



The Church Commissioners for England

Half Year Engagement, Screening and Voting Report

January – June 2017

Summary

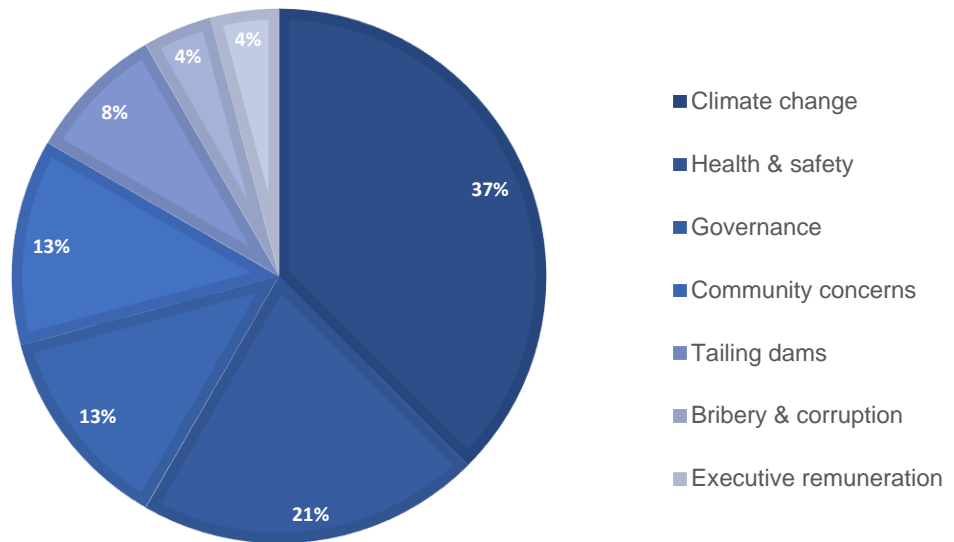
1. This report provides a half yearly update on the implementation of engagement, screening and voting in accordance with the ethical policies of the Church Commissioners. All three activities are undertaken by a dedicated Engagement Team. This Team serves both the Commissioners and the Church of England Pensions Board.

High Level Takeaways:

2. After a busy first two quarters the following are points of note:

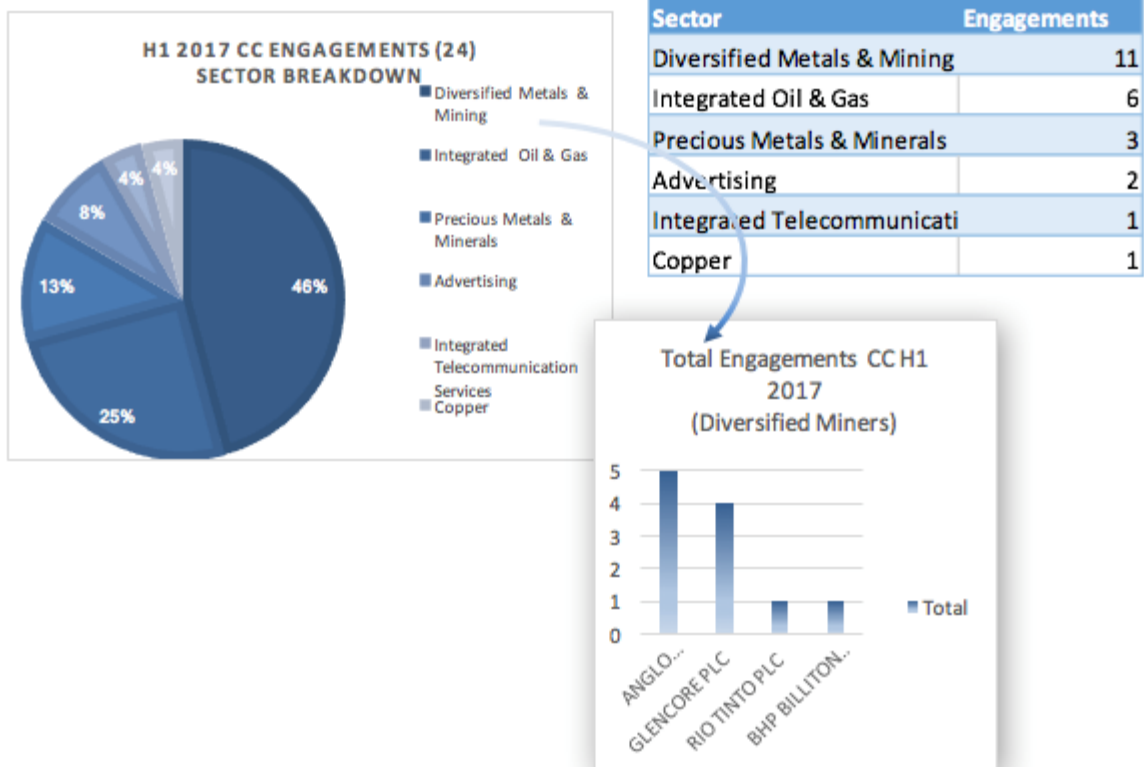
Strategic:

- i. **UNPRI Assessment:** The United Nations Principles for Responsible Investment (UNPRI) assessment of Engagement undertaken by the Commissioners has given the following ratings:
 - A+ in the category for individual and collaborative engagement
 - A+ for collaborative engagement
 - A for proxy voting.
- ii. **Engagement Strategy:** In accordance with the prioritisations previously agreed by the Commissioners and Pensions Board at the beginning of 2017 the Engagement Team have been working through each policy area to establish clear engagement goals, timeframes and robust independent indicators that can be used to assess transparently company progress and the success of each engagement. Over the past six months this has been a key part of the work of the Engagement Team and will enable Trustees to have a much clearer basis to assess the impact of our engagement work over the coming years. For example, on climate change it was necessary to establish the Transition Pathway Initiative (TPI) to have a tool that was academically robust and consistent with both our policy and the internationally agreed objectives of the UN process. TPI is the assessment upon which the Commissioners are now conducting engagement.
- iii. **Activity in Q1& Q2:** During the period the Engagement team held 24 face to face engagements on behalf of the Church Commissioners. The majority related to climate change issues. This was as a consequence of TPI, and as members of the Institutional Investors Group on Climate Change (IIGCC). The majority of issues related to emissions targets and linkages with the remuneration policies.



