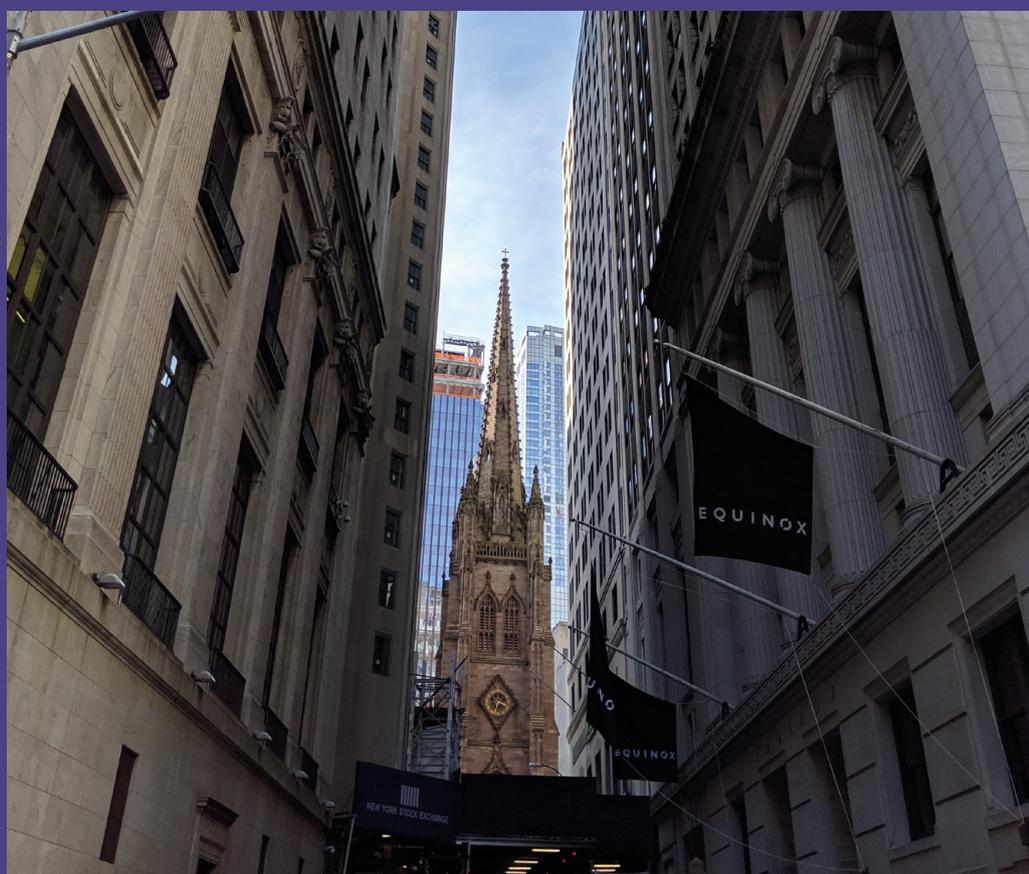


Ethical Investment Advisory Group



The EIAG is an Advisory Group convened and funded by the Church Commissioners, the Church of England Pensions Board and the CBF Funds Trustee Limited (CBFFT). The EIAG's purpose is to support the NIBs to invest ethically in a way which is distinctly Christian. This is achieved by offering timely and practical Advice and support to the NIBs, who formulate policy. The EIAG's Advice is grounded in Christian theology, and may relate to:

- asset classes, industries, sectors or investment markets (including exclusionary screening),
- stewardship by the NIBs of their investments (including voting and engagement),
- relationships with investment managers and other investors,
- public policy issues affecting investments, and
- any other aspect of investing requested by the NIBs

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.



+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 2018/2019. We have had a busy period, continuing to provide ethical and theological advice to the National Investing Bodies (NIBs). — ”

This has been a year of transition and progress for the EIAG with the introduction of one new policy on tobacco and the formation and first meeting of a new more independent EIAG.

New Policy Development on Big Tech:

With the support of the National Investing Bodies the EIAG has decided to focus our efforts on a new in depth policy review on 'Big Tech', involving a substantial period of evidence gathering, theological reflection and analysis.

