

At its October 2019 meeting, Executive Council received this report and adopted resolutions supported by it. Council did not adopt this report. In the event of any conflict between a resolution adopted by Council and this report, the resolution controls.

**CCSR Report to Executive Council on
Resolution B007 Ethical Investing in Gun Manufacturers
June 2019
as amended September 12, 2019**

Aligning Our Investments with Our Values

Summary

In resolution B007 the 79th General Convention directed “the Executive Council Committee on Corporate Social Responsibility [CCSR] *to develop and implement a shareholder engagement plan*” for “*investing in the publicly traded stock of gun manufacturers and retailers...to effect change in these companies through the practices of shareholder advocacy.*” [Emphasis supplied]

Prior to this, CCSR had no role in selecting investments of the Domestic and Foreign Missionary Society. Instead, CCSR has carried on advocacy with companies already in the DFMS portfolio.

B007 directs CCSR to develop a plan that includes investing in shares, but prior to this CCSR has been given no authority to cause DFMS to buy shares, and B007 does not grant CCSR any such authority. Of course, Executive Council has authority to cause DFMS to purchase shares.

CCSR here presents to Executive Council its proposed shareholder engagement plan under B007 – including the element contemplated by B007, investing in publicly traded shares – and requests that Council approve both the plan and the purchase of shares by DFMS to implement the plan.

CCSR’s gun safety shareholder engagement proposals are placed in context and described in detail in the report, below. The proposed shareholder engagement plan (the Plan) is stated here:

Shareholder Engagement Plan for Ethical Investing in Gun Manufacturers

- DFMS will invest in stock of American Outdoor Brands, Olin Corporation and Sturm, Ruger and Co. These publicly traded companies are known to be engaged in the gun manufacturing or ammunition businesses.
- CCSR should work with other investors to engage in shareholder advocacy with these publicly traded companies in order to further gun safety.
- CCSR, as it determines appropriate, should seek to apply the Mosbacher-Bennett Principles for Investors in the Gun Industry developed by Do Not Stand Idly By as commended to the Church by General Convention in B007.
- CCSR should evaluate whether to invest in any other publicly traded U.S. companies in gun-related industries in order to advocate for gun safety, and
- CCSR should conduct advocacy for gun safety with companies in other industries (e.g., financial institutions) which may be in the DFMS portfolio and recommend appropriate shareholder action regarding any such company

Discussion

The Task assigned to CCSR:

In 2018, at Austin, Texas, the 79th General Convention adopted Resolution B007 Ethical Investing in Gun Manufacturers. B007 calls on Executive Council’s Committee on Corporate Social Responsibility (CCSR or the Committee) to develop and implement a plan for investing ethically in publicly traded stock of gun manufacturers and retailers and then applying shareholder advocacy to reduce harmful use of guns the companies make or sell. (Faith based

investors working with gun companies call this advocacy for *gun safety*, and this report uses that term.) This report, directed to Executive Council, includes recommendations on advocating for gun safety emerging from CCSR's work to date on B007, with an enabling resolution.

Resolution B007 reads in its entirety as follows:

B007 Ethical Investing in Gun Manufacturers

*Resolved, the House of Bishops concurring, That the 79th General Convention **direct the Executive Council Committee on Corporate Social Responsibility to develop and implement a shareholder engagement plan by which dioceses, church organizations, and individual Episcopalians investing in the publicly traded stock of gun manufacturers and retailers could act to effect change in these companies through the practices of shareholder advocacy to do everything in their power to minimize lethal and criminal uses of their products, and be it further***

Resolved, That the 79th General Convention commend to the church the Mosbacher-Bennett Principles for Investors in the Gun Industry developed by Do Not Stand Idly By.
[Emphasis supplied]

Clearly B007 on its own gives both a basis for CCSR to conduct shareholder advocacy for DFMS with gun manufacturers and retailers as well as explicit direction for CCSR to do so. In addition, however, over the years both General Convention and Executive Council have addressed gun violence and gun safety through policy statements. These statements have focused historically on advocacy with government, but these statements also give grounding for shareholder engagement with gun companies. See the Supporting Material, below.

For a half century, through countless responses to the Church's ethical concerns about social and environmental issues, institutional investors related to The Episcopal Church have engaged in *responsible investing* to bring to bear TEC's ethical teachings as those investors have managed the assets of their Church-related institutions.

CCSR dates TEC's formal engagement in responsible investing to 1971, when then Presiding Bishop John E. Hines stood up at the General Motors annual meeting. The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America (the national corporate entity of TEC, commonly referred to as DFMS), was a General Motors shareholder. On behalf of DFMS Bishop Hines personally presented the first ever shareholder resolution by an investor of faith. With the support of a wide community of institutional investors, DFMS, through Bishop Hines, called on GM to stop doing business in South Africa.

