

Church of England Ethical Investment Advisory Group

Business and Engagement policy

July 2017

(a) Business

Be careful then how you live, not as unwise people but as wise, making the most of the time, because the days are evil (Ephesians 5.15-16).

1. The view of business of the EIAG and National Investing Bodies (NIBs) is informed by theology.
2. Business has a significant role to play in realising the potential of individuals and improving the society we live in; it can be a vehicle for human flourishing and contribution to the common good. Business can be a context in which humanity shares in the purposes of God, striving to bring about the presence of the Kingdom of Heaven on earth. In particular, it can provide a context in which humanity can share in the imaginative, creative, caring and sharing purposes of God. The EIAG and NIBs take a positive view of the potential of business. The NIBs look to public companies to provide a substantial proportion of their investment returns.
3. There are, however, some businesses which do not serve God's purposes. Our ethical investment practice involves seeking to exclude such businesses from investment.
4. But there is also a wider ambiguity about business, like all human activities. In part this is due to the sinfulness that affects all human activities. It is also the case that competition, the free market, regulation and prevailing culture do not always produce just or righteous outcomes. In short, while business has the capacity to strengthen connections with the Kingdom of Heaven, like all human institutions, including churches, it also has the capacity to loosen them; indeed often the strengthening and loosening in practice appear to be deeply tangled together.
5. The NIBs acknowledge the ambiguity of business when they invest in business assets such as equities, corporate bonds and commercial property. It is for this reason that the other main plank of the Church's ethical investment practice – engagement – has been more and more of a focus for the Church of England's ethical investment activity in recent years. In this context, engagement refers to engagement directly with business, engagement with public policy initiatives, and co-operation with other investors.
6. It is through engagement that the EIAG and NIBs seek the Kingdom of Heaven on earth by encouraging those purposes, values and behaviours that promote human

flourishing and the common good, and where appropriate by holding business to account. We believe that these purposes, values and behaviours - an ethical approach to business - can and should over time also support enduring business success in the market, and thereby produce the best returns for the beneficiaries of the NIBs' funds. Engagement is thus a way in which the NIBs fulfil their fiduciary responsibilities to beneficiaries.

(b) Engagement

Conduct yourselves wisely towards outsiders, making the most of the time. Let your speech always be gracious, seasoned with salt, so that you may know how you ought to answer everyone (Colossians 4.5-6).

'You are the light of the world. A city built on a hill cannot be hidden. No one after lighting a lamp puts it under the bushel basket, but on the lampstand, and it gives light to all in the house. In the same way, let your light shine before others, so that they may see your good works and give glory to your Father in heaven' (Matthew 5.14-16).

Engagement and voting programmes

7. It is a responsibility of the NIBs to determine the amount of time and expense that they wish to devote to engagement, including ethical engagement, and voting; stewardship entails a short-term cost, even if resulting in long-term benefits.
8. The Church Commissioners and Church of England Pensions Board will each year develop engagement and voting plans for Trustee approval. These plans will be shared with the EIAG. The plans will include scope for intense engagement when unexpected issues emerge. All engagement activities are subject to oversight by the NIB Trustees.
9. Care will be taken to co-ordinate engagement priorities and work with the Ethical & Responsible Investment team of CCLA Investment Management who conduct engagement and voting for the CBF Church of England Funds.

The purpose of engagement

10. Ethical engagement should support the investment objectives of the NIBs, and serve as 'salt and light' to encourage the companies in which the NIBs invest to have business objectives that serve the common good and to conduct their operations in a manner consonant with Christian ethics.
11. The EIAG takes the view that conducting business in an ethical manner contributes to the wellbeing of companies, their employees, all other stakeholders and broader

society, in financial, manufactured, human, intellectual, natural and social capital terms. For investors such as the NIBs, with long-term perspectives, these factors are interdependent, interconnected and mutually supportive. Wherever possible, commercial and ethical engagement should therefore be combined, including by involving asset managers.

12. The EIAG recognises that the benefits of ethical business may emerge in the longer rather than shorter term. For example, refusing to pay bribes may cause immediate difficulties for a company, but is likely to create more beneficial conditions for the long term conduct of business. Engagement will indicate to companies that they have shareholders who support their taking a long-term, principled approach.
13. The connection of the NIBs to the Church adds weight to their engagement activity and they should set ambitious objectives for it. At the same time, the NIBs realise that they will only be one shareholder voice among many and that the boards of companies in which they invest will want to be cognisant of the views of all shareholders. In any event, the NIBs recognise that, in many situations, achieving momentum in a positive direction will be the realistic, and worthwhile, target outcome of engagement. It is not the expectation of the NIBs that ‘ethical perfection’ will be achieved in our partnerships with other human institutions and ventures this side of the eschaton.

