ICCR MEMBER PROFILE

The Church of England Ethical Investment Advisory Group

In each issue of the Corporate Examiner, we profile an ICCR member organization and its work in corporate social responsibility. Below, we spoke with Edward Mason.

What led the Ethical Investment Advisory Group to first develop an ethical investments policy, and how has that policy evolved over time?

The Church Commissioners (managers of the Church of England's endowment) established an ethical investment policy in 1948 when they first started to invest in equities. At that time their ethical approach comprised avoiding shares of companies involved in activities like armaments, gambling and alcohol. Most of those original exclusions remain in place and others (like tobacco) have been added.

When I started in my job in 2009, I was amused to learn that the Commissioners used to exclude newspaper businesses on account of their being considered too political. However, when the News of the World phone hacking scandal broke in 2011 and we ended up having to disinvest from News Corporation, I saw this exclusion in a new light!

Today there are three Church of England national investing bodies and they are all advised by the Church of England Ethical Investment Advisory Group (EIAG), of which I'm the Secretary. The EIAG was established in 1994 in rather unusual circumstances after the Church Commissioners were challenged in court by one of the Church of England's bishops, the Bishop of Oxford, who wanted the Commissioners' exclusions to be widened to take in all companies with subsidiaries in South Africa. While the EIAG still advises on investment exclusions, it also makes recommendations on environmental, social and governance issues, and conducts engagement and proxy voting on behalf of the investing bodies.

Edward Mason, Secretary

Shareholder resolutions are extremely rare in the U.K. Can you compare shareholder advocacy in the U.K. /U.S.?

Relationships between institutional investors and companies seem to be less confrontational in the U.K. than in the U.S. If an institutional investor has a concern about the way a U.K. company is operating, it's generally not difficult to establish dialogue with the company. And if one investor's voice isn't enough to get a company to respond properly, there are always plenty of other investors in London who take ESG issues seriously, so an engagement can be escalated by acting in collaboration.

Also, it's much harder to file a shareholder resolution in the U.K. than in the U.S. You need either to have 5% of the voting rights or to pull together a group of 100 different shareholders in order to file a resolution. Most years there are no resolutions filed at all.

We have been thinking in the London-based Church Investors Group (CIG) whether there is a place for shareholder resolutions in our activities and have embarked with some other investors on an engagement program on corporate approaches to climate change which we expect will involve filing shareholder resolutions in the 2015 AGM season. The initiative is linked to the rating system of CDP (formerly the Carbon Disclosure Project). CDP's highest performance rating is an A rating, which is awarded to companies that take extensive action to promote climate change mitigation, adaptation and transparency. We have called the initiative 'Aiming for A' because we want the companies we are engaging to achieve an A rating. However, there will still be a British twist: we are hoping that the resolutions we file will be supported, not opposed, by company management.

How does the structure of the Church's investments – i.e, whether assets are managed in a separate account or a pooled or co-mingled fund – influence how the Advisory Committee engages corporations on ESG issues?

The great majority of the assets of the national investing bodies are held directly. Pooled and co-mingled funds are generally avoided because the Church's ethical investment policies cannot be applied. However, there are some assets and strategies that can only be accessed through pooled or co-mingled funds – things like venture capital and hedge funds. The EIAG has developed guidance for the investing bodies to help them determine which funds are suitable and which are not. These are tricky judgments, but it does mean we get to talk to asset managers about ethical issues associated with their investment practices in a way that they usually haven't encountered before. Often we are able to agree side letters, changes in approach or separate share classes to accommodate ethical concerns.

Payday lending has grown to be a serious issue on both sides of the Atlantic. In the U.K. alone, it's a £2bn industry – how is the Church addressing the problem and how do you see greater collaboration "across the pond" on this issue?

The Archbishop of Canterbury has spoken very publicly about his concern about the explosion of high cost credit such as payday lending in the U.K. The Church is trying to do something about it by launching a major effort to support and grow credit unions.

The national investing bodies avoid high interest rate lenders in their direct investments, but the Commissioners were criticized in the media last year for having a

small exposure to the highest profile internet lender in the U.K., Wonga, in their venture capital portfolio. Because the exposure was in a pooled fund, the Commissioners had not been able to exclude the company. We're now going to talk more about pooled funds – how they're different from direct investments, and why they're used.

The main difference between high cost credit in the U.K. and U.S. is that in the U.K. it is all offered by specialist providers, whereas in the U.S. you have some mainstream banks involved in payday lending. We strongly support ICCR's efforts to stop mainstream banks from offering these products.

Given the global significance of climate change, how is the Church of England addressing climate change through its corporate engagements and do you see opportunities for greater collaboration on this issue by large communities of faith?

Climate change is a huge issue for us. It's hard to see it being displaced any time soon as the biggest ethical investment challenge we face. We are doing corporate engagement on climate change. As well as Aiming for A, the Church Investors Group also runs another initiative that focuses on companies that do not respond to CDP or are laggards against their peers. This program has achieved tremendous success – in 2013 72% of the companies contacted improved their performance! We are talking to ICCR at the moment about working together to extend this program to take in U.S. as well as U.K. companies.

While engagement with companies is an important component of an ethical investment response to climate change, it is not sufficient. We believe that engagement with policy makers is even more important: only policy makers can put the price on carbon that is needed to disincentivise the use of fossil fuels. We do public policy work through the European Institutional Investors Group on Climate Change, which works with INCR in the U.S.

We are conscious that climate change really matters to our stakeholders. In February the Church's General Synod overwhelmingly (274 in favor, one against) passed a motion calling on the national investing bodies to reflect the Church's theological, moral and social priorities on climate change in their investments. The EIAG is considering whether there are further, impactful ways the investing bodies can do this. We have undertaken to publish a new policy early in 2015.

Can you tell us how the Church of England is working with corporations to help address human rights risks including trafficking, slavery and unethical labor practices in global supply chains?

Modern slavery is really rising up our agenda. In March the Archbishop of Canterbury and Pope Francis came together to give their backing to the Global Freedom Network, a major new initiative in the effort to eradicate modern slavery. As part of the agreement an action plan will be drawn up under which faith investors will work for the removal of slavery from their investments. We know that ICCR has been active on this issue for longer than us and we are keen to collaborate. It was great to have Laura Berry speak on bonded labor at the Church Investors Group conference here in March.