

“Surely there is a mine for silver,
and a place for gold to be refined...
“But where shall wisdom be found?
And where is the place of understanding?...
Truly, the fear of the Lord, that is wisdom;
and to depart from evil is understanding.”

Job 28:1, 12, 28



 THE CHURCH
OF ENGLAND

Ethical Investment Advisory Group

Annual Review 2015/16

About Us

The Ethical Investment Advisory Group of the Church of England provides ethical investment advice to:



The Church Commissioners for England, who support the work and mission of the Church of England across the country.



The CBF Church of England Funds, collective investment schemes managed by CCLA Investment Management Ltd in which Church of England parishes, dioceses, schools and church charitable trusts invest. CCLA is predominantly owned by its church and not-for-profit clients.



The Church of England Pensions Board provides retirement services (pensions and housing) for those who have served or worked for the Church of England.

EIAG Members (2015/16)



Mr James Featherby
Chair, Bible Society and former Partner of Slaughter and May
Chair



The Revd Canon Professor Richard Burrige FKC
Dean of King's College London



The Rt Revd Dr David Walker
Bishop of Manchester
Church Commissioners Appointee, Deputy Chair



Ms Loretta Minghella OBE
CEO, Christian Aid
Mission & Public Affairs Council Appointee



Mrs Jenny Humphreys
General Synod Representative



Mr Paul Boyd-Lee
Archbishops' Council Representative



The Revd Paul Boughton
Pensions Board Appointee



Ms Elizabeth Haigh
Rathbone Greenbank Investments
Co-opted Member



The Revd Canon Edward Carter
Canon Theologian at Chelmsford Cathedral
CBF Church of England Funds Appointee



The Hon Michael Benson
Former Chairman of Ashmore and Former Chairman of Invesco Asset Management
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Ms Bernadette Kenny
CEO
Church of England Pensions Board



Mr Andrew Brown
Secretary / CEO
Church Commissioners for England



Mr Michael Quicke OBE
CEO
CCLA Investment Management Ltd



The Revd Dr Malcolm Brown
Director, Mission and Public Affairs
Church of England



Mr Adam Matthews
Secretary, Ethical Investment Advisory Group
Church of England

Chair's Letter



Picture: Keith Blundy

The interest in ethical and responsible investment continues to grow in the wider market place and I am delighted that the National Investing Bodies (NIBs) continue to demonstrate that investing in this way supports both inclusive capitalism in society and financial returns for beneficiaries.

During the period that this report covers (April 2015 to March 2016) the EIAG has, alongside the NIBs, conducted a thorough review of its activities and processes, along with a detailed consideration of the respective roles and responsibilities of the EIAG and the NIBs. Our objective has been to ensure that the EIAG continues to be best placed to support the NIBs through offering Christian ethical advice on investment that is both theologically grounded and relevant in practice.

This review was conducted against the background of our on-going belief that the best approach to ethical investment includes consideration of a number of factors. These include policy formation and implementation, asset selection and monitoring, manager selection and monitoring, investment exclusions, investor stewardship (including voting and corporate engagement), and public policy engagement.

Roles and responsibilities

Our review has led to a number of outcomes that are now being put into practice. They have been reflected in a revised constitution for the EIAG and an increase in the resources being devoted to ethical and responsible investment by the NIBs.

The EIAG remains responsible for providing ethical advice to the NIBs. However, we have confirmed that the policies that the NIBs decide to adopt and the implementation of those policies, whether in relation to matters on which the EIAG has advised or otherwise, remains the responsibility of the NIBs.

This makes sense for a number of reasons. The EIAG's strength lies in providing policy advice. It provides neither a regulatory nor an assurance

function. The NIBs are best placed to integrate the EIAG's advice with their legal and financial objectives as asset holders, and to recognise and respond to the myriad of ethical issues that arise on a daily basis.

In practice, the most significant change is that the NIBs are now carrying out all corporate engagement, as well as screening and voting, whereas previously the EIAG was conducting screening and voting and some corporate engagement on behalf of the NIBs.

