

Thus says the LORD:  
Stand at the crossroads, and look,  
and ask for the ancient paths,  
where the good way lies; and walk in it,  
and find rest for your souls.

Jeremiah 6:16



 THE CHURCH  
OF ENGLAND

## **Ethical Investment Advisory Group**

Annual Review 2016/17 and Report of the  
National Investing Bodies' Engagement

# 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.



for the Church of England

**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 (2016/17)



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



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



**Ms Bernadette Kenny**  
CEO  
**Church of England Pensions Board**



**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**



**Mr Andrew Brown**  
Secretary / CEO  
**Church Commissioners for England**



**Mrs April Alexander**  
General Synod Representative



**Revd Dr Ian Paul**  
Archbishops' Council Representative



**Mr Michael Quicke OBE**  
CEO  
**CCLA Investment Management Ltd**



**Mr Alan Fletcher**  
Pensions Board Appointee



**Ms Elizabeth Haigh**  
Rathbone Greenbank Investments  
**Co-opted Member**



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



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



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

# Chair's Letter



The Ethical Investment Advisory Group (EIAG) and National Investing Bodies (NIBs) have over this past year been embedding their new roles and responsibilities as clarified the previous year. In particular, the EIAG has been prioritising policy development, with the majority of its effort focussed on the extractives sector.

The NIBs have been focussed on a number of objectives as can be seen in more detail from their respective annual reports. Amongst other things, they launched the Transition Pathway Initiative at the London Stock Exchange in partnership with the London School of Economics Grantham Research Institute and the Environment Agency Pension Fund. This innovative scheme, supported by asset owners and managers with over £4 trillion under management, has the potential to make a major impact on the response to climate change of institutional investors and energy intensive businesses.

This initiative is a good example both of what can be achieved by working with others, and of the hoped for creativity and enthusiasm released by the NIBs taking over from the EIAG responsibility for engagement with the businesses in which they are invested.

## Extractives

The EIAG has throughout the year been using its new and more consultative policy development process to review the extractives sector. This is a huge and complex set of industries, with far reaching and complex human, ecological, economic and governmental challenges.

Our review, as always, started with theological reflection (see below for a short excerpt). We considered a wide range of responses to our first online public consultation and held a very informative expert roundtable. The EIAG Deputy Chair, Bishop David Walker, led a small team that visited South Africa and Zambia. They spent time with employers, unions, workers and communities at various mine sites, including the widows of the Marikana massacre. The trip provided invaluable insight into many of the practical issues at stake.

Throughout the year we have been discussing the issues with the NIBs and we understand that the NIBs will publish their policy on extractives, based on our advice, in the last quarter of 2017.

## Policy review

We have also, during the year, been grateful for feedback from the NIBs on their practical experience of implementing a number of the ethical policies they have adopted based on our advice. Implementation may impact ESG integration in manager or stock selection, voting, public policy responses, negative screening, voting, or corporate engagement. The purpose of this feedback is to help the EIAG with its ambition of continuous improvement as it seeks to provide Christian ethical advice to the NIBs.

## The future

I retire as chair of the EIAG at the end of 2017 when my six year term of office expires. This is, therefore, my last EIAG Annual Review. It has been an extraordinary privilege to have been able to serve the Church in this way; in fact, a dream role for anyone interested in the question of how the spiritual and the physical – both created by God – work together within the Kingdom of God.

By the end of these six years the EIAG will have helped the NIBs publish or update 11 ethical investment policies. Perhaps more significant for the EIAG and the NIBs themselves, however, has been the growing recognition of the importance of the NIBs being exemplars of Christian institutional investment.

Good policy development and implementation can only ever properly flow from good motivation. My hope and prayer is that the NIB trustees will continue to reflect and consider, as I know they do, on the question of what it means to be part of the witness and mission of the Church. No amount of ethical advice, from the EIAG or others, can be a substitute for that process of discipleship.

The NIBs are in the process of considering their future needs for ethical advice and the role of chair of the EIAG. I am delighted to say that, should there be an interim period after my retirement, Bishop David Walker has kindly agreed to chair the EIAG during that time. I am hugely grateful for the energy, thoughtfulness and skill that Adam Matthews and Stephen Barrie have brought to the roles of Secretary and Deputy Secretary respectively of the EIAG over this last year. My deep thanks as well go to my fellow past and current members of the EIAG for their significant expertise and wisdom.

