



# Ethical Investment Advisory Group

Annual Review  
2010/11



Image: © BP p.l.c.

“The earth will be full of the knowledge  
of the Lord as the waters cover the sea.”

Isaiah 11.9

GS Misc 981

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## Chairman's Letter



**H**aving served six years as Chairman of the EIAG, I will stand down at the end of 2011. My time as Chairman has at times been highly intensive, and the impact of the EIAG has been

demonstrated on numerous occasions, reflecting the importance of our work.

My priority as Chairman has been to increase the impact of the EIAG by placing an emphasis on engagement with the companies in which the National Investing Bodies hold shares. I have always believed that the Church as an investor can achieve a much greater impact on corporate practice through engagement than avoidance. In recognition of the increased role of engagement in the work of the EIAG, this annual review begins with an account of our engagement and company voting work over the past year.

Investment exclusions of course remain necessary for Church investors. Some commercial activities are of themselves contrary

to Christian ethics. It is inappropriate that the Church should invest its capital in them or take a share of their profits. The EIAG's Deputy Chairman Richard Burridge has continued to drive the development of more theologically grounded and distinctly Anglican investment exclusion policies. Last year we reported on our new approach to defence investments. This year we have recommended a fresh approach with regard to investment in companies involved with alcoholic drinks.

Since March last year, we have said goodbye to three long-standing members of the EIAG, all of whom I wish to thank for their commitment and contributions to our work. Lesley Farrall stepped down as representative of the CBF Church of England Funds to focus on her diocesan work. Jeremy Crocker's mandate as General Synod representative came to an end. And at the executive level, Shaun Farrell retired as Chief Executive of the Pensions Board. We were delighted to welcome in their stead the Rev Edward Carter, Jenny Humphreys (Bath and Wells) and Bernadette Kenny.

The EIAG has appointed James Featherby as my successor as Chairman. James joins the EIAG with over 20 years' experience as a partner at a



leading City law firm. He teaches at his Church, and has thought deeply, spoken and written about, issues of ethics, business and investment.

I would like to thank colleagues from the EIAG and National Investing Bodies for their support over the last six years. I would also like to thank General Synod for its ongoing interest in ethical investment, including at the EIAG presentation in February. The EIAG exists to ensure that the investment activities of the national Church do not conflict with the values of the beneficiaries of the National Investing Bodies' funds – clergy and laity, and parishes and dioceses, across the Church of England.

The EIAG faces ongoing challenges to keep exclusion policies both theologically informed and relevant to the business world, and to engage effectively in an increasingly global context. I wish the Group and its new Chairman every success going forward as they deal with these challenges.

**John Reynolds**  
Chairman, Ethical Investment  
Advisory Group



Images: iStock © Miré Ahmt

## BP

The EIAG's most significant engagement in 2010/11 was with BP.

The appalling accident in the Gulf of Mexico on 20 April 2010 came on the back of the Texas City refinery explosion in 2005 and Prudhoe Bay pipeline spill in 2006.

The EIAG met with one of BP's directors in October 2010. The EIAG Secretariat has participated in three follow-up meetings with BP directors and staff since.

The EIAG is seeking robust assurance that BP is addressing its operational safety problems and environmental responsibilities by the first anniversary of the appointment of Bob Dudley as Chief Executive.

UK and US Church investors are working together with BP through the Church Investors Group and Interfaith Center on Corporate Responsibility. In April 2011 all three Church of England National Investing Bodies signalled their continuing concerns through the way they exercised their voting rights at BP's AGM.

BP will remain a major engagement focus in 2011/12.

## Engagement

**B**etween April 2010 and March 2011 the EIAG and EIAG Secretariat staff participated in more than 20 engagement meetings with UK companies and telephone engagements with overseas companies. We engaged with: Anglo American, Associated British Foods – Primark (twice), BP (four times), BT, Barclays Bank, Caterpillar, First Group, GlaxoSmithKline, Lloyds Banking Group, Morrisons, Nestle, Royal Bank of Scotland, Royal Dutch Shell (twice), Tesco (twice), Veolia Environnement and Walmart.

Major themes covered in these engagement meetings included: ethical trading with suppliers; access to medicines in developing countries; financial inclusion; reduction of carbon emissions; avoidance of complicity in alcohol misuse; avoidance of complicity in the violation of human rights or international law; and the importance of reining in excessive executive remuneration.

The EIAG and EIAG Secretariat do not engage only with businesses. We also engage with policy-makers on issues where regulation is required in support of ethical business practice. We have continued to press home the need for an ombudsman to receive complaints relating to suppliers' – including farmers' – interactions with supermarkets.



