

Ethical Investment Advisory Group



About Us

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



The Church Commissioners for England, who support the work and mission of the Church of England across the country.



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



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

Chair's Letter



+David Walker (Manchester)
Acting Chair of the EIAG



It gives me great pleasure to report on the Ethical Investment Advisory Group's (EIAG) activities over 2017/2018. We have had a busy period, continuing to provide ethical and theological advice to the National Investing Bodies (NIBs).

Over the 12 months of this report, the EIAG and NIBs have published the Extractives Policy, the result of a substantial piece of work; (the short Policy document and executive summary of the EIAG's advice is included in this Review); we have published an updated 'Business and Engagement' policy; recommended a Tobacco Policy to the NIBs (which codifies exclusionary practice that has been in place since the 1960s); advised the NIBs on policy implementation in relation to an infrastructure fund, and conducted an extensive review of the EIAG in order to enhance its contribution to the burgeoning interest and capacity the NIBs are developing in this important field.

This report focuses on the review of the EIAG, which will shape its future direction, and which has involved a retrospective look at the Group's history. Over the last 12 months Bernadette Kenny (RIP), Dr Jonathan Spencer and the EIAG Secretariat have supported me to take account of the views of a wide range of stakeholders, research the history and origins of the EIAG and evolve our approach to ethical investment advice. The result is a very promising development. The NIBs are continuing to take increased 'ownership' of and responsibility for the details of their ethical investment policy and its implementation, while at the same time enhancing and recognising the value in

expert, independent ethical advice. All of this will enhance the NIBs' ability to fulfil their mission and responsibilities within the most appropriate ethical and authentically Christian framework. Our preparatory work led to the development of a set of "Principles and Proposed Changes". Following careful consideration and consultation we are delighted that these have now been adopted by the Trustee Bodies and are being put into practice.

I would like to extend my profound thanks to three members who have served the EIAG over many years with outstanding skill, knowledge and wisdom. In October 2017 The Revd Canon Professor Richard Burridge stood down in after 9 years membership, Loretta Minghella stood down as the Mission and Public Affairs appointee on her appointment as First Church Estates Commissioner, and Mr James Featherby concluded 6 years as Chair of the EIAG.

Richard has been involved in ethical investment in the Church of England since before the formation of the EIAG – in debates in General Synod over Apartheid in South Africa, and his contribution has been very significant. Along with substantial Theological contributions he has been a firm and consistent advocate for the central place of Theology in the work of the EIAG.

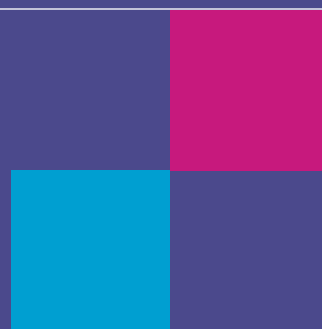
Loretta has also been a key member of the EIAG, and has had a significant impact over the years. She made notable contributions to our Extractives Policy and Advice, and our Tax policy, and we look forward to continuing to work with her on ethical investment as she moves to chair the Assets Committee of the Church Commissioners in her role as First Church Estates Commissioner.

During James' 6 year tenure as Chair of the EIAG, we have helped the NIBs publish or update 12 of our 18 ethical investment policies, notably including the NIBs' Climate Change Policy, which has led to the Transition Pathway Initiative. While the EIAG conducted engagement, James was involved in a range of company engagements. Some of which, after sustained dialogue, resulted in high profile disinvestments (News Corporation and SOCO International). Overall, James has been a champion of the NIBs' increasing attention to and capacity for ethical/responsible investment.

Finally, I would like to pay tribute to Bernadette Kenny, who passed away suddenly in October 2017. She will be greatly and deeply missed, for the thoughtful and caring manner in which she led the Pensions Board and worked with colleagues across the Church of England. Our thoughts and prayers are with her family. The Pensions Board under her leadership has hosted the EIAG secretariat, and Bernadette took a lead on behalf of the Church Investing Bodies on the Review of the EIAG, out of which the new structure (below) has been developed.

