



ETHICAL INVESTMENT
ADVISORY GROUP

Ethical Investment Advisory Group

Annual Review 2022/23





**THE CHURCH
OF ENGLAND**

ETHICAL INVESTMENT
ADVISORY GROUP

The Church of England Ethical Advisory Group (EIAG) provides independent ethical advice on investment to the Church of England's three National Investing Bodies (NIBs), detailed below:



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

CCLA

GOOD INVESTMENT

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

The Church of England
Pensions Board, which
provides retirement
services (responsibly
invested pensions and
retirement housing) for
those who minister or
work for the Church
of England.

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The National Investing Bodies of the Church of England



ETHICAL INVESTMENT ADVISORY GROUP

The Church of England Ethical Advisory Group (EIAG or “the Group”) provides independent ethical advice on investment to the Church of England’s three National Investing Bodies (“NIBs”) detailed below:

The Church Commissioners for England is a charitable body established in 1947 to support the Church of England’s mission and ministry in perpetuity. It does that through the management of the Church of England’s endowment fund, which stewards £10.3bn of investment assets and has two duties: to create long-term financial returns to fund mission activities through churches, cathedrals, and dioceses; and to make sure that the way they invest, and what they invest in, brings benefits to the wider world in a way that consistently shows positive outcomes in its contributions to the common good and seeks to make the Church’s teachings and values real.¹

The CBF Church of England Funds, managed by CCLA Investment Management Ltd (CCLA), provide integrated investment and cash deposit services for nearly 13,000 Church of England parishes, dioceses, cathedrals and other Church of England bodies wishing to avail themselves of it. CCLA is predominantly owned by its church and not-for-profit clients and manages over £2.7bn of Church of England assets.²

The Church of England Pensions Board is a regulated pension fund which stewards £3.7bn of assets sustainably for its beneficiaries and in line with church teachings, to provide retirement

services (responsibly invested pensions and retirement housing) for approximately 41,000 members who have served or worked for the Church of England. It also holds some charitable funds for other purposes. Around 700 different Church organisations participate in their three pension schemes, including dioceses, parishes, Church charities and mission agencies.³

The NIBs are three separate institutions, under different regulatory regimes and frameworks, whose respective trustee boards ultimately have responsibility for delivering investment returns for their stakeholders. Each NIB independently receives and considers the advice of the EIAG in line with its respective fiduciary duty and the interests of the members and beneficiaries each one serves.

THE ROLE OF THE EIAG

The role of the EIAG is to provide practical and timely ethical advice on investment to enable the NIBs to invest in a way that is Christian and distinctly Anglican. By interpreting Scripture, in conjunction with the Christian tradition and reason, the EIAG provides guidance on investment reflecting the big picture of God’s relationship to the world. This enables the NIBs to address and respond individually to investment issues specific to particular industries or sectors (gambling or the extractive industries, for example) as well as broader systemic issues (such as climate change or human rights) in a way that forms an important part of the Church of England’s witness and mission.

Thus in addition to the exclusions, the EIAG’s advice may also relate to:

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

1. See Church Commissioners for England, “An Ethical and Responsible Approach”, Stewardship Report 2022, available at: <https://www.churchofengland.org/about/leadership-and-governance/national-church-institutions/church-commissioners-england/who-we-0>.

2. See CCLA Investment Management Limited, “Better World: Sustainable Investment Outcomes 2022”, available at: <https://www.ccla.co.uk/documents/better-world-sustainable-investment-outcomes-2022-report/download?inline=true>.

3. See The Church of England Pensions Board, “Stewardship Report 2022”, available at: <https://www.churchofengland.org/pb-financial-statements>.

or any other aspect of investing, as requested by the NIBs.

The advice of the EIAG is biblically and theologically grounded. Our thinking is formed around a framework of five principles which affirm that human beings live well and are fulfilled when they are:

- flourishing as persons;
- flourishing in relationship;
- standing with the marginalised;
- caring for creation;
- serving the common good.

