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“The earth is the LORD’s and all that is in it,
the world, and those who live in it;
for he has founded it on the seas,
and established it on the rivers.”

PSALM 24:1-2

Ethical Investment Advisory Group

Annual Review 2014/15

Chair's Letter



EIAG Presentation to Synod
February 2014 Picture: Keith Blundy
| Durham

I am pleased to introduce this review of the EIAG's activities from April 2014 to March 2015.

The EIAG continues to provide Christian ethical advice consistent with the mission and witness of the church so that it may inform and shape the

investment decisions of the National Investing Bodies of the Church of England.

Climate change policy

Our main focus this year has been the finalisation of our climate change policy recommendations. We were pleased that, on the basis of our advice, the National Investing Bodies (NIBs) decided that they wished to be, in both an aspirational and realistic fashion, at the forefront of institutional investors subject to legal fiduciary duties addressing the challenge of the transition to a low carbon economy.

Our policy was recommended to the NIBs in March 2015 and approved immediately thereafter. This included a £12 million divestment by the Church Commissioners and the Pensions Board from companies with material revenue derived from thermal coal and tar sands, the most polluting fossil fuels. The CBF Funds, managed by CCLA, did not have any such holdings.

The EIAG does not provide financial advice to the NIBs and therefore in developing the policy our starting points were different. The first was biblical and theological. Humankind has a divinely mandated responsibility for the physical world, for its creatures and for one another, especially the most vulnerable. Whilst we are legitimately involved in a process of change and adaptation, this mandate also requires us to do all we can to minimise whatever is damaging creation and God's

creatures, and to promote all that is good and that brings the kingdom of heaven into ever greater realisation on earth.

The second was evidential. It is clear from the science that, despite the uncertainties, climate change is already a reality that is damaging creation and impacting the poorest and most marginalised in the world, and that these effects are likely to increase. The poorest are least able to adapt to climate related extremes, but suffer disproportionately the resultant ecological, social and economic consequences.

The third was pragmatic. How best, as institutional investors, to encourage the much needed transition to a low carbon economy whilst acknowledging that some on-going use of fossil fuels is likely to be necessary if the world is also to deliver on its other legitimate policy goals, including those relating to poverty alleviation and sustainable development.

The NIBs were already taking extensive action on climate change. We concluded 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 the producers of the highest carbon fossil fuels mentioned above. This engagement focus is a major priority for the NIBs and is supported by the option of further divestment should companies prove unresponsive. The EIAG will continue to support the NIBs as they implement the policy.

Importantly, though we concluded that simple divestment from all fossil fuel companies was not the right ethical approach for the NIBs. The NIBs have a unique voice as part of the witness and mission of the Church. Divestment effectively prevents them from using this voice.

We were 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).

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.

Engagement

Over the past year we have worked with the Church Commissioners and the Pensions Board on an intensive engagement programme with SOCO International, a UK listed oil and gas exploration company, into allegations of corruption and human rights abuses in and around Virunga National Park in the Democratic Republic of Congo. We remain concerned and engaged with the company.

As part of a six year project to align annual voting amongst the UK church investor community overseen by the Church Investors Group (CIG) we have, for the first time, been able to coordinate our voting through a common voting template. This has meant a much more effective alignment and amplification of church investors during the annual AGM voting season.

EIAG membership

The year saw both Richard Harvey and The Rt Revd Dr Lee Rayfield retire as members of the EIAG. We thank them both for their different but very valuable contributions to the work of the EIAG.

We were delighted to welcome three new EIAG members: Loretta Minghella OBE

(Chief Executive of Christian Aid and former Chief Executive of the Financial Services Compensation Scheme), Michael Benson (chairman of Ashmore and former chairman of Invesco Global), and The Rt Revd Dr David Walker (Bishop of Manchester and chair of the Greater Manchester Police Ethics Committee). We were also delighted that Adam Matthews joined us as our new Secretary (former head of an international network of legislators) and Emiliano Torracca as the Ethical Screening and Stewardship Manager (a corporate governance analyst). I would also like to thank the NIBs for their support during the year as we have put in place a new secretariat team.

