Church Commissioners for England

Responsible Investment Policy

## Version History

| Version | Author | Reason for Change | Date |
|---|---|---|---|
| 1.0 | Edward Mason | Initial version | July 2015 |
| 2.0 | Bess Joffe | Update given industry progression & team expansion | March 2021 |
| 3.0 | Bess Joffe | Update given strategy progression | November 2022 |

## Introduction

The Church Commissioners' ambition is to be at the forefront, globally, of responsible investment (RI). The Church Commissioners' responsible investment approach seeks to address the complexity of the world in which we invest by taking a systemic approach to systemic issues.

Our RI Policy outlines our approach to RI and the reasons behind why we take this approach.

We believe that taking account of environmental, social and governance ('ESG') issues is an intrinsic part of being a good investor. We hold this belief for both ethical and financial reasons.

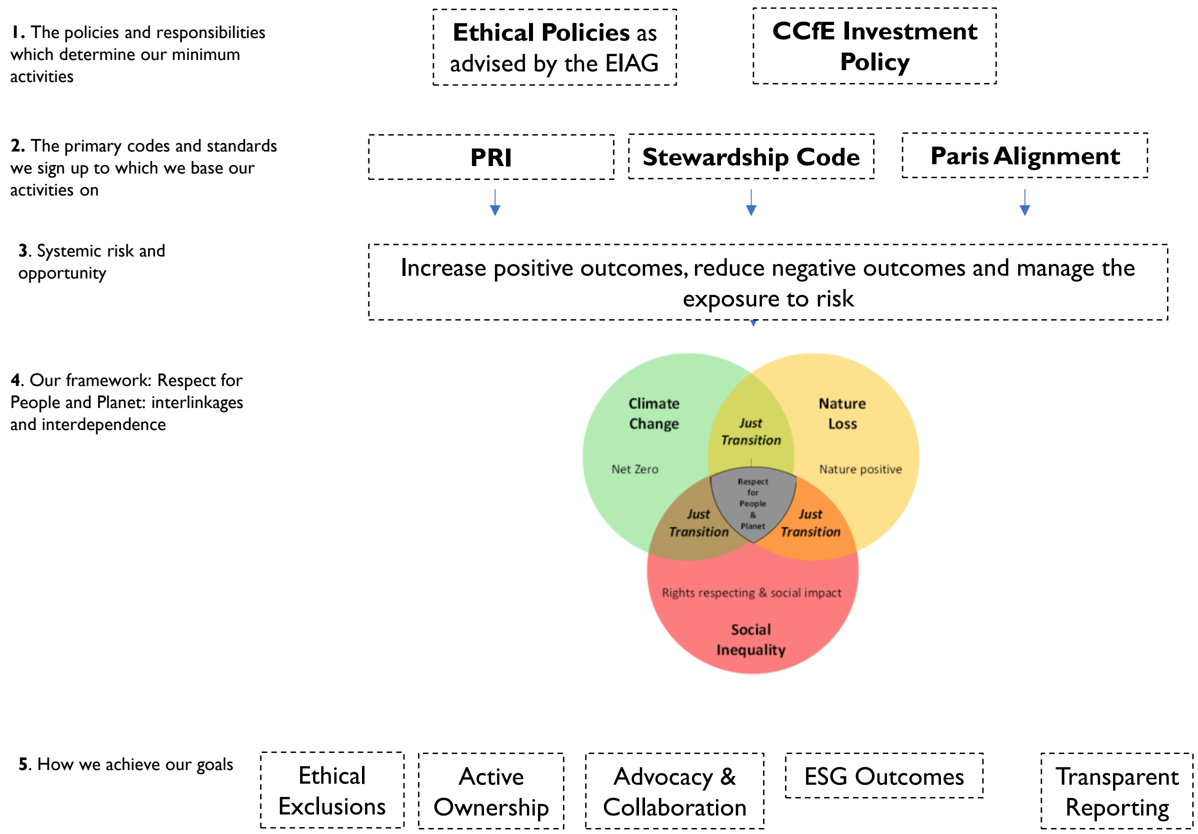
Ethically, we think that investors who take account of ESG issues will be better aligned with the broader objectives of society and better corporate citizens. Moreover, an ethical approach to investments aligns our activities to the Five Marks of Mission.

We believe that a best-practice approach to RI is one where the investor is comfortable operating in the complex, nuanced world we live in. An approach where the aim is to increase positive outcomes, reduce negative outcomes and manage the exposure to risk, but where it is recognised that this may mean that we need to be invested in an area that carries a degree of both investment and reputational risk. We cannot take a black and white approach to a grey problem.

Financially, academic and industry studies[1], and our own experience suggests that when ESG issues are well managed they can have a positive impact on the performance of investments, particularly over the longer term.

