DIOCESAN SYNOD

Investment Policy and Ethical Investments
Diocesan Note

1. Several Deanery Synod motions have been received for onward consideration by the Presidents for the Diocesan Synod to debate the environment and divestment of fossil fuels; the Deanery Synod motions are all very similar. After much deliberation by the Joint Chairs of Synod, including feedback from the Chairs of the Diocesan Board of Finance (DCT), Diocesan Council of Trustees, Policy and Finance Committee, and Investment Committee, it has been agreed that the motion from Battersea Deanery will be tabled at the forthcoming Diocesan Synod on 11 March.

2. Given the importance of these matters, and upcoming reports from the National Church, this item will form a broader multi-session debate with the motions set out below. A paper from Battersea Deanery has also been circulated under the heading DS(23)08A. Deaneries whose motions will not be debated will be invited to speak at the Synod on the tabled motions.

BATTERSEA DEANERY SYNOD MOTION ON ETHICAL INVESTMENT

This item will form part of a multi-session debate that will be formally moved at this Synod and then adjourned for further debate and conclusion following receipt of the Report of the National Church's review of its own ethical investment policy in the summer.

It will be a substantive opportunity to review and debate the motion with contributions from other deaneries who have proposed motions and the Chair of the Investment Committee.

The Revd Richard Taylor (Battersea Deanery) to move that:

"Ethical Investment

Reflecting our identity, values, and sense of mission as God's people, this Synod asks:

1. that the Investment Committee of the Diocese only to hold investment funds that apply comprehensive ethical criteria. This would be in keeping with the spirit of the EIAG policies, which recommends that the National Investing Bodies "should ensure that no more than 1% of

their portfolio is invested, indirectly, in assets that are or would be inadmissible for direct investment for ethical reasons and that preferably exposure should be some way below this hard limit."

2. and that the divestment from funds that do not have comprehensive ethical criteria should be completed by December 2024.

And

Divestment from Fossil Fuels

Reflecting our commitment to safeguarding the integrity of creation, this Synod asks that the Diocese:

1. divest by 31 December 2024 from those fossil fuel companies in which it holds direct investments, and move promptly towards climate-positive investments;
2. divest from those investment funds that hold, or are likely to hold, on its behalf investments in fossil fuel companies and if so, divest from the same by 31 December 2024, and move promptly towards climate-positive investments;
3. refrain from investments in fossil fuels going forward."

Amendments can be received for this item, but they will be held until the continuation of the debate resumes (at which further amendments can also be submitted.)

Background

3. Against a background of this increasing interest in the investments and investment policies of the Diocese this paper sets out following information:

- The investment policy of the Diocese
- The investments held by the Diocese, and particularly in relation to fossil fuel companies
- The ethical investment policy of the Church of England, as set out by the Church Ethical Investments Advisory Group ("Church EIAG")
- The investing policies of the three National Investing Bodies ("NIBs") of the Church of England:
    - CCLA
    - The Church of England Pension Fund ("CEPF")
    - The Church Commissioners ("CC")
- The developments that will take place in Church investing policy in 2023

Investment policy of the Diocese

4. The current investment policy of the Diocese is set out in the annual report and accounts.

5. The investment policy is

"to pursue an ethical investment policy. The Trustees are committed to following the ethical and climate change investment guidelines laid down by the Ethical Advisory Group of the National Investing Bodies of the Church of England not to invest directly but through collective investment vehicles;

to seek the best economic returns consistent with commercial prudence following the judgment in the Bishop of Oxford case."

6. The investment objectives are

   "to seek the best possible overall return on investments, having due regard to the preservation of capital and subject to agreed risk tolerance for the Diocesan Stipendiary Fund and Ministry Fund, the aim is to maximise the growth of income in the longer term whilst maintaining the inflation-adjusted value of the capital;

   for Board of Finance investments, the aim is to maximise capital and income in the longer term."

Investments held by the Diocese

7. The Diocese does not invest directly in equities (shares in specific companies) or investment property but through collective funds. Collective funds hold a range of investments in a number of companies or properties. Those funds hold the underlying assets, and the Diocese has purchased units in the funds. The Diocese holds six investment funds, each of which is a specialist charity fund. Four of these collective funds hold primarily equities (shares) and two of the funds hold investment properties, such a warehousing and retail units.

8. The funds and holdings are as follows:

   - CCLA — Equities
   - JO Hambro Capital Management — Equities
   - M&G Securities — Equities
   - Sarasin & Partners — Equities
   - Savills Investment Management — Property
   - Mayfair Capital — Property

9. The total invested at 31st December 2022 was £25.1m. Two of our funds, JO Hambro and M&G, hold shares in fossil fuel companies, predominantly Shell and BP. Our investment is these two funds is £13m, of which £1m relates to fossil fuel companies. This represents some 3.9% of our total investment portfolio.

10. M&G and JO Hambro hold Shell and BP because they are significant dividend payers. Our investment portfolio provided £1.2m of Diocesan income in 2022.

11. Were we to divest from M&G and JO Hambro and invest the funds in CCLA, who hold no fossil fuel companies, then, given the return provided by CCLA compared to JO Hambro and M&G, the Diocese would have received £0.3m less in investment income in 2022.

12. In addition to the Diocese's investments, we also hold as custodian trustee investments on behalf of parishes. Of the total of £17.9m held, parishes have £1.8m invested with M&G.

Church Ethical Investments Advisory Group

13. The Diocese invests in line with the Church EIAG. The group consists of representatives form the three NIBs, together with a number of independent members. The ethical restrictions are set out in a table at appendix A. Currently the guidelines allow investment in high carbon businesses provided there are minimum standards for engagement. The body restricts investment in line with the Transition Pathway Initiative ("TPI"). **This is an independent, authoritative source of research and data on the progress of the financial and corporate world in transitioning to a low-carbon economy, based at the London School of Economics. Their website is as follows:**

    https://www.transitionpathwayinitiative.org/

Investment policies of the National Investing Bodies

14. The NIBs all invest in line with the Church EIAG, although there are some differences between them.

    CCLA

15. CCLA is a fund manager that invests funds for a range of Church organisations (Commissioners, dioceses and parishes), Local Authorities and charities. As a fund manager it sees the need to compete in a fund managemnt market place. One of the ways if differentiates itself is to go beyong the Church EIAG guidelines and not invest in any fossil fuel companies.

    Church of England Pension Fund

16. The CEPF is the body that pays clergy pensions, funded by monthly contributions made by Dioceses and the returns they receive from their investment portfolio. They invest around a third of their funds in a passive index tracker (a fund that holds a representative sample of the market) with the remainder under active management.

17. Unlike CCLA it does hold oil and gas shares in five companies, although they do not disclose which, that meet the standards of the Church EIAG. The fund follows the TPI on selecting those fossil fuel investments, and those companies committed to be carbon neutral by 2050.

    Church Commissioners

18. The CC hold a closed fund with no new contributions paid in. Unlike CCLA, which holds only around 100 investments in companies, the CC have a much wider investment portfolio. As with the CEPF this does include fossil fuel stocks, with holdings in seven companies, again not disclosed.

Developments in 2023

19. Following a motion of General Synod in 2018 the NIBs are reviewing their holdings of fossil fuel companies, with a report due in summer 2023. The review is to identify those companies that are not prepared to align with the goal of the Paris Agreement to restrict the rise in global average temperature to below 2%. This review will also incorprate the work of the TPI on those companies that do not meet its standards of companies transitioning to a low carbon economy.

20. This review will inform the policy of the Church EIAG. The CEPF and CC are committed to divest those companies that fail to meet the threshold on low carbon comitments and engagement to be set out in the 2023 review.

The CBF Church of England Funds are managed in accordance with the guidance of the Church's Ethical Investment Advisory Group. This requires CCLA to conduct engagement with the Church National Investing Bodies and to implement the following ethical restrictions.

Theme	Further details	The CBF Church of England Funds
Climate change	Oil sands extraction	Companies that derive more than 10% of their revenue from the extraction of these fuels are restricted
	Energy coal extraction	Companies that derive more than 10% of their revenue from the extraction of these fuels are restricted
	Other High carbon businesses	Minimum standards for engagement progress
Armaments	Strategic military sales	Restricted if derive more than 10% of revenue from strategic military sales
	Civilian firearms	10% revenue restriction
	Nuclear weapons	Investment prohibited if involved in the production of these weapons
	Landmines, cluster munitions, chemical or biological weapons	Investment prohibited if involved in the production of these weapons
Tobacco		10% revenue restriction
Alcohol		25% revenue restriction
Adult entertainment		3% revenue restriction
Gambling		10% revenue restriction
High interest rate lending		10% revenue restriction
ESG Minimum Standards	Companies with an MSCI ESG Rating of B or below	Comply/explain approach applies
Respecting international norms	Substantiated allegations of non-conformity with the UN Global Compact	Engagement that can lead to divestment if no progress is made
Oppressive regimes	Sovereign debt	No debt from countries identified by NIBs as being the most oppressive
Third-party funds		Screened against ethical investment criteria

Source: CCLA. The majority of ethical restrictions are applied through standard and bespoke data feeds provided by MSCI. Revenue restrictions based on total revenue from all exposures unless stated.