



Ethical Investment Advisory Group

Annual Review
2008/09



"I am not saying this because I am in need, for I have learned to be content whatever the circumstances. I know what it is to be in need, and I know what it is to have plenty. I have learned the secret of being content in any and every situation, whether well fed or hungry, whether living in plenty or in want. I can do all this through him who gives me strength."

Philippians 4.11-13

Chairman's Letter



The Ethical Investment Advisory Group of the Church of England plays a unique role in the development of ethical investment practice in the UK. It has an unparalleled ability to consider ethical investment issues from a

Christian perspective in great depth and with skilled theological input.

Thanks to the Church of England's moral authority the EIAG is able to secure access at the highest levels to British business to engage on ethical issues. In 2008/09 the EIAG developed an investment framework in relation to climate change and further advice on human embryonic stem cell research in the light of scientific developments in the field and in response to the Human Embryology Bill.

In line with established procedures recommended by the EIAG, the Church's investing bodies have continued to vote in the past year – in advance of recent controversies – against excessive remuneration of business executives including

in the UK banking sector. The ongoing financial crisis and resulting recession have loomed large in our work. The EIAG is considering the ethical issues surrounding investment in financial services in the light of the financial crisis in the forthcoming year.

The EIAG has continued to engage on behalf of the Church investing bodies with a wide range of companies on major issues, including senior level meetings with EDF on nuclear power, Anglo-American on mining, BSkyB on adult channels and gambling, and Barclays on financial exclusion and executive remuneration. Such engagement has two benefits: it educates us about a company's activities, and it allows us to communicate our concerns to companies and in some cases can lead to a change in corporate behaviour. The past 12 months has been a period of turmoil and financial distress. Among the lessons which are now becoming clearer are the dangers created in the financial sector by many companies forsaking long-term thinking and ethical decision-making.

In addition to an active programme of engagement, the EIAG has given a great deal of thought over the past year to how it can continue best to serve the needs for practical ethical investment advice of the Church investing

bodies and the wider Church. The Group took the decision to embark on a comprehensive review of the ethical exclusions it recommends. The external environment, business practices, levels of business integration and views on ethics have all changed and the EIAG wishes to keep its advice relevant and practical in the light of the modern economy and world. This considered review of exclusions will take two to three years. At the same time the EIAG will continue to engage with companies on business ethics, sometimes in collaboration with other denominations.

I would like in particular to pay tribute to Neville White whose long tenure as EIAG Secretary, much applauded by EIAG members, came to an end in the past year. Neville has been succeeded by Edward Mason, working within Church House. I should also like to thank another departing member of the Group, Tony Hardy. Tony was instrumental in establishing the EIAG in 1994 and was the Group's Secretary from its inception until 2002. His long service and commitment to Christian ethical investment will be missed.

The EIAG has welcomed as new members The Revd Professor Richard Burridge, Dean and Professor of Biblical Interpretation at King's College London, and Richard Harvey, former

Chief Executive of Aviva. I am very much looking forward to their input to the work of the Group given the tremendous biblical and business expertise they respectively bring. As ever I would welcome feedback on this report from members of the Church.

John Reynolds
Chairman, Ethical Investment
Advisory Group

The Church of England's Ethical Investment Advisory Group makes recommendations on ethical investment policy to the Church of England investing bodies. The EIAG only advises; the legal responsibility for managing the Church's investments rests with the investing bodies – the Church Commissioners, the CBF Church of England Funds, and the Church of England Pensions Board. These bodies all have a moral and legal responsibility (known as 'fiduciary duty') to further the interests of their beneficiaries. While mindful at all times of beneficiaries' need for financial returns, the investing bodies seek to align their investment policies with the ethics of the Church by acting on the recommendations of the EIAG.

Climate change investment framework



In 2004 the EIAG developed, and the Church investing bodies adopted, an Environment Policy. In 2008/09 the Group worked on an investment framework specifically covering the investment implications of climate change.

The Church of England holds the view that human beings have a responsibility to God to care for his creation and that this responsibility extends to mitigating climate change. The Church's 'Shrinking the Footprint' national strategic campaign includes a target of reducing the Church's carbon footprint to 20% of 2005 levels by 2050 ('the 20% Church'). The EIAG wanted to build an investment framework from this starting point. It also wanted to take account of developing thinking on the responsibilities with regard to climate change of trustees of charities which hold investments.

What you can do if you are an investor in shares

- If you hold individual shares look at the annual report or ask the company for information. Do they disclose their carbon footprint? What is the company's strategy for adapting to a low carbon economy?
- If you hold collective investments like unit trusts or a pension ask the managers how they factor the challenges posed by climate change into their investment decisions and engagement with companies.
- Consider investing in collective investments that focus on sustainable companies and environmental technology.