'Big Tech' includes the large technology firms whose products, services and senior management have significant power to influence society from the personal level through to laws and regulation. Archbishop Welby spoke powerfully at the Trades Union Congress conference in September 2018 on the relationship between large firms and society, and the Archbishops have recently published Social Media Guidelines and a charter. These guidelines are aimed at users, encouraging positive engagement on social media. The EIAG will be considering Big Tech from the point of view of an ethical and responsible investor; our role is to bring theological reflection and expert opinion to bear on the practical reality of investing in large and influential companies that produce transformational technologies and that have been challenged on a range of ethical topics.

Along with this major project we began work on our horizon scanning process, and an exciting workplan that will provide timely practical advice on ethical investing that is grounded in theological reflection and the Christian tradition.

Tobacco Policy:

I am pleased also to include in this review the latest Policy document published by the EIAG, which formalises an investment restriction that has been in place since the 1960s. Until now the EIAG had not formally advised on the permissibility of investing in Tobacco companies, and this document includes some theological reflection and consideration of some of the public health concerns around tobacco products.

New EIAG Formed:

Following a detailed and careful review of the EIAG to ensure we continue to provide the leading ethical Advice that meets the needs of the National Investing Bodies, a number of important changes were made including:

- replacing the constitution with an up-to-date terms of reference document,
- ensuring that best recruitment practices are observed through establishing a Nominations Committee that led recruitment, interviewed and ultimately appointed six new Independent Members of the EIAG.
- the appointment of a new EIAG Secretary who will take up the post in September 2019.
- completing induction training for all new EIAG members.

By way of this report we are delighted to share brief biographical details for our six new independent members. It is clear that we are blessed to be served by such a group openly giving their time and expertise to the work of ethical investment and in the service of the Church.

Our first meeting with new membership was held in March 2019, when Members received full briefings from the National Investing Bodies and other Church institutions, including Mission and Public Affairs. We reviewed the different ways in which the National Investing Bodies (the Church Commissioners, the Church of England Pensions Board and the CBF Church of England Funds managed by CCLA) invest their funds in line with their different regulatory contexts as a charitable endowment, pension fund and asset manager respectively. We reviewed the common suite of 20 ethical and responsible investment policies (all of which are available at www.churchofengland.org/eiag/policies) and the coordinated responsible investment practices undertaken by the NIBs including screening the investment universe for restricted stocks, voting at annual general meetings, and engagement with companies we own on a range of

topics from Climate Change and Extractive Industries to Modern Slavery and Board Diversity.

Implementing Ethical Policies:

We were delighted to note the progress the NIBs have been making in their engagements with companies such as BP, Exxon, Glencore and Shell on Climate Change. One area that has really stood out this year was how our investment (as EIAG and National Investing Bodies) of time and effort in policy development on Extractive Industries has shaped the global response to a tragic disaster. The policy on Extractive Industries we published in November 2017 meant that the NIBs were in a position to respond quickly and decisively when disaster struck and a tailings dam failed in Brumadino, Brazil, causing over 245 deaths. The NIBs were in a position to lead a global response by investors that has led to a global review of tailings standards, convened by the industry body ICMM (who had responded to our policy consultation), UN Environment Programme, and UN Principles for Responsible Investment. The wider investor response is on-going but the Advice of the EIAG had highlighted many of the issues around the management of tailings (waste) from mining. More information on these engagements and the other extensive stewardship achievements of the National Investing Bodies are available in their annual reports

A handwritten signature in black ink, appearing to read "David Walker".

+David Walker (Manchester)

Church of England Ethical Investment Advisory Group: Tobacco Policy

The National Investing Bodes of the Church of England have decided to adopt this policy on Tobacco on the advice of the Ethical Investment Advisory Group (EIAG). This policy codifies and updates a de facto restriction that has been in place since 1962.

The National Investing Bodies will exclude from their investments:

Tobacco

- Any company that derives more than 10% of their revenue from the production, distribution, or retail of tobacco products.
- Companies that manufacture and supply key products necessary for the production of tobacco products, such as flavouring, filters, roll-paper, machinery and packaging fall under this restriction.