In terms of personnel, the EIAG's Secretary Adam Matthews has taken on additional responsibilities as Head of Engagement, working directly for the Church Commissioners and the Pensions Board, whilst retaining his role as Secretary of the EIAG, and Stephen Barrie has joined the EIAG as full time Deputy Secretary. The EIAG's policy development capacity has therefore increased as a result. Stephen was formerly a lecturer and



"[The EIAG's] effort [on extractives] is critical. It is important that churches act in accordance with their values and continue to hold their actions up to regular scrutiny. Second, the time spent by the EIAG considering these policies thoughtfully and seriously over time has proved both fruitful and illuminating for the investment community. Increasingly, investors and investment managers are using EIAG policies as ways to screen investment policies and portfolios for potential ethical pitfalls."

Barbara Ridpath, Director St Paul's Institute

a fellow at the Parliamentary Office of Science and Technology. The Church Commissioners and the Pensions Board have also made further appointments to increase their engagement capacity.

In terms of reporting, the EIAG will continue to publish an annual report of its policy development activities and to lay this before General Synod. The NIBs will continue to report and be accountable to their respective beneficiaries, and the expectation is that this will increasingly include comment on their ethical and responsible investment activities, including in relation to engagement. The NIBs will be making further reference to this in their annual reporting in the coming year.

Policy development

The other part of our review has related to policy development. In particular we have been keen to ensure that the process the EIAG goes through in developing its ethical investment policies takes into account a wide variety of views and the best available evidence. We have put in place new procedures to help us achieve this objective and to ensure that our policies are regularly reviewed.

We have recently commenced work on a new policy to cover the extractive industries and we are using our new policy development process to do so. This has included for the first time a full online consultation process, as well as a number of

roundtable discussions with investor, community, public policy and NGO bodies. This process is expected to take us several months. There will be other circumstances in which we use a more fast track approach.

The extractive industries, of course, provide vital materials that support the many ways in which we live. They also play a dominant role in the economies of more than 80 countries and together these countries account for half of the world's population and 70% of those living in extreme poverty. The industry also has huge and long-lasting environmental implications. The Bishop of Manchester, Rt Revd Dr David Walker, is leading this review for the EIAG.

EIAG membership

I would like to thank Mrs Jenny Humphreys, Mr Paul Boyd-Lee and the Revd Paul Boughton, who have come to the end of their terms as members of the EIAG, for their valuable contributions in some cases over many years. They all provided the EIAG with wise insights on a range of complex and often challenging issues.

I am pleased to report replacements have been appointed for each of these departing members and their terms of office will begin from July 2016. The Pensions Board have appointed Mr Alan Fletcher, the Chair of their Investment Committee. The Archbishops' Council has appointed Revd Dr Ian Paul. Revd Dr Paul is an Honorary Assistant Professor at the University of Nottingham as well as Managing Editor of Grove Books. The General Synod have appointed Mrs April Alexander, a Church Commissioner and former director of the Occupational Pensions Regulatory Authority.

Additionally, I am delighted that the Rt Revd Dr David Walker has accepted the appointment of Deputy Chair of the EIAG. Amongst other things, this will include representing the EIAG in General Synod. He takes over this role from The Revd Canon Professor Richard Burrige FKC. Richard continues as member of the EIAG and we continue to be grateful to him for his contribution on biblical and other matters.

James Featherby
Chair, Ethical Investment Advisory Group

Deputy Chair's Note on Extractive Industries



Some time ago I worked as a mining chaplain, so am delighted to lead on the EIAG's extractive industries policy review. We are still in the early stages of our policy development, but in

what follows I would like to outline the rationale for a policy and some of the emerging issues that the EIAG have identified. Importantly, our deliberations will be led by biblical and theological reflections that will guide the development of our recommendations.

Mining affects, directly or indirectly, a vast number of people across the world. It is closely tied to development and the alleviation of poverty, but at the same time those who stand to lose out through displacement, exploitation or human rights abuses are also poor people, communities or nations. Minerals and metals produced by the extractive industries are part of our lives in many ways, whether they are rare earth metals used in our mobile phones, diamonds used for engagement rings or drilling, or materials used to construct electric cars, wind turbines and other important infrastructure.