### Draft Groceries Code Adjudicator Bill

Presented to Parliament  
by the Secretary of State for Business, Innovation and Skills  
By Command of Her Majesty  
May 2011

We were therefore delighted that the government announced in August 2010 that it would create a Groceries Code Adjudicator and we are making the case for urgent implementing legislation. This is an issue on which the EIAG has been involved since publishing its report 'Fairtrade begins at home' in 2007. It is a good illustration of how informed, sustained and patient engagement with both business and government can deliver results.

### Vedanta Resources

Following the investing bodies' disinvestment from Vedanta Resources on ethical grounds in February 2010, we have been following the results.

Vedanta has been denied permission to go ahead with the controversial mine in the tribal area of India that was visited by EIAG staff.

The company has come under strong pressure from many of its remaining investors and providers of corporate finance.

Vedanta has appointed a Chief Sustainability Officer and accepted the comprehensive recommendations of an independent sustainability review.

We have informed Vedanta that we welcome the company's commitment to address our concerns about its treatment of local communities. The EIAG's position remains that we stand ready to review our recommendation to the investing bodies – if Vedanta does indeed address our concerns.



# Voting

Shareholders in companies have the right to vote on resolutions at company annual, and extraordinary, general meetings. Exercising voting rights thoughtfully is an essential element of the good stewardship of shareholdings, as the government has recognised through the Financial Reporting Council's Stewardship Code.

Holding companies to high standards of management through voting can not only help to support investment returns, but can also help to protect the common good. Following the financial crisis, institutional shareholders who failed properly to monitor the companies in which they invested were rightly widely criticised.

The EIAG Secretariat has a new dedicated Corporate Governance Officer, Chris Anker, who manages proxy voting for both the Church Commissioners and the Church of England Pensions Board, in line with a general approach to voting recommended by the EIAG. The Secretariat liaises on voting issues with CCLA Investment Management, who conduct global

voting for the CBF Church of England Funds in line with the same principles and participate in a collaborative Church Investors Group voting initiative for their UK holdings.

In the period covered by this review, April 2010 to March 2011, the Church Commissioners and Church of England Pensions Board voted on over 37,500 resolutions at over 2,000 company general meetings. Annual voting statistics for the CBF Church of England Funds are available on the CCLA website. The issues the EIAG Secretariat scrutinises most closely are executive remuneration; resolutions put forward by shareholders on environmental, social and governance concerns; and the election of directors.

Voting alone is a blunt instrument for conveying messages to companies. The EIAG Secretariat therefore writes to major companies to explain why we have not supported management on particular issues. We regularly meet companies for follow-up discussions as part of our wider engagement programme.

The EIAG's Corporate Governance Policy, like all the EIAG's published advice, can be downloaded from [www.churchofengland.org/about-us/structure/eiag/ethical-investment-policies](http://www.churchofengland.org/about-us/structure/eiag/ethical-investment-policies).

## Church preaches against pay excess

Line drawn at 4 times salary of top managers. Fund will only invest in groups that comply

By Megan Murphy and Norma Cohen

The Church of England is putting morality at the heart of the debate over executive pay, saying companies it will vote against are those that do not have a limit on executive pay.

The Church Commissioners, which manages a £5.5bn invest-

ment and property portfolio, has informed companies to which it holds a share that it will not support any pay schemes where top managers would receive bonuses in excess of four times their base salary.

"The Church exists to spread the good news of the gospel and about justice for everyone," a spokesman said. "That is why our ethical investment committee believes that people should be paid what they are worth, but not more than that."

Placing such specific limits on pay sends the Church to the centre of a heated debate over

whether investors are putting enough pressure on large companies to rein in multimillion-pound bonus awards.

Several large shareholders in HSBC on Friday backed the bank's plans to limit senior executives' maximum bonus and long-term share pay to 10 times basic salary.

The Church's general approach is that it is sufficient for bonus schemes to allow for performance awards of up to three times salary," the Church spokesman said.

According to remuneration expert, Simon of large UK com-

panies exceed that threshold. Financial services companies typically limit the size of the highest multiple, with B&Q's chief executive of the group, awarded bonus and long-term incentive payments valued at £8.8m in 2010 – 20 times his current level of earnings.

"The Church's stance reflects concern about excessive pay and number of non-executive directors are not sustainable and 'vested' interest in the company," the Church spokesman said.

