Report to the UUA General Assembly

Progress on 2020 Business Resolution, Embodying Human Rights in Our Investment Decisions

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The approved resolution from the 2020 General Assembly called on the UUA to present a written report to the General Assembly from 2021 to 2023 to discuss our progress on the Business Resolution.

To review, the Business Resolution called on the UUA:

- to cease the purchasing of securities by the UUCEF in corporations that are consistently, knowingly, and directly complicit in egregious human rights violations and violations of international law ("Human Rights Violators (HRV)") and calls on congregations, affiliates, and individuals also to cease purchasing such securities,

- to continue to divest the UUCEF holdings of directly held securities of HRV companies, if any, reaching full divestment of these companies within three years and calls on congregations, affiliates, and individuals also to divest within this timeframe,

- to continue to work with its current and prospective pooled-asset managers to incorporate Human Rights Due Diligence into their investment processes,

- to undertake a comprehensive review of the UUCEF's SRI Guidelines with regard to human rights concerns, identify significant gaps, if any, and amend the guidelines as necessary, and

- to formalize mechanisms for communication between its SRI and Investment Committees and UU social justice groups, congregations, and individual UUs concerned about social justice issues regarding development and implementation of the UUCEF's SRI Guidelines and the impact of UU SRI initiatives; and

In the context of implementing the first two bullet points above, the UUA was asked to maintain sound investment principles and uphold its fiduciary duty. The UUA was allowed to purchase/hold shares in HRV companies when engaging in shareholder advocacy.

Identification of Human Rights Violators

Before the Business Resolution was passed, the two best mechanisms the UUA had to identify egregious violators of human rights and international law were (1) our semiannual investment screening process delivered by Sustainalytics, a leading provider of environmental, social, and governance (ESG) research to institutional investors, and (2) our network of activists and engaged shareholders, who alerted the UUA to evolving controversies in the human rights arena.

The legacy Sustainalytics product that the Unitarian Universalist Common Endowment Fund (UUCEF) uses as part of its negative screening process works in two ways. First, each corporation's aggregate ESG score is calculated by Sustainalytics. This score includes several ESG factors, but the ones related to the business resolution include areas like human rights in the supply chain, human capital, and the environmental and social impacts of the corporation's products and services. Our screening methodology excludes the bottom ten percent of firms by industry sector based on their aggregate ESG scores. The human rights-related factors are not sufficiently weighted to automatically produce a low ESG score for HRV companies, so this tool is not adequate on its own.

We have also historically asked Sustainalytics to provide details on controversies that corporations are involved in. Sustainalytics rates these controversies on a 1-5 scale. Level 5 controversies are those deemed "severe" by Sustainalytics, with Level 4 considered "high." These ratings do have some subjectivity involved, but UUCEF receives the evidence that Sustainalytics relies on when determining controversy ratings. UUCEF excludes from the portfolio those firms with any level 5 controversy. Likewise, level 4 controversies related to human rights violations result in an exclusion.

Incidentally, it is this last criterion, the one with Level 4 controversies concerning Human Rights Violations, that has led to the historical exclusion of Caterpillar, Inc. from the UUCEF's portfolio. Caterpillar has been involved in the Occupied Palestinian Territories, with its machines being used for the demolition of Palestinian houses, the construction of settlements, the construction of the Separation Wall, and the creation of roadblocks. The good news is that our current methodology could catch an egregious HRV firm like Caterpillar, but the fact that this rated a level 4 rather than a level 5 controversy was unsatisfying.

This concern about the Caterpillar rating was emblematic of our overall approach to identifying HRV firms in the portfolio: we thought our basic data was good and we could identify serious violations, but we had concerns that we were missing some nuance in our evaluation of human rights violations in our screening process.

During fiscal year 2021, the UUCEF subscribed to two new services from Sustainalytics, the Human Rights Radar and the Global Standards Screening products.

The Human Rights Radar starts with preparing country/territory-level reports for 14 geographic areas of concern. As of the most recent reporting date, Sustainalytics assessed these geographies:

- Central African Republic
- Equatorial Guinea
- Eritrea
- Libya

- North Korea
- Occupied Palestinian Territories
- Saudi Arabia
- Somalia
- South Sudan
- Sudan
- Syria
- Tibetan Autonomous Region
- Turkmenistan
- Western Sahara.

Then, for each geography, Sustainalytics evaluated companies doing business in that region. An aggregate human rights risk assessment for each company is calculated based on factors like

- Recency of activity – is the company currently involved in the area, or has it only been involved at some point in the past three years?

- Degree of involvement – one extreme is that the company's activities are directly leading to human rights violations, while the other extreme is that the company is only involved economically in the region and its activities are deemed unlikely to contribute to human rights violation.

- Company's Human Rights Policy – the strength of corporate policy is assessed, based on the United Nations Guiding Principles on Business and Human Rights (UNGPs)

- Management's Response to the company's involvement in a country or region with known human rights violations.

