetables
 - ▶ textiles and other manufactured goods

ENGAGING CORPORATIONS IN CONVERSATION

Consistent with the criteria approved by the Board of Directors (see Appendix B), the Foundation will work in collaboration with ecumenical partners who share the concerns of the United Church of Christ, learning from their experience and strengthening our efforts to achieve the church's goal of peace and justice —

1. Communicating with corporations to determine their involvement in Israel/Palestine and in activities that support the Occupation.
2. Dialoguing with corporate officers to encourage adoption of ethical practices that preclude profit-making from activities that support the Occupation and other forms of violence, and to request termination of such activities.
3. Voting proxies in support of relevant resolutions.
4. Filing shareholder resolutions, in cooperation with ecumenical partners.

In addition, the Foundation will seek opportunities to invest with corporations seeking to strengthen the viability of the Palestinian economy. While the prudent management of the Foundation's portfolio precludes investment in most micro-credit or venture enterprises, the Foundation may nevertheless consider investments in corporations working in an ethical and even-handed manner with regard to the Palestinian people and economy. This does not imply that the Foundation will seek less-than-market return on its investments. ■

Appendix A

CONCERNING USE OF ECONOMIC LEVERAGE IN PROMOTING PEACE IN THE MIDDLE EAST

WHEREAS the General Synod of the United Church of Christ has affirmed its commitment to Israel's safe and secure existence within internationally-recognized borders, neighboring an independent Palestinian state; and

WHEREAS the Twenty-Third General Synod of the United Church of Christ affirmed its participation in and commitment to the World Council of Churches' Decade to Overcome Violence (2001), condemning all forms of violence including but not limited to the violence perpetuated in the Israeli-Palestinian conflict including acts of suicide bombings by Palestinians; and the use of force by Israelis in perpetuating occupation of Palestinian lands; and

WHEREAS General Synods of the United Church of Christ has been particularly mindful of its relationship in Christ with Palestinian Christians, and notably the mission relationships mutually developed over decades of engagement and presence; and

WHEREAS the General Synod of the United Church of Christ has affirmed its relationship to the Jewish community, condemning anti-Semitism in all its forms, and affirming that God's covenant with the Jewish community remains inviolate (1987); and

WHEREAS the General Synod of the United Church of Christ has called for the use of economic leverage on behalf of oppressed people in a variety of circumstances;

THEREFORE BE IT RESOLVED that the Twenty-fifth General Synod calls upon the Covenanted Ministries, Pension Boards, United Church Foundation, Conferences, local churches and members to use economic leverage, including, but not limited to:

- advocating the reallocation of US foreign aid so that the militarization of the Middle East is constrained;
- making positive contributions to groups and partners committed to the non-violent resolution of the conflict;
- challenging the practices of corporations that gain from the continuation of the conflict; and
- divesting from those companies that refuse to change their practices of gain from the perpetuation of violence, including the Occupation; and

BE IT FURTHER RESOLVED that all settings of the United Church of Christ are urged to remain committed to inter-religious dialogue and to participation with Jewish, Christian and Muslim partners to work for peace in Israel-Palestine.

BE IT FURTHER RESOLVED the Twenty-fifth General Synod directs these aforementioned settings of the church to provide materials that may be used by all settings of the church to discern how economic leverage can be used to support the development of Palestine and Israel as two independent, secure, economically viable states; and

FINALLY BE IT RESOLVED the Twenty-fifth General Synod calls upon these settings to create for and disseminate to the local churches study materials on the range of issues contributing to violence and oppression in the Middle East and ways to be involved in promoting peace.

• • •

Appendix B

THE USE OF ECONOMIC LEVERAGE

The United Church Foundation Board of Directors believes that as faith-based investors, we have the responsibility to use the economic leverage we have as shareholders to influence the Corporate Social Responsibility practices among companies in which we invest. As shareholders, there are a variety of actions we can take to influence the policies and behavior of a company in which we hold stock. One of those actions is to engage in constructive dialogues with companies in our holdings over areas of concern. This strategy is also used by many of our ecumenical partners with which we work through the Interfaith Center on Corporate Responsibility. It is our belief that engagement with company management is the starting point by which we hope to make change. When these dialogues do not produce results, we believe it is prudent to explore the unique opportunities available to us as shareholders by sponsoring or co-sponsoring shareholder resolutions with other shareholders, and harnessing the "power of the proxy" to effect change in a company's practices that we believe are morally or economically wrong.

