

The Church of England Pensions Board responds to Joe Lycett's letter about water companies in this letter dated 21 December 2023.

Your email to the Archbishop of Canterbury's office has recently been passed to the Church of England Pensions Board as our independent Trustee body is responsible for the investments held on behalf of our beneficiaries. I apologise for the delay in getting back to you, but as you can appreciate this is a particularly busy time of the year.

Regarding your specific question relating to the investments of the Church of England Pensions Board in water companies, I thought it helpful to provide some context to the approach of the Board. The Board are responsible for paying pensions into the coming decades and to meet this duty the Board hold a diverse set of investments with over £3 billion in assets under management. In pursuit of this objective, the Board are a signatory to the UN-backed Principles for Responsible Investment and places responsible and ethical investing at the heart of its approach. We take seriously our responsibilities as a steward of investments on behalf of our 41,000 beneficiaries, as how those investments are delivered and perform affects not only their own future financial health in retirement but also the society that they are ministering to and working in now.

We recognise that there are many different factors that shape corporate behaviour, including the legal and regulatory environment, feedback from stakeholders including customers and investors, and public opinion. We are proponents of the important role that investors can play as part of that ecosystem. Having a financial holding does afford the Pensions Board rights to engage with a company's Board and Executive, as indeed is open to you while you remain an individual shareholder – for instance, taking up the right as a shareholder to attend the AGM and raise a question to the company Board in that forum, and to vote on proposals about how the company is run. We find that companies respond to a combination of these levers, and in our engagements with our holdings we utilise them all at different points in line with our fiduciary duties and dependent on a company's responsiveness.

You invited the Pensions Board to join you in disinvesting from the sector and the two named companies in particular. I would note that the combined shareholdings of the Board in those two companies are less than half a million pounds. The Board does also own debt in a number of companies within the sector, including in those two. It is both the bond and equity holdings that sit within the 1% of our AUM that the Pensions Board had quoted previously, with most of that overall holding being in bonds where the financial return is fixed at the outset rather than being the subject of variable dividends. As an active shareholder or bondholder, working with peer funds, the Pensions Board believes it has an important role to encourage change in and by the sector, which a one-off disinvestment in the short term would limit. We use disinvestment as a last resort when we assess that our influence as an investor is not achieving the desired results, but we have not yet reached that point with the water companies.

Whilst the sector is rightly under enormous scrutiny, we are also conscious that not all companies are the same, with some having better records and determination to improve than others among their peers. Where our analysis indicates that we have a useful role to play, our preference is to remain invested as a means of applying influence. However, as recently demonstrated by the example you mention of the Pensions Board's

divestment from the oil and gas sector, the Pensions Board does not rule out disinvesting from companies or refusing to fund future debt if we believe the management are not suitably responsive to our engagement. That form of escalation could also be an option for water utility companies, but it is not one that we are recommending to our Trustees as being necessary at this stage.

In line with our strategic approach, we are currently seeking to engage with the whole UK water utility sector, as well as with peer pension funds who are similarly invested in the sector. We are particularly keen to determine how the sector can transition from where it is today to one that can not only regain its social licence to operate but also robustly retains it. At present, the Pensions Board remains deeply concerned by the operation of several companies, the effectiveness of the regulation of the sector and also how investors can better engage with the sector to improve it. Given the level of concern and the issues that you rightly raise, this is not an easy task but we view that progress and improvements are possible. To this end, the Pensions Board are engaging a number of companies relating to their plans to address historic underinvestment in key infrastructure, the burden of future finance on their customers, the resilience of the sector to extreme climate impacts and, ultimately, how individual company Boards retain or seek to regain the confidence of their customers and the social licence of wider society.

I hope that this provides some context for the approach of the Pensions Board. Whilst you and the Pensions Board may on the face of it have different approaches, we believe and hope that they will both contribute to the desired impact that we share – a water utility sector that operates to the benefit of the customers and wider public who depend on these services and natural resources.

Thank you again for your email to the Archbishop of Canterbury, and wishing you a happy Christmas.

Yours sincerely,

Adam C.T. Matthews

Chief Responsible Investment Officer

Church of England Pensions Board

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