Sector focus

The majority of the engagement carried out during H1 2017 on behalf of the Church Commissioners was with companies in extractive industries. In particular, more than 10 meetings were organised with 4 companies as shown below.



Engagement:

- iv. **Climate:** The Transition Pathway Initiative (TPI) has been led by the NIBs with the Environment Agency Pension Fund and supported by partnerships with FTSE Russell and the London School of Economics Grantham Research Institute. It was launched at the London Stock Exchange and is now supported by funds with over **£4 trillion AUM**. TPI assessments of mining, electricity utilities and oil & gas have now been published with cement iron & steel to be released in Q3. The Initiative has been well received and attracted regular coverage in the Financial Times. One company assessed by the TPI noted this is a 'game changer of an intervention by the Church'. It is worth noting that from inception of the initiative to launch it took less than a year.

Fig 1 and Fig 2 detailed below show TPI assessments that will be used in support of engagement with companies. By 2020 the NIBs are requiring companies to be Level 4 on management quality and by 2020 on performance that they are aligned with as a minimum the Paris Pledges benchmark.

Figure 1 Management quality of the world's top 20 coal mining companies

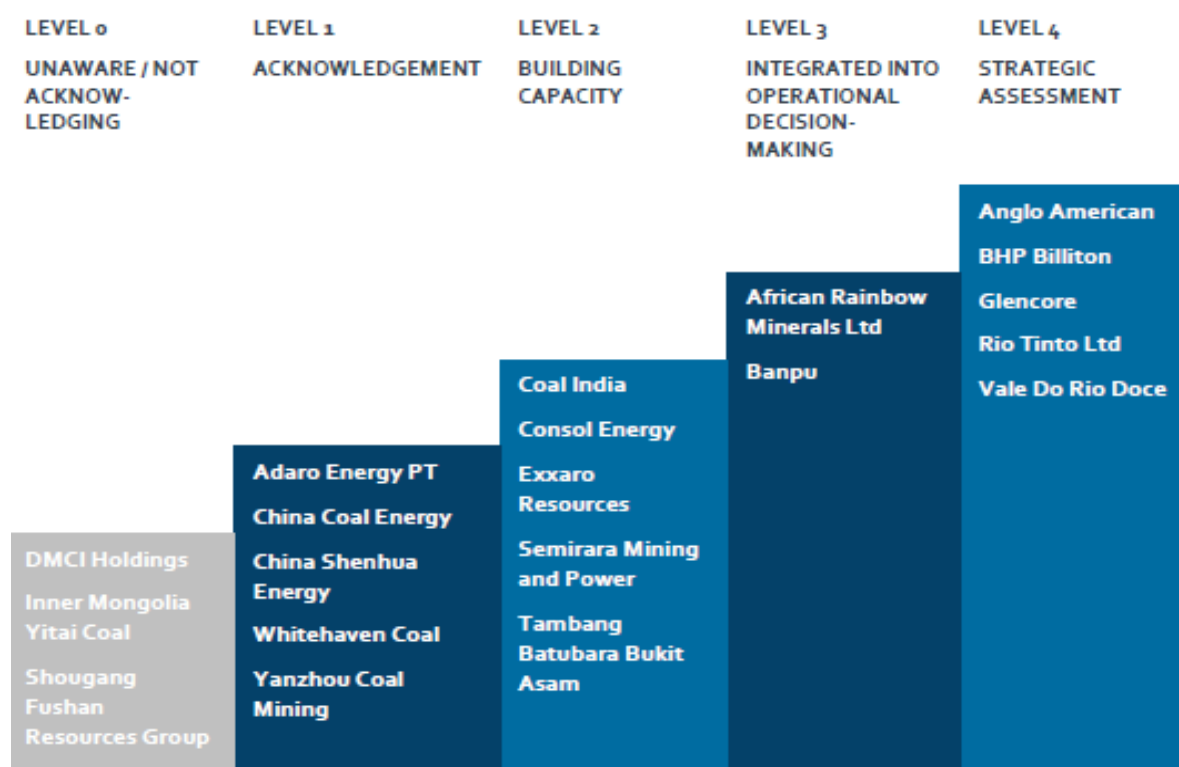
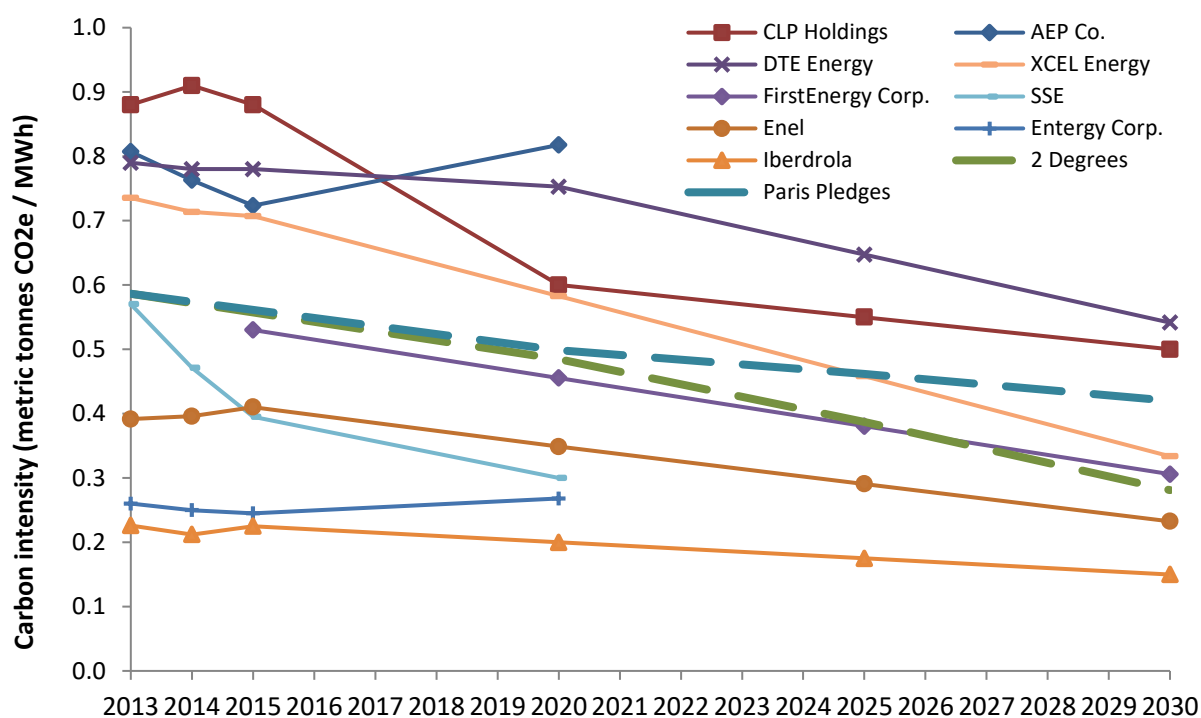