E-Cigarettes

- Any company that derives more than 10% of their revenue from the production, distribution, or retail of e-cigarettes.

Discretionary inclusion/exclusion

- The NIBs may request further advice from the EIAG on an ad hoc basis, on whether a specific company should be added to or removed from the restricted stocks list. This will be in the light of bespoke consideration of that individual company. The EIAG may also advise on investments in other asset classes, such as private equity.

Policy Reasoning

1. There is some scriptural basis for 'healthy living', though this has not traditionally been associated with strong prohibitions on tobacco and alcohol (other than among the Puritans), e.g. 1 Corinthians 6:19, 20 "Do you not know that your body is a temple of the Holy Spirit, who is in you, whom you have received from God? You are not your own; you were bought at a price. Therefore honour God with your body." (NIV)
2. The use of tobacco is addictive (nicotine), and harmful (carcinogenic), and it has been associated with a concern around 'excess' among Christian communities.

3. There are few bible passages that are specifically applicable to tobacco smoking (unlike e.g. alcohol consumption), however passages that relate to wisdom, ethics and prudence are apposite. Smoking would be worse in some circumstances than others, e.g. if young children stand to be affected by 'second hand smoke'.
4. Tobacco has not always been associated with medical/public health harms. In 17th Century Virginia, Anglican clergy were paid in tobacco rather than currency (the going rate established by legislation was 16,000 pounds of tobacco per annum¹). However, organised Christian opposition to smoking has origins in the temperance movement of the 19th Century², and gathered momentum in the 20th Century as the addictive properties and public health impacts became more widely known.
5. The National Investing Bodies have excluded investment in tobacco companies since 1962³. In 1964, an account was given that this decision was made "following the campaign regarding smoking and lung cancer"⁴, and a 1983 review of ethical exclusions stated that "Many thousands of people die prematurely because of diseases associated with smoking...the Committee believes that the case for retaining this category is clear cut"⁵.
6. Tobacco remains a serious public health concern. There is a "global tobacco epidemic"⁶, that is an "avoidable tragedy"⁷. Tobacco kills up to half of its users; around 6m people per annum. Over 600,000 of these deaths are the result of non-smokers being exposed to second hand smoke (a quarter of these are children). The impact of tobacco falls disproportionately on low- and middle-income countries, which are home to 80% of the world's smokers⁸.
7. The tobacco industry has also been subject to concerns over political lobbying (that resists public health initiatives), and unethical marketing practices.
8. Risk-focused ESG integration strategies tend to view tobacco exposure as a long term risk⁹, as regulations and public sentiment move against it. Our motivation for this exclusion is a desire not to derive profit or benefit from a product that so clearly damages public health, and we note

that mounting regulatory pressure indicates overlapping financial reasons to question these business' sustainability over the long term.

E-Cigarettes

9. E-cigarettes are seen as having 'strategic' importance by major tobacco companies¹⁰, though their use declined in 2016 and they face regulatory pressure¹¹.
10. Public Health England reports that they are 95% safer than cigarettes, can help smokers to quit, and do not undermine the long term decline in smoking¹².
11. As a "healthier alternative" that can help smokers to quit, e-cigarettes could be supported. However, at this time it is still too early to have an academically robust view of their long term health effects¹³. We therefore take a precautionary approach to investment in e-cigarettes and other apparently 'less harmful' tobacco products, such as heated-tobacco. We are not alone in considering that the balance of risk indicates caution. The WHO, for example, urges countries "to consider banning or restricting advertising, promotion and sponsorship of electronic cigarettes"¹⁴. We will keep tobacco alternatives under review.

1 See e.g. http://archive.tobacco.org/History/Tobacco_History.html and https://www.encyclopediavirginia.org/Church_of_England_in_Virginia Accessed October 2017

2 The USA's Women's Christian Temperance Movement published a "Leaflet for Mothers' Meetings" titled "Narcotics", by Lida B. Ingalls in 1880. Discusses evils of tobacco, especially cigarettes. Cigarettes are "doing more to-day to undermine the constitution of our young men and boys than any other one evil" (p. 7).