A letter from our Chair, Barbara Ridpath



Barbara Ridpath, Chair of the EIAG

Attentive readers will have noticed there has been a gap between our last annual review and this one. We have decided that it makes sense to align our reviews with the calendar year, which creates a gap between our 2021/22 fiscal year review and this one for calendar year 2023. For this reason, this annual review covers just over an 18-month period, and you will find the details following my letter.

We were terribly sad to say good-bye to Anna McDonald, our Secretary who served the EIAG extremely well, especially in shepherding our Big Tech review and advice. However, we are always delighted to see people in this position move on to key positions within the responsible investing industry as she did. She goes with our most sincere thanks, as well as our friendship and goodwill.

The group used her departure as the occasion to engage in a Health Check on the EIAG in accordance with good governance, five years after our new structure and governance was put in place. Using an outside consultant, we were pleased to find that the basic structure and outcomes were both sound and working in accordance with our objectives. The work was extremely useful in helping us consider some re-prioritisation of our work, notably to ensure that all our advice is reviewed and brought up to date.

This means that the priority for the year(s) to come will be getting all our advice reviewed and revised. We have already put in place a system of sub-committees to do this and will, in future, be noting the revision dates at the front of each document. We will aim to continue to review most of these policies on an ongoing three-year cycle.

These reviews will be done alongside new advice as needed, and our regular horizon scanning. Our current work is using the foundations of the Big Tech advice to address the specific ethical considerations for Artificial Intelligence (AI). It is critical that the ethical considerations around this transformative new technology are considered before, and not after, it is in widespread use, or we risk its methods and criteria being decided only by its developers.

The practical implications of the combination of the EIAG's advice and the 2018 General Synod motion included the divestment of all the National Investing Bodies from Oil and Gas in June 2023. After many years of trying to influence company policy through engagement with clear and independently assessed targets, it was felt that while some oil and gas companies in Europe had come close to those targets, none had met the final hurdle.⁴

Without making predictions for the year to come, we are concerned about the backlash against Environmental, Social and Governance (ESG) policies in some regions of the world, notably within some US states. While we applaud regulators' efforts to ensure that asset managers and funds are consistent in the criteria and labelling of funds and investments, and not using "green" labels to attract investors without being clear on their investment strategy and policy, we believe that investors have both a right and an obligation to engage with companies whose actions are inconsistent with investors' views and beliefs.

Before closing, I would like to thank all the members of the EIAG and the staff of the NIBs who have served over this period, and on whom I have come

4. See The National Investing Bodies, "Approach to Climate Change: A Report for General Synod, June 2023", available at: <https://www.churchofengland.org/sites/default/files/2023-06/gs-2302-nibs-approach-to-climate-change-2023-synod-report-reduced-file.pdf>.

to depend. I would like to extend my particular gratitude to the Bishop of Manchester, the Rt Revd Dr David Walker, who served for ten years, including a period as interim Chair while the statutes of the EIAG were being rewritten, and as Deputy Chair since I became Chair. His contribution to the EIAG has been immeasurable. I will miss his wise counsel and advice. Godspeed.

Let me also extend a warm welcome to Hannah Woolley, who joined us as Secretary to the EIAG last Spring from St Paul's Cathedral. Her willingness to learn and ability to get things done are making all our lives easier, and I look forward to continuing to work with her.

Yours sincerely,

BA Ridpath

HEALTH CHECK

In 2022, the EIAG conducted a Health Check using an outside adviser, to ensure that the work of the EIAG continues to be valuable and effective, four years on from the 2018 revision of its Terms of Reference. We surveyed key stakeholders, including EIAG members, its Nominations Committee and the NIBs' executive and responsible investment teams, and the Secretary. In addition, there were structured, more detailed interviews with a selection of the respondents to ensure the Group was arriving at advice that was fit for purpose, with all appropriate voices heard.

