Our approach to engagement with companies

Applying our Ethical Investment Policies and Stewardship Responsibilities
Supporting Ethical Investment

The Church Commissioners and Pensions Board aim to be at the forefront of responsible and ethical investment.

Both funds operate within their respective charitable and pension fund legal frameworks. They owe certain fiduciary and other duties to their beneficiaries and seek to meet these through a distinctly Christian and Anglican approach to investment. The Ethical Investment Advisory Group (EIAG) supports this approach, providing advice to the Trustee Committees of the Commissioners and Pensions Board.

The Church Commissioners and Pensions Board are also signatories to the United Nations Principles for Responsible Investment, and the UK Stewardship Code – which encourages institutional investors to act as good stewards of their equity investments through active ownership, including monitoring, engaging and voting.

Stewardship is matched by ethical and responsible investment practices which reflect and support the Church’s wider responsibilities to society and the common good.

Justin Welby, Archbishop of Canterbury

Our coordinated approach to policy, engagement, voting and screening, as well as our willingness to partner with others to achieve positive change, helps us realise our ambition to be at the forefront of ethical and responsible investment.

Loretta Minghella, First Church Estates Commissioner

The Church of England offers “a Christian presence in every community”, and this includes the investment community. The Pensions Board is pleased to not only adopt robust ethical investment policies, but also to see real action through its engagement and collaborative interventions such as the Transition Pathway Initiative.

Justin Welby, Archbishop of Canterbury

Dr Jonathan Spencer, Chairman, Church of England Pensions Board

The Church of England National Investing Bodies on the issue of climate change, including policies, associated investments, interventions/engagement and other significant events.

1986
CofE Board of Social Responsibility releases ‘Our responsibility for the living planet’

1990
IPCC and Second World Climate Conference call for Global Treaty

1997
UN Kyoto Climate Agreement

Nov 2004
Environmental Statement published by Ethical Investment Advisory Group (EIAG) – a policy framework adopted by the National Investing Bodies

2002
Carbon Disclosure Project (CDP) launched

Feb 2005
Kyoto Protocol comes into force

1989
Intergovernmental Panel on Climate Change (IPCC) established

1994
United Nations Framework Convention on Climate Change (UNFCCC) comes into force (196 signatory countries)

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Kyoto Protocol comes into force

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Why engaging with companies is important

Engagement with companies by the Commissioners and Pensions Board is important because:

- Challenges corporate practices that are inconsistent with the mission, values and values of the Church;
- Encourages genuine and positive change in company behaviour, as well as within key sectors;
- Improves responsible investing for all investors and makes collaborations around areas such as climate change, extractives and responsible alcohol production;
- Through our conduct, we can influence the thinking and actions of others, e.g. investee companies, peer investors and others in the financial markets. Ultimately, this helps shape a market that better serves the interests of the Common Good.

We will:

- Engage robustly and often at a Board-level;
- Use our votes at AGMs;
- Collaborate with other faith and non-faith investors;
- Withhold our capital (divest) from those companies whose conduct is perceived by our engagement to be inconsistent with our mission, witness and values of the Church;
- Engage robustly and often at a Board-level;
- Use our votes at AGMs;
- Collaborate with other faith and non-faith investors;
- Withhold our capital (divest) from those companies whose conduct is perceived by our engagement to be inconsistent with our mission, witness and values of the Church.

Engagement, voting, public statements and exclusions/divestments are all tools that are deployed in the interests of positive change.

Engagements are typically based on indicators that have been developed to track and monitor company performance. For example, we have taken a lead in the development of the Transition Pathway Initiative (TPI), which has been developed with the Grantham Research Institute at the London School of Economics. The set of indicators track companies’ alignment to 2 degrees climate change scenarios.

