

GENERAL SYNOD

Climate change and investment

A Background Paper from the National Investing Bodies (NIBs) and Ethical Investment Advisory Group (EIAG)

1. The Church of England National Investing Bodies (NIBs) announced the adoption and implementation of a new ethical policy on climate change and investment on 1 May 2015.
2. This new policy had been recommended to the NIBs by the EIAG following a comprehensive review which was launched in January 2013 and welcomed by General Synod in February 2014. The policy was published with an advisory paper by the EIAG. The policy and advisory paper are circulated to Synod members as GS Misc 1110.

The EIAG's biblical and theological reflections

3. The EIAG's paper sets out how the EIAG's recommendations are grounded, in line with the EIAG's standard policy method, in biblical and theological reflection and an understanding of the moral and social priorities of the Church.
4. The reflections focus on the responsibilities of humans to steward the earth and to attend to the poor and marginalised, some of whom are already experiencing the impacts of climate change, and who are the least able to adapt to the effects changes in the climate.
5. The paper concludes that climate change is an urgent ethical issue and that it calls for an urgent response from all parts of society, including investors.

Key features of the climate change and investment policy

6. The policy sets out the NIBs' ambition to be "at the forefront of institutional investors... addressing the challenge of the transition to a low carbon economy" and details commitments by which this ambition will be fulfilled.

Divestment

7. The NIBs commit to exclude from their investments companies that derive more than 10% of their revenues from the extraction of oil sands or thermal coal – the highest carbon fossil fuels. As a result, upon the adoption of the new policy, the Church Commissioners and Pensions Board announced the immediate divestment £12m of shares in 13 oil and mining companies (the CBF Church of England Funds did not have any investments that required divestment).

Corporate engagement

8. The NIBs commit to step up their engagement with fossil fuel producers in which they remain invested, as well as with electricity generation utilities, large energy users and producers of energy intensive products, to encourage them actively to contribute to the transition to a low carbon economy.
9. The BP and Shell shareholder resolutions co-filed by the Commissioners, Pensions Board and CBF Funds earlier this year are illustrations of the intensive and firm engagement that

will be pursued under the new policy. The resolutions were approved by 98% of shareholders and the two companies are now legally required to disclose in their reporting their strategic approach to climate change and to cover the five areas of disclosure specified in the resolution.

10. In all, ten companies are covered by the 'Aiming for A' collaborative engagement programme convened by CCLA under which the resolutions were filed. The programme encourages the companies to attain an A rating for carbon performance from CDP, an NGO. The companies' ratings have consistently improved over the period of engagement and all ten companies are now A or B rated.
11. The ecumenical Church Investors Group (CIG), of which the Commissioners, Pensions Board and CBF are members, has run a structured engagement with a wider range of companies on climate change. This programme, conducted by CCLA, focuses on FTSE350 companies who have not achieved a C rating from CDP. In 2013 the CIG engaged with 53 companies, 72% of whom increased their CDP score, and in 2014 the CIG entered into dialogue with a further 53 businesses following which 31 companies improved. Academics at the University of Edinburgh have conducted an independent examination of the effectiveness of this project which has found, with a 95% confidence rate, that the improvements in corporate performance happened as a result of the CIG's engagement.
12. The NIBs make clear in the climate change policy that their engagement activities will be further intensified and that they have the option to make further divestments if, after engagement, companies do not take seriously their responsibilities to assist with the transition to a low carbon economy.

Public policy engagement

13. The climate change policy commits the NIBs to engage more intensively with public policy makers with the aim of achieving a regulatory environment, nationally and internationally, that supports the transition to a low carbon economy.
14. This resulted in the NIBs immediately providing additional funding to the Institutional Investors Group on Climate Change, a forum for collaboration between European institutional investors on issues related to climate change, to enable it to recruit a new head of policy.

Investment management

15. The NIBs commit to increase their investments in sectors and activities such as sustainable energy, energy efficiency, carbon capture and storage and adaptation to climate change, where such investments meet their investment risk/return criteria. They commit to build their internal capacity and knowledge for making such investments.
16. Existing investments by the NIBs in the low carbon economy are set out in the EIAG paper accompanying the climate policy. These include hundreds of millions of Pounds of investments by the Commissioners, Pensions Board and CBF Funds in renewable energy infrastructure, sustainable forestry, green buildings, energy efficiency and environmental solutions companies. Within the Commissioners' UK commercial forestry holdings there are two existing wind power schemes and a number of other viable schemes are being actively explored, subject to planning. In addition, the Commissioners have recently entered into a framework agreement with a solar energy company, Lightsource, to

develop solar power generation facilities on rural land owned by the Commissioners; wind farm possibilities on the rural estate are also being explored.