+David Walker (Manchester)

Guiding Principles and Changes to the EIAG



Changes to the EIAG

1. The proposal below introduces seven shared principles that will guide the work of the EIAG, and makes three significant changes:
 - Significantly increases the independence of the EIAG in terms of its membership with a higher number of independent members than NIB members.
 - Creates a Nominations Committee to select independent members which will enable the EIAG to follow best practice on appointments (e.g. diversity, appointments based on merit etc.).
 - Separates the responsibility for producing ethical Advice (to be provided by the EIAG) and the responsibility to produce an Investment Policy in response to that Advice (in future to be provided by the NIBs).

Shared Principles

2. The following principles are proposed to help guide the future work of the EIAG in developing ethical investment Advice for the three Church of England National Investing Bodies (NIBs). The Advice of the EIAG should be:

i. Theologically Grounded

The EIAG has provided the forum where the valuable and foundational task of applying distinctively Christian and Anglican theology to financial stewardship is undertaken. The NIBs are committed to their policies being grounded in this Christian, theologically informed ethos.

ii. Mission and Witness

The NIBs recognise their responsibility to be a voice in the public realm. 'Mission and Witness' points towards the power of the NIBs to demonstrate a Christian 'prophetic voice' in their various contexts (i.e. as a charitable endowment; as a pension fund; and as a set of Anglican funds that have a majority stake in an investment manager - CCLA). This marks them out from other institutional investors and asset owners.

iii. Relationship with the Wider Church and Outside World

The EIAG enjoys a well-respected position, and has a role in gaining the confidence and trust of General Synod and other Church Stakeholders. The Church, through the NIBs and with the support of the EIAG, has an important role in building partnerships on ethical investment, capitalising on shared concern and catalysing action and thinking such as we have seen with the Church Investors Group and the Transition Pathway Initiative.

iv. Transparency

The NIBs recognise the importance and value of transparency, and engage with companies they invest in so as to encourage greater disclosure. There can be circumstances where there are good reasons not to disclose particular details that may require some confidentiality to be maintained. The presumption will be in favour of transparency in the publication of the Advice of the EIAG.

v. Practically Grounded

The EIAG provides Advice that is to be used by the NIBs as investors, and as such it recognises their respective legal frameworks, duties and investment objectives. The EIAG's Advice is also intended to support alignment, where appropriate, between the three NIBs.

vi. Active Responsibility for Ethics

The NIBs are and should be the 'active owners' of ethics in investment. Indeed, ethics cannot be outsourced, and responsibility lies with the trustees of the National Investing Bodies.

vii. Challenge/Independence

Bearing in mind the agreement on active responsibility for ethics above, there remains a significant role for independence or challenge. This independence may be characterised as a 'critical friendship', or one that acknowledges the possibility for tensions between 'fiduciary duty' and 'mission and witness'. From agenda setting to horizon scanning, the independence and integrity of the EIAG's future work will continue to be valued by the NIBs, and will be fundamental to its credibility.

Structure

3. Proposed Structural Changes

i. There is a tension between encouraging further involvement at the trustee and senior decision-making level on the one hand, and maintaining a small and effective group on the other. **We propose that each NIB appoints one of their trustees to the EIAG (this may be the Chair of the relevant committee). Each NIB may appoint an alternate if the expected trustee is unavailable for any meeting. A senior executive of each NIB and the Director of Mission and Public Affairs may also attend (but not vote) in order to ensure accurate communication between the EIAG, the NIBs, and MPA.**

ii. In addition to these 3 NIB trustee members, **a nominations committee will be formed to select an independent or episcopal Chair and five non-NIB representatives, by open competition. Terms of Reference for the nominations committee will be agreed by the Archbishop of Canterbury (as the Chair of the Commissioners and Archbishops' Council), the Chair of the Pensions Board and the Chair of the CBF Church of England Funds. The nominations will be made on the basis of merit, and with a view to committee diversity and balance.**

iii. **The nominations committee will be chaired by the Chair of the EIAG. General Synod and the Archbishops' Council will have the right to appoint a representative to sit on the nominations committee. Each NIB will also appoint a member, and in the case of a tied vote, the Chair shall have a deciding or second vote. The Appointments Committee of General Synod and the Archbishops Council will be consulted to identify Synod members and others with the relevant skills and interests, whose names will be considered alongside others as part of the competitive recruitment process for the independent members of the EIAG.**