The Commissioners and Pensions Board believe active ownership and engagement can drive positive change in corporate behaviour. How we seek change through engagement

Engagements are typically based on indicators that have been developed to track and monitor company performance. For example, we have taken a lead in the development of the Transition Pathway Initiative (TPI), which has been developed with the Grantham Research Institute at the London School of Economics. The set of indicators track companies’ alignment to 2 degrees climate change scenarios.

Nine Ethical Investment Policies set out the NIBs position and approach on key policy issues. They are available publicly on the EIAG web pages.

Climate change

Dec 2014

BP and Shell climate resolutions backed by Commissioners and Pensions Board. BP and Shell resolutions on climate change passed with 98% support.

2015

May 2015

Commissioners and Pensions Board launch new Climate Change policy.

2015

Jun/Jul 2015

Mercer publishes ‘Investing in a Time of Climate Change’ report, developed both the input of the NIBs.

2015

Jun/Jul 2015

EIAG paper ‘Climate Change: the Importance of Effective Global Climate Change Agreement’ published. President has been cut with companies on ethical grounds.

2013

COLA launches ‘Wiring for A Climate Secure Cities’ and ‘Sustainable Urban Development’ and ‘Generation 100’ campaigns.

2008

Commissioners invest £150 million with sustainability specialists Generation Investment Management, targeted at large UK-listed carbon emitters.

2006

Principles for Responsible Investment (PRI) developed, co-founded by Al Gore as a project of the Pew Charitable Trusts, partnered by UN – outlining investment implications of ESG issues.

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Commissions launch £150 million with sustainability specialists Generation Investment Management, targeted at large UK-listed carbon emitters.

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The Engagement Team

In 2016, a dedicated Engagement Team was established by the Commissioners and Pensions Board to lead work with companies on a range of ethical issues.

The Team’s responsibilities are:

- Analysing investee companies and developing tools to track company performance against our engagement priorities;
- Engaging with companies against our ethical policies;
- Engaging with companies (often in collaboration with other investors);
- Voting at, on average, 2,500 company meetings annually;
- Building collaborations with other Church investors – e.g. through the Church Investors Group or other non-Church investors; through the United Nations backed Principles for Responsible Investment and the Transition Pathway Initiative.

The Team also works closely with CCLA, on behalf of CBF Church of England Funds, on various engagement topics, such as alcohol and climate change. Engagement alignment and collaboration is sought across the three National Investing Bodies and we are also active members and sit on the steering board of the Church Investors Group (CIG). CIG brings together Church investors with over £71 billion in Assets Under Management and support important engagements on issues such as Modern Day Slavery and Water.

The engagement undertaken by the Church Commissioners and Pensions Board on Corporate Tax is on behalf of the CIG.

Ethical exclusions

The Commissioners and Pensions Board do not want to profit directly from, or provide capital to, activities materially inconsistent with Christian values and are mindful of the danger of undermining the credibility, effectiveness and unity of the Church’s witness, were they to do so. As a result, a range of investment exclusions is maintained.

Each quarter, the Engagement Team oversees an assessment of 9,000 companies against our ethical policies. Following this assessment, the Commissioners and Pensions Board issue a ‘restricted list’ to our investment managers.

Example of companies excluded in 2017

<table>
<thead>
<tr>
<th>Screen category</th>
<th>Companies screened</th>
<th>% of total exclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gambling</td>
<td>96</td>
<td>22.2%</td>
</tr>
<tr>
<td>Defence</td>
<td>92</td>
<td>23.1%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>51</td>
<td>14.4%</td>
</tr>
<tr>
<td>Climate Change</td>
<td>41</td>
<td>11.6%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>31</td>
<td>8.8%</td>
</tr>
<tr>
<td>Special</td>
<td>22</td>
<td>5.7%</td>
</tr>
<tr>
<td>High Interest Rate Lending/Predatory Lending</td>
<td>13</td>
<td>3.7%</td>
</tr>
<tr>
<td>Alcohol &amp; Tobacco</td>
<td>6</td>
<td>1.7%</td>
</tr>
<tr>
<td>Adult Entertainment &amp; Alcohol</td>
<td>1</td>
<td>0.3%</td>
</tr>
<tr>
<td>Alcohol &amp; Gambling</td>
<td>1</td>
<td>0.3%</td>
</tr>
<tr>
<td>Human Embryo/stem Cell Cloning</td>
<td>1</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Total companies excluded: 353

