Investment Criteria for Northern Monthly Meeting, Religious Society of Friends (Quakers) Aotearoa New Zealand (Adopted 6 April 2014).

These criteria describe guidelines for investment by the Meeting by defining our core values, an ethical organisation, strategic risk, negative and positive screening and engagement. In addition to these criteria, Northern Monthly Meeting decided to divest any investments in fossil fuels, and to seek ways of engaging with New Zealand banking corporations about their investment criteria with a view to positively changing their current policies and practices.

Core Values: Our core values include simplicity, peace, integrity, environment sustainability, and equality [1].

Definition of Ethical Organisation
If funds are to be invested in organisations, those organisations need to care for the ecological systems that support life here on our planet, and to promote a just distribution of our Earth's benefits in accord with our testimonies. Organisations need to be financially, socially and environmentally sustainable and responsible, treating all stakeholders fairly. Stakeholders include owners, members of the governing body, management, staff, subsidiaries, contractors, suppliers and distributors, customers, clients, and the local communities.

From an environmental viewpoint, the organisation will respect and act in accord with nature and within the limits set by the ecological systems on which humans are dependent for life. This is a definition of a strong ecological sustainability.

The social component includes human rights, and companies' use of their labour force, including health and safety and fair employment practices, as well as the meaningful involvement of labour in decision making.

An ethical organisation maintains good governance. It acts with financial and ethical integrity and transparency. This includes working with financial institutions and agents that espouse these values. It includes providing accurate and accessible financial and performance reports, and truthful advertising and promotion.

No company is completely sustainable or ethical, but investment will be in those companies that are closest to this standard (subject to other investment factors described below). The application of any ethical criteria will require weighting the various components or qualities that make up an ethical company. Because of the severe ecological degradation to our world by such issues as climate warming, the environmental factor is critical, and strong ecological sustainability should take priority in the consideration of which companies to invest in.

Any agent or advisor when reporting or advising should take an account of how each company meets these ethical criteria and any engagement taken to encourage change.

Strategic Risk
A risk analysis is needed to take account of the factors that will significantly influence future conditions and events, both positive and negative, especially in the medium to longer term. The major global drivers will include population change; climate change; price increases for hydrocarbons; water; food; toxins; geopolitical shifts; wide swings in economic activity and technological advances [2]. Ideally, companies have calculated their ecological impact, are living within it and have incorporated the major global drivers into their strategic planning. There will be complex interactions

amongst all of these drivers that will cause abrupt and radical shifts in human living and work, creating risks and opportunities. Companies will have strategies to cope with this turbulence and the resulting volatility of returns. This may involve engagement with companies to encourage longer-term perspectives rather than the payment of dividends over the short term.

Preferred strategies to cope with this turbulence and volatility of returns will include investing in a smaller number of companies [3], taking a larger stake, and/or engagement where management is encouraged to take a longer-term perspective rather than a short term requirement to pay out regular or high dividends. The choice of company or fund will include how aware management is of the major global drivers and how they are incorporating these into their strategic plans [4]. When reporting, there will be an account of how each company deals with strategic risk.

The universe of investments meeting these criteria may be smaller than would usually be the case and a narrower range of investments is considered acceptable.

Negative and Positive Screening and Engagement
The strategies will include screening out, positive selection and/or promotion of various investments.

Negative screens will include organisations involved in industries and behaviour like:

- armaments and weapons systems;
- nuclear power [5];
- gambling;
- tobacco;
- animal exploitation and experimentation;
- irresponsible alcohol manufacture and distribution;
- significant human rights abuses;
- significant environment abuses,
- high carbon emissions
- inappropriate behaviour towards indigenous peoples.

On tactical grounds, there can be investment in some companies that would usually be screened out, when there is the scope for engagement.

Positive Screens will include organisations involved in industries and behaviour like:

- energy efficiency improvements;
- environmentally sustainable goods and services;
- clean technologies;
- renewable energies;
- green business;
- progressive employment practices;
- local community activities;
- public goods such as public transport;
- sustainable housing;
- low carbon emissions.

The principles of environmental sustainability and simplicity will favour investment in goods and services essential for simple and sustainable living with a focus on local resources and production regarding factors such as food, housing, water and energy systems and clothing. Investment will favour production and distribution systems that are resilient and able to cope with relatively rapid changes in temperature and weather. Also favoured will be transport and communication systems that are not dependent on unsustainable energy and resource use.

Fossil Fuel Divestment

The Meeting accepted the need to change the current use of fossil fuels because of their negative impact on the ecological systems necessary for life. It was accepted that extensive engagement over a number of years had not produced any significant impact on the fossil fuel industries, and the most appropriate way forward was through divestment [6].

New Zealand Banks [7]

The Meeting recognised that banks in New Zealand are complicit in the development of the fossil fuel industries, and that a process of engagement should occur seeking changes to their policies and behaviour.

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[1] *Handbook of Practice and Procedure* of The Religious Society of Friends, Yearly Meeting of Aotearoa New Zealand *Te Tahi Tuhauwiri.*

[2] These global drivers are based on an analysis of the foresight literature in *Strong Sustainability for New Zealand Principles and Scenarios,* http://www.nakedize.com/strong-sustainability.cfm

[3] Carlos Jolly, one of the Co-Chairs of the Expert Group that drafted the UN Principles of Responsible Investment (UNPRI, 2012), has stated that the Responsible Investment community has not been more responsible than the investment community generally. In part this is because of funds that have a wide range of investments in many companies (large cap listed shares). "(T)he trillions of dollars controlled by RI asset owners, managers and consultants are not deployed consistent with long term investment strategies that would conduct our economies in a direction consistent with sustainable development, environmental protection, and greater economic justice – which would imply radical departures from what the market feels comfortable with and the valuation it puts on the large cap listed shares that dominate most global portfolios" See *Why We Need To Change The Way We Invest* https://d3n8a8pro7vhmx.cloudfront.net/accr/pages/36/attachments/original/1361872481/Why_We_Need_To_Change_The_Way_We_Invest.pdf?1361872481

[4] See *A drought in your portfolio: are global companies responding to water scarcity?* EIRIS *Water Risk Report, June 2011*
http://www.eiris.org/files/research%20publications/EIRISWaterRiskReport2011.pdf
This research shows only a handful of the global 2000 companies analysed have the policies, management systems and reporting mechanisms they need to adequately address the risks they face from water scarcity. The report concludes that the vast majority of companies and investors remain unaware of both current and future water risks and are therefore failing to protect company value. Because of this, investors should think twice about investing in such companies.

[5] Nuclear power plants provide about 6% of the world's energy and 13-14% of the world's electricity. There are around 440 nuclear power reactors in operation in the world. Safety is an issue with the accidents at Three Mile Island (1979), Chernobyl (1986), and Fukushima (2011) being the most well known accidents. Building more plants create a greater possibility of accident or exposure to terrorist activity. Nuclear plants are very heavy users of water. Whatever the views about the merits of nuclear power, because of widespread public concern about them and the long time needed for planning and building new plants, nuclear energy will never be a significant solution to global warming. The more prudent investment would be in projects promoting energy efficiency and renewables.

[6] See Frynas, J G. 2009. Beyond Corporate Social Responsibility. Cambridge: Cambridge University Press. Also http://www.marketforces.org.au/. For a list of religious communities that have decided to divest from fossil fuels goto http://greenfaith.org/programs/divest-and-reinvest/listing-of-known-religious-divestment-efforts.

[7] Howell, R. (2013). United Nations Principles of Responsible Investment (UNPRI) and Four Australian Banks. http://www.arrcc.org.au/socially-responsible-investment-and-the-big-four-australian-banks