**James Featherby**  
Chair, Ethical Investment Advisory Group

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# Extractives Review

# Narrative Theology

The following is one part of the theological foundation of EIAG's advisory paper on extractive industries. The theological section approaches the issue through various theological lenses: narrative theology, scripture, systematic theology and ecclesiology. The abridged extract below is taken from the section on narrative theology which along with the biblical, systematic and ecclesiological insights, and an advisory note that develops EIAG's particular approach to investment in extractive companies, forms the foundation for EIAG's policy advice. The narrative theology section starts with a personal story:



In the late 1980s, I was Chair of Southampton Area Co-operative Development Agency, a voluntary-sector body for creating small cooperative businesses, especially for unemployed and disadvantaged people. SACDA entered into a three-

way partnership with the City Council and an, initially unnamed, private sector sponsor, to provide sheltered workshop facilities for the main black and minority ethnic groups in the city.

Just after the agreement had been signed, it was learned that the private sponsor was a subsidiary of Consolidated Goldfields of South Africa. With the apartheid regime still in place in that country, the BAME community immediately boycotted the project.

Late one night I had a long phone conversation with an executive of the sponsoring company ... we quickly found ourselves using theological language to describe our dilemma. We agreed that the statement from the Chairman of Consolidated Goldfields, that he personally "deplored apartheid", was utterly inadequate to express the moral context. ...The Executives of the British-based

firm concerned were implicated in structural sins in which they had not directly participated.

"We are an extractive industry", he said, "what we remove from the ground cannot be replaced. We ... regard it as our duty to put something else back into wider society – hence this project." We went on to discuss this explicitly through the classic Christian vocabulary of Penitence, Confession, Absolution and – most importantly – Penance. ...

We talked about what Penance might look like in the specific case. The firm had expected their logo to be on the workshops – but it was accepted that the revelation of the link to the apartheid regime made this impossible. It was clear that the reason for the sponsorship was understood by the firm as a duty imposed by their main commercial activity, not an advertising opportunity. The logo could go.

For the purposes of this paper, this is where the story ends.

## Revd Dr Malcolm Brown

Director, Mission and Public Affairs

1. A number of points in this story reveal theological and ethical questions relating to ... extractive industries. Some are ethical issues which the extractives sector shares with other business ventures but which can sometimes be highlighted ... within the sector. Others are very specific to the sector.

### Ownership matters

2. Extractives companies may be part of complex ownership structures and/or may operate across a wide variety of political and social contexts, some of which may involve regimes which are suspect or abhorrent by Western business standards. How these differences are managed and negotiated affects the moral standing of the company in all its locations. ...
3. Apartheid may be over but many problematic regimes remain. None of us – churches, companies, governments – have yet found the right

tone of voice or policy priorities for negotiating a post-colonial political environment. The CofE's position within the Anglican Communion represents our "learning curve" – is there potential for mutual learning between the church and some multi-national extractive companies?

4. Ownership matters in other ways too ... what is the relationship between the land and its natural resources and the people who dwell on it? How deep toward the centre of the earth do ownership rights penetrate...? There is more to say about the relationship of the people to the land when we turn to some Biblical sources.

### "It can't be put back once it has been taken"

5. The permanent depredation of the natural environment singles out the extractives sector from other exploitation of the earth such as agriculture which works on a potentially fully sustainable cycle. ... The harvest of a coal mine cannot include an



*Bishop David reflects on operations at a platinum mine in South Africa*

allowance of coal for re-seeding the coal beds.

6. This once-and-for-all impact on the environment raises particular ethical obligations. These may include:
  - Doing all that is possible to restore the land to its former condition or better.
  - Compensatory sponsorship of projects aimed at enhancing the Common Good (as in the story above).
  - Humility toward the natural order which recognises that irreversible change is being perpetrated, is careful to establish that this change does serve the common good, and acknowledges that benefits come with costs and that the costs may not always be borne by those who benefit.

**The extractives sector involves many ethical questions which are not unique to the sector but which it exemplifies sharply**

7. Because extraction always entails removing something irreplaceable, the sector has to make the case that the benefits to the common good outweigh the losses. This kind of cost/benefit analysis, which must embrace the interests of numerous stakeholders and future generations, is not yet a fully established practice in business ethics, with a robust methodology and ideology.
8. Impact on the natural environment is often accompanied by impact on local communities. As many natural resources are to be found in developing nations or politically unsophisticated contexts, the relationship between the industry players and the local people may be difficult to

mediate fairly.