Shortly before that, in 1970, Executive Council, as the governing board of DFMS, established CCSR, as a committee of Council, to oversee DFMS's shareholder advocacy efforts. CCSR has continued in this role from the 1970s to today. (Later, after General Convention action in 1988 to support community economic development, on recommendation of CCSR and others, Executive Council in 1997 formed the Economic Justice Loan Committee, as a committee of Council, to oversee use of a fraction of DFMS's regular investment assets directly for community investing. Community investing is a form of investing for responsible social and environmental outcomes as well as financial return. EJLC also continues its work to the present.)

In the nearly 50 years since 1970, responsible investing has grown substantially as a movement among both secular and faith based investors, including among TEC institutions. Largely on a case by case basis, TEC related investors, including DFMS, have responded to ethical concerns raised by the Church and taken a variety of actions as investors consistent with their understanding of the Church's faith and mission. Now three elements of responsible investing are practiced across TEC by a variety of Church related institutional investors: (i) applying

ethical guidelines in investment selection and management, (ii) shareholder activism, and (iii) investing for responsible social and environmental outcomes as well as financial return.

From its creation in the 1970s until 2018, CCSR has operated solely with the existing security holdings in the DFMS portfolio. CCSR has had no role in selecting the investments of DFMS. The Investment Committee, another committee of Council (the IC), is responsible for the DFMS portfolio on an ongoing basis, and the IC works with investment managers and consultants on design and management of the portfolio. In shorthand, the IC and DFMS's investment managers have been responsible to choose investments for the portfolio – not CCSR.

Instead of choosing securities for the DFMS portfolio, historically CCSR has reviewed the actual holdings in that portfolio on a regular basis to determine if any companies in the portfolio are engaged in activities that raise ethical concerns for DFMS as a TEC investor. In making these evaluations and in developing responses, CCSR applies the ethical teachings of the Church as embodied in policy statements enacted by General Convention and Executive Council.

CCSR also works closely with other faith based investors through the Interfaith Center on Corporate Responsibility (ICCR). (DFMS was a founder of ICCR.) For a number of years, on behalf of DFMS, CCSR has worked in the ICCR Gun Safety Group to develop shareholder advocacy on gun safety concerns. In addition, for much of its history, consultants have helped CCSR; Mercy Investment Services, Inc. recently has been CCSR's consultant.

In 2018 General Convention for the first time changed the way CCSR operates with respect to the DFMS portfolio, but with only one issue: guns. Resolution B007 directs CCSR to develop an engagement plan including the *purchase* of shares in gun manufacturer and gun retailer companies to provide an ownership basis for the shareholder advocacy with such companies. *Such shares would be held in the DFMS portfolio whether or not any DFMS investment manager would have chosen them based on IC developed investment policies or the manager's own criteria or analysis.*

Following the passage of B007, CCSR and DFMS staff have taken steps to assure that DFMS holds shares of publicly traded gun manufacturers. Today DFMS holds shares of Sturm, Ruger & Co. and American Outdoor Brands (which operates through its subsidiary Smith & Wesson), as well as shares of Olin Corporation, a publicly traded company that manufactures ammunition through its subsidiary Winchester. These shares are held in DFMS's Advocacy Account, a subaccount of DFMS's investment account used to keep track of securities of companies with which DFMS, through CCSR, is engaging in shareholder advocacy.

Although DFMS continues to hold shares in Dick's Sporting Goods (DSG), a retailer that sells guns, currently the ICCR Gun Safety Group is only monitoring DSG, because the company has been positively responsive to shareholder advocacy, including by DFMS and other members of ICCR. The engagement with DSG is discussed in the Supporting Material, below.

Resolution B007 does not address DFMS shareholder advocacy with industries other than the gun industry. The Committee believes that, under its historic mandate, CCSR is empowered to review the existing DFMS portfolio for companies in industries other than the gun industry to determine if gun safety advocacy may be appropriate with such companies under the ethical teachings of the Church (see the discussion of TEC teachings in the Supporting Material). The ICCR Gun Safety Group has begun to review whether such advocacy may be appropriate with companies in other industries, and the Group has focused on financial institutions that provide financing to the gun industry. CCSR intends to undertake such a review and includes in the proposed enabling resolution support for CCSR to consider whether it should conduct gun safety advocacy with companies in other industries. (The current DFMS portfolio includes thirteen financial institutions that the Gun Safety Group has under review for possible action.)