The prioritisation of engagement

14. Engagement will normally be conducted with companies in which the NIBs are invested, but not exclusively; engagement also will be required with excluded companies when reviewing ethical investment policies or implementing new ones. Engagement may also be required in support of the assessment by the NIBs of possible new investments.
15. The primary focus of engagement relating to ethical concerns should be those issues of greatest concern from a Christian perspective, and the primary focus of outcomes sought should be those consonant with a Christian perspective on business, the NIBs’ status as investors and the Church of England’s public role as the established church.
16. Accordingly, the issues on which ethical engagement should focus should primarily be guided by the ethical policies of the NIBs, representing as they do in broad terms the ethical concerns of the EIAG, General Synod, the Mission and Public Affairs Council, and the NIBs’ beneficiaries. These issues include:
 - conscientiousness with regard to human rights
 - sensitivity towards the communities in which business operates
 - responsible employment practices
 - sustainable environmental practice

- fair treatment of customers and suppliers
 - best corporate governance practice.
17. Although the concerns of the Church of England are to take precedence, the significant value of working with both church investors from other denominations (including through the Church Investors Group) and mainstream asset owners/managers is recognised. While engagement collaboration can enhance and amplify the voice of the Church (via the NIBs) on important ethical issues, it should, however, be entered into in the knowledge that it can involve an element of compromise.
18. Engagement will be reflective of the NIBs' position as institutional investors with fiduciary responsibilities to generate financial returns for beneficiaries; while civil society campaigns are important, they are often not entirely consistent with the priorities of institutional investors and their beneficiaries.

Engagement style

19. Engagement should wherever possible be positive, supportive, patient and creative. It should not be judgemental and should rarely be confrontational, although at times it may need to be firm.
20. Due to the large number of holdings across the NIBs, the geographical distribution of those companies and the potential for relatively small holdings sizes (in e.g. tracker mandates), it may not be practical or effective to engage with every company about which concerns exist.
21. Where ethical concerns arise with a company, in the first instance a commitment to improve relevant corporate values and behaviours should normally be sought from the company's senior management as a means to reinforce trust between the company and the NIBs. If appropriate, support and advice may be offered as the company seeks to develop a more substantive response. It is helpful to set clear objectives for engagement and then to assess progress against those objectives.
22. Experience indicates that confidential engagement by investors is often more effective than public dialogue. However, if sufficient progress is not being made in private, the NIBs may decide in exceptional cases that public escalation is required. Options include making public statements, speaking at company general meetings and filing shareholder resolutions.

Public policy engagement

23. Where ethical problems are linked more to the structure of a business sector, the way the economy functions or the regulatory framework (rather than to the actions of individual companies), it may be appropriate to pursue these concerns publicly,

including through the publication of specific industry reports, contributing to public consultations or through engagement with public policy debates.

Intensive engagement

24. Where unexpected and severe ethical concerns arise with a company it may be appropriate to move to a more intensive crisis engagement.
25. Intensive engagement should normally involve directors of the company, and senior NIB executives. It should seek specific, measurable, achievable, reasonable and timely progress by the company against agreed objectives. It is recognised that when in crisis, companies need sufficient time to investigate and decide how best to respond and that this time may be longer than that suggested by the popular media.
26. If private engagement does not achieve satisfactory results, escalation will be required (e.g. making public statements, speaking at company general meetings and filing shareholder resolutions). If sufficient progress is still not made within the timescale decided by the NIBs, disinvestment may be considered if the NIBs consider it is no longer appropriate on ethical grounds for the NIBs to be invested in the company. The NIBs may choose to seek advice from the EIAG on particular ethical issues during such a process.
27. The NIBs remain free to disinvest from any company at any time for any reason (consistent with their legal and fiduciary responsibilities), and while engagement is preferable before any decision to disinvest on ethical grounds, this may not be practical.
28. Companies subjected to disinvestment will be kept under review to assess whether the disinvestment recommendation can be withdrawn.

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