Fig.2 Emissions intensity paths for electricity utility companies with targets



v. **Climate (Disclosure):**

Policy: Climate Change Policy 2015
Companies in scope: 40 (representing top 20 mining and 20 O&G companies)
Objective: Disclosure to enable TPI performance assessment
Timeframe: 2017-2018
Data source: TPI Assessments by LSE
Type: Collaborative TPI engagement

Engagement is underway with the top 20 mining and top 20 oil & gas companies to seek further disclosure to ensure that the TPI performance assessment can be undertaken. In both sectors few companies make sufficient disclosure to enable LSE to undertake the necessary performance assessment (management quality assessments have been undertaken for both sectors).

vi. **Climate (Exxon):**

Policy: Climate Change Policy 2015
Companies in scope: 1
Objective: Disclosure by Exxon of a 2 degree scenario
Timeframe: 2017-2018
Date source: Individual company disclosure
Type: Collaborative engagement

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. 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.

vii. **Alcohol:**

Policy: Alcohol Policy 2011
Companies in scope: 31
Objective: Alignment with minimum standards on responsibility
Timeframe: 2017-2020
Type: Church Collaborative

Following extensive consultation with industry and health experts an updated set of NIBs alcohol responsibility standards have been developed that build on the first phase of engagement and will now assess currently restricted global alcohol producers. The Engagement Team are now rolling out Phase 2 as a collaborative engagement.

viii. **Corporate Tax:**

Policy: Corporate Tax Policy 2013
Companies in scope: 50 (with 2 companies as CC/PB lead). Initial sectors to be covered are ICT and healthcare with scope to increase in due course
Objective: Disclosure and reduction in aggressive tax practices
Timeframe: 2018-2020
Type: Collaborative through UNPRI

The Deputy Head of Engagement has been appointed to the UNPRI advisory committee on corporate tax. This will focus on tax disclosure and implement long standing commitments under the NIBs Corporate Tax Policy in collaboration with other investors.

ix. **Extractives:**

Policy: Statement Ethical Investment Policy 2017 Extractive Industries Policy (forthcoming)
Companies in scope: Once a new NIBs Extractives Policy is adopted a target group of companies will be identified based on the policy and the MFRI is intended to

Objective: continue as a complementary direct engagement with company CEOs
MFRI objectives under development
Extractives policy objectives will be individualised for each company based on annual assessment

Timeframe: 2017-2020

Subject to final agreement by the NIBs planning is underway by the Engagement Team for the implementation of the draft NIBs Extractives Policy that will provide a clear framework to govern individual engagements with extractive companies.

x. Corporate Governance:

Policy: Executive Remuneration Policy 2013 Statement of Ethical Investment Policy 2017, Climate Change Policy 2015

Companies in scope: FTSE350 companies

Objectives: Alignment with NIBs policies on executive remuneration and best corporate governance practice

Timeframe: Yearly

Type: Church specific (CC/PB)

This remains a high-level priority and is exercised through the application of our bespoke voting template with other Church Investors. A letter was sent to all FTSE 350 companies ahead of the 2017 voting season to highlight our updated voting policy and key areas of focus. For the first time this letter was also released to the media which resulted in considerable coverage including in the Guardian, the Financial Times and on BBC Radio 4 and BBC 5 Live.

Screening:

- xi. The ethical screens of the Commissioners are applied as follows:

Commissioners Policies converted into Ethical Screens	Revenue Threshold
Adult Entertainment	3%
Alcohol	5% UK only 25%
Civilian Firearms	10%
Climate Change (Thermal Coal/Oil Sands)	10%
Custom Defence	10%
Gambling	10%
High Interest Rate Lending	10%
Tobacco	10%
Human Embryonic Stem Cell Cloning	0%*

Voting:

- xii. **UK Stewardship Code:** In line with commitments under the UK Stewardship Code, the Commissioners publish on their website the votes cast at shareholder meetings which took place during the first half of 2017 (1 January – 30 June). The following table details the high-level assessment of the implementation of our bespoke voting template.