On Friday, it stressed that it did not object to competitive sal-

aries for senior executives, bonuses that "promote rewarded success and align the interests of executives with society as a whole." However, we are concerned by the issue of excess remuneration – we believe that the remuneration packages offered to many senior executives is not what is required or equitable."

"The Church backed a resolution to take a far more interventionist role in curbing the excesses of financial markets."

On Friday, it stressed that it did not object to competitive sal-

## C of E takes virtuous line on 'excessive' bonuses

News analysis Church will use vote in companies in which it holds a stake, write Norma Cohen and Megan Murphy

The Commissioners of the Church of England's investment and property fund will vote against companies that do not have a limit on executive pay, it has been announced.

It is expected in 2010, for example, that the Church's pension fund had invested the money of its assets in companies that do not have a limit on executive pay.

The fund has a portfolio of more than 1,000 companies, and the Church has a long history of using its investment power to influence companies.

The Church's investment strategy is to invest in companies that are profitable, financially sound, and have a good track record. The Church also invests in companies that are socially responsible and have a good environmental record.

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Divine dividends

Shareholder values

Churches show profit is not the only investment motive

It is a Christian truism that one cannot serve both God and Mammon. One can, however, put the divergent interests of these two deities into relative alignment, as several faith groups' investment arms have demonstrated.

Last week, the Church Investors Group – which represents UK and Irish churches with nearly £13bn invested – voted against BP's annual report, its remuneration plan, and the re-election of the oil company's safety committee chairman. Meanwhile, the Church Commissioners, who manage £20m of Church of England investments, wrote to remind companies that they will vote against bonuses bigger than four times base salary.

How shareholders choose to vote is above all a private matter. Investors are free to tell the companies they own to pursue goals besides profit. One goal can be concern for safety and the environment, other

from faith-based and other motives.

Specifically, the commissioners are informing companies in which they hold a stake that they will not support any remuneration schemes where top managers would receive bonuses in excess of four times their base salary.

The Church declined to provide a list of companies whose pay exceeded the limit, but said some of those it had invested in were more than 400 per cent above the limit, including directors whose pay was more than 10 times their basic salary.

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## Remuneration

The main issue on which the National Investing Bodies do not back management in their voting is executive remuneration.

The EIAG is concerned about excessive increases in recent years in the amounts payable in short and long-term bonuses to the directors of major companies. The EIAG generally takes the view that if remuneration policies allow for executives to receive over four times their base pay in short and long term bonuses, then remuneration is excessive, and the company's remuneration report should usually be opposed.

Excessive remuneration is endemic at the UK's and US's biggest companies. The EIAG's stance recently received prominent coverage in the Financial Times, which published a supportive editorial.

## Policy advice



Images: iStock © Findlay Rankin

**T**he EIAG concluded early in 2011 its re-examination of ethical investment policy on alcohol. The Group's recommendations have been passed to the National Investing Bodies for consideration. As we indicated in our annual review last year, the EIAG favours a new approach which focuses on excluding from investment companies complicit in the misuse of alcohol.

We plan to publish a policy on high interest rate lending in the near future. If adopted this would extend the current policy, which bars

investment in doorstep lending companies, to cover companies involved in other forms of high interest rate lending, including payday and pawnbroker loans.

Work is underway developing a new policy on pornography, which will take account of the increasing ease of access via electronic media, for recommendation to the National Investing Bodies. In 2011/12, we also plan to start work reviewing existing policy on stem cell research and gambling.

### Alternative investments

The annual reports for 2010 of the Church Commissioners and Church of England Pensions Board reflect an increasing role for alternative investments that seek to improve portfolio diversification and generate returns regardless of whether stock markets are going up or down.

Many alternative strategies were pioneered by hedge funds but are now also offered by large fund managers for institutional clients like the Commissioners and Pensions Board.

The EIAG did a considerable amount of work in 2010/11 developing detailed ethical investment guidelines for the investing bodies for such

investments. These cover issues such as short selling, investment in commodities and transparency, in a 'traffic light' system indicating activities which must be avoided and activities which should give rise to careful due diligence.

This is a relatively new area for ethical and responsible investors. We shall continue to monitor research, participate in the UN Principles for Responsible Investment work-stream on hedge funds, and review our advice as appropriate. This is an important opportunity for the EIAG to shape debate on the ethics of investment and influence investment practice.

## Partnerships



The National Investing Bodies all participate in the work of the ecumenical Church Investors Group (CIG), and the EIAG Secretary sits on the Steering Group. The CIG has had an active year. Its leading role in investor engagement with BP on safety issues has been widely reported in the press and has drawn attention to the work that Church investors put into ethical investment.