iv. **One member of the EIAG shall be a Bishop, and at least one member shall be a member of General Synod. If there are no Episcopal appointees, one shall be co-opted on the recommendation of the House of Bishops.**

v. **There will be a reduction in the number of attendees at EIAG meetings. This will be a smaller meeting which is consistent with best practice (from approx. 20 attendees down to 13/14 (including the presence of the EIAG secretariat, one senior NIB executive for each NIB, and the Director of Mission and Public Affairs (ex-officio)).**

vi. **Terms of membership shall remain unchanged, with a maximum term of 3 years with the possibility of two renewals.**

vii. **Now that engagement is no longer undertaken by the EIAG, the minimum number of meetings a year will be reduced from three to two, with scope for additional meetings to be called by the NIBs or the Chair of the EIAG in response to urgent business or issue specific work. We expect the current level of 4 meetings a year to continue for the immediate future.**

viii. **These arrangements and the work of the EIAG will be reviewed every 3-5 years.**

Working arrangements

4. Proposed Changes in Working Arrangements

i. The EIAG's agenda will prioritise matters for consideration and is likely to be dominated by direct requests from the NIBs for Advice. The agenda setting process will include a capacity to respond to events/current affairs, and members' initiative. It will also include an element of 'horizon scanning'. Feedback on the EIAG's workplan will be encouraged by:

- a.** An Annual Workplan that will be agreed with NIB trustees.
- b.** Additional topics that arise during the year will be discussed with the NIB executives.

ii. The EIAG will produce Advice and the NIBs will then produce a Draft Policy responding to the Advice. The EIAG will then be invited to critique the Policy to ensure that, if the Advice is accepted, the Policy reflects it. The aim must be to reach consensus on both Advice and Policy, but the EIAG should draft and 'own' its own Advice and the NIBs should draft and 'own' their own Policy, which wherever possible should align across the 3 NIBs.

iii. The NIBs will together agree terms of reference for the EIAG which will be submitted and approved by each Trustee Body, which will replace the current EIAG constitution.

iv. The EIAG will have a greater commissioning role in relation to research, developing expert reference groups on specific topics, and on the theological and ethical dimension of their work. The NIBs will provide an appropriate budget to facilitate this. As with recent outputs, the EIAG's outputs will not be restricted to short policy documents, but may involve formats that serve the NIBs and wider Church in other ways.

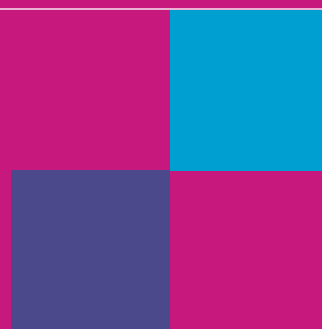
v. The EIAG will continue to be supported by a dedicated secretariat, who will also work closely with NIB executive officers and staff. Line management will continue to fall to a lead NIB CEO, and work priorities will be determined by the Group.

vi. The EIAG will continue to report annually on its activities, and will offer fringe meetings and annual Synod reporting alongside the NIBs.

vii. The EIAG will be funded at a level to ensure the highest quality of research and Advice. It will undertake a major stock take and horizon scanning exercise every 3-5 years. There may be potential risks and potential policy gaps. These could arise from novel ethical concerns (e.g. Artificial Intelligence), changes in investment practices, vehicles or priorities (e.g. decreased equity holdings, greater priority on other asset classes), changing views among the NIBs' beneficiaries or changes in the wider ethical landscape (e.g. understandings of fiduciary duty, 'long termism', or changes in attitudes around of acceptable risk, such as the threshold levels of current policies, which changed last in 2014).

viii. As well as participating in the EIAG, each NIB will give consideration (on an annual basis and as per best practice) to the balance of skills and leadership on ethical matters within their trustee committees.

