



## Church Commissioners for England

### Stewardship Code Statement

#### **Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

The Church Commissioners are ethical investors. The way we invest and steward our investments forms an integral part of the Church of England's witness and mission.

We partner with the two other Church of England National Investing Bodies (the Church of England Pensions Board and the CBF Church of England Funds) to fund the work of the Church of England Ethical Investment Advisory Group and its Secretariat ('the EIAG'). The EIAG advises us on ethical investment policy.

We are members of the ecumenical Church Investors Group (CIG), one of whose purposes is to encourage responsible business practices through engagement with company managements.

We are signatories to the UN-backed Principles for Responsible Investment (PRI). Through participation in this initiative we have pledged to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes and to be active owners.

We do not manage our investments in UK-listed companies in house. Investments in UK-listed companies are made on our behalf by external asset managers. Our investments in UK-listed companies are made by active (stock picking) managers or through passive (index tracking) mandates.

Discharge of our stewardship responsibilities is led by our Responsible Investment team whose role incorporates all aspects of ethical and responsible investment, including ethical screening, engagement and voting.

We discharge our stewardship responsibilities in the following ways:

- We contract with research providers to monitor UK-listed companies for compliance with our ethical investment policies on tobacco, defence, non-military firearms, gambling, pornography, high interest rate lending, extraction of thermal coal and production of oil from oil sands. We do not make direct investments in companies who fail our ethical investment screens with regard to these business activities.

- We monitor UK-listed companies for compliance with our ethical investment policies on alcohol, genetically modified organisms and extractive industries, as well as our agreed approach to human embryology. We do not make direct investments in companies who do not, in spite of sustained engagement, meet the ethical standards we expect with regard to these business activities.
- We monitor UK-listed companies against the wider, general ethical standards we expect of investee companies. We expect companies in which we invest to manifest responsible employment practices, best corporate governance practice, conscientiousness with regard to human rights, sustainable environmental practice and sensitivity towards the communities in which they operate. We have set out specific expectations with regard to climate change and co-founded a new performance monitoring initiative, the Transition Pathway Initiative<sup>1</sup>. Our stewardship team engages with investee companies to monitor and improve ethical standards. We do not make direct investments in companies who do not, in spite of sustained engagement, live up to the ethical standards we expect.
- Our engagement and voting activities also incorporate our engagement and voting policies on executive remuneration, gender diversity and corporate taxation.
- The CIG conducts structured engagements with UK-listed companies on behalf of all its members, including the Commissioners, on ethical and ESG issues.
- We select our asset managers carefully, scoring them using our proprietary Responsible Investment rating system. We satisfy ourselves in our due diligence that managers incorporate ESG issues into their investment analysis and decision-making processes, and behave as active owners, to the extent that is appropriate for their investment strategy. For our passive (index tracking) mandate, we have selected an asset manager who monitors the ESG performance of companies and conducts engagement on ESG issues.

Our ethical investment policies are published [here](#) and our Responsible Investment Framework [here](#).

**Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

The Commissioners' Code of Conduct for trustees includes a conflict of interest policy consistent with Charity Commission guidance and the Seven Principles of Public Life set out by the Committee on Standards in Public Life.

All trustees receive a copy of the Code on appointment. The relevant section makes clear that these provisions are about avoiding the danger of members being influenced

---

<sup>1</sup> <http://www.lse.ac.uk/GranthamInstitute/tpi/>

and the perception of their being influenced by their private interests (or the interests of people with whom they are closely connected) in the exercise of their duties. The Code describes different types of conflict (e.g. clear prima facie conflict and conflicts arising from constitutional arrangements, and the different ways of handling these, either withdrawing from the meeting or declaring the interest orally at the start of discussion).

Trustees are asked to consider conflicts of interest prior to appointment and to advise of any actual or potential conflict. A register of interests is kept which records: relevant personal direct and indirect pecuniary interests; relevant direct and indirect pecuniary interests of close family members of which they could reasonably be expected to be aware; and relevant personal non-pecuniary interests (including those arising from membership of Church and other organisations). The register is open to inspection on request by Church Commissioners, MPs, government officials and General Synod members. It is displayed at the Annual General Meeting.

Conflicts of loyalty are also covered in the Code and there are rules on gifts and hospitality. Maintenance and approval of an appropriate Code is the responsibility of the Commissioners' Board of Governors.

Commissioners' staff are subject to a compliance policy part of which covers conflicts of interest or loyalty. Staff are prohibited from making recommendations or effecting transactions for the Commissioners if they have directly or indirectly an interest of any description in the recommendation or transaction. Personal dealing by investments staff and connected persons is subject to prior approval by the Commissioners' Compliance Officer and there are rules on gifts and hospitality.

The EIAG has conflict of interest provisions in its Code of Conduct. These cover both financial and non-financial conflicts of interest, and there are provisions for declarations of interests and withdrawal from discussions and voting, as well as guidance on gifts and hospitality.

In our relationships with asset managers we require that investment management agreements include conflicts of interest provisions in line with FCA rules or local equivalent.

### **Principle 3: Institutional investors should monitor their investee companies.**

Because we do not manage our investments in UK-listed companies in house, monitoring of the investment quality of investee companies is delegated to our asset managers.

We receive regular reports from our active managers on their investment decisions. We monitor their investment processes and decisions closely and critically to ensure that they are based on sound monitoring and evaluation of company prospects. We do not specify exactly how our managers should monitor and evaluate company prospects. Rather, we seek the fullest possible understanding of their investment process prior to

allocating investment capital to them and seek to ensure thereafter that our capital is invested in line with the process described to us.