Votes for/against

ALL Resolutions	ISS Recommendations	Church Template Recommendations	Actual Votes
FOR	90.9%	80.5%	82.9%
AGAINST (includes WITHHOLD)	7.9%	13.5%	15.5%
ABSTAIN	0.3%	0.7%	0.7%
REFERS	n/a	4.4%	n/a
Other	0.9%	0.9%	0.9%

- xiii. The aggregate number of meetings voted during H1 2017 are expected to represent approximately 76% of meetings voted during the whole year. As a result the H2 2016 decision to discontinue the global passive mandate, the total number of meetings and proposals voted on during H1 2017 decreased by approximately 2/3 from the same period in 2016.
- xiv. Particular highlights from for Q1 and Q2:
- The Commissioners voted AGAINST 15% of management proposals, both for the UK and the Global market.
 - Votes that were referred for consideration: (Management proposals only) UK: 197 Refers (4% of total). This resulted in Abstaining on 2%; voting Against in 35.6% and voting For in 62.4%. Globally there were 48 referrals (0.8% of total). We then Abstained in 2.1% and voted against 29.2% and For in 68.7%.
 - Discretion was used 74 times to deviate from standard voting outcome under the CIG Template.
 - We supported the “Follow This” resolution on climate change at Shell along with major Dutch Asset Owners. It received 6.3% of support which increased considerably on the previous year.

Voting Report: Detailed Report

The report is split into two parts (A and B) covering respectively the *UK*¹ and *Rest of the World* (with the exclusion of share blocking markets)².

Advice was prepared and voting enacted by the Commissioners' and Pensions Board's specialist proxy voting firm ISS Europe Ltd ("ISS") in line with an agreed bespoke policy template. Whilst the majority of votes cast were as generated under the approach set out in the template, on occasion discretion was exercised to cast a different vote. Discretion is applied whenever the vote generated under the template does not align with the Church Commissioners' ethical investment objectives. In these instances, the explicit consent of investment staff is first obtained before votes are cast in alignment with the agreed procedures.

All voting activity was overseen by the joint Church Commissioners and Pensions Board Engagement Team, principally by the Voting & Screening Manager.

The tables in this report have been augmented with arrows to reflect changes from the report in the same period in 2016. Where there is no arrow there is no change or the change is immaterial.

¹ Including companies domiciled in similar markets: these are Bermuda, Guernsey, Jersey and the Isle of Man.

² Shareblocking (and equivalent provisions) can either arise as part of established market practice or through requirements introduced by custodians operating within particular markets, meaning that voted shares must be held until after a particular future date. Markets in which the Commissioners' voting practice has been affected by this or similar provisions in the period include Italy, Norway, Switzerland and Germany.

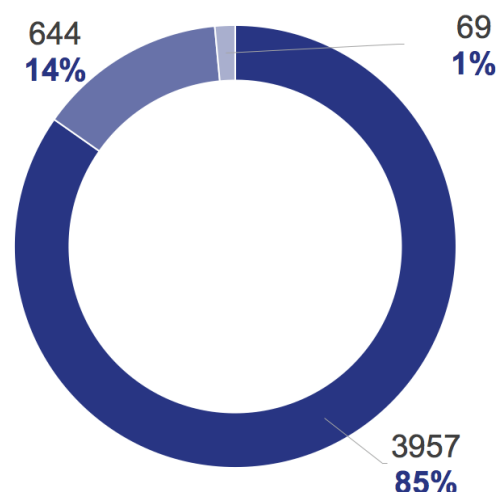
CONVERTING COMMISSIONERS' ETHICAL POLICIES INTO VOTES

EXECUTIVE REMUNERATION POLICY	Excessiveness of executive pay; Fairness of pay compared to pay at below-executive level; Use of non-financial criteria in the determination of incentives; Long-term balance of the incentive framework; Breaches of local good practice	VOTE: Against remuneration report / policy or incentive schemes
STATEMENT OF ETHICAL INVESTMENT POLICY	Board Composition and Independence	VOTE: Against re-election of non-independent directors when the Board independence is not in line with local good practice.
STATEMENT OF ETHICAL INVESTMENT POLICY	Board Diversity	VOTE: Against Chair of Nomination Committee when Board female balance is below 25%
STATEMENT OF ETHICAL INVESTMENT POLICY	External Auditor Independence Length of Tenure; Size of non-audit fees; Other concerns over independence of external or internal audit	VOTE: Against the Re-election of director: Chair of the Audit Committee when conditions in the policy are met. REFER: Re-election of all audit committee members if conditions in the policy are met.
CLIMATE CHANGE POLICY	Lack of disclosure against CDP assessment. (this will be translated into TPI based assessments in coming years)	ABSTAIN the Report and Accounts where the Church Investors Group considers a FTSE350 constituent company to be a CDP laggard
EXECUTIVE REMUNERATION POLICY	Living Wage (UK only)	AGAINST FTSE 100 constituent in either the Financial Services or Pharmaceuticals sector where the company is not a Living Wage accredited employer or met Church CIG's engagement standard

Voting Overview – UK

Management Resolutions

The percentage of votes aligned with our voting advisor remains high at 87%. There has been a slight increase in the number of times the CIG Template vote outcomes differed from ISS standard vote recommendation. This can be explained by the fact that H1 2017 saw the second round of remuneration policies, which is a type of proposal where we typically vote differently from ISS.