Periodically, the Commissioners and Pensions Board file shareholder resolutions on important issues, submit reports on the performance of their investment managers, publish guidance for companies and may be involved in litigation. Each year the Engagement Team presents an overview of the previous year’s engagement activity.

2016

- Construction completed on first commercial solar farm on Church Commissioners’ rural estate (Carlisle)
- Construction completed on first commercial solar farm on Church Commissioners’ rural estate (Gwent)
- Exxon shareholder resolution passed, following Church intervention
- Commissioned contractor to complete 38% support
- Commissioned contractor to complete second commercial solar farm on Church Commissioners’ rural estate (Gwent)

2017

- Construction completed on second commercial solar farm on Church Commissioners’ rural estate (Gwent)
Vote AGAINST the Chair of the Nominations Committee when Board female balance is below 33% and AGAINST the whole Board of Directors when Board independence is not in line with local good practices.

Vote AGAINST the Chair of the Nominations Committee when Board remuneration packages for the Chair of the Audit Committee when an auditor has over 10 years in length of service.

Vote AGAINST the re-election of non-independent non-executive Directors when Board independence is below 33% and AGAINST the whole Nominations Committee when below 25%.

Vote AGAINST the Chair of the Audit Committee when an auditor has not in line with local good practices.

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Mobilising asset owners to respond to climate change through the Transition Pathway Initiative (TPI)

TPI was launched in January 2017 at the London Stock Exchange, and is an asset owner-led global initiative supported by funds with over £5 trillion/$7.1 trillion in Assets Under Management. It identifies companies’ preparedness for the transition to the low carbon economy, supporting asset owner efforts to address climate change.

Co-Chaired by the Church of England Pensions Board and Church Commissioners with the Government Agency Pension Fund, the TPI was created following publication of our Climate Change policy and a General Synod Resolution in 2015. A transparent and academically-robust tracking tool was needed with which to guide engagement, inform voting and assess the risk of exposure to transition.

Over 25 asset owners globally already support the TPI, committing to use it in a range of ways – including: informing investor research, supporting engagement and tracking managers’ holdings. Sector reports on steel, cement, coal, oil and gas, electric utilities, autos and paper have been published, and are available free on the TPI website; further sectors will be profiled soon.

www.transitionpathwayinitiative.org

Engagement Team

I applaud the TPI and its founding members. It represents yet another, potentially powerful way of aligning real-world global investments with the urgency of meeting the goals of the Paris Climate Change Agreement.

Patricia Espinosa, Executive Secretary, UN Climate Convention (UNFCCC)

Feb 2018

Exxon publish additional disclosure assessing impact of 2 degrees on their business in response to shareholder resolution

Feb 2018

Pensions Board invests $100m in a sustainable equity portfolio to be managed by Generation, a firm co-founded by Al Gore

Jan 2018

Commissioners and Pensions Board announce they will vote against the Chairs of companies that are assessed by TPI at level 0 or 1.

Dec 2017

Exxon announces it will implement Church Commissioners’ climate change shareholder resolution.

Dec 2017

Pensions Board commits to infrastructure investments (50% or at least 20% of which is expected to be in renewable and clean energy projects)

Feb 2018

Pensions Board invests $100m in a sustainable equity portfolio to be managed by Generation, a firm co-founded by Al Gore

Feb 2018

Release of TPI report on Autos, with Top 20 companies assessed against 2°C

Mar 2018

Pensions Board files a shareholder resolution on climate lobbying at Rio Tinto Limited, Australia with Swedish and Australian Pension Funds

Dec 2017

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