The Committee notes that the text of B007 may be read to suggest that CCSR should develop and implement a plan *for others than DFMS* to purchase gun company shares for the purpose of engaging in shareholder advocacy with such companies. The Committee respects the scope of General Convention's concern, but the Committee recognizes its own limitations. The Committee asks that it not be tasked with assisting others than DFMS in their shareholder advocacy. The following considerations lead to this conclusion:

- The Committee is a creature of Executive Council, the governing board of DFMS. For nearly 50 years the Committee has developed experience and competence in assisting Council and the officers and staff of DFMS in shareholder advocacy with respect to shares owned by DFMS. The Committee has no experience assisting investors other than DFMS in their shareholder advocacy.
- The Committee is in the early stages of assisting DFMS to respond to B007.
- The Committee is a group of volunteers. The Committee has limited resources available to perform its regular duties. No additional resources have been provided for any work under B007.
- Any effort by the Committee to assist others across the Church in their own shareholder advocacy would involve identifying and resolving organizational and legal issues that the Committee and the Church have never addressed.
- The Committee historically has provided general information on shareholder advocacy to organizations and individuals in TEC. Once it has more experience with B007, the Committee believes it may be able to provide general information derived from that experience to investors across the Church.

Recommendations:

CCSR recommends that Executive Council confirm the course of action CCSR has taken to implement B007. CCSR also asks that Council recognize that shareholder advocacy on gun safety is a dynamic field, and there may be developments that are not addressed directly by B007. For example, CCSR recommends that Council authorize CCSR to continue to evaluate whether gun safety advocacy may be appropriate with companies not in the gun industry.

The second resolved of B007 commends to the Church the *Mosbacher-Bennett Principles for Investors in the Gun Industry developed by Do Not Stand Idly By*. The Principles are discussed in the Supporting Material. CCSR believes Convention intended CCSR to consider these principles in its work, and CCSR has included in the proposed enabling resolution language to affirm that.

The work begun here also provides a stepping stone to developing a more comprehensive responsible investment policy as called for in 2018 General Convention resolution D068 Criteria and Procedures for Deciding to Engage with or Establish a No Buy List of Companies. CCSR believes this report and CCSR's work to prepare it will assist Executive Council and CCSR in their continuing efforts to align the Church's investments with its values across the board, including through implementing D068.

Supporting Material on The Episcopal Church and Gun Safety

The Episcopal Church has addressed gun safety broadly defined for over four decades, beginning in 1976 at the 65th General Convention. Most actions associated with the Church have been taken by General Convention and Executive Council, but Presiding Bishop Edmond Browning worked individually, publicly and privately, to support gun safety. Recently, Bishops United Against Gun Violence has provided leadership across the Church on these issues. On behalf of DFMS as a shareholder, CCSR has advocated and continues to advocate for gun safety.

These several actions have been taken by the Church over the years in a changing context of continuing gun violence. As we all know, since the April 1999 shootings at Columbine High

School, reported incidents of mass gun violence have grown. School children and people of faith in their places of worship have been targeted repeatedly. The shootings at Sandy Hook Elementary School in December 2012, in Newtown, Connecticut, and at Margery Stoneman Douglas High School on Valentine's Day in 2018, in Parkland, Florida, may have shifted efforts to deal with gun violence away from federal legislation to the state and local level, to the courts, and to shareholder activism.

Long ago, in 1994, the Congress was considering a federal ban on assault weapons to be included in what became enacted as the *Public Safety and Recreational Firearms Use Protection Act*. Bishop Browning wrote an op-ed piece for the *Los Angeles Times* supporting the ban. He also personally contacted three United States Senators who were Episcopalians to urge them to vote for the measure. One he contacted was John Danforth, of Missouri, an Episcopal priest. The provision passed the Senate by a vote of 52-48. The three Episcopalians voted for it. The ban expired after ten years, in accordance with the sunset provision in the law.

TEC policy statements frequently have focused on the role of individual Church members and parishes and dioceses in promoting an end to gun violence and in developing safe communities. But the Church has made many strong statements emphasizing a need for action for gun safety by those outside the Church. Until recently, TEC policy statements have addressed gun safety by calling for action at the federal, state and local levels, with an emphasis on federal legislation and regulation. TEC repeatedly has supported legislative proposals in Congress to regulate hand guns and ban assault weapons, to regulate the import and export of such weapons, to initiate and improve background checks, and to end gun trafficking. The Church also has supported legislation and other efforts to improve the quality and availability of mental health care. See the following General Convention resolutions: 1976-C052, 1991-B042, 1994-D019, 1997-C035, 1997-D033, 2000-A006, 2000-B007, 2000-D004, 2012-D003, 2015-B008, 2015-C005. For the first time, in 2018, with resolution 2018-B007, the subject of this report, General Convention addressed shareholder action with companies in the gun industry.