Our work over the past year has been to become familiar with these reports and the data inputs that support the overall risk assessment. We are in the process of making decisions on what our screening criteria will be and approving the resulting divestment decisions. However, the decision to divest will also be tempered by our plans for shareholder activism ahead of the 2022 Annual General Meeting (AGM) season. These plans will come into focus over the next several weeks once the 2021 AGM season draws to a close.

At present, we have identified five companies in our portfolio that have at least a high aggregate score on the Human Rights Radar. These include Volvo, Ford, ConocoPhillips, Kosmos Energy, and Marathon Oil. UUCEF is involved in active engagements with three of these firms, Ford, Marathon Oil, and ConocoPhillips. Any remaining decisions on whether to divest or engage will be made in the next few months and shared as part of the UUCEF's quarterly investor call.

The second product we purchased from Sustainalytics is the Global Standards Screening tool. In this product, Sustainalytics analyzes corporations and provides an opinion about whether a company is violating or at risk of violating one or more of the UN Global Compact (UNGC) principles and related international norms and standards. The standards assessed include those codified in the UNGC, plus the Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises (OECD MNE Guidelines) and the United Nations Guiding Principles on Business and Human Rights (UNGPs).

Sustainalytics rates companies as either being compliant, on the watchlist, or non-compliant with the Ten Principles of the UN Global Compact:

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights, and

2. make sure that they are not complicit in human rights abuses.

Labor

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,

4. the elimination of all forms of forced and compulsory labor,

5. the effective abolition of child labor, and

6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges,

8. undertake initiatives to promote greater environmental responsibility, and

9. encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

As of our last report date in May 2021, Sustainalytics had identified 109 firms that were non-compliant with one or more of the Ten Principles. Of these, 63 companies were exchange-listed, although this list skews heavily toward emerging markets.

The only position we own on the list of 109 firms is Wells Fargo, of which we own a small position (115 shares) in our Shareholder Advocacy portfolio. Wells Fargo is non-compliant on Principle 10, anti-corruption, stemming from evidence that they are not meeting all the terms of their 2016-2018 settlements from their improper sales to customers. As with the results of the Human Rights Radar tool, the work of the Investment and Socially Responsible Investing Committees over the next few months is to determine whether to divest, engage or hold for future engagement this position in Wells Fargo.

Work with Pooled Asset Managers

Our engagements with our pooled asset managers will begin in earnest over the next year. The UUCEF's Investment Consultant, NEPC, compiles annual reports on our investment managers on ESG Integration.

As of 4-30-2021, 100% of the pooled investments in publicly traded equities owned by the UUCEF are managed by firms that are signatories to the UN's Principles on Responsible Investing.

NEPC rates all investment managers on a 1-5 scale for ESG integration, with "1" being the best. For our pooled investments in publicly traded equities, the majority of investment managers are rated as a "1," with none being worse than a "3."

Finally, we are getting more feedback from these managers on their adherence to the same global principles discussed earlier in this report. At least one manager is a participant in the UN Global Compact (the Ten Principles), and we plan to conduct a more robust survey of investment managers' participation in the UNGC over the next due diligence cycle.

Review of SRI Guidelines

The current version of the UUCEF's Socially Responsible Investment Guidelines (rev. December 2019) offers strong language on our commitment to incorporating human rights into our investment decisions. For example,

- "The UUCEF favors investment in companies with explicit human rights principles, encompassing the rights of indigenous peoples and immigrants and addressing racial justice. We seek to invest in companies that fulfill the responsibility to respect human rights as articulated in the UN Guiding Principles on Business and Human Rights."

- "A company may be excluded if it provides significant financing or other financial services to, derives a material percentage of its revenues from, or sources a material percentage of its raw materials from a country or area, i) demonstrating a prolonged and systematic pattern of human rights violations or ii) where significant human rights violations have been widely documented. "

That said, the SRI Guidelines should more explicitly capture the screening criteria we are in the process of finalizing as part of integrating our new data tools into our screening process. Once these criteria are set, the revisions of the Guidelines can commence in earnest.

Formalizing Mechanisms of Communication with UU Social Justice Groups and Other Interested Parties

The UUCEF's Investment and Socially Responsible Investing Committees (IC/SRIC) have invited UU Social Justice Groups to our quarterly investor calls for the past year. These calls moved from teleconference to Zoom during the pandemic, and that has resulted in a richer and more detailed report out from the chairs of our committees. The IC/SRIC members have been gratified to see members of UU Social Justice Groups on these calls, and we enjoy having the opportunity to discuss our investment decisions, our strong financial performance, and the added value of advancing UU values through our full portfolio of investments.

We enjoyed one successful interaction with UU Social Justice groups over the past year concerning the divestment of a bond position in Enbridge Corporation. The UU Ministry for Earth (UUMFE) contacted the Socially Responsible Investment Committee about our bond holding in Enbridge and their concerns about Enbridge's involvement in the Dakota Access and Line 3 Pipelines. A detailed blog posting about Enbridge, UUMFE's advocacy, and UUCEF's divestment is available online. The presence of the blog posting itself represents our commitment to engage more formally with our Social Justice Groups.