Our approach to RI is summarised below.

[1] For example, Gunnar Friede, Timo Busch & Alexander Bassen (2015); ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment.




## 1. The policies and responsibilities which determine our minimum activities

### Ethical Policies as advised by the EIAG

The Church Commissioners, along with the other National Investing Bodies (NIBs), receive advice and support on ethical investment from the Church's Ethical Investment Advisory Group (EIAG). The purpose of the EIAG is to enable the NIBs to act as distinctively Christian – and Anglican – institutional investors. The EIAG develops ethical investment advice for the NIBs. The NIBs create policies to implement the advice which is subject to the approval of our trustees.

The NIBs' overall approach to ethical investment is noted in our Statement of Ethical Investment Policy.

### Church Commissioners for England Investment Policy

Several core investment beliefs govern our philosophy and investment approach. These include the belief that taking account of ESG issues and good stewardship is an intrinsic part of being a good investor for both ethical and financial reasons.

## 2. The primary codes and standards we sign up to which we base our activities on

In order to further our commitment to ESG activities and good stewardship we became a signatory to the Principles for Responsible Investment ('PRI') in 2010.

We are also a signatory to the Financial Reporting Council's 2020 UK Stewardship Code, and in 2020 we committed to transition our investment portfolio to net-zero greenhouse gas emissions by 2050.

### PRI

Being a signatory involves a formal commitment to six responsible investment principles:

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| **Principle 1** | We will incorporate ESG issues into investment analysis and decision-making processes. |
| **Principle 2** | We will be active owners and incorporate ESG issues into our ownership policies and practices. |
| **Principle 3** | We will seek appropriate disclosure on ESG issues by the entities in which we invest. |
| **Principle 4** | We will promote acceptance and implementation of the Principles within the investment industry. |
| **Principle 5** | We will work together to enhance our effectiveness in implementing the Principles. |
| **Principle 6** | We will each report on our activities and progress towards implementing the Principles. |

### 2020 Stewardship Code

The Financial Reporting Council (FRC) published the 2020 Code in October 2019. This replaces the original code of 2012.

The 2020 Code sets stewardship standards for asset owners and asset managers, and for service providers that support them. The Code's 12 principles articulate expectations on stewardship integration in investment allocation, defining stewardship as: *'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'*.

The 2020 Code expects signatories to go beyond simply adopting good stewardship practice policies, and report on the outcomes of stewardship activities. It also requires reporting on ESG integration across all asset classes.

### Paris Alignment

The Commissioners support the goal of the Paris Agreement and the international community to restrict the global average temperature rise to a **maximum of 1.5 degrees Celsius above pre-industrial temperatures**.

We base our overall strategy towards this as members of the UN-convened Net Zero

Asset Owner Alliance. As part of this, we will commit to interim portfolio carbon reduction targets, and detailed reporting on our progress, every five years from 2025 to 2050.
Additionally, we support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

### 3. Addressing systemic risk

We believe that a critical part of our role as responsible asset owners is to address systemic risk within our portfolio. We recognise that that ESG factors are interlinked, interdependent and that all investments balance positive and negative impacts. Every organisation will have some positive and some negative outcomes and every organisation is exposed to risks. Therefore, a more nuanced approach is needed. Neither the real world nor the investment world are black and white.

### Our Framework: Respect for People and Planet

Climate change, nature degradation and social inequality each represent systemic risks that will likely cause significant disruption to the financial system, the economy and wider society - effects are already being seen across the planet and societies as a result of these risks. These systemic risks may be thought of as distinct and separate, but in our view they are interconnected and interdependent, as shown in the diagram above.

We are committed to tackling climate change, nature loss and social inequality to mitigate the significant and complex portfolio-wide risks they pose and encourage a societal shift to more sustainable practices for the benefit of all life on Earth. We see opportunities to encourage corporate and regulatory/policy action that tackle these multiple challenges and unlock significant opportunities for sustainable value creation and social development. This also applies to actions we can take to enhance the positive impact of our own portfolio through management of our direct and indirect holdings and investing in opportunities.