9. The impact of extraction is, to all intents and purposes, permanent. The industry is also, characteristically, one which operates through long cycles. There is thus a long-term aspect to the sector both in terms of its business activity and its social impact. It ... may be under pressure to maximise short-term profit. There is a question here about ... the problems of standing for a long term ethical view in a short term culture.

**Religious language can help clarify what is at stake**

10. The language and practices of the Christian church may help make sense of this particular characteristic of the sector. In particular, the language of penitence and absolution and the way that, in the life of the church, this means more than doctrines and words but only makes sense when played out as a life practice.
11. Talk about the common good is easier than finding structures and practices that work towards it. Many religious traditions still articulate and practice ways of serving the common good.
12. Religions, typically, hold to a long term understanding of history (“churches think in centuries, not sound bites”). ... At their best, churches hold together the sense of living for the long term whilst caring profoundly for the immediate moment. This may be a strand of Christian theology that can be drawn upon to assist ethical thinking in an industry which has to hold the long and short term in a difficult tension.
13. The industry exemplifies the fact that – this side of the eschaton – serving the common good can still entail damage and cost. The Christian doctrine of original sin is pertinent here – human finitude means that the good that is done is tempered by the good that, as a result, could not be done and by the complex of consequences which all actions entail. But that is no excuse for doing less than the best that can be done – and the distinction in Christian ethics between original sin and sins of commission, omission etc. is a vital one which must not be elided.
14. Mining, quarrying and offshore drilling are known to be risky occupations. Risk to employees and others can be managed but not eliminated and the residual risk is often higher in these industries than in most others. Perceptions of acceptable risk are changing in Western society, but this is not universal, especially where employment is scarce and regulation scanty.

# Perspective on the Extractives Review



*Ian Johnson has provided expert advice to the EIAG Extractive Industries Review and Chaired the EIAG Working Group. He was formerly the World Bank Vice President for Sustainable Development (ESSD) and has over thirty years' experience in economic development.*

The extractives industry worldwide has received a great deal of attention over the past two decades. For some it has been a blessing: a rich endowment of high value resources providing the basis for wealth creation and long term prosperity. For others it has become a "resource curse", windfalls in income that have been squandered, misused and have led to macro-economic, social and political instability.

Africa, the world's poorest region, accounts for 30% of the world's mineral resources; 10% of the world's oil; and 8% of the world's gas. The extractives sector accounts for 20% of total exports and at least 20% of government revenue in 29 low income countries, and in eight of these countries the sector accounts for more than 90% of total exports and 60% of government revenue (IMF data, 2012). It is a highly differentiated sector with some 50 companies with asset bases exceeding US\$10 billion; around 5,000 companies that range from large to intermediate companies; and up to 20 million artisanal and small scale mines employing perhaps up to 100 million people.

The extractives industry is central not only to climate and other environmental concerns but also potentially to addressing concerns of poverty and economic growth in poor countries. The latter point is important given the rise in foreign direct investment (FDI) in, for example Africa, where over the period 2000 through 2012 it increased

fivefold, from \$10 to \$50 billion (UNCTAD).

The extractives sector is sufficiently large that it can have an important national and global impact. A wide range of issues has emerged from EIAG's technical paper, roundtable, consultation and visit, from the 'resource curse' (resource rich countries have a poor track record of sustainable economic growth), operations in fragile states, and the relationship between business and world heritage sites (for example, Virunga National Park in the Democratic Republic of Congo) to the challenges facing responsible businesses in this area: labour rights, relationships with communities and national governments, environmental boundaries and health and safety standards.

One key theme that the Working Group has focussed on is responsibility within joint venture partnerships, subsidiaries and other corporate structures. We noted early on that while the equity held in joint ventures and in some cases their production values are included in annual reports, sustainability figures (including health and safety statistics) are not. This raises questions over the extent to which double standards may creep in, and the lengths to which joint venture partners are willing to go to ensure that their workers, surrounding communities and environment are respected and protected.

The National Investing Bodies can bring an important ethical perspective through a new policy that will provide an ethical framework to engage with these important industries. We can hope and expect that this ethical perspective has a wider impact than the NIBs' portfolios. The Transition Pathway Initiative provides good evidence that EIAG policies can have an impressive multiplier effect, bringing together like minded investors in dialogue with industry.

**Ian Johnson**

*The Church of England delegation meets with the Deputy Mayoress of Mufulira, Zambia, a town dominated by copper mining. Also with Zebbies Mumba, Felix Chipoya and Rabson Lungu (representing Archbishop Chama).*



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# Engagement

Report from the National Investing Bodies



# Implementing the NIBs' Climate Change Policy

The Transition Pathway Initiative (TPI) is a global asset owner-led initiative, supported by asset managers and owners with over £4 trillion of assets under management. It assesses how companies are preparing for the transition to a low-carbon economy through a public and transparent online tool developed with the London School of Economics Grantham Research Institute.