The next year promises to be both fascinating and challenging for the EIAG as we begin to develop our ethical thinking in ever more complex areas. I am confident that we have in place a strong and experienced team for providing Christian ethical advice to the National Investing Bodies of the Church of England.

James Featherby
Chair, Ethical Investment Advisory Group

EIAG Presentation to Synod

The EIAG has been invited by the Synod Business Committee to present the outcome of the development of the Climate Change Policy to Synod on Friday 10th July at 17.25.

The EIAG Chairman, James Featherby and Deputy Chairman, Professor, the Rt Revd Canon Richard Burridge will be presenting the work of the EIAG and Dr Jonathan Spencer will be outlining the policy implementation undertaken by the National Investing Bodies

A New Climate Change Policy

The major focus of the EIAG's policy work over the past year has been the conclusion of the climate change policy. Work was initiated in 2013 and Synod passed a motion supporting the development of new advice in 2014. The National Investing Bodies (NIBs) adopted the policy in the spring of 2015, and the policy was announced on the 1st May.

The part of the policy that caught most headlines related to the introduction of a new ethical investment exclusion whereby companies deriving more than 10% of their revenues from the extraction of thermal coal or oil sands are now excluded from direct



investments. Following the adoption of the advice the Church Commissioners and Pensions Board divested shares worth £12m.

The EIAG recommended divestment from thermal coal and oil sands producers because these are the highest carbon fossil fuels whose impact the EIAG was most concerned about and from which the world needs to transition first. The EIAG was further concerned that companies with a high degree of dependence on revenues from thermal coal and oil sands would not share the NIBs' interest in public policy supporting the transition to a low carbon economy.

The EIAG considered whether to recommend full divestment from all fossil fuel companies. However, it was decided that this was not the right ethical approach, concluding that the NIBs have a unique voice as part of the witness and mission of the Church and that divestment would effectively prevent them from using this voice. The primary focus of the policy is therefore engagement.

Engagement was recommended on two levels. The first was public policy. The most effective and efficient way of mitigating climate change is through public policy. Investors, especially long term investors like endowments and pension funds, need actively to advocate the imperative for a transition to a low carbon economy.

Engagement: Shareholder Resolutions and Policy Engagement

In 2014 CCLA, on behalf of all Church Investors Group (CIG) members, continued its longstanding engagement programme that encourages companies across the UK market to improve their approach to climate change. 53 companies, who had not taken sufficient action to achieve a CDP (formerly Carbon Disclosure Project) Performance Grade of 'C' (on an A-E scale) were included within the programme.

Following the engagement more than half (58%) of these companies had improved their CDP Score.

Over the past few years the University of Edinburgh have been analysing this engagement and have found, to a 95% confidence rate, that these improvements would not have happened without the CIG's engagement.

The National Investing Bodies are also part of the CCLA-led £170bn 'Aiming for A' investor coalition

which is comprised of other CIG members, the £160bn Local Authority Pension Fund Forum (LAPFF), and wealth managers Rathbone Greenbank and Sarasin & Partners. The coalition was launched in 2012 as an investor initiative to engage on climate and carbon risk with the 10 largest extractives and utilities companies in the FTSE 100.

As these companies are amongst the most exposed to climate risk we are asking them to achieve the highest possible CDP Performance



The second was with companies. The EIAG recommended an intensification of engagement with companies including fossil fuel companies, utilities and energy intensive industries. The EIAG recognised that the NIBs have already undertaken significant engagement but were keen, as part of a new policy, to see a further intensification. Importantly, the policy also allows for divestment from companies who show themselves unwilling in engagement to play a constructive part in the transition to a low carbon economy.

