



## **Report to General Synod XXXIV of the United Church of Christ**

### **Review of Actions and Accomplishments In Response to General Synod XXIX Resolution: “Urging Divestment...from Fossil Fuel Companies”**

**June 1, 2023**

#### **Introduction**

In 2013, the 29th General Synod of the United Church of Christ (UCC) adopted the resolution, “Urging Divestment – Along with Other Strategies – from Fossil Fuel Companies to Address Climate Change.”

This resolution called on all settings of the church to engage in various strategies to address climate change. These included personal lifestyle changes, legislative advocacy, education, public witness and engagement with companies through boycotts, shareholder action and divestment. The resolution also called on United Church Funds (UCF) to create investment vehicles free of fossil fuel companies and to screen holdings in fossil fuel companies except those identified as “best in class.” Finally, the resolution directed that hearings be held at five subsequent Synods (through 2023) to report on progress made toward fulfillment of the resolution.<sup>1</sup>

This report summarizes UCF’s approach, activities and accomplishments in fulfillment of the resolution over the ten-year period, 2013-2023.

#### **Beyond Fossil Fuels**

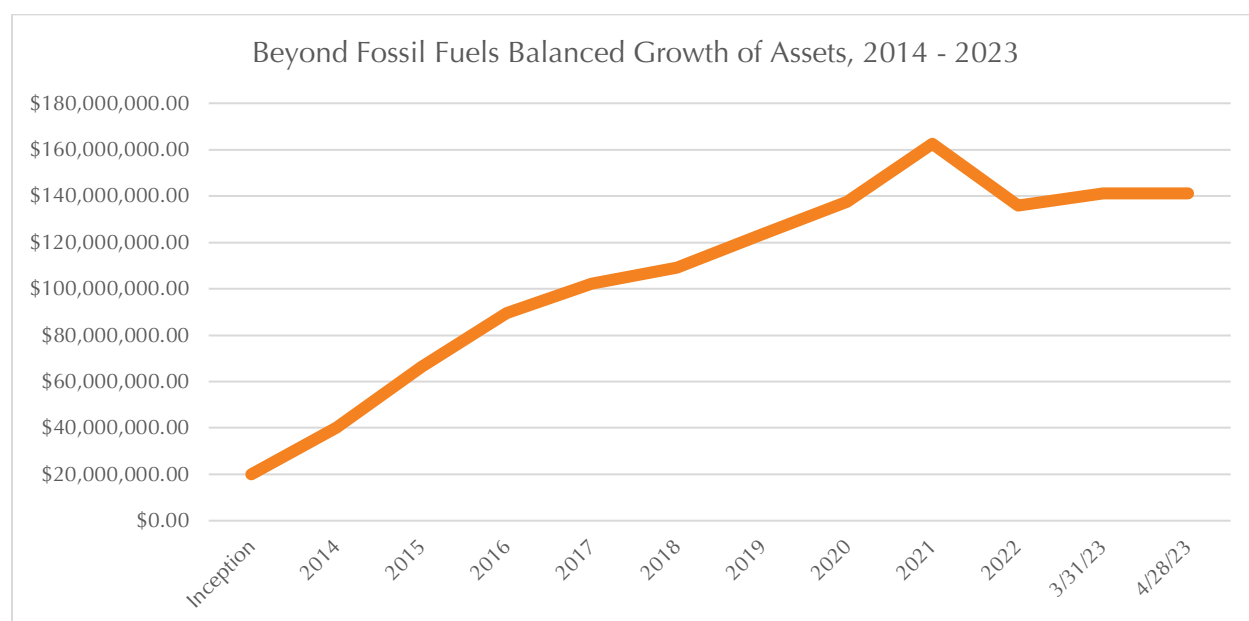
Prior to the 2013 Synod, UCF was in frequent conversation with drafters and proposers of the resolution, helping to identify action steps that would ensure concrete and achievable results. At the 2013 Synod, UCF was a vocal proponent of the resolution, and after adoption, UCF moved forward with the creation of a fossil fuel-free fund.