The study found that meetings worked well, the organisation was fit for purpose and noted in particular the strong contribution of the independent members. As important as what works well, it was useful to look at where we could improve. Ideas included:

- the speed of our process;
- the length of our papers;
- the need to keep existing advice up to date;
- the possible introduction of sub-groups or sub-committees to accomplish our work;
- how to become more proactive; and
- consideration of how to amplify the impact of the EIAG beyond the NIBs and even the Church.

The EIAG has considered these issues and already put in place a programme to update existing advice and to speed this process by the introduction of working groups. We will continue to consider how to implement other recommendations over the years to come and will review progress on this.

ANTI-ESG BACKLASH

In the last eighteen months there has been increasing backlash against ESG policies, particularly in the US. Many state legislatures have introduced laws that ban or limit ESG considerations in state pension funds or ban discrimination against companies producing fossil fuels, for example. This has resulted in some prominent financial institutions withdrawing from climate-related alliances and rethinking their own ESG agendas and frameworks. Nonetheless, other US states and many financial institutions in Europe continue to advocate for incorporating social and environmental factors.

When we reflect on what we consider to be ethical or unethical, we consider what it means for humanity and the world to flourish, and therefore what would be moral and responsible decision making with this objective in mind. Responsible investment and integration of ESG factors is an expression of ethics, as well as a financial consideration. ESG investing is the practical application of an investor's values, informed by ethics, to show positive outcomes in contributions to the common good, as well as long-term financial returns. It follows, therefore, that investors, in stewarding their assets, should have a right and an obligation to engage with companies whose actions are inconsistent with their views and beliefs.

Systemic risks such as climate change extend beyond the boundaries of business and government, and their solutions require cross-sectoral collaboration. We are encouraged that some regulators are seeking to clarify what they consider to be legitimate coordination on these issues. In the UK, the Competition and Markets Authority (CMA) released guidance to help businesses understand how competition law applies to environmental sustainability agreements, recognising that combatting climate change is in the public interest and that there is a need for industry collaboration to meet the UK's international and domestic commitments on net zero.⁵

ADVICE REVIEW

Good governance for investors suggests all policies should be reviewed on a regular basis. This has not been the case for some EIAG advice. Following some of the conclusions of the Health Check conducted the previous year, in 2023 we began the ambitious task of carrying out a full review of the EIAG's existing ethical advice on investment. In addition to including relevant industry and policy updates, this review also presents an opportunity to integrate the new theological framework into EIAG advice and to ensure consistency in the structure and format

5. See Competition and Markets Authority, "Green Agreements Guidance", 12 October 2023, available at: <https://www.gov.uk/government/news/cma-launches-green-agreements-guidance-to-help-businesses-co-operate-on-environmental-goals>.

of advice. It is our intention, once the review is complete, to establish a regular cycle to ensure the EIAG's advice stays current and relevant.

To facilitate this review, a series of sub-committees supported by members of the NIBs' responsible investment teams are redrafting advice papers for review by the EIAG. This has made the review process more efficient, with sub-committees running concurrently and facilitated by the EIAG Secretary. The Group has also benefited from increased interaction between EIAG members and the wider NIB responsible investment teams and improved understanding on both sides about how the EIAG's advice is developed and how this is translated into action by the NIBs.

Early in our learnings we established that, where possible, it is most helpful to structure our advice in terms of ethical principles that can be applied across all forms of stewardship. By avoiding over-emphasis on the current regulatory or industry context, we hope this will prevent advice becoming outdated quickly. It is hoped that this will also enable easier reviews and revisions in the future and will give the NIBs more practical tools to utilise when presented with new ethical considerations that may not be directly addressed within existing advice. This approach will be used for the development of new advice, as well as throughout the review process.

Another outcome of this process will be a more formal process for review of EIAG advice in the future, to avoid significant backlogs developing again which are time consuming to address.