Social justice struggles are long-term and often necessitate an array of coordinated strategies/expressions. Although we would not want a company to continue a practice with which we are concerned for a very long time, it may take several years for change to take place. When all other actions do not produce desired results, the Foundation believes it may be in the best interest of its participants to divest of a particular stock, realizing that by doing so we no longer have the opportunity to have any influence on management of that company. It is because of the loss of this opportunity that we believe that divestment is usually an action of last resort.

The use of economic leverage as outlined above has been the practice of the United Church Foundation since the beginning of its CSR activities over 30 years ago. We continue to believe that we have a spiritual and moral obligation to use the economic leverage we have as shareholders to be actively involved with the management of companies to seek change where the practices and values of those companies we own do not live up to the spiritual and moral values of the United Church of Christ.

Note: This statement was released on June 28, 2005, by consent of the Board of Directors.

You replied on 10/12/2006 7:24 PM.

Michael Downs

From: Hemphill, Jean (Phila) [HEMPHILL@ballardspahr.com]

Sent: Thu 10/12/2006 7:04 PM

To: Michael Downs

Cc:

Subject: Criteria for Task Force Review

Attachments:

You asked me to review the statement approved by the UCF at its September meeting and provide you with comments with respect to the PBUCC and its fiduciary duty. You noted that it may form the basis for the adoption of a joint statement for all settings of the UCC. You asked for several bullet points that summarize the PBUCC position. Here are my suggestions.

- **The PBUCC's Funds Are Plan Assets; Not Church Assets**

Preliminarily, it must be noted that most of the assets held by PBUCC are not "church assets"; they are funds held by the PBUCC in express or implied trust for the payment of benefits (retirement, health, etc.) to employees and retirees. These benefits were promised to the ministers and church workers in exchange for their service and represent promised and earned compensation. PBUCC's duty, as a plan fiduciary, is to act in the sole and exclusive benefit of the plan members. The PBUCC cannot place the Church's interest in promoting peace above its duty to the plan members.

In addition, the MA funds are restricted for specific uses by the donors and are also held and invested by the MA as a trustee. The MA and the UCF (as I understand their roles and assets) are both subject to a comparable fiduciary duty to act in the best interest of the beneficiaries and consistent with the intentions of the donors.

The PBUCC may have limited general operating assets above and beyond the plan assets (and which are not otherwise restricted or to be held in trust). Adoption of the UCC's socially responsible investment policy for those assets would be appropriate and the use of the shares held outside of a fiduciary capacity for economic leveraging purposes would be an acceptable act by a church organization such as the PBUCC..

- **A Plan Fiduciary may engage in Economic Leveraging activities but only to the extent that they are secondary to and consistent with the investment policies of the Plan and do not harm investment performance.**

All investment (and divestment) decisions must be based on sound investment fundamentals. The Church's desire to promote peace through economic leveraging can not take precedence in investment decisions of a plan fiduciary. As noted in the UCF paper, prudent management precludes investments in micro-credit or other companies supporting the non-violent resolution of conflict.

Corporate engagement is an accepted practice for shareholders. Proxy voting is a fiduciary act of a plan fiduciary. Proxy voting should be exercised in a fashion that promotes the best interests of the corporation and benefit the investment of the plan assets. Many of the good governance proposals meet such a standard. Well-researched, targeted corporate dialogue to encourage companies to promote peace would not be a breach of fiduciary duty as long as investment decisions were not based on the outcome of the dialogue and plan resources are not allocated for such ulterior purposes.

The exception, of course, is when the plan member has investment choices and one of the choices is a "socially screened" or other dedicated fund that clearly discloses that its investment objective is to invest in accordance with the social witness policies of the UCC.

- **The PBUCC cannot delegate its fiduciary responsibility to the Church.**

While the PBUCC intends to support and cooperate in the economic leveraging activities of the Church,

decisions with respect to the management and investment of the PBUCC assets can only be made by the directors of the PBUCC and cannot be directed by the Task Force or the General Synod.

Based on the above, and subject to your board's approval at its November meeting, I would recommend the insertion of the following paragraph in any statement adopted for the entire church:

The General Synod acknowledges that certain assets of United Church of Christ organizations are held in trust or restricted for specific uses and that the use of those assets in furtherance of the social witness activities of the Church is subject to the proper exercise of the fiduciary duty of the directors and trustees of those funds. For example, the Pension Boards of the United Church of Christ holds and invests the retirement and welfare plan assets for ministers and church workers and can only make investment (and divestment) decisions that are in the sole and exclusive benefit of the plan members. Consistent with their fiduciary obligations, the Pension Boards, Ministerial Assistance Fund and other such organizations have expressed their commitment to support this policy insofar as legally possible.