The “divestment” movement at the time was based on the notion that oil in the ground represented a “stranded” asset that represented both a moral and economic risk. Concurrently, an organization called Carbon Tracker published a list of those public companies with the greatest exposure to these reserves. In 2014, UCF launched the Beyond Fossil Fuels Fund (BFF), initially a domestic core equity fund and now a global equity fund, free of investments in corporations that produce or explore for fossil fuels. Subsequently, UCF created the Beyond Fossil Fuels *Balanced* Fund (BFFB), which added to BFF a fixed income allocation that emphasizes “green” and “sustainable” bonds. Both funds are among UCF’s most popular offerings.

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<sup>1</sup> [gs29-6.pdf \(uccfiles.com\)](#)

In 2014, BFF was launched with \$20 million from ten “founding investors,” and as of March 31, 2023, BFF funds stood at \$141 million, representing investments from 115 clients.



Despite the portfolio restrictions, these funds have generated strong returns and have helped dispel the myth that fossil fuel-free investing leads to underperformance. Financial performance for both funds has been in line with their benchmarks and Lipper peer groups.<sup>2</sup>

### Investment Performance, Beyond Fossil Fuels Fund

All performance results are shown net of fees

\* Comparison to Lipper data started in 2018

Average Annual Performance % as of 03/31/23	Quarter	One Year	Three Years	Five Years	Since Inception (Nov. 2014)
<b>Beyond Fossil Fuels Fund</b>	6.76%	-7.54%	16.50%	5.72%	7.69%
<b>Lipper Global Equity</b>	6.27%	-5.83%	14.44%	5.76%	*
<b>S&amp;P 500 Index/MSCI ACWI IMI net, linked (benchmark)</b>	6.95%	-7.68%	15.64%	6.58%	7.92%

<sup>2</sup> Detailed information about these funds, including latest performance relative to benchmarks, is provided in their respective Fund Fact Sheets, available at [www.ucfunds.org](http://www.ucfunds.org).

### Investment Performance, Beyond Fossil Fuels Balanced Fund

All performance results are shown net of fees

\* Comparison to Lipper data started in 2018

Average Annual Performance % as of 03/31/23	Quarter	One Year	Three Years	Five Years	Since Inception (Nov. 2014)
<b>Beyond Fossil Fuels Balanced Fund</b>	5.33%	-6.26%	9.32%	4.42%	4.86%
<b>Lipper Mixed Asset Target Allocation UCF Balanced</b>	4.12%	-6.09%	8.45%	4.28%	*
<b>Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index (benchmark)</b>	5.46%	-5.97%	8.78%	4.76%	5.16%

As of this writing, UCF is updating the mandate of both BFF funds to incorporate latest and best practices in responsible climate finance. This updated mandate is expected to include attention to aligning financed greenhouse gas emissions (GHG) with a Net Zero<sup>3</sup> and Paris Aligned<sup>4</sup> framework by 2050, while seeking to invest in corporations that are providing solutions to enable a clean energy transition.

### Climate Justice Engagement

Since the adoption of the resolution, the work of addressing climate change has evolved and matured. For example, we have witnessed in the last few years the increasing acceptance of the realities of global warming, heightened interest in ESG investing and a growing number of sovereign governments and multi-national corporations committing to Net Zero greenhouse gas targets.<sup>5</sup> We now have access to far more information and data and many more channels to address climate change than we did in 2013.

<sup>3</sup> According to the United Nations, “[N]et zero means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance” (<https://www.un.org/en/climatechange/net-zero-coalition>).

<sup>4</sup> Paris Aligned refers to the agreement reached at the 2015 UN Climate Change Conference (COP21) in Paris, setting the goal to reduce GHG emissions by 2050 or sooner.

<sup>5</sup> In 2021, the number of companies setting Science Based Targets to achieve Net Zero doubled, representing 35% of global market capitalization ([www.sciencebasedtargets.org](http://www.sciencebasedtargets.org)).