Executive Council has acted three times to address gun safety. In 1999, before the Columbine shootings, Executive Council urged Congress to pass comprehensive gun control and safety legislation (EXC061999-19). Following the Sandy Hook shootings, in February 2013 Executive Council issued a comprehensive policy statement both reaffirming past General Convention actions and extending them (EXC022013.20).

In June 2017, on recommendation of CCSR, Executive Council adopted the Sandy Hook Principles. The Principles were promulgated "to influence the corporate behavior of gun and ammunition manufacturers, distributors and retailers by establishing a baseline standard for responsible conduct." They were developed by the Mayor of Philadelphia and have gained wide support. See <http://media.philly.com/documents/Sandy+Hook+Principles.pdf>

In the fall of 2017, Executive Council, on CCSR's recommendation, approved having DFMS co-file a shareholder resolution based on the Sandy Hook Principles with Dick's Sporting Goods, a retailer in which DFMS owned shares. Mercy Investment Services was lead filer, and the co-filers included two hospital systems historically connected with Roman Catholic orders, two Roman Catholic religious orders of women, and DFMS. The resolution asked DSG to respond to the Principles.

Within a month after receiving the resolution in January 2018, DSG had entered into dialogue with the investors of faith. DSG indicated it was willing to discuss a positive response. The filers decided to withdraw the resolution and proceed with dialogue with DSG.

Then, on February 14, 2018, 17 students and adults were shot dead at Parkland. On February 28, without any further contact with the investor filers, the chief executive officer of DSG announced publicly through national media that DSG would stop selling assault weapons and

high capacity magazines in its stores and voluntarily raise the age for all gun sales in its stores to 21. DSG also called on public officials to adopt a comprehensive set of gun safety measures. The chief executive said that DSG had determined that it had sold a gun to the suspect in the Parkland shooting. While that gun had not been used in that shooting, the chief executive said that knowledge moved DSG to act. Subsequently, abiding by public safety standards for weapons disposal, DSG destroyed the assault weapons in its inventory that it would no longer sell, rather than return them to the manufacturers.

The Sandy Hook Principles played a role in this decision by DSG. The filing of the shareholder resolution and subsequent dialogue, led by Mercy Investment Services and including DFMS, also played a role. The fact that DSG was founded by the father of its chief executive officer also probably played a role – in helping to induce a human response by DSG to a mass shooting peripherally touching the company.

Separately, earlier in 2017, Roman Catholic religious orders and health care systems had purchased shares in two publicly traded gun manufacturers, Sturm, Ruger & Co. and American Outdoor Brands (AOB). They did so in order to open dialogue with the companies on gun violence. http://www.iccr.org/sites/default/files/blog_attachments/finalpr_gun_safety_2018.pdf

DFMS did not own shares in these gun manufacturers. And, in accordance with longstanding policy, CCSR did not seek to cause DFMS to buy any such shares. As explained above, for the four decades CCSR has been engaged in shareholder advocacy for DFMS, the companies held in the portfolio have been chosen by investment managers in accordance with policies adopted by Executive Council's Investment Committee. CCSR has done its advocacy solely based on the securities chosen by such managers as from time to time held in the DFMS portfolio.

When Sturm, Ruger and AOB refused to enter into dialogue with the shareholders of faith, the shareholders filed a resolution with each, asking each company to report to its shareholders on use of the company's products in violent incidents, on the impact of such incidents on its business, and its plans for dealing with such matters. Each management strongly opposed the resolution applicable to its company. For each company, the resolution was scheduled to come to a vote at its 2018 annual meeting.

Since it owned no shares in either company, DFMS could play no role in either campaign or vote. However, the actions of the shareholders of faith with Sturm, Ruger and AOB did play a role in the approval of B007, as did, more generally, DFMS's earlier experience with DSG.

Probably the most important factor in the passage of B007 was the support of Bishops United Against Gun Violence (BUAGV or Bishops United). Bishops United is a network 80 bishops within TEC organized after Sandy Hook. BUAGV views gun violence as a public health crisis and advocates for gun safety at multiple levels. The network has organized large public witness prayer events in Washington D.C., Chicago, Salt Lake City and Austin. In 2018, inspired by the work of investors of faith on Sturm, Ruger and AOB, Bishops United began to advocate within TEC for shareholder engagement based on "ethical investing in gun manufacturers." The network asked Bishop Doug Fisher to sponsor a resolution at General Convention. In July that resolution passed in the form now known as B007.