17. The NIBs commit to continue to encourage their investment managers to build climate change into their investment practices and processes.

Portfolio decarbonisation

18. The NIBs commit to support international efforts to develop standard metrics and protocols for climate change reporting for investment portfolios. They commit to use these tools to monitor the emissions associated with their investment portfolios and to assess the effectiveness of their efforts to reduce these emissions.

Reporting

19. The final commitment by the NIBs is to monitor and report publicly on an annual basis on their implementation of the policy. This will be done in the NIBs' annual reports.

Reactions to the new policy

20. Bishop Nick Holtam, the Church's lead Bishop on the environment, said that he very much welcomed the policy, noting that "it marks the start of a process of divestment as well as engagement with fossil fuel companies and better aligns the Church's investment practice with its belief, theology and practice." He also observed that with climate change happening rapidly, "I therefore particularly welcome the commitment to regularly review the policy recommendations in the light of our knowledge and experience."
21. The new policy has been well received by climate experts. Lord Stern, Chair of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE), praised the NIBs for their "fine and wise leadership".
22. Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change, under whose auspices the international climate change negotiations which culminate in Paris at the end of this year are conducted, said "the Church of England's investment policy, supporting the transition to a low carbon economy, is remarkably thoughtful and expressive of investor integrity".

Conclusion – the motion

23. As part of the Church's unified witness of the urgency and importance of climate change, Synod is invited to affirm the ethical investment policy on climate change developed by the EIAG and adopted by the NIBs. Furthermore, Synod is invited to ask the EIAG and the NIBs to report back to General Synod within three years with an assessment of the impact of the policy, including the efficacy of engagement and the progress made on portfolio decarbonisation.

Full divestment

24. The EIAG specifically considered whether to recommend simple divestment from all fossil fuel companies and decided that this was not the right ethical approach for the NIBs.

25. The NIBs have a unique voice as part of the witness and mission of the Church and divestment effectively prevents them from using this voice. The EIAG was sure that the most significant additional ethical contribution that the NIBs could make, as institutional investors, was to focus on further engagement, both with those companies that make a significant contribution to greenhouse gas emissions and with policy makers, in addition to divesting from companies deriving a material part of their revenues from the extraction of the highest carbon fossil fuels.
26. The EIAG was also concerned that a change in business strategy by the world's major fossil fuel companies, as sought indirectly by the fossil fuel divestment campaign, was not a broad enough approach. A whole range of other issues also need to be addressed, including urban design, transport and agriculture (as well as energy efficiency and renewable energy).
27. Indeed, the challenge that the policy seeks to address is that climate change cannot be separated from the values and priorities that are reflected in many of our social and economic practices and systems. Ultimately, the values and priorities of the whole of society will drive society's response to climate change.

+ David Manchester

Member of the Ethical Investment Advisory Group and Church Commissioner

Notes

28. The three National Investing Bodies (NIBs) of the Church of England are the Church Commissioners, the Church of England Pensions Board and the CBF Church of England Funds managed by CCLA. Together the NIBs are responsible for the management of approximately £10 billion of endowment and pensions investments which provide hundreds of millions of Pounds of funding every year to support the mission and ministry of the Church and enable the payment of clergy pensions.
29. The NIBs are advised on ethical investment policy by the Church's Ethical Investment Advisory Group (EIAG). Responsibility for adopting ethical policies and managing investments in line with legal and regulatory requirements rests solely with the NIBs.
30. The voting members of the EIAG are James Featherby (Chair, a member co-opted for his financial ethics expertise), Rev Canon Prof Richard Burridge (Deputy Chair, a member co-opted for his biblical expertise), Michael Benson (a member co-opted for his investment expertise), Rev Paul Boughton (appointed by the Pensions Board), Paul Boyd-Lee (appointed by the Archbishops' Council), Rev Canon Edward Carter (appointed by the CBF Church of England Funds), Jenny Humphreys (appointed by General Synod), Loretta Minghella (CEO of Christian Aid, appointed by MPA) and Rt Rev David Walker (appointed by the Church Commissioners).
31. A [short film on the climate change policy](https://www.youtube.com/watch?v=Ytk6mjAV4qM) by Richard Burridge and Edward Mason (Head of Responsible Investment at the Church Commissioners) is available on You Tube: www.youtube.com/watch?v=Ytk6mjAV4qM.