Grade, 'A'. In 2014 5 companies improved their Grade. This year saw two shareholder resolutions approved at both BP and Shell's AGMs. The resolution 'Strategic Resilience for 2035 and Beyond' was overwhelmingly backed at both AGMs and clearly exceeded the 75% vote required to make it binding.

This sends a strong signal to both companies about the importance shareholders place on their long-term response to the challenge of transition to a low carbon economy.

Policy Engagement

As recognised in the new Climate Change Policy engagement with policy makers is critical. Only policy makers can create the regulatory structures to reshape the market to disincentivise the use of fossil fuels. Our strategic engagement with policy makers is undertaken through support of the European Institutional Investors Group on Climate Change (EIIGCC).

As the international community prepares for the key climate negotiations in Paris at the end

of 2015 the EIIGCC has engaged intensively with the European Commission and EU governments.

The EIIGCC continues to be an important counterweight to lobbying by some in the energy intensive industries.

This was the reason the EIAG recommended to the National Investing Bodies that they should provide direct support to the EIIGCC for additional staffing capacity to further increase their engagement impact.



The Church has a moral responsibility to speak and act on both environmental stewardship and justice for the world's poor who are most vulnerable to climate change. This responsibility encompasses not only the Church's own work to reduce our own carbon footprint, but also how the Church's money is invested and how we engage with companies on this vital issue.

The Revd Canon Professor Richard Burridge
DEPUTY CHAIR OF THE EIAG AND LEAD ON THE EIAG'S THEOLOGICAL PROCESS



Fine and wise leadership.

Professor Lord Nick Stern

CHAIR OF THE LONDON SCHOOL OF ECONOMICS GRANTHAM RESEARCH INSTITUTE ON CLIMATE CHANGE



The Church of England's investment policy, supporting the transition to a low carbon economy, is remarkably thoughtful and expressive of investor integrity. It is also very encouraging to see that the climate negotiations are being discussed by the upcoming General Synod.

Ms Christiana Figueres
EXECUTIVE SECRETARY, UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC)



I very much welcome the policy of the national investing bodies and the Ethical Investment Advisory Group...It is thoughtful and has been carefully considered, producing a range of ways to engage with issues of the Church's finance in relation to Climate Change. 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.

The Rt Revd Bishop Nick Holtam
THE BISHOP OF SALISBURY AND LEAD BISHOP ON THE ENVIRONMENT AT THE CHURCH OF ENGLAND

Engagement

Between April 2014 and March 2015 the EIAG and its staff conducted specific engagement with 19 companies. Themes covered in our engagement meetings included: banking ethics and practice, carbon emissions management and reporting, corporate governance, country-specific risks, climate change, executive remuneration, human rights, lobbying, oil sands, relationships with communities, responsibility in the marketing and retailing of alcohol, safety/operational risk, sustainability reporting, and tax.

A key engagement achievement in 2014/15 was the successful completion of the EIAG's dialogue on alcohol retail with the three major UK-listed supermarkets – Tesco, Sainsbury's and Morrisons. The first phase of engagement was concluded after all three companies adopted revised alcohol policies newly acknowledging the potential for alcohol to cause harm, as required by the National Investing Bodies new alcohol policy.

Intensive Engagement

The EIAG undertakes 'intensive engagements' on behalf of the National Investing Bodies when issues emerge that require a high level engagement with a company, often at the level of the Board. Previous intensive engagements have included Newscorp and Vedanta Resources. The EIAG is currently undertaking an



intensive engagement with SOCO International Plc on behalf of the Church Commissioners and Pensions Board (CBF do not have any holdings in SOCO). This follows serious allegations of human rights abuses, corruption and bribery relating to the operations of SOCO in and around Virunga National Park in the Democratic Republic of Congo. The engagement has resulted in a series of meetings with the Company both individually and as part of a group of concerned shareholders. A public statement was also issued to the media in February outlining the four main areas of concern. These were: i) The need for a wide ranging transparent and independent enquiry into the allegations of bribery, corruption and human rights abuses, ii) Amendment of the previously issued statement agreed between SOCO and WWF to remove any room for doubt about their intentions within existing or future boundaries of a World Heritage Site, iii) Adoption of best practice standards on human rights, and iv) Adoption of best practice standards on corporate governance.