Extractives Policy and Executive Summary



The Extractive Industries Policy of the National Investing Bodies

Upon the advice of the Ethical Investment Advisory Group (EIAG) and noting the EIAG's Extractive

Industries Policy Paper and Theological and Biblical Reflections, the Church of England National Investing

Bodies (NIBs) have decided to adopt the following policy set out in sections 1-5 below:

1. Policy Ambition

The Church of England National Investing Bodies (NIBs) aspire to be at the forefront of institutional investors' approaches to responsible and ethical investment, and are committed to considering carefully the ethical and environmental, social and governance (ESG) aspects of extractive industries. Extractive industries play a number of positive roles in society; providing key resources, and contributing to societal wealth and wellbeing. In common with the wider Church, the NIBs have an interest in, and commitment to, encouraging extractive industries to benefit society and the common good.

2. Policy Rationale

The key ethical concerns in extractive industries are not to be found in extraction as such, nor generally in the product of extraction¹, but in matters of business conduct including the management of risk, the side effects of operation and operating standards. The key areas that this policy aims to address are responsibility, corporate governance, and five broad areas under which there are 'ethical risks': human rights; social concerns; health and safety; corruption and taxation; environment and ecology.

1. This policy complements and extends the NIBs' Climate Change Policy (2015), in which the NIBs raised concerns over carbon intensive extraction. The NIBs continue to seek appropriate action on climate change from the companies in which they invest, and have implemented an investment exclusion relating to the most carbon intensive fossil fuels.

While the NIBs believe that good practice is growing, the NIBs acknowledge that extractive sectors are particularly vulnerable to poor governance and ethical controversy, and that harmful impacts in this sector can be profound and long lasting on communities and the environment.

3. Policy Approach

As investors in the extractive industries, the NIBs will pay close attention to ethical and ESG issues, seeking, primarily through engagement, to improve company performance and contribute towards making the sector more sustainable and responsible. As a last resort, and on a case by case basis, the NIBs may disinvest from companies where engagement is rebuffed or is clearly not leading to progress. There is a vital role for 'enlightened' public policy and a positive vision of what extraction can contribute. The NIBs recognise that this is a long term approach and one that requires the NIBs to play a constructive role through partnership and discussion with other investors, business, government, directly-affected communities and wider civil society. This policy:

- a. Provides a basis for alignment and a coherent approach between the three NIBs, guided by Christian and Anglican theological reflection,
- b. Promotes engagement as the principal and most effective means by which the NIBs can address ethical concerns and monitor individual company performance in this sector,

- c. Underlines the importance of 'knowing your company' across all of the NIBs' extractive holdings, and particularly in support of effective and time-scaled engagement,
- d. Acknowledges that it may be onerous to engage meaningfully with a 'long tail' of investments that are generated through certain investment vehicles such as 'tracker funds'. These engagements are not likely to be effective given the relatively small size of some holdings. With these considerations in mind, the NIBs may decide to take steps to limit their exposure to small holdings in extractives companies because of the ethical risk they may display.
- e. Acknowledges the need to prioritise how the NIBs engage and,
- f. Where necessary, and as a last resort, supports disinvestment from and exclusion of companies that are unresponsive, would require a disproportionate level of engagement and/ or pose too great an ethical risk to warrant continued engagement/ investment.

The NIBs believe that it is prudent to use third party research and data, alongside the results of any engagement activity to evaluate ESG risks and ethical controversies in extractive industries. Where poor governance is found alongside other high ethical and ESG risks, and a judgment is made that engagement would be ineffective, those companies may, at the discretion of trustees, be placed on the NIBs' restricted list.

The Extractive Industries Policy of the National Investing Bodies

In ethical as well as financial matters, past performance does not guarantee future performance, so effective monitoring is important. The NIBs will keep under review their exposure to ethical risk in extractive industries, and will review and report annually on this approach and progress seen via engagement. The assessment of ethical risk will be used to inform clear engagement objectives.

4. Corporate Engagement

The NIBs will identify, understand and engage on the basis of ethical concerns as they relate to companies in which the NIBs hold investments. The NIBs will seek to go beyond standard ESG methodology in establishing communications at the board level, engaging to prompt and encourage improved performance, remedy where appropriate, and the prevention of future harm. In carefully considered instances, ongoing investment in companies showing particular room for improvement may afford the opportunity for engagement that helps to raise standards across the sector as a whole.