Respect for the Planet is driven by the Fifth Mark of Mission[2] and guided by the recognition that humanity, and by extension financial markets, do not adequately value all of the services and resources that the natural world currently provides. This leads to a range of environmental issues that pose significant risks not only for economic stability and future financial returns, but also the survival of our global ecosystem:

- The unsustainable exploitation of natural resources, running up significant "debts" to our planet without allowing or encouraging them to recover
- Over-exploitation damages the planet's ability to provide ecosystem services, such as water and climate regulation, or the growth of food and fibres

[2] To strive to safeguard the integrity of creation, and sustain and renew the life of the earth

- These services are needed for planetary and economic stability; without them we see phenomena such as resource shortages, lower agricultural yields, floods, droughts and, of course, climate change

Respect for People is intrinsic to the fourth Mark of Mission[3] and is a critical aspect of addressing the systemic risks of climate change, nature loss and, especially, social inequality. Underpinning our approach is the expectation that investee companies respect human rights. Respect for human rights enables the management of risks and impacts on people during the transition to tech-enabled, net-zero, nature-positive economies, and provides the starting point for companies to help address social inequalities via their impacts on workers, consumers and broader society.

## 4. How we achieve our goals

### Ethical Exclusions

As an ethical and responsible investor, we exclude companies in a number of different sectors from our investments. Our approach to ethical exclusions is based on the advice provided to us by the EIAG.

We exclude from our direct investments companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, extraction of thermal coal, and production of oil from oil sands, subject to revenue thresholds. Elsewhere in the portfolio, we exclude companies from direct investments based on a revenue threshold.

Additionally, we engage carbon intensive companies on our climate change restriction criteria and exclude those that, even after engagement, fail to meet our standards. This is in line with our commitment to General Synod in July 2018 to:

- ‘Engage urgently and robustly with companies rated poorly by TPI and, beginning in 2020, to start to disinvest from the ones that are not taking seriously their responsibilities to assist with the transition to a low carbon economy’
- ‘Ensure that by 2023 they have disinvested from fossil fuel companies that they have assessed, drawing on TPI[4] data, as not prepared to align with the goal of the Paris Agreement to restrict the global average temperature rise to well below 2ºC’
- Some of these companies were placed on our restricted list and are reviewed annually.

### Active Ownership

We expect both ourselves as an asset owner and our external asset managers to be

[3] To seek to transform unjust structures of society, to challenge violence of every kind and to pursue peace and reconciliation

[4] https://www.transitionpathwayinitiative.org/overview

active owners of their investments in a way that is appropriate to their area of investment and strategy.

We incorporate Active Ownership in three ways: ESG Integration, Engagement, and Voting.

**ESG Integration**

We are committed to the integration of material ESG issues into investment analysis and decision-making across all asset classes.

*External asset management*

Most of our investment assets are externally managed.

When selecting external investment managers, we take into account the extent to which a manager is able to manage our ethical investment restrictions and integrate ESG issues in their investment analysis and decision-making. We maintain an indicative list of potential ESG issues that could bear on investment decision-making and which we expect managers to have regard to where this is appropriate to their area of investment and strategy. Additionally, we assess the diversity of the investment teams and the managers policies and oversight of diversity and inclusion.

Staff making investment recommendations to trustees are required to assess recommended managers using our RI manager rating system. This specifies minimum standards that all investment managers must meet and enables us to identify managers who are strong performers already, and managers who will need to improve their integration of ESG issues.

We specify RI requirements in our Investment Management Agreements, side letters for pooled funds/indirect investment vehicles and other appropriate legal documentation.

*Internal asset management*

Where we do not use third party investment managers, we take account of all material ESG factors in our own investment assessments using our indicative list of potential ESG issues.

In particular, we seek to manage ESG issues effectively across our direct real estate portfolio – commercial property, residential property, rural land, strategic land and forestry - to achieve outcomes consistent with both our investment management objectives and our ethical investment policies. We aim to achieve this through the development of our Real Estate Sustainability Approach.

## Engagement

Both our own experience and academic studies[5] identify shareholder engagement as the primary mechanism through which investors can effect substantial improvements in a company's environmental, social, or governance practices. Accordingly, shareholder engagement can lead to an increase in shareholder returns.[6]

It is for this reason that we engage with companies, rather than immediately divest if a potentially remediable issue exists or emerges.

We believe that investors should monitor the investment quality of investee companies and that the longer the expected holding period, the greater the responsibility to assume stewardship responsibilities.

We expect our investment managers to conduct engagement activities on our behalf, including on ESG issues, as appropriate in light of their expected holding periods and the issues arising at investee companies. We liaise with them regularly on these issues, and partner with them where it is helpful to do so. We expect our managers to periodically report to us on their engagement activities.

In identifying themes or issues for potential engagement, we believe we have a responsibility to ensure that a programme of ethical engagement is conducted with investee companies that is appropriate for a national investing body of the Church of England and consistent with the policy recommendations and guidance of the EIAG.

## Voting

Within listed equities, we believe that shareholders should always vote at companies' general meetings, except when doing so impedes the ability of investors to deal in the shares (in so called share-blocking markets).