Breakdown of aggregate votes on UK general meetings

Alignment with ISS Policy and Church Investors Group (CIG) Voting Template

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	3934 ↑	110	17	87.0 ↓
Template instructions differed from ISS	0	508	51	12 ↑
Template overridden / ISS advice overruled	23 ↑	26	1	1 ↓
Number of meetings voted during the period				282 ↓
Number of companies holding meetings (including investment trusts)				253 ↓

Shareholder Resolutions

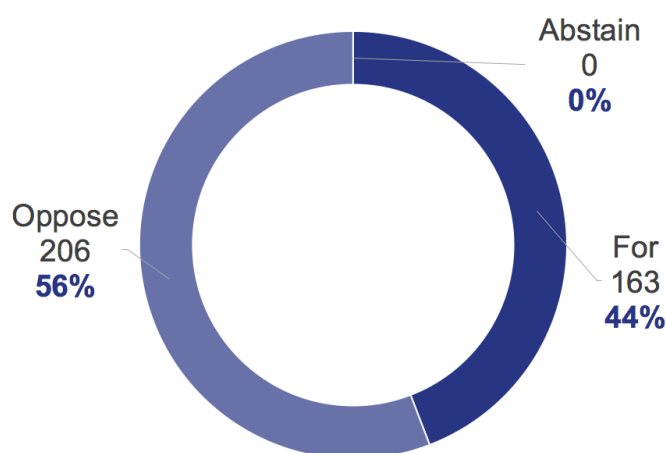
Resolution type	For	Oppose	Abstain	Total
Shareholder	1	0	0	1 ↓

Typically, the UK has a much smaller number of shareholder proposals compared to other markets such as the US. This is partly explained by the fact that in the UK it is harder to file shareholder proposals (for example, UK Companies law requires a 5% ownership threshold as oppose to a 1% ownership threshold required by the SEC for US listed companies) and partly by the fact that UK institutional investors tend to prefer engaging privately with companies rather than filing proposals.

Remuneration – UK

Remuneration-related resolutions

Remuneration related resolutions include advisory votes on the remuneration report and for many this year a binding vote on the remuneration policy. While the vote on the remuneration policy would normally assess the framework for executive remuneration, votes on remuneration reports concern the application of the policy for the year under review. Our votes take into consideration any specific circumstance applicable to the year under review, such as the grant of exceptional bonuses (“golden handshakes”/” parachutes”) or the use of discretion used in determining the grant of bonuses or termination payments.



Alignment with ISS Policy and Church Investors Group (CIG) Voting Template³

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	150	36	0	50.4
Template instructions differed from ISS	0	159	0	43.1
Template overridden / ISS advice overruled	13	11	0	6.5

In H1 2017 the Church Commissioners have increased their support for UK remuneration from 40% (in the same period 2016) to 44% votes in favour. This is a likely consequence of an increased emphasis on executive remuneration within the ISS standard advice as well as a modest increase in uptake of best practice in executive remuneration.

³ Votes reflect the voting policy laid out in our policy on executive remuneration, available at: <https://www.churchofengland.org/media/1717796/executive%20remuneration%20policy%20april%202013.pdf>

Following the 2016 'Shareholder Spring'

After the series of significant votes against executive remuneration at major UK AGMs in 2016 (the 'second shareholder spring') investors looked at the 2017 proxy season with anticipation. Those companies which saw their executive remuneration packages defeated (BP, Smith & Nephew and Reckitt Benckiser) or which experienced significant shareholder opposition (Anglo American, Shire, SVG Group, Tullow Oil) were expected to respond to shareholder concerns. 2017 was also the second round of approval for the remuneration policies through binding votes, which for UK companies normally occurs every three years.

BP Remuneration progress and Investor reaction over the last 3 years

Year	Net Income (USD millions)	TSR %	CEO pay (single figure) (USD millions)	Remuneration report dissent level
2014	3,780	-16.63	11.557	11.3%
2015	-6,482	-13.30	19.376	59.3%
2016	115	30.38	15.963	3.0%

However, despite the progress made, many of the remuneration frameworks voted on by the Church Commissioners were not considered to be in line with the CIG Template. The Church Commissioners voted against the majority of the UK remuneration reports and policies. However, the percentage of votes against is on a downward trend, which is hoped indicates a slow but steady movement by UK companies to better practice.

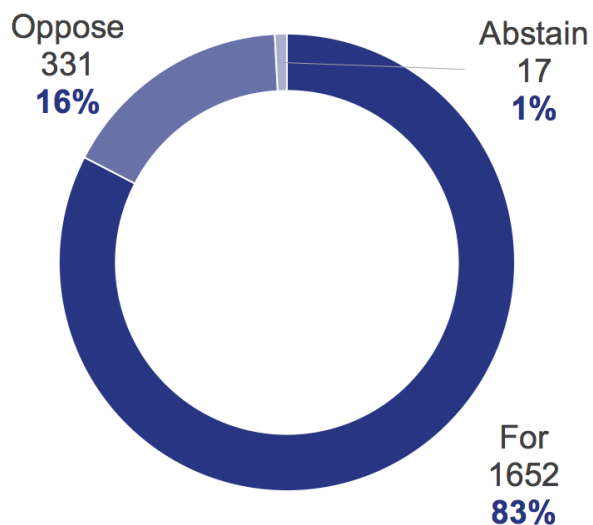
UK Remuneration and Climate Change

In 2017 the Church Commissioners further refined their assessment of UK remuneration also taking into account climate change risk and support for the transition to a low carbon economy. The CIG template requires that all companies include non-financial criteria in their executive remuneration frameworks. The Church Commissioners made the requirement more specifically linked to climate change risks and opportunities by looking at how remuneration packages are aligned to an effective transition to a low carbon economy.

Directors – UK

Director Related Resolutions

Director related resolutions cover the election and re-election of directors as well as the chair and members of various committees. The Church Commissioners, assess independence and Board composition in looking at the elements of nomination of Board members.



Breakdown of aggregate votes on UK Directors elections

Alignment with ISS Policy and CIG Voting Template

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	1643	47	15	85.25
Template instructions differed from ISS	0	269	1	13.5
Template overridden / ISS advice overruled	9	15	1	1.25

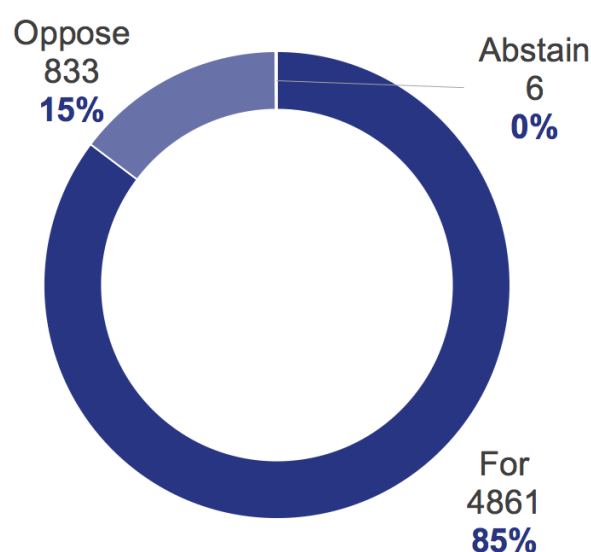
Votes on directors' election for H1 2017 are in line with H1 2016.