BUAGV works from time to time with Do Not Stand Idly By, a national campaign to "encourage a greater commitment to safety in the gun industry." The Metro Industrial Areas Foundation launched the effort. Rabbi Joel Mosbacher and the Rev. Anthony Bennett are co-chairpersons and developed the principles bearing their names. See <http://www.donotstandidlyby.org/wp-content/uploads/2018/05/Mosbacher-Bennett-Principles-for-Gun-Industry-Investors.pdf> Like the Sandy Hook Principles, the Mosbacher-Bennett Principles are intended to provide a comprehensive set of guidelines for companies in the gun industry and their shareholders. B007 commends the Mosbacher-Bennett Principles to TEC.

As noted above, in 2018 at their respective annual meetings, the shareholder resolutions filed with Sturm, Ruger and AOB came to a vote. Based on years of experience, shareholder advocates do not expect to win such votes outright. Instead, an affirmative vote of a fraction of shareholders, such as 10%, normally is good enough to get the company to undertake dialogue. In these gun manufacturer votes, due to highly uncommon support for the resolutions by large institutional investors, the results astonished almost everyone: 53% of AOB's shareholders voted for the shareholder resolution, and 69% of Sturm, Ruger's shareholders did that. One of these votes took place before General Convention met in Austin in July 2018, while the other took place after Convention. Thus the votes provided an emphatic frame for the B007 decision.

Since the shareholders of each company had voted for management to produce a report, each management did so, but exceedingly grudgingly. Both managements dismissed and attacked the resolution proponents as enemies of gun owners and Second Amendment rights. In public statements, both managements tried to marginalize the proponents, ignoring the fact that, in each company, shareholders had voted overwhelmingly for the resolutions. Not surprisingly, the shareholders found the reports unresponsive to the questions raised. See the report of AOB at: <http://ir.aob.com/static-files/52fdcb73-60a9-400a-a5b7-c4c201632a3a> See the Ruger report at: <https://ruger.com/corporate/PDF/8K-2019-02-08.pdf>

Since each of the companies produced a report, albeit a rather inadequate one, the two resolutions cannot be filed again. More pertinent, the responses of the two companies demonstrate that their managements continue to be opposed to any discussions with shareholder advocates for gun safety. Therefore dialogue on the reports is not likely to occur or, if it does, to be constructive.

ICCR's Gun Safety Group is working on additional approaches to gun companies, such as asking them to develop human rights policies and/or to amend their bylaws to allow shareholders to nominate candidates to serve on the company's board of directors. As noted above, the Gun Safety Group also is assessing entering into advocacy on gun safety with companies in other industries, such as financial institutions.



MOSBACHER-BENNETT PRINCIPLES FOR INVESTORS IN THE GUN INDUSTRY

The United States has by far the highest levels of gun-related deaths and crime of any developed nation; approximately 90 Americans lose their lives each day to gunshot wounds. Investing in companies that make or sell guns in the U.S. market carries extraordinary ethical responsibilities. Every institutional or individual shareholder, lender, equity partner or other investor in gun-related companies is obligated to engage with these companies to encourage actions and practices that will minimize lethal and criminal uses of their products. Specifically, every investor has an obligation to:

- 1) Require, as a condition of investment, that companies make significant and measurable improvements over time in the following areas:

FOR GUN MANUFACTURERS:

- Maintaining networks of secure, responsible sales outlets
- Developing and marketing safer, less lethal guns, ammunition and accessories
- Cooperating fully with law enforcement in reducing gun-related crime
- Minimizing the resale of guns on the secondary market

FOR GUN RETAILERS:

- Conducting background checks for all purchases
- Minimizing theft and straw purchases
- Educating and training consumers on gun storage and safety
- Maintaining accurate records and cooperating fully with law enforcement

Responsible conduct in these areas may require manufacturers and retailers to go beyond what is required by federal state law.

- 2) Conduct regular, ongoing evaluation of gun-related companies' progress and performance in these areas using objective data.
- 3) Establish viable timetables, deadlines, and performance expectations for gun manufacturers and retailers.
- 4) Terminate investments in companies that fail to meet these expectations after a period of extended engagement.
- 5) Work strategically with other sectors to isolate bad actors in the gun industry and limit their ability to harm the profitability of responsible companies.
- 6) Sustain these efforts for the life of each gun-related investment, independent of the ebbs and flows of public and media attention to these matters.

Rabbi Joel Mosbacher and Reverend Anthony Bennett are co-chairpersons of Do Not Stand Idly By, a nationwide campaign launched by Metro Industrial Areas Foundation to encourage a greater commitment to safety in the gun industry.