Where we invest on a passive (index tracking) basis, we do not expect managers to monitor the investment quality of investee companies, but have selected a manager who monitors the ESG performance of companies and conducts engagement on ESG issues.

We attend selected company AGMs when this is judged appropriate as part of our ethical monitoring or engagement.

We may be content to become insiders in the course of an ethical engagement process if this is necessary to pursue the objectives of the engagement. Our normal practice is to express a preference to companies not to be made insiders and to ask companies to indicate in advance if they believe that it is necessary for the engagement for inside information to be conveyed.

**Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

We have a special procedure for intensive engagement when severe ethical concerns arise with respect to a company, for example following a crisis which is indicative of serious malpractice. Such engagement normally involves multiple meetings with the company with the participation of directors of the company and senior Commissioners' executives. Specific, measurable, achievable, reasonable and timely progress by the company is sought and the extent to which it is realised is tracked.

We have conducted intensive engagement in recent years with, for example, Vedanta Resources on account of serious human rights concerns in India, BP following the Deepwater Horizon disaster, Barclays following the LIBOR scandal and SOCO International on account of serious human rights concerns in the Democratic Republic of Congo.

Our experience is that confidential intensive engagement is often more effective than public dialogue. However, if sufficient progress is not being made, we may decide that escalation is necessary. In the first instance escalation normally involves making our concerns public. Further options include speaking at company general meetings, filing shareholder resolutions and issuing shareholder circulars.

We have been involved in pioneering work successfully to file shareholder resolutions on enhanced climate change related disclosure at UK-listed extractives companies as part of the 'Aiming for A' initiative. Shareholder resolutions have been used in this instance to demonstrate shareholder support for enhanced reporting on long-term climate change related strategy.

In intensive engagements, if, in spite of escalation, sufficient progress is still not made within the timescale we have set, the final recourse available to us is to disinvest if we consider that it is no longer appropriate on ethical grounds to be invested in the company. Our intensive engagements with Vedanta Resources and SOCO International both resulted in disinvestment which we announced publicly.

**Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.**

Collaboration with other investors is an established part of our stewardship activities. We collaborate not only with other church investors, but also with a range of asset owners and asset managers when we believe this will achieve greater impact and use our staff resources efficiently. In recent years we have participated in collaborative engagement with individual companies of concern (e.g. Vedanta Resources and SOCO International) and on cross-cutting issues affecting multiple companies (e.g. climate change and corporate tax strategy). We collaborate both informally with trusted partners and formally under the umbrella of Climate Action 100+ and the PRI. We have recently become members of the Investor Forum.

We also collaborate with other investors to engage with policy makers on issues that require government intervention, such as climate change, an issue on which we actively participate in the work of the Institutional Investors Group on Climate Change (IIGCC).

Our contact for collaborative engagement is Edward Mason, Head of Responsible Investment.

**Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.**

We seek to vote all our shares except where doing so would impede our ability to deal in the shares (in so called share-blocking markets). We vote ourselves rather than delegating this responsibility to the asset managers to whom we give investment mandates.

We vote in line with the policy recommendations of the EIAG on corporate governance, executive remuneration and ESG issues, which are incorporated into a voting template which is agreed annually. We operate a common voting policy with other large members of the CIG in order to amplify the voice of church investors on issues of common concern such as executive remuneration.

Execution of votes is conducted by our Responsible Investment team who receive research and recommendations on how to vote in line with our template from a proxy voting research agency (currently ISS) who are also responsible for executing voting according to our instructions. Where we believe that the vote generated by our template may not be appropriate, we consider the merits of an alternative vote and over-ride our research provider's recommendation as necessary.

While we are generally supportive of company management, we regularly cast votes against management, most frequently on executive remuneration, but also, where we judge it is in the best interests of the company and its shareholders, on director elections, adoption of the report and accounts, and corporate transactions. It is common for us to support resolutions proposed by shareholders on ESG issues and we are increasingly incorporating climate change and diversity considerations into our voting on regular business items.

We do not have the resources to notify companies in advance on every occasion of our intention to vote against management, and the reason why. However, we do communicate regularly with the larger UK-listed companies whose shares we hold about our voting practice to ensure that companies understand our approach.

We report on voting to our trustees regularly and make public accounts available on our website [here](#).

We run a stock lending programme but recall UK shares for voting.

**Principle 7: Institutional investors should report periodically on their stewardship and voting activities.**

We maintain records of all of our engagement and voting activity and give public accounts of our stewardship work in bi-annual Engagement, Screening and Voting Reports as well as in our annual report, both of which are available [here](#).

We participate in the EIAG's meetings on ethical investment. The activities of the group are disclosed in a separate annual report available [here](#).

General Synod is represented on the Assets Committee by a member of the House of Bishops and a nominated member from both the House of Laity and House of Clergy. We participate in regular fringe meetings on ethical investment at the Church of England's General Synod as well as periodic presentations to the full Synod about ethical investment and stewardship. We routinely receive and answer Synod questions on ethical investment and stewardship issues.

We complete the PRI reporting and assessment process annually and post both our responsible investment transparency report and our assessment report on our website [here](#). Our listed equities team requests and reviews PRI assessment reports from our listed equities managers who are PRI signatories.

The Church Commissioners for England  
February 2019