The NIBs expect engagements to fall under the following headings, and have identified further areas (outlined below, and see EIAG's advisory note for further detail) in which the NIBs will play a role as Church investors:

Human Rights; e.g. forced displacement, indigenous/community rights

Social and economic concerns;

e.g. labour standards, community engagement, fair pay, and the right to collective representation. In some instances, the timing and speed of extraction ought not to be determined entirely by market forces, due to the risk of adverse effects such as the 'Resource Curse'.

Health and safety; e.g. workplace and community impacts

Corruption and taxation; e.g. corrupt payments, tax transparency

Environment and ecology; e.g. toxic/nontoxic waste, water

Complementing these more comprehensive categories, the NIBs wish to note a particular focus on Joint Ventures (and similar corporate structures), protected areas, and extractive infrastructure such as tailings dams. The NIBs welcome the detailed consideration and guidance the EIAG has provided in sections 16 to 40 of their advisory note. These more specific concerns raise issues of responsibility and governance. They have emerged from the policy development process as issues that are worthy of further attention by the NIBs.

Given the nature of the extractive industries and tendency for issues to emerge unexpectedly, the NIBs will continue to monitor instances of human rights violations, major health and safety breaches, environmental disasters and other matters of concern. In such instances the NIBs will undertake intensive engagement.

5. Policy Engagement

The NIBs are committed to going beyond an approach that only avoids the negative (such as human rights compliance), and will encourage the extractive sector as a whole to play a positive, constructive role in improving its impact on society and the common good. Good economic management aligned with strong ethical standards of operation can go hand in hand with increased and enhanced long term economic sustainability.

The NIBs will continue to support high level dialogues with extractive companies through relevant initiatives such as the Mining and Faith Reflections Initiative, working towards a vision of good mining that articulates corporate purposes that serve the common good.

The NIBs will engage with public policy, where appropriate, in order to support initiatives and proposals consistent with this policy, because good business needs to be supported by effective legislation and sound economic policy. We note in particular the UN Guiding Principles on Business and Human Rights, and their relevance across extractive industries.

EIAG Advisory Note Summary

1 Humankind has a divinely mandated responsibility for the physical world, for its creatures and for one another, especially the weakest and least. While 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. How we translate this understanding to the extractive industries imposes a special obligation on companies and on us as investors. This policy considers the extraction of minerals, metals, oil and gas, and closely associated industry² and how we can best respond.

2 Extractive industries provide material for many of the products used in modern daily life, jobs for many millions of people around the world, vital revenue for some of the poorest countries in the global south. They therefore constitute a very important set of sectors. However, extractive industries can be vulnerable to poor governance, ethical controversy, and stand to have profound and long term impacts on communities and the environment. The EIAG’s recommendations, guided by theological reflection, seek a way to ‘do good and avoid evil’, in encouraging investors, companies and the extractives industry more widely and carefully to consider the positive and negative impacts on people and the environment.

3 The EIAG, drawing on theological reflection (see Christian Ethics and Extractive Industries: Theological Reflections below), consider there to be no in-principle objection to extraction as such. There is a clear need for wisdom, as the products of extraction can be used for good or ill. Non-renewable resources must be extracted for the long term benefit of humanity, and however difficult it is to measure and promote the Common Good, it deserves to be at the core of an ethical approach to extraction. This policy acknowledges that as an investor in extractive industries there is a substantial responsibility on the National Investing Bodies of the Church of England to play an engaged role to drive further change within the sectors. Particular focus should be given to maintain respect for human rights, health and safety, ecological and

other fundamental business standards. “Moral responsibility includes a shared responsibility for evils committed by others from which one may oneself profit” (Christian Ethics and Extractive Industries, paragraph 47)

4 After a process of theological reflection, expert input, open consultation and site visits, the EIAG have identified a series of key topics under which we believe the National Investing Bodies have particular responsibilities to act as good stewards of the monies they hold on behalf of their beneficiaries and/or the wider church:

- Responsibility; (as key to ensuring consistent high standards)
- Corporate Governance (as the mechanism to effect change and monitor progress)
- And five areas where concern with extractive operations are common:
 - Human Rights; e.g. forced displacement, indigenous/ community rights
 - Social and economic concerns; e.g. labour standards, community engagement, fair pay and the right to collective organisation, the Resource Curse
 - Health and safety; e.g. workplace and community impacts
 - Corruption and taxation; e.g. corrupt payments, tax transparency
 - Environment and ecology e.g. toxic/ non-toxic waste, water

5 The EIAG expects the NIBs to show a willingness to identify unsatisfactory performers and companies unable or unwilling to uphold high standards and to assess whether dialogue and engagement with those companies may produce a positive outcome in terms of improved standards. Failure to do so may result in disinvestment.