Exclusions

When investing directly in public equities, property or corporate debt, we recommend investment exclusions for companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, thermal coal/oil sands and human embryonic cloning. We are continuing to implement a new policy on alcohol under which companies deriving revenues from alcohol are only eligible for investment if they meet EIAG standards for responsible marketing and retailing.

Voting

The EIAG Secretariat conducts voting at company general meetings on behalf of the Church Commissioners and Church of England Pensions Board in line with corporate governance and executive remuneration policies recommended by the EIAG and adopted by the investing bodies. CCLA votes on behalf of the CBF Church of England Funds against the same policies.

This is a significant effort involving voting on over 26,000 resolutions at approximately 3,000 company meetings.

As part of an initiative undertaken by the Church Investors Group (CIG) with the aim to accentuate the impact of the largest members of the CIG (including the Church Commissioners, the CBF Church of England Investment Funds, The Church of England Pension Board, the Central Finance Board of the Methodist Church, and the United Reformed Church Ministers Pensions Trust) this year saw the launch of a common voting policy. This is administered by our independent screening provider, ISS, on a global basis and has meant for the first time the largest Church investors voted together on the same basis.

Joint Voting Template

The following is a summary of the Church Investors Group Joint Voting Template (if you would like to see the full template please contact the EIAG)

- CIG members believe that proxy voting activity should reflect wider stewardship concerns and CIG members will use voting in support of a company's performance as part of the UK Climate change laggards engagement programme.
- CIG members agree with the UK Corporate Governance Code that, 'there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business'.
- CIG members believe that company boards should feature strong independent oversight.
- CIG members seek to support the recommendations of the Davies Review into gender diversity at FTSE 100 constituent companies.
- CIG members seek to promote the independence of auditors.
- CIG members do not support excessive executive remuneration.

Partnerships

Signatory of:



The EIAG believes that excellence and impact in its work are best served through working in partnership with church investors in the UK and internationally, and with the wider responsible and sustainable investment community.

The EIAG and national investing bodies participate actively in the work of the **Church Investors Group** (CIG). Bill Seddon, Chief Executive of the Central Finance Board of the Methodist Church, continues to serve as the Chair and the Church of England

holds the position of Vice Chair. The co-operation between the EIAG and Methodists is supported by a reciprocal arrangement by which we continue to attend the meetings of each other's ethical investment advisory committees.

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



The Church Commissioners for England who support the Church's ministry, particularly in areas of need and opportunity, and meet historic pension liabilities.



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 owned by its church and not-for-profit clients.



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

EIAG MEMBERS



Mr James Featherby

CHAIRMAN OF THE BIBLE SOCIETY AND FORMER PARTNER AT SLAUGHTER AND MAY CHAIR



The Revd Canon Professor Richard Burridge FKC

DEAN OF KING'S COLLEGE LONDON DEPUTY CHAIR



The Rt Revd Dr David Walker

BISHOP OF MANCHESTER CHURCH COMMISSIONERS APPOINTEE



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

CHURCH OF ENGLAND 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

CHAIRMAN OF ASHMORE AND FORMER CHAIRMAN OF INVESCO ASSET MANAGEMENT CO-OPTED MEMBER



Miss Bernadette Kenny

CEO PENSIONS BOARD



Mr Andrew Brown

SECRETARY / CEO CHURCH COMMISSIONERS



Mr Michael Quicke OBE

CEO CCLA INVESTMENT MANAGEMENT LTD



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www.churchofengland.org/about-us/structure/eiag

FEEDBACK

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

Please contact eiag@churchofengland.org