Where we hold shares directly, we vote ourselves rather than delegating this responsibility to the asset managers to whom we give investment mandates. We conduct our voting in line with the Church Investors Group's voting policy. We seek to use our vote in a way that encourages companies to comply with best practices in corporate governance, ethics and sustainability. When we believe that standards of best practice are not in place, we vote against management on appropriate ballot items and seek to explain why we disagree with management recommendations.

Where we hold shares indirectly in pooled funds, we expect managers to vote their shares. We run a stock lending programme and we recall all shares in line with the ICGN best practices.

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[5] For example, Julian Kölbel, Florian Heeb, Falko Paetzold and Timo Busch (2020); Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact.
[6] For example, Andreas Hoepner, Ioannis Oikonomo, Zacharias Sautner, Laura Starks and Xiaoyan Zhou (2019); ESG Shareholder Engagement and Downside Risk. AFA 2018 paper, European Corporate Governance Institute – Finance Working Paper No. 671/2020.

## Corporate Governance

We believe that good governance is at the heart of successful business and investment. As responsible investors, robust consideration of corporate governance practices underpins companies' sustainable wealth creation, protection of shareholders' capital, and the integrity and attractiveness of investment.
Our governance approach is in line with Principle 5 of the International Corporate Governance Network (ICGN)'s Global Stewardship Principles, which states that 'investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients'[7]. This approach is also consistent with the NIBs' Statement of Ethical Investment Policy. Accordingly, the Commissioners exercise voting rights across all of our public equity holdings.

We engage selectively on governance issues. An assessment of board members, their individual and collective skill sets, management incentives, and other governance issues will inform our approach to engagements by identifying points of leverage and opportunities for improvement.

## Advocacy & Collaboration

### Advocacy

We believe that market wide and systemic risks can best be addressed by engaging with policy makers to respond to these risks, both to promote well-functioning financial markets and strong environmental and social frameworks within which to operate. We leverage our member organisations to collectively engage with public policy makers. We aim to respond to relevant public policies and regulatory consultations. In the majority of cases, this will be done via our membership organisations. Where we can uniquely influence change directly, we will input directly Where appropriate, we also voice our opinion in the media, in cases where we believe our voice can contribute to a solution and which are aligned with our duties as an investor.

### Collaboration

We believe that by working with others in the industry, RI objectives can be better achieved. As such, we believe it is important to collaborate with others and therefore we are active members of groups and membership bodies which we believe contribute to our goals. We engage with other market participants both to adopt best practice, and to leverage the market to collaborate to pursue ESG goals.

## ESG Outcomes

We search for, and where possible invest into, assets that are likely to have positive environmental and/or social outcomes and which meet our fiduciary obligations. We invest in funds and assets which intentionally seek solutions.

[7] https://www.icgn.org/sites/default/files/ICGNGlobalStewardshipPrinciples.pdf

All investments have an impact on the world. We continue to develop our understanding of the positive and negative real-world impact of our entire portfolio, in an effort to manage and increase its overall positive impact. We believe that investments and assets with greater positive real-world impact can have a positive impact on the performance of investments, particularly over the longer term.

## Transparent Reporting

We expect our asset managers to report to us regularly in line with our asset manager RI reporting requirements.

We are transparent about our own RI activities and performance.

We report in detail to the codes and standards we sign up to: annually for the PRI and Stewardship Code, and in-depth at least every five years regarding our commitment to Paris Alignment.

These bodies will publish annual reports on their websites containing the public elements of our disclosures. We welcome this.

Finally, we disclose in our annual report and/or on the Church of England website sufficient information for stakeholders to understand:

- our investment restrictions
- our selection and monitoring of external asset managers
- the ESG characteristics of our listed equity portfolio compared to the wider market, including its carbon footprint
- our voting activity, including our voting on UK executive remuneration
- our engagement activities and those of our managers, including engagement successes we have achieved
- the extent to which our portfolio includes investments with strong sustainability characteristics
- our portfolio's approach to climate change risk, in line with the recommendations of the TCFD
- the organisations we work with on RI
- our plans for RI activities.

We also respond to questions from General Synod and provide reporting to General Synod from time to time, as agreed.

## Responsibility and Governance

Adherence to, and implementation of, our RI Policy is a teamwide responsibility; individual investment teams lead on ESG integration and active ownership for the area of investments for which they are responsible.

It is the responsibility of individual team heads to ensure that proposed investments are appropriate on both investment and ethical/responsible investment grounds.

The role of the Head of Responsible Investment and the RI team is to support, monitor and report on implementation of this policy.

Oversight of the Commissioners’ adherence to and implementation of our RI Policy is the responsibility of the Assets Committee and the Board of Governors.

This Policy will be reviewed by the Head of Responsible Investment, the CIO and the Assets Committee at least every two years.