6 This policy complements the EIAG’s Climate Change policy (2015), which addressed the impact of the most carbon intensive extraction. This is being implemented through an extensive engagement program and the exclusion from the NIBs portfolios of businesses that focus on thermal coal and oil sands.

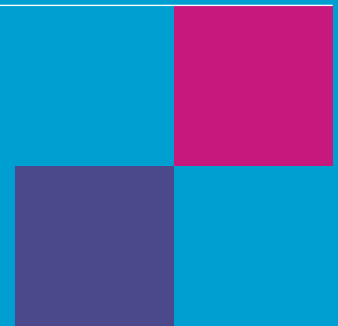
7 It may be onerous to engage meaningfully with a ‘long tail’ of investments that are generated through certain investment vehicles such as ‘tracker funds’. These engagements are not likely to be effective given the relatively small size of some holdings. With these considerations in mind, the NIBs may decide to take steps to limit their exposure to small holdings in extractives companies because of the ethical risk associated with them. Due to different investment strategies and appetites for investment risk the NIBs may implement this in different ways. They will be united, however, in their approach to ethical considerations, and will jointly develop their list of restricted stock, take part in the annual review of holdings and report on ethical risk, and will take a shared approach to engagement with companies including when egregious cases and controversies emerge.

8 We are proposing an industry led approach to addressing the many and various serious challenges that these sectors face, supported by investors and civil society more broadly (including faith communities). If there is insufficient response from the industries, then the concerns highlighted below are and should be a matter for public policy (along with investor advocacy and NGO campaigning) in the country of listing.

2. Downstream industry (e.g. steelmaking) and the use of extracted products (e.g. power generation) are not in scope.



EIAG Members & Non-Voting Executive Membership



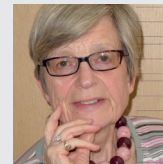
EIAG Members (2017/2018)



Mr James Featherby
Chair, Bible Society
and former Partner
of Slaughter and May
Chair to October 2017



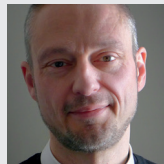
Rt Revd Dr David Walker
Bishop of Manchester
Church Commissioners
Appointee, Acting Chair
from October 2017



Mrs April Alexander
General Synod
Representative



Mr Alan Fletcher
Pensions Board
Appointee



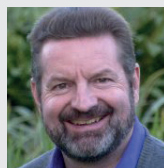
Revd Canon Edward Carter
Canon Theologian at
Chelmsford Cathedral
CBF Church of England
Funds Appointee



Revd Canon Professor Richard Burrige FKC
Dean of King's College
London
Member to
October 2017



Ms Loretta Minghella OBE
CEO, Christian Aid
Mission & Public Affairs
Council Appointee
Member until
October 2017



Revd Dr Ian Paul
Archbishops' Council
Representative



Ms Elizabeth Haigh
Rathbone Greenbank
Investments
Co-opted Member

Non-voting Executive Membership



Dr Jonathan Spencer
Chair and acting CEO
Church of England
Pensions Board



Mr Andrew Brown
Secretary / CEO
Church Commissioners
for England



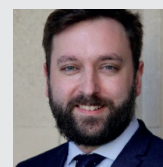
Mr Michael Quicke OBE
CEO
CCLA Investment
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Revd Dr Malcolm Brown
Director, Mission
and Public Affairs
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Mr Adam Matthews
Secretary, Ethical
Investment
Advisory Group
Church of England
to June 2018



Stephen Barrie
Acting Secretary
of the Ethical
Investment
Advisory Group
from June 2018



Adam Matthews
Secretary of the
Ethical Investment
Advisory Group
to June 2018



Stephen Barrie
Acting Secretary
of the Ethical
Investment
Advisory Group
from June 2018

Front cover

An open pit mine

Feedback

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

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