The three National Investing Bodies have led the initiative with the UK Environment Agency Pensions Fund, and with data and analysis provide by the London School of Economics and FTSE Russell. TPI was launched at the London Stock Exchange in January 2017, with preparation having taken place throughout 2016. The initiative came about as a result of the National Investing Bodies' climate change policy, which committed us to engage more intensively with companies on climate change and assess whether they are taking seriously their responsibilities to assist with the transition to a low-carbon economy.

Assessments from the TPI produced by the London School of Economics will be used to support our engagement with companies over the coming years and provide a clear and transparent basis upon which to report progress of engagement to trustees and beneficiaries. The TPI also provides a basis to be able to assess the exposure to transition risk within our portfolios and to better inform our decision-making and monitoring of our fund managers. Adam Matthews, Head of Engagement for the Church Commissioners and Pensions Board is the Co-Chair of the Initiative.



Representatives from TPI members at the launch event in January 2017

2016 was an important year for the 'Aiming for A' investor coalition, created and co-ordinated by CCLA, the investment manager of the CBF Church of England Funds alongside the other National Investing Bodies. On the back of longstanding engagement shareholder resolutions were filed at three mining companies. These called for the companies to disclose further details about five areas of their approach to climate change. This included, their greenhouse gas emissions management and the resilience of their portfolios against the International Energy Agency's 2035 energy scenario, including the projected energy mix required to limit temperature rises to two Degrees Celsius above pre-industrial levels. Each of the resolutions were passed

The Transition Pathway Initiative is an asset-owner led initiative. As of Summer 2017, asset owners and asset managers with over £4 trillion under management had come together.



TPI is partnering with the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE) and FTSE Russell.

TPI is also supported by:



overwhelmingly with the support of the companies' boards.

2017 also saw an important success at ExxonMobil, where a motion filed by the Church Commissioners and the New York State Comptroller Thomas P. DiNapoli, asked Exxon to report on how its business model will be affected by global efforts to limit the average rise in temperatures to below 2-degrees Celsius. 62.3% of shareholders voted in favour, a significant improvement on the vote in 2016, which received 38% support. The Church Commissioners' Head of Responsible Investment Edward Mason spoke at the AGM, and after the result said "the majority of Exxon's shareholders have sent an unequivocal signal to the company that it must do much more to disclose the impact on its business of measures

to combat climate change." This result came despite strong efforts by the company to oppose the motion, and represented a hugely significant victory for investors who want Exxon to report on climate disclosure in line with its peers.

CCLA also continued engagement with BP and Royal Dutch Shell following successful shareholder resolutions filed in 2015. They also continued longstanding engagement with companies included within the FTSE 350 who had received poor grades in the CDP Climate Change Carbon Performance Rankings or had not responded to the CDP questionnaire. CCLA engaged with 54 companies of which 41% improved their CDP score.

## The NIBs on Engagement

Over the past year the Church Commissioners and Pensions Board have jointly established an engagement team. The decision to establish an in-house team and to strengthen engagement capacity reflected the increased importance of engagement in the application of our ethical investment policies. The Engagement Team now oversee the voting of the Commissioners and Pension Board shares in companies, the screening of our investments against our ethical policies and the engagement with companies within which we have holdings.

CCLA has continued to undertake an active programme of engagement. This is conducted in close co-ordination and collaboration with colleagues at the Church Commissioners and Pensions Board.

The NIBs continue to exclude from our direct investments companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, human embryonic cloning, and extraction of thermal coal and production of oil from oil sands, subject to revenue thresholds. We continue to maintain restrictions in the alcohol sector.

### Mining and Faith Reflections Initiative

Over the past year The Commissioners and Pensions Board engagement team have continued to support the Mining and Faith Reflections Initiative. This initiative is the result of a group of eight mining company CEOs reaching out to the Catholic, Anglican and Methodist Churches for an honest and open dialogue about the social licence to operate of their sector. This is a high level and different style of engagement that enables difficult issues to be raised and addressed in a forum with companies. Bishop David Urquhart, the Bishop of Birmingham is working closely with the Vatican and Methodist Church as part of the dialogue.