UPDATED EIAG ADVICE

The first updated papers to be reviewed and approved were Alcohol, and the retitled "Tobacco and Related Products". The original Tobacco advice, whilst extending the recommendation of investment exclusions to e-cigarettes, had not been substantially updated since the rise in popularity of e-cigarettes and vaping products. The updated advice addresses rising concerns about vaping amongst young people, particularly the concerning number of young people taking up vaping that have never smoked cigarettes, and the targeted marketing and development of vaping products to make them more attractive to this demographic. Also associated with high rates of

young vapers is the rise in popularity of disposable vapes, which present an environmental concern as these contain lithium-ion batteries, lithium being a critical mineral, which require correct disposal and recycling. The EIAG continues to recommend investment exclusions of tobacco and related products, and recommends that the NIBs encourage responsible advertising and promotion of vaping products, with particular attention to reducing the appeal of these products to children.

Work has also begun on updating guidance on gambling and high-interest lending, the latter of which has changed substantially as an industry since the EIAG's advice was published, largely due to FCA regulation of payday lenders. The scope of this advice will also extend to consider other credit products such as "Buy Now Pay Later". Whilst these forms of credit are not lent at high interest rates, the normalisation of credit and the ability to accumulate debt are concerning, particularly given their proliferation amongst young people and vulnerable groups. However, the EIAG recognises that when used and marketed responsibly, these products can be a more cost-effective means of managing personal budgets and cash flow.

LOOKING AHEAD

Big Tech and Artificial Intelligence

The EIAG's Big Tech Report, published at the end of 2022, was the culmination of around three years of work informed by conversations with a broad range of stakeholders. The advice is rooted in the EIAG's five theological principles and calls on Big Tech companies to make four key commitments:

- a commitment to verifiable transparency;
- a commitment to promote human-centred design;
- a commitment to enable the flourishing of children and other vulnerable groups;
- a commitment to foster a tech ecosystem that serves the common good.

The report also acknowledges the critical role of AI in the attention economy business model, which is the focus of the paper, and acknowledges that the ethical concerns relating to development and use of AI extend beyond its scope. Building on this,

and in light of the increased discourse on AI ethics and public calls from AI developers themselves for guidance, we formed a sub-committee to begin development of advice on AI. Given the speed at which this technology is developing, we do not expect this to be a final word on the matter, but hope that, grounded in our theological framework and the principles of the Big Tech Report, this will aid the NIBs in establishing an approach to address the use of AI by companies in their portfolios.

While much of the public conversation around AI has focused on those companies developing AI, the EIAG's advice will address the ethics of AI in both its development and its use by companies who deploy AI as part of their business activities. This advice will consider how business can harness the benefits of AI, whilst mitigating social and environmental risks, and ultimately considering the characteristics of uses of AI that are unethical.

Upcoming Advice Reviews

In 2024, we look forward to tackling reviews of more EIAG papers, including advice on climate change and other environmental considerations. Advice on property is also long overdue review, and we expect new advice on this issue to consider social and environmental factors relating to direct and indirect property investment, recognising that the nature of property holdings varies greatly between the NIBs.

THE EIAG AND EIAG NOMINATIONS COMMITTEE MEMBERSHIP

In July 2022 we bid farewell to Anna McDonald, Secretary to the EIAG, after three years with the Group. We are thankful for her service to the EIAG, particularly through the pandemic and adapting our ways of working and meeting during lockdown. Anna was also instrumental in the development of the human rights and gambling advice and the Big Tech report.

After a period without a Secretary, which gave the opportunity to review the role as part of the Health Check, we were delighted to welcome Hannah Woolley to the role in March 2023. Hannah joined the EIAG from St Paul's Cathedral where she spent five years in communications and media and worked

for the St Paul's Institute, the Cathedral's centre for public discussion and debate. Hannah has an undergraduate degree in Theology and Religious Studies from Clare College, Cambridge, and a Master's Degree in Contemporary Ethics from the University of London.