Voting Overview – Global

Management Resolutions

It is worth noting the substantial decrease (70%) in the absolute number of resolutions and meetings voted. This is due to the discontinuation of the global passive mandate during H2 2016.

In the UK the average resolutions per meeting was over 16, in the global context, the average ratio is around 11. This can be explained by the lower number of resolutions in regions such as Japan and Korea. The number of resolutions does not necessarily link with good practice in a region, but reduces the level of scrutiny and voice investors may use to engage with their investee companies



Breakdown of aggregate votes on global general meetings

Alignment with ISS Policy and CIG Voting Template

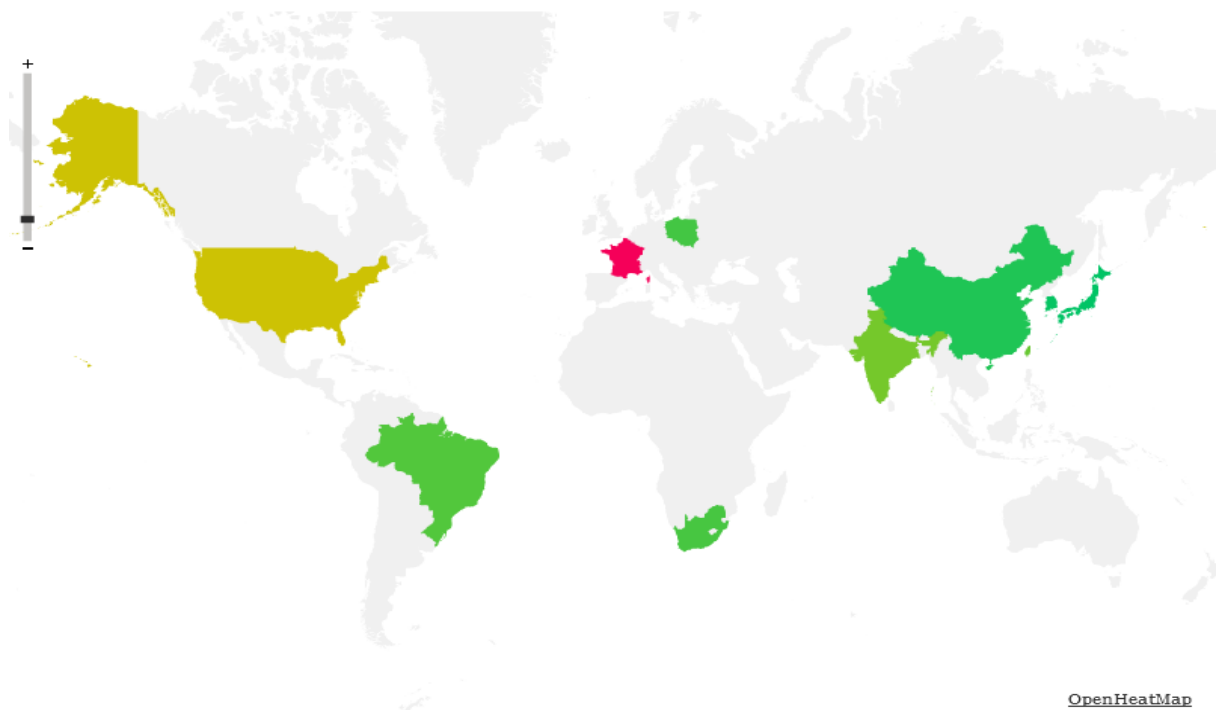
	For	Oppose	Abstain	Withhold	% of Total
Template instructions same as ISS	4847	551	3	17	94.3 ↑
Template instructions differed from ISS	0	273	3	26	5.3 ↓
Template overridden / ISS advice overruled	14 ↑	9	0	1	0.4 ↓
Number of meetings voted during the period				524	
Number of companies holding meetings (including investment trusts)				467	

The volume of meetings and proposals voted during H1 2017 represent a significant decrease from the same period in 2016, as a result of the decision to discontinue the global passive mandate.

Management Proposals: breakdown by country

Top 10 countries by number of meetings covered

The map below identifies the level of votes against management during the period. As shown, France had the largest proportion of votes AGAINST at nearly 68.6% of management resolutions.