The investing bodies participate in the global responsible investment initiative, the United Nations Principles for Responsible Investment (PRI), which they joined together in September 2010. The EIAG Secretariat draws on the PRI for ideas on responsible investment and responsible corporate practice, including on contentious issues like the exploitation of oil sands and the duty of business to respect human rights.

The EIAG Secretariat also accesses ideas and information on good practice from participation in the activities of UK Sustainable Investment and

Finance (UKSIF) and the Institutional Investors Group on Climate Change (IIGCC).

The IIGCC is playing an important role explaining to policy makers how national and international policy can encourage the allocation of investors' capital to the transition to a lower carbon economy. In February 2011 the IIGCC held discussions with the Presidents of the European Council, European Commission and European Parliament. A CCLA representative was one of the four investors at the breakfast with the President of the European Commission and his Energy and Climate Action Commissioners.

The Church Commissioners, Church of England Pensions Board and CCLA are all signatories to the Carbon Disclosure Project, the largest collaboration of investors in the world.

*Information on the work of the CIG can be found at [www.churchinvestorsgroup.org.uk](http://www.churchinvestorsgroup.org.uk).*

## Feedback

We welcome feedback on this annual review as well as queries from within the Church about ethical investment. Please contact [eiag@churchofengland.org](mailto:eiag@churchofengland.org).

## EIAG lunchtime Synod fringe, Sunday 10 July 2011

The EIAG holds a fringe meeting at each York Synod. This year's will take place at 1pm on 10 July. Synod members are warmly invited to attend.



# 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. They are represented on the EIAG by Gavin Oldham (non-executive member), the Rev Professor Richard Burrige (non-executive member), Andrew Brown (Secretary of the Church Commissioners), Mark Chaloner (Chief Investment Officer) and Joseph Cannon (Chief Surveyor).



**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 wholly owned by its church and not-for-profit clients. The CBF Funds are represented on the EIAG by trustee director, the Rev Edward Carter (non-executive member), and Michael Quicke (Chief Executive of CCLA).



**The Church of England Pensions Board** which administers pensions, housing, retirement home schemes and charitable funds in support of the retired clerical and lay ministry. The Board is represented on the EIAG by Pensions Board trustee Ian Clark (non-executive member) and Bernadette Kenny (Pensions Board Chief Executive).

The EIAG has representatives from other parts of the Church to provide broader expertise and insight.

The General Synod is represented by Jenny Humphreys (non-executive member).

The Mission and Public Affairs Council is represented by the Rt Rev Dr Lee Rayfield, Bishop of Swindon (non-executive member), and the Rev Dr Malcolm Brown (Director Mission and Public Affairs).

The Archbishops' Council is represented by Paul Boyd-Lee (non-executive member).

The Communications Office is represented by Louis Henderson.

The EIAG has three further non-executive members. There are two co-opted non-executive members: the Rev Canon Edmund Newell, Sub-Dean and a Canon of Christ Church Oxford, and Richard Harvey, Chairman of PZ Cussons Plc. The EIAG has an independent non-

executive Chairman, John Reynolds, who has over 20 years' experience in investment banking and holds a degree in theology. His term of office concludes at the end of 2011. He will be succeeded by James Featherby, a former partner of over 20 years' standing at one of the City's leading law firms.

Only non-executive members of the EIAG may vote at EIAG meetings.

The executive Secretary to the EIAG is Edward Mason and the Corporate Governance and Engagement Officer is Chris Anker. They can be contacted at:

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*The EIAG makes recommendations on ethical investment policy. The legal responsibility for managing the Church's investments rests with the investing bodies. These bodies all have a moral and legal responsibility (known as 'fiduciary duty') to further the interests of their beneficiaries. While mindful at all times of beneficiaries' need for financial returns, the investing bodies seek to align their investment policies with the ethics of the Church by acting on the recommendations of the EIAG.*

*The EIAG positively recommends investment in companies with responsible employment practices, best corporate governance practice, conscientiousness with regard to human rights, sustainable environmental practice and sensitivity towards the communities in which the business operates.*

*The EIAG recommends against investment in any company that produces pornography or manufactures indiscriminate weaponry. It recommends against investment in companies involved in conventional weapons if their strategic military supplies exceed 10% of turnover.*

*The EIAG recommends against investment in any company, a major part of whose business activity or focus (defined as more than 25% of group turnover) is tobacco, gambling, alcoholic drinks, doorstep lending or human embryonic cloning.*

[www.churchofengland.org/about-us/structure/eiag](http://www.churchofengland.org/about-us/structure/eiag)



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