Our research has covered a very wide range of areas, searching out examples of best practice from the industry as well as issues of concern, and topics that interested investors might raise when engaging with companies at board level. Extractive companies have the opportunity to do a great amount of good, contributing to sustainable development while providing developing countries with much needed employment, infrastructure and tax revenue. However, done badly extraction can cause harm on a large scale.

We face challenges in forming theologically driven ethical recommendations in this sector. Many of the issues are clear: that major extractives companies are thinking hard about how to operate responsibly in a competitive marketplace and about combining long term value generation with societal good. Most companies are concerned with their 'social licence to operate', which arises out of care towards their staff, the environment, communities and people who are directly affected by extractive activities. However, some ethical concerns remain.

"Extractive Industries can contribute to sustainable development, when projects are implemented well and reserve the rights of affected people, and if the benefits they generate are well used."

World Bank Extractive Industries Review

Our extractive industries review has heard from representatives of local communities who have challenged illegal mining activities and raised concerns over the relationship between companies and communities. We have heard from think-tanks who have helped us explore the 'resource curse' (where mineral wealth causes more harm than good to national economies) and the need for environmental and social impact assessments, we have heard from Development Agencies that highlight the important role of mining in contributing to development, and we have heard from businesses who have highlighted their efforts to respect and protect human rights and the communities in which they operate.

The connection between extractive industries and ecology has been an important topic for reflection, and while the contribution to climate change is addressed in the National Investing Bodies Climate Change policy, the distinctive impact of mining on the environment is undeniable. Mining has a lasting impact on the geography of large areas, there are ecological threats from tailings dams, concerns over the use of poisonous elemental mercury in small scale and informal gold refining, and perhaps closer to home, questions over the potential benefits and risks of fracking.

Due to the significant, lasting, and distinctive impact of business in this area, and the opportunity the Church has to influence key actors, we believe it is appropriate for the EIAG to seek God's wisdom in developing ethical recommendations for the National Investing Bodies. We intend to present these recommendations within our next reporting cycle.

Bishop David Walker
Deputy Chair, Ethical Investment Advisory Group

Extractives Consultation Questions

The following set of questions were used by the EIAG to guide the online public consultation that concluded at the end of this reporting period.

Theology and Ethics

1. What are the theological and biblical considerations relevant to the extractives sector?
2. What are the ethical considerations that should guide the way the extractives sector operates?
3. What are the ethical considerations that should guide the way the extractives sector operates in areas that have weak governance or are fragile states or conflict/post conflict zones?

Communities

4. How do companies work with public agencies and governments to ensure legacy issues are dealt with in a fair and ethical manner?
5. Is current best practice on free, prior and informed consent for indigenous communities working?
6. How can an international extractives company best respond to local faith-based communities and other local cultural understandings of what constitutes appropriate practice and just outcomes?

Best practice

7. What are the features of best practice within the extractives sector that combine long term value generation with societal good?
8. Are current models of best practice on community relations and engagement by extractive companies working?
9. Is best practice in the extractives sector sufficiently clear/codified/supported by regulation?
10. How wide/widespread is the gap between best practice and common practice?
11. What is the vision for a modern extractives company operating in a developing country?

Economics and wider considerations

12. What does a just economic model mean for the extractives sector in terms of issues such as state royalties, land and water rights, sustainable development, labour, human rights, and tax?
13. Do some companies operate as 'risk outriders' within the sector to open up riskier / more marginal areas to extraction, if so what are the implications?
14. Is there sufficient transparency in the sector to allow accountability? Are current transparency initiatives effective / fit for purpose?
15. Are there any other issues that should be considered?

EIAG Extractives Roundtable, Church House, 27 April 2016





Adam Matthews
Secretary of the Ethical Investment
Advisory Group



Stephen Barrie
Deputy Secretary of the Ethical
Investment Advisory Group

Feedback

We welcome feedback on this annual review as well as queries from within the Church of England about ethical investment.

Front Cover

Bagger 288, a bucket-wheel excavator located at the Tagebau Hambach mine in Germany and one of the largest land vehicles in the world. Photo by Martin Roll, used under Creative Commons license CC BY-SA 2.5.

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