Climate change has the potential to have a huge impact on the value of investments. New regulations may affect the profitability of companies who have not considered how to reduce their carbon emissions. Businesses will face losses if they are not prepared for extreme weather events such as droughts, floods, storms and rising sea levels. Companies may face legal action if they do not act responsibly. Companies may also fall behind the competition or face a consumer backlash if they do not make the transition to a low carbon economy fast enough. In short there is growing legal and investment industry consensus that trustees need to address the risk posed by climate change to the investments for which they are responsible.

The climate change investment framework adopted by the EIAG sets out the responsibilities of the Church investing bodies to assess the investment implications of climate change, to encourage their asset managers to do the same, and to invest positively in businesses that will mitigate climate change where this makes sense in investment terms.

Church investing bodies participate in the work of the Institutional Investors Group on Climate Change. The IIGCC promotes better understanding of the implications of climate change amongst its members and other institutional investors. It also encourages companies and countries in which IIGCC members invest to address risks and opportunities associated with climate change and the shift to a lower carbon economy.

One of the fund managers appointed during the year by the Church Commissioners specialises in making investments in sustainable businesses.

The new climate change investment framework is available online on the EIAG's web pages.

<http://www.cofe.anglican.org/info/ethical/policystatements/policyclimatechange.pdf>

Human embryonic stem cell research investment framework

Human embryonic stem cell research is a fast-moving area of science, government regulation and ethics. The EIAG first considered the ethics of investing in the sector in 2003. The Group reviewed the issue again in 2008/09 in the light of new developments and in response to the Human Embryology Bill.



The main scientific development that the EIAG considered was the practice of using animal eggs with the nucleus removed and injecting them with human DNA for research purposes. (The products of this practice, which are then cloned, are known as cytoplasmic hybrids or cybrids.) The practice was developed to overcome the shortage of human eggs available for use in research. The ethics of the practice were the subject of heated public debate in the UK in 2007.

The Church of England considered the practice and cautiously accepted the use of cybrids for research in the UK, taking account of the fact that the UK both strictly regulates stem cell research and has banned human reproductive cloning. The EIAG had to take a wider view because the Church investing bodies hold shares in companies around the world and invest in countries which do not have legislation governing human embryonic stem cell research. In such countries it could be possible for researchers to clone a human child.

The EIAG therefore recommended that the Church investing bodies should not invest in any company a major part of whose business involves the cloning of human embryos including for therapeutic purposes. The Group decided that this was the best policy for investing bodies with a global remit in the absence of a global ban on human reproductive cloning.

The revised embryonic stem cell research investment framework is available online on the EIAG's web pages.

<http://www.cofe.anglican.org/info/ethical/policystatements/policyembryonicstemcellresearch2008.pdf>

Policy work planned for 2009/10

In 2009/10 the EIAG will be reviewing its advice on the ethics of investment in the defence, alcohol and financial services sectors and would welcome input into the review process.

The EIAG's existing advice is on these sectors is available at <http://www.cofe.anglican.org/info/ethical/policystatements/>



Sipa Press / Rex Features



Corporate governance: using the Church investing bodies' votes

The EIAG and the Church investing bodies place strong emphasis on attention to corporate governance as part of investment stewardship. The Church investing bodies vote as shareholders in the UK in line with a corporate governance policy. Executive remuneration and the composition of boards were the main reasons for the Church investing bodies to abstain from voting on, or oppose, company resolutions during the year.

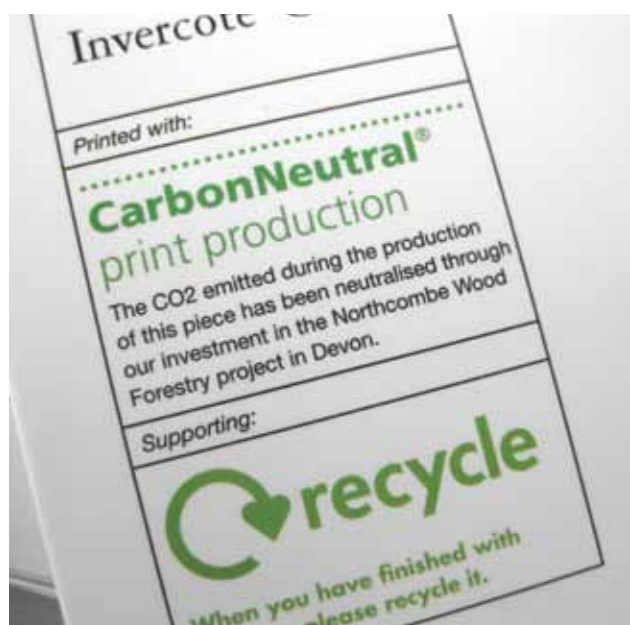
Executive remuneration is assessed against several criteria, including whether the

remuneration has the potential to be excessive. The Church investing bodies are unusual among institutional investors in routinely seeking to take potential for excess into account as part of their stewardship. Half of the Church investing bodies' UK votes against management or abstentions relate to remuneration reports. In the 2008 voting season the application of the EIAG voting template led to opposition to the remuneration reports of all the major UK banks when these were submitted to shareholders. This was done on grounds either of excess or inadequately challenging performance hurdles.