At UCF, this means expanding the tools used to address climate change beyond simply divestment from fossil fuel drilling and production companies. The tools of corporate engagement through face-to-face dialog and proxy voting have become increasingly significant over the last decade. The strength and effectiveness of UCF's engagement efforts are magnified through partnerships and strategic networking with other institutional investors, such as ClimateAction 100+ and the Interfaith Center on Corporate Responsibility (ICCR).<sup>6</sup>

Some examples of recent UCF corporate engagements related to climate action are:

1. Since 2019, UCF has been leading a coalition of investors representing ClimateAction 100+ in quarterly engagements with International Paper (IP). During the last year, IP adopted Science Based Targets<sup>7</sup> for greenhouse gas emission reductions and began enhanced climate reporting, allowing investors to better assess IP's climate-related risks. IP's Climate 2030 goals are a helpful step but are not aligned with a 1.5 degree Celsius (Paris-aligned) future, and, accordingly, investors continue to collaborate and escalate their concerns.
2. In 2022, UCF and the Pension Boards-UCC co-filed a shareholder resolution calling on Philips 66 to issue a report analyzing its lobbying activity and the climate positions of its trade associations. Because Philips 66 agreed to produce additional disclosure within a six-month period, the resolution was withdrawn.
3. In 2023, UCF co-filed a shareholder resolution with Citigroup calling on the corporation to assess its commitment to protecting indigenous rights. In particular, the resolution called out loans to Enbridge, which develops and manages the controversial Line 3 and Line 5 pipelines that pass through many tribal lands and waterways.

<sup>6</sup> ClimateAction 100+ is an investor-led effort targeting 166 of the world's leading greenhouse gas emitters, who produce 80% of the globe's industrial emissions (<https://www.climateaction100.org/>). ICCR is a member-based collaborative of over 300 faith and values investors. UCF was among its founding members in 1971 (<https://www.iccr.org/>).

<sup>7</sup> Science Based Targets are considered best practice for Net Zero target setting since they are based on quantifiable data verified by a third party (<https://sciencebasedtargets.org/>).

UCF increasingly engages with its asset managers to amplify environmental, social and governance (ESG) concerns. Portfolio managers are measured not only by financial returns but also their own commitments to raising the bar on social and environmental stewardship. Gaining the ears of institutional asset managers like BlackRock, TIAA-CREF, RBC and others that speak on behalf of owners of trillions of invested dollars allows UCF to leverage its positions in the marketplace. UCF also asks its asset managers to support calls for increased transparency on emissions (carbon, greenhouse gas, Scope 1, 2 and 3<sup>8</sup>, stranded assets, transition risks, among others), as well as the standards by which they measure progress or track transition toward Net Zero.

### **Policy, Regulations and Reporting**

Investment and divestment have proven to be effective means of addressing climate change, but they are weak and insufficient without public policies, government regulations and industry standards to provide support and incentive. In this area, UCF closely follows regulatory efforts and supports calls for effective policy to increase transparency and encourage low carbon adoption across all sectors of the economy. Following are some examples:

1. UCF submitted comments to the Securities and Exchange Commission (SEC) in support of new climate reporting requirements for large corporations, including recognition of the treaty rights of indigenous peoples (June 2022).
2. UCF co-signed an ICCR letter to members of the U.S. Chamber of Commerce Climate Solutions Working Group (representing 23 companies) requesting federal climate policy support (July 2022).
3. UCF co-signed an ICCR letter to the Biden Administration calling for curbs on methane gas production in the oil and gas industries (November 2022).
4. UCF co-signed a Ceres letter asking state governors to support the Advanced Clean Trucks (ACT) rule (August 2021).
5. UCF co-hosted a Climate Symposium in August 2021 with the Pension Boards UCC to help educate stakeholders on the most pressing climate issues, including biodiversity and climate change.