We are also particularly thankful to Bishop David Walker whose term on the EIAG finished at the end of 2023. A long-standing member of the Group, Bishop David has served on the EIAG since 2014 in his capacity as the Church Commissioners' appointed member and has been Deputy Chair since 2015 and was instrumental in overseeing the changes to the Terms of Reference of the EIAG in 2018. We are immensely grateful for his wisdom and time, and the additional perspective he brings to discussions as a member of the House of Lords. He has also generously represented the EIAG at General Synod.

Alan Smith, First Church Estates Commissioner, has been appointed by the Church Commissioners to serve on the EIAG from 2024. With a strong background in risk management and ESG, most recently as Head of Risk Strategy at HSBC, we look forward to welcoming Alan to the Group.

REPORT OF THE EIAG'S NOMINATIONS COMMITTEE

The Nominations Committee of the EIAG has continued to meet as required, to consider matters of EIAG governance and recruitment. The Committee has been pleased to renew the appointments of Barbara Ridpath as Chair and Dami Lalude as an Independent Member, both for a further term of three years.

In planning for the end of Bishop David Walker's term on the EIAG, it became necessary to appoint a Bishop to the Group, in accordance with the membership requirements of the EIAG's Terms of Reference. To enable this, the Terms of Reference were amended, with approval of the NIBs, to allow a temporary increase in the maximum number of EIAG members. The Nominations Committee coordinated with Lambeth Palace on a recruitment process for this, which was underway at the end of 2023, with a view to appoint in early 2024.

The EIAG Group and EIAG Nominations Committee Membership

THE ETHICAL INVESTMENT ADVISORY GROUP

Mr Stan CHAN
(CBF Church of England Funds)
CBF Trustee Director and member of the Audit Committee and Non-Executive Director in the social purpose sector.

Mr Kumar JACOB MBE
(Independent Member)
CEO of Mindwave, a software development company, and Board Member of computer game developer, Dream Reality Interactive, and digital sexual health service provider, SH:24.

Ms Dami LALUDE
(Independent Member)
Senior Vice President at Helios. Previously served on the Board of Directors of GBfoods Africa.

Ms Emma OSBORNE
(Church of England Pensions Board)
Trustee of the Church of England Pensions Board and Member of Investment Committee, Board Member of VisionFund International, Trustee Director of the BBC Pension Trust and The People's Pension.

Ms Amanda NELSON
(Independent Member)
CEO and Chairwoman of Vodafone Ireland.

Mr David NUSSBAUM
(Independent Member)
Chair of the Anthesis Group, International Alert, the Joffe Charitable Trust, and the Transparency International UK Advisory Council and Senior Independent Director of Drax Group plc; a Board ("Council") member of Chatham House, and of the International Budget Partnership. Former Chief Executive of The Elders, of WWF-UK and of Transparency International.

Ms Barbara RIDPATH
(Independent Member) (Chair)
Non-Executive Director at Paragon Banking Group, an external Director of ORX, Member of the Ethical Advisory Group of La Fondation Notre Dame, Member of the International Advisory Board of the Institute of Business Ethics, Associate Fellow at Theos.

Professor Robert SONG
(Independent Member)
Professor in the Department of Theology and Religion, University of Durham. Former President of the Society for the Study of Christian Ethics.

The Rt Revd Dr David WALKER
(Church Commissioners) (to 31st December 2023)
Bishop of Manchester, Deputy Chair of the EIAG, Deputy Chair of the Church Commissioners' Board of Governors.

Ms Faith WARD
(Independent Member)
Chief Responsible Investment Officer, Brunel Pension Partnership, Chair of IIGCC, Non-Executive Director, Transition Pathway Initiative Ltd.

Ms Hannah WOOLLEY
(Secretary)
Secretary to the EIAG

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.

Ms Barbara Ridpath
Chair (Ex officio)

The Rt Revd David Walker
Deputy Chair (Ex officio) (to 31st December 2023)

Canon Paul Chandler
(Appointed by CBF Funds)

Mr Stephen Beer
(Appointed by the Church Investors Group)

Mr Bill Seddon
(Appointed by General Synod)

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

Mr Alan Smith
(Appointed by Church Commissioners of England)

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