3 Church Commissioners' Policy Unit (2006) Commissioners' Ethical Policies 1948-2006 – Historical Background

4 A(64)34

5 CC(83)72

6 http://www.who.int/tobacco/global_report/2015/en/

7 <http://www.who.int/mediacentre/commentaries/early-tobacco-death/en/>

8 <http://www.who.int/mediacentre/factsheets/fs339/en/>

9 MSCI Tobacco, a practical guide for institutional investors (September 2017)

10 See e.g. <http://www.bat.com/ecigarettes>

11 MSCI Industry Report: Tobacco (January 2016)

12 UK Government Ecigarettes, An Evidence Update

13 <https://hansard.parliament.uk/Lords/2016-07-04/debates/16070434000128/TobaccoAndRelatedProductsRegulations2016#division-4543>

14 [http://apps.who.int/gb/fctc/PDF/cop6/FCTC_COP6\(9\)-en.pdf?ua=1](http://apps.who.int/gb/fctc/PDF/cop6/FCTC_COP6(9)-en.pdf?ua=1) (2014)

EIAG Members & EIAG Nominations Committee Membership

EIAG Members

The Rt Revd Dr David WALKER (Church Commissioners)

Bishop of Manchester, Chair of the EIAG, Deputy Chair of the Church Commissioners' Board of Governors

Mr Alan FLETCHER (Church of England Pensions Board)

Vice Chair of the Church of England Pensions Board and Chair of its Investment Committee.

Mr Stan CHAN (CBF Church of England Funds)

CBF Trustee Director and member of the Audit Committee, Director at Straits Consulting and Non Executive Director in the not-for-profit sector.

The Revd Paula VENNELLS CBE (Independent Member – newly appointed)

Chair of the Imperial College Healthcare NHS Trust, Non-Executive Director of the Cabinet Office and of Morrisons PLC, former Group CEO of the Post Office. Ordained 2006.

Ms Barbara RIDPATH (Independent Member – newly appointed)

Non Executive Director in the banking sector, and Member of the Council of Chatham House, the Royal Institute of International Affairs

Mr Kumar JACOB MBE (Independent Member – newly appointed)

CEO of a private Social Purpose Company, former Vice Chair of Christian Aid.

Mr David NUSSBAUM (Independent Member – newly appointed)

Chief Executive of The Elders, Senior Independent Director of Drax Group plc, and a Deputy Chair of the International Integrated Reporting Council; former Chief Executive of WWF-UK and of Transparency International."

Professor Robert SONG (Independent Member – newly appointed)

Professor in the Department of Theology and Religion, University of Durham, former President of the Society for the Study of Christian Ethics

Ms Faith WARD (Independent Member – newly appointed)

Chief Responsible Investment Officer, Brunel Pension Partnership, Co-Chair of the Transition Pathway Initiative, Chair of the Reporting and Assessment Advisory Committee to UNPRI.

Mr Stephen Barrie (Secretary)

Secretary to the EIAG and Nominations Committee. Seconded from the Church of England Pensions Board

The EIAG Nominations Committee Membership

The Membership of the EIAG's Nominations Committee is appointed by a range of Church institutions, and it is convened by the Chair of the EIAG, and is served by the Secretary to the EIAG.

Rt Revd David WALKER – Chair (Ex officio)

Ms Loretta MINGHELLA (Appointed by the Church Commissioners)

Mr Clive MATHER (Appointed by the Church of England Pensions Board)

Revd Canon Edward CARTER (Appointed by CCLA)

Mr Stephen BEER (Appointed by the Church Investors Group)

Mr Bill SEDDON (Appointed by General Synod)

Ms Rosemary NUAMAH Williams (Appointed by the Archbishops)

Revd Dr Malcolm BROWN (Appointed by Mission and Public Affairs Council)



Stephen Barrie

Acting Secretary
of the Ethical
Investment
Advisory Group

Front cover

View of Trinity Church, from Wall St

Feedback

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

Email eiag@churchofengland.org

Tel 020 7898 1804

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London, SW1P 3AZ

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