More than ever, investors, companies, policymakers and regulators understand the profound impact that climate change has on human health and the planet. It has become increasingly clear that “climate risk” is “business risk,” and that businesses must integrate sustainability into their business strategies to remain competitive. As a fiduciary of client assets, UCF will continue to use dialogue, letters, proxy voting, shareholder resolutions and our relational networks to ensure that climate risks remain near the top of corporate agendas.

UCF remains committed to its basic mission of responsible investing and living out the mission and values of the UCC toward a more just world.<sup>9</sup>

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<sup>8</sup> Scope 1 refers to “direct” emissions, or those that a company causes through its own operations. Scope 2 are “indirect” emissions created by the production of the non-renewable energy the company buys and uses. Scope 3 covers emissions produced by customers using its products or by suppliers of products used by the company. Learn more at: <https://www.weforum.org/agenda/2022/09/scope-emissions-climate-greenhouse-business/>.

<sup>9</sup> UCF’s 2022 Investor Engagements and Actions report is available at [https://ucfunds.org/wp-content/uploads/2023/02/Investor-Letters\\_2023.pdf](https://ucfunds.org/wp-content/uploads/2023/02/Investor-Letters_2023.pdf).

## Updated Exclusionary Screens

In 2016, and again in 2021, UCF updated and strengthened its exclusionary screens across all of its funds, directing managers to restrict investment in companies that are significantly involved in the extraction of thermal coal or oil from tar sands, or companies noted for controversial environmental negligence related to greenhouse gas emissions, toxic emissions, biodiversity and responsible water use.<sup>10</sup> UCF reviews annually all of its holdings and provides investment managers with an updated list of restricted securities (i.e., companies to exclude from investment).

UCF's screens restrict investment in 282 corporations (both stock and bonds) in four categories related to the environment:



Also in 2016, UCF assisted the United Church of Christ Board (UCCB) in updating its Investment Policy Statement (IPS) to apply these same screens in the UCCB investment portfolio. In 2022, UCF worked with the Investment and Endowment Committee of the UCCB to further update its IPS with the most current screens.

As of December 31, 2022, the effect of screens on fossil fuel exposure across UCF's investment portfolio is as follows (all figures are approximate):

- BFF and BFFB Funds are 100% fossil fuel-free.
- Total Equity (Domestic Core, International and Small Cap) and Fixed Income Funds hold 26 positions in stocks and two in bonds of companies with fossil fuel reserves. This represents about 1% of all holdings.
- UCF's Alternatives Fund, which consists of hedge funds, private equity and real estate, typically holds less than 1% related to fossil fuel investments.<sup>11</sup>

Overall, UCF's estimated exposure to corporations with fossil fuel reserves is about 1%.

<sup>10</sup> To learn more about UCF's exclusionary screens, visit <https://ucfunds.org/wp-content/uploads/2020/11/UCF-Screening-Infographic.pdf>

<sup>11</sup> The only exposure to fossil fuels in the UCF Alternatives Funds is in the hedge fund portfolios. Because these hedge funds may have shorter holding periods and can also "short" positions (betting on a decrease), it can be harder to estimate fossil fuel exposure. From meetings with managers, we estimate that, on average, 1% of the portfolio is the net-long exposure of commodity futures, options or stocks connected to fossil fuels; and 4.7% is the estimated maximum potential exposure to fossil fuels at any given time.

## ESG Investing Under Attack

In recent times, ESG investing has come under intense criticism and attack by conservative politicians and right-wing public policy advisory groups.

One example was a congressional resolution early in 2023, striking down a Department of Labor rule allowing employers and retirement plan fiduciaries (e.g., 401(k) plans) to offer investment options that consider ESG factors. However, President Biden blocked this legislation using his first veto in office, and a subsequent override attempt was unsuccessful.<sup>12</sup>

ESG foes have found more success at the state level. As of this writing, ten states have passed laws preventing public entities, such as state pension funds, from doing business with banks and investment managers that incorporate an ESG integration strategy or have committed to reducing their financing of greenhouse gas emissions.