### Modern Day Slavery

On behalf of members of the ecumenical Church Investors Group CCLA began a new engagement programme in with 265 UK companies. This was based upon the requirements of the UK Modern Slavery Act and emphasised the importance of developing mechanisms for identifying and assessing the risk of modern slavery occurring within their supply chains. 103 companies responded to the CIG 51% of which had or would be conducting further due diligence of their supply chains. This work will continue in 2017.

# Voting

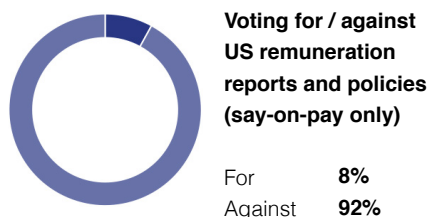
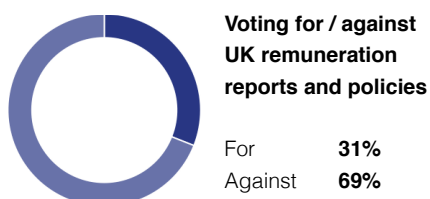
In line with commitments under the UK Stewardship Code the Commissioners and Pensions Board have continued to vote our shareholdings in company meetings. CCLA also continued to co-ordinate the Church Investors Group initiative on proxy voting and did not support executive remuneration related proposals at 77% of CCLA holdings.

In 2016 the Pensions Board voted in 2,219 company meetings, comprising 28,783 individual resolutions. The Commissioners voted in 2,228 company meetings, comprising 29,122 individual resolutions. A particular focus during 2016 were interventions at Annual General Meetings focussed on: executive remuneration, climate change and board diversity. In line with the National Investing Bodies' executive remuneration policy, we continued to vote against the majority of remuneration reports and publicly called upon company remuneration committees to exercise better judgement when recommending reports to shareholders. A number of high profile advisory votes went against board recommendations.

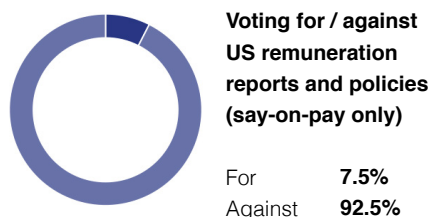
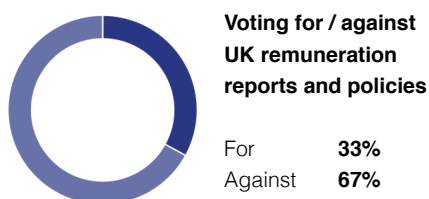
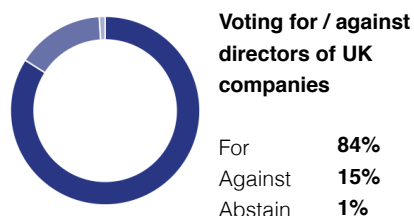
The graphs below show how the National Investing Bodies voted in some key policy areas in 2016.

During the year, the engagement team continued to meet company representatives on a range of issues of concern. These issues included human rights, climate change, tailings dams, risks around reporting on joint ventures within extractive companies, promotion of responsible alcohol consumption and community health and safety and environmental concerns around mining activity.

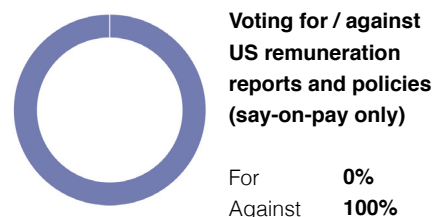
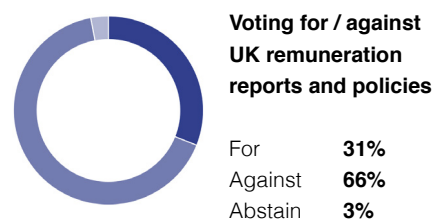
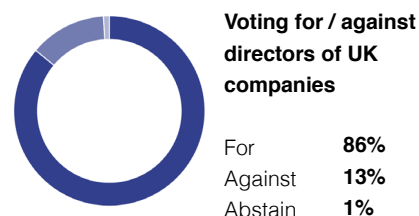
## Church Commissioners



## Pensions Board



## CBF Church of England Funds





**Adam Matthews**  
Secretary of the Ethical Investment  
Advisory Group



**Stephen Barrie**  
Deputy Secretary of the Ethical  
Investment Advisory Group

### **Front Cover**

Bishop David Walker (Manchester) visits 'the Koppie' at Marikana, South Africa. There is a small chalk cross which serves as a memorial to those killed in 2012.

### **Feedback**

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

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