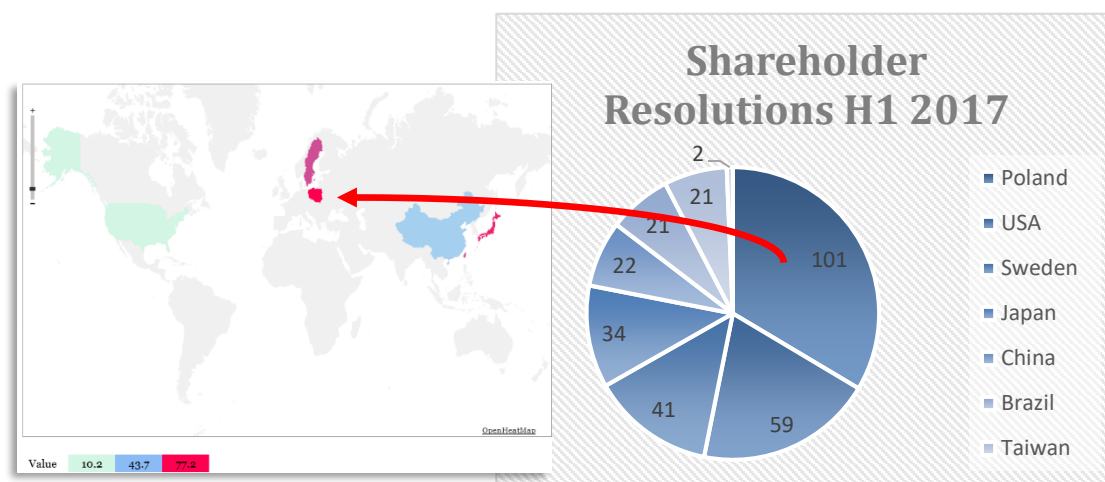
Against 3.46 17.4 31.4

Shareholder Resolutions

Resolution type	For	Oppose	Abstain	Withhold	Total
Shareholder	140	157	7	0	301 ↓

Breakdown by Country: (most representative markets)

The graph below indicates that the country with the largest number of filed shareholder resolutions is Poland, followed by the USA. A breakdown of these figures is shown below.



Shareholder Proposals in H1 2017: Geographical assessment, and ESG examples:

The US is traditionally the most active and representative market for shareholder proposals and this was again the case during H1 2017. The majority of the shareholder proposals in the US covered by the Church Commissioners were governance-themed, covering issues such as proxy access, reporting on gender pay gap and reporting on political lobbying.

Climate Change proposals were amongst the most recurrent in the US and the most frequent amongst environmentally-themed shareholder proposals. H1 2017 also marked a milestone when the shareholder proposal, co-filed by the Church Commissioners, asking Exxon to report on climate change policies was approved with the support of 62.1% of the votes cast. The co-filers of the proposal, which alongside the Church Commissioners included the New York State Common Retirement Fund, asked Exxon to annually assess the long-term impacts of public climate change policies, particularly those policies aimed at reaching the globally agreed reduction of emissions to constrain future temperature increases to no more than 2 degree Celsius. This follows an intense engagement process led by the Church Commissioners.

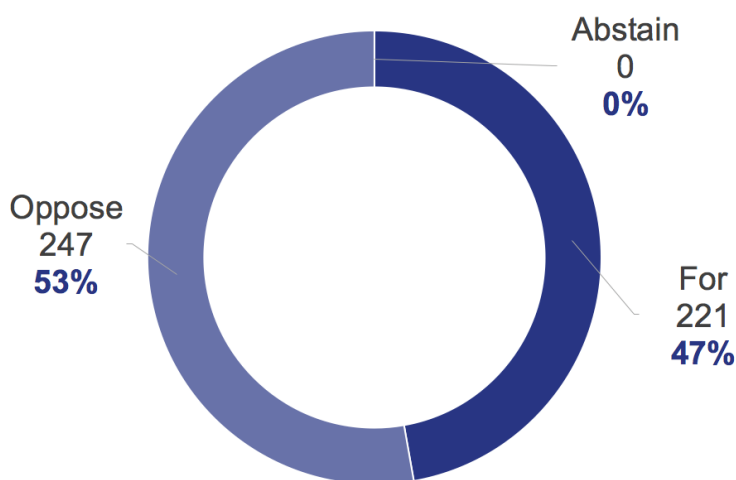
USA Climate Change Resolutions Successes:

2017 represented a turning point for Climate Change shareholder resolutions in the USA.

Starting with Occidental Petroleum (which received 68% of shareholder support), Chevron (whose disclosure satisfied the co-fillers to withdraw the proposal) and the substantial support to the Church Commissioners co-filed Exxon resolution.

Remuneration - Global

The figures provided below represent a holistic view of voting on a range of compensation issues and reflect proposals such as: remuneration policies; remuneration reports; long and short-term incentive plans for executives and/or employees; remuneration for directors and certain other specified individuals; retirement benefits and severance packages; advisory votes on executive compensation (also known as “Say on Pay”); and requests for authority to issue stock to employees.



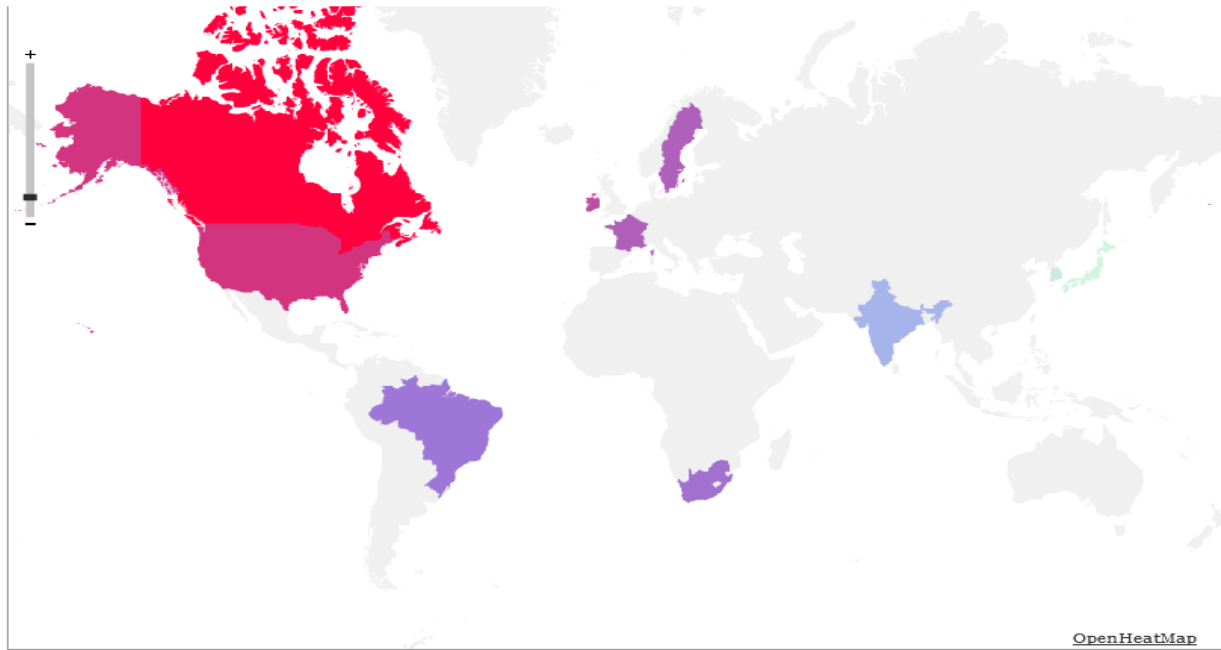
Breakdown of aggregate votes on global remuneration