ESG detractors have also taken the fight to corporate boardrooms and shareholder meetings; for example, targeting proxy voting efforts that would hold corporations accountable for their oversight and management of environmental and social risks.

These attacks, which are aligned with fossil fuel interests, have led many of the largest investment managers to walk back some of their climate commitments. For example, Vanguard, the second largest asset manager in the world, pulled out of the Net Zero Asset Owners Alliance.<sup>13</sup> And at Blackrock, the world's largest asset manager, leading shareholder advocacy groups have called into question its proxy voting practices, which are at odds with CEO Larry Fink's public support of ESG investing and climate action.<sup>14</sup>

Despite these attacks, UCF is in no way deterred from pursuing its focus on responsible and sustainable investing. In fact, we believe that it is now even more crucial for faith-based investors to support climate justice across all investment stewardship activity. Unlike governmental bodies that are subject to political pressures that seek to maintain the status quo for the fossil fuel industry, UCF and its clients, including the UCC and local churches, are unencumbered in prioritizing justice and sustainability alongside financial returns.

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<sup>12</sup> <https://www.cnn.com/2023/03/21/biden-veto-401k-rule-esg-investment-funds.html>

<sup>13</sup> The Net Zero Asset Owners Alliance is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050, consistent with a maximum temperature rise of 1.5 degrees Celsius.

<sup>14</sup> ShareAction's recent ranking of the proxy voting record at the largest asset managers ranks BlackRock at 62 out of 68 managers assessed. Majority Action's report on *Fulfilling the Promise 2023: How Climate Action 100+ Investor-Signatories Can Mitigate Systemic Climate Risk*, indicates that BlackRock's voting record is weak on holding directors accountable and supporting shareholder resolutions (<https://www.majorityaction.us/climate-action100-report-2023>).



## **Renewed Commitment to Climate Justice**

Since its founding over 100 years ago, UCF has practiced the basic principles of responsible investing, guided by the biblical and ethical principles of the Christian faith generally and by the values and priorities expressed through UCC General Synod resolutions specifically.

Over the last ten years, UCF has carried out its responsible investing mission in faithful fulfillment of the spirit and goals of the General Synod XXIX resolution, “Urging Divestment...from Fossil Fuel Companies.” However, this report shows that even as much has been done and accomplished, climate change and global warming remain dire threats to all life around the globe, and that much more must be done by all of us.

For its part, the UCF Board in March 2023 renewed and strengthened UCF’s commitment to climate justice with action steps focusing on investment strategy, public policy advocacy, corporate engagement and engagement with frontline voices from BIPOC (Black, Indigenous, People of Color) and low-income communities unequally burdened by the climate crisis. It is our belief that while all of us play a role in addressing climate justice, the most effective response to the climate crisis must come from those communities most burdened by its most dangerous effects. This will be an important aspect of UCF’s ongoing responsible investing mission in the years ahead.

*For more information, or to learn more about UCF and responsible investing, visit [ucfunds.org](https://ucfunds.org), or contact UCF’s Director of Responsible Investing, Matthew Illian, at [matthew.illian@ucfunds.org](mailto:matthew.illian@ucfunds.org).*

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## **About United Church Funds**

United Church Funds (UCF) is the leading provider of socially responsible, values-aligned investment management services to United Church of Christ churches and ministries, as well as all faith-based organizations. We offer customized investment portfolios and prudent investment strategies that provide competitive returns while also reflecting our clients’ values in seeking to achieve a just world. UCF also offers endowment governance consulting, planned giving programs and superior, personalized service from our dedicated Client Services team. To learn more about how UCF can help your church or faith-based organization further its mission while achieving its long-term financial goals, please visit [www.ucfunds.org](https://www.ucfunds.org), email us at [info@ucfunds.org](mailto:info@ucfunds.org) or call us toll-free at 877-806-4989.