Engagement with companies: using the Church's influence

The EIAG and Church investing bodies engage with the companies in which the Church holds investments in a number of ways. The EIAG holds its own engagement meetings and discusses issues of concern with businesses, including in response to concerns raised by members of the Church.

The EIAG, on behalf of the Church investing bodies, and CCLA, on behalf of its faith group and charity clients, are embarking on a major three-year engagement programme intended to ascertain and encourage companies' conformity with the United Nations' Universal Declaration of Human Rights, the International Labour Organisation's Core Labour Standards and the requests of the Carbon Disclosure Project.



Working in partnership with Christian institutional investors

The Church investing bodies participate in the ecumenical Church Investors Group (CIG). In the past year the EIAG has organised, and opened up to other CIG members, meetings with the Chief Executive of EDF Energy to discuss the ethical context to new nuclear build, with the Chairman of Anglo American to discuss the company's approach to sustainability challenges, with the Chief Executive of BSkyB (currently an excluded investment) on adult channels and gambling, and with the Chief Executive of Barclays on financial exclusion and executive remuneration.

Information on the work of the CIG can be found at www.churchinvestorsgroup.org.uk

The EIAG participated in a groundbreaking ecumenical conference in Brussels for European churches developing approaches to ethical investment in May 2008. By working together Christian institutional investors can increase their impact on business practice.

The EIAG and the wider Church

The EIAG has a brief to communicate its recommendations to the wider church and publishes all of its main policy recommendations. We are pleased to respond to requests from parishes and dioceses to speak on ethical investing and the EIAG's work.

<http://www.cofe.anglican.org/info/ethical/policystatements/>



Feedback

The EIAG welcomes feedback on this annual review and communication from members of the Church about ethical investment issues. Please do get in touch with Edward Mason, Secretary to the Ethical Investment Advisory Group. (See back cover for details.)

The Ethical Investment Advisory Group of the Church of England provides ethical investment advice to:



The Church Commissioners for England who manage much of the historic assets of the Church of England, with a mission to support the Church's ministry, particularly in areas of need and opportunity, and to meet historic pension liabilities. They are represented on the EIAG by Gavin Oldham (non-executive member), the Revd Professor Richard Burridge (non-executive member), Andrew Brown (Chief Executive of the Church Commissioners), Mark Chaloner (Chief Investment Officer) and Joseph Cannon (Chief Surveyor).



The CBF Church of England Funds – collective investment schemes managed by CCLA Investment Management Ltd in which Church of England parishes, dioceses and church charitable trusts invest. They are represented on the EIAG by CBF Funds trustee, Lesley Farrall (non-executive member) and Michael Quicke (Chief Executive of CCLA).



The Church of England Pensions Board which administers pensions, housing, retirement home schemes and charitable funds in support of the retired clerical and lay ministry. The Board is represented on the EIAG by Pensions Board trustee Ian Clark (non-executive member) and Shaun Farrell (Pensions Board Chief Executive).

The EIAG has representatives from other parts of the Church to provide broader expertise and insight.

The General Synod is represented by the Rev Jeremy Crocker (non-executive member).

The Mission and Public Affairs Council is represented by the Rt Rev Dr Lee Rayfield, Bishop of Swindon (non-executive member), and the Rev Dr Malcolm Brown (Director Mission and Public Affairs).

The Archbishops' Council is represented by Paul Boyd-Lee (non-executive member).

The Communications Office is represented by Louis Henderson.

The EIAG has three further non-executive members.

There are two co-opted non-executive members. The Rev Canon Edmund Newell, Sub-Dean and a Canon of Christ Church Oxford, was invited to join the EIAG for his theological expertise. Richard Harvey, former Chief Executive of Aviva who stepped down to pursue charity work on African development, was asked to join the EIAG so that the Group

might benefit from his experience of business, and of the challenges of bringing a Christian perspective to business.

The EIAG has an independent non-executive Chairman, John Reynolds, who runs his own investment banking business and holds a degree in theology.

Only non-executive members of the EIAG may vote at EIAG meetings.

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The EIAG recommends against investment in any company that promotes pornography or supplies armaments, regardless of the percentage of group turnover accounted for by these activities.

The EIAG recommends against investment in any company, a major part of whose business activity or focus (defined as more than 25% of group turnover) is gambling, human embryonic cloning, doorstep lending or the supply of tobacco products, alcoholic beverages or non-offensive military equipment.

The EIAG positively recommends investment in companies with responsible employment practices, best corporate governance practice, conscientiousness with regard to human rights, sustainable environmental practice and sensitivity towards the communities in which the business operates. The EIAG engages with companies in order to encourage the adoption of industry best practice on these issues where the Church investing bodies are shareholders.

Full information on the EIAG and its work is available at <http://www.cofe.anglican.org/info/ethical/>.