Alignment with ISS Policy and CIG Voting Template

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	1643	47	15	85.25
Template instructions differed from ISS	0	269	1	13.5
Template overridden / ISS advice overruled	9	15	1	1.25

Remuneration Proposals-Breakdown by Country (top 10 countries by number of meetings covered)

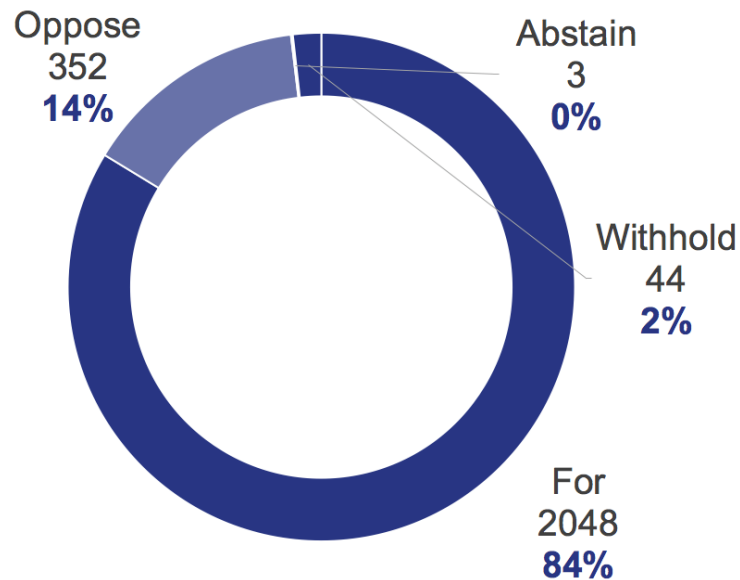
As the map below shows Canada was the country where the Church Commissioners vote more frequently against Remuneration proposals.



Remuneration Proposals Against 4.00 43.7 83.3

Directors – Global

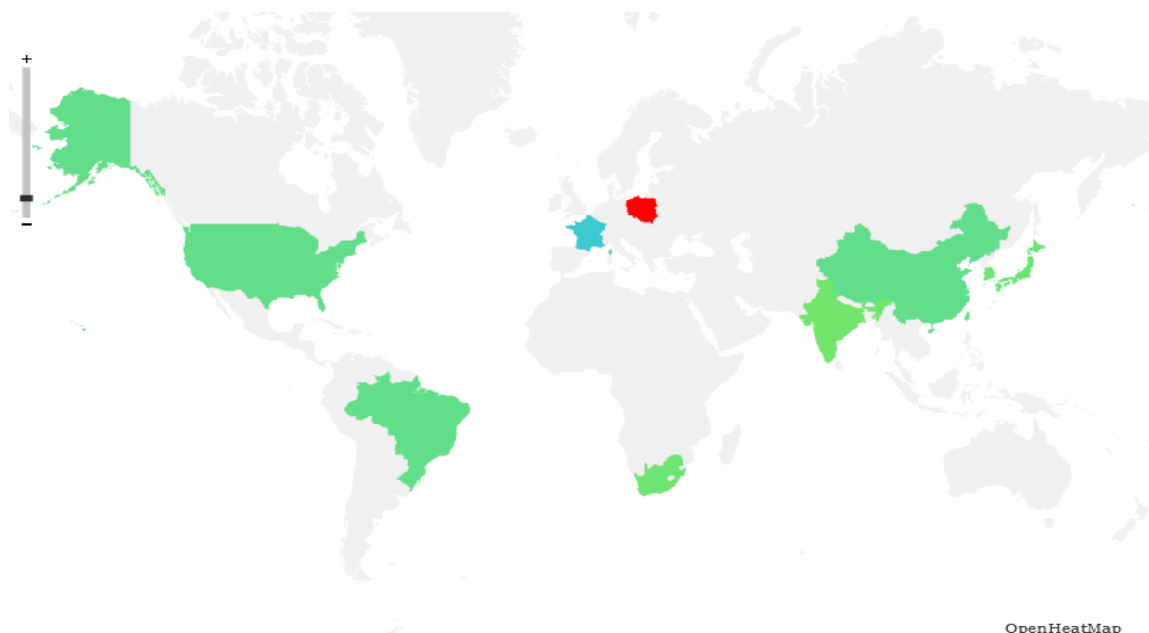
Election of Directors



Remuneration Proposals-Breakdown by Country

Top 10 countries by number of meetings covered

The map below indicates a markedly difference in support for remuneration proposals with a 100% rejection of proposals in Poland and 100% support in India.



Directors Vote Against 0.00 50.0 100

Global Directors' Elections Outlook

Most of the markets show vote outcomes on directors' elections in line with the general trend. One notable exception is Poland where the Church Commissioners voted AGAINST all of the elections of directors given the lack of sufficient disclosure on the candidates provided in advance of annual meetings. On the other hand, Japan sees votes FOR, for almost of all directors standing for elections. This is a result of local voting guidelines which the Church Commissioners apply to the Japanese market.

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