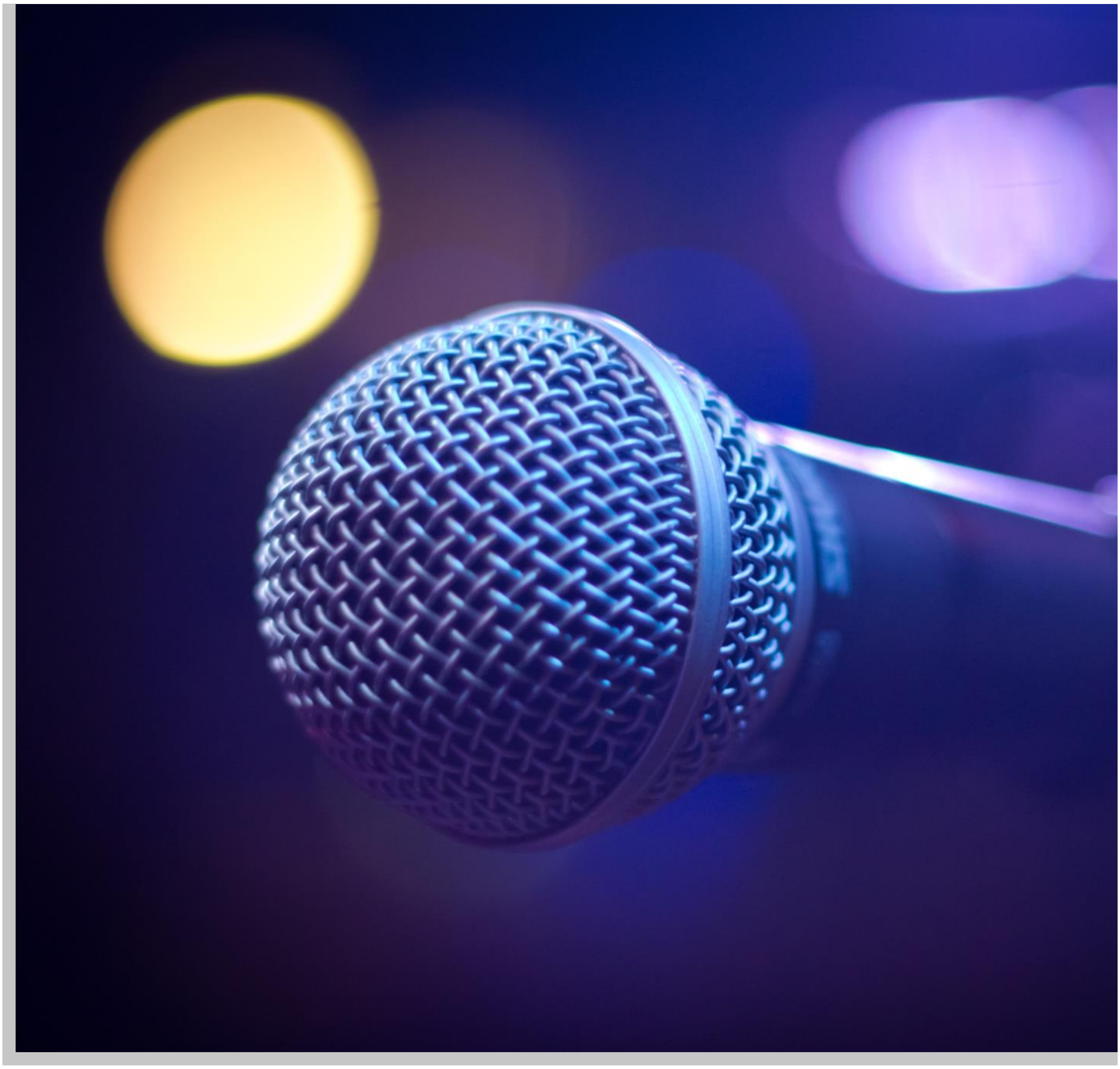
Church Investors Group

Church Investors Group
Annual Conference
23 to 24 June 2016



www.churchinvestorsgroup.org.uk

Welcome from the CIG Chair

Bill Seddon

Welcome to this overview of the Church Investors Group's 2016 Conference.

The CIG exists to help our members develop and implement investment policies that represent the Christian faith. Our Annual Conference, now in its fourth year, plays a vital role in this regard by bringing our members together to learn from each other and the many external speakers who kindly agree to join us.

I am particularly grateful to our keynote speakers Iain Conn (Chief Executive Officer, Centrica) and The Right Honourable Sir Vince Cable (Former Secretary of State for Business, Innovation and Skills) for freely giving their time. The willingness of such high profile, expert, speakers to address the Group is a reminder that the church, as an investor, can be a powerful and respected force for good within the financial markets.

To this extent I was inspired by Bishop John Arnold's call for CIG members to act as 'Ambassadors for Christ'. I have often argued that being a trustee or employee of a church investor is a specific 'calling' to serve and was delighted that Bishop John highlighted the inter-connectedness between the Church, its mission and the financial markets. Our members' role in providing funding to the Church is so often downplayed.

Finally, I hope that this brief report not only provides a showcase for the good work of our members, but also conveys something of the breadth of the issues that they take into account in their investment practice.

The Church Investors Group Conference was attended by delegates representing the following church investor organisations:

Advisory Committee of the Charifaith Common Investment Fund

Arbeitskreis Kirchliche Investments

Baptist Union of Great Britain

Barrow Cadbury Trust

CBF Church of England Funds

Central Finance Board of the Methodist Church

Christian Aid

Church Commissioners for England

Church in Wales

Church of England Pensions Board

Church of Scotland Investors Trust

Diocese of Southwark

Diocese of Westminster

English Province of the Order of Preachers

The Ethical Investment Advisory Group for the Church of England

Evangelish-Lutherische Kirche in Bayern

The Interfaith Centre on Corporate Responsibility

Investment Advisory Board of the Methodist Church in New Zealand

Joint Advisory Committee on the Ethics of Investment (Methodist Church)

Jesuits in Britain

Joseph Rowntree Charitable Trust

Methodist Ministers' Pension Trust

The New Zealand Anglican Pension Board

OVF (Norwegian Church Endowment Fund)

Panahpur

Plater Trust

Polden-Puckham Charitable Foundation

Religious Society of Friends

The Salvation Army

The Scottish Episcopal Church

SHARE - Canada

URC Ministers' Pension Trust

URC South West Synod

URC Trust

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Opening act of worship
The Rt Reverend John Arnold,
Bishop of Salford

"What will make us good ambassadors?"

Drawing on three of Pope Francis' encyclicals, Bishop John Arnold reminded delegates of the connectedness between the church, their faith and the investment market. He encouraged church investors to be Missionary disciples: to nurture an intensely personal discipleship but to express this in their work and not to keep it private. In doing so Bishop John highlighted St. Paul's exhortation to the Corinthians to be "ambassadors for Christ". An ambassador has delegated authority to achieve the mission of the one who sent them. What makes a good ambassador is someone who, through their own service, grows closer to their master - Christ.

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Keynote Speech
The Rt Honourable Sir Vince Cable, Former Secretary of State for Business, Innovation and Skills

"The role for Church Investors is to bring Christian moral values to bear on investment decisions"

In his keynote speech the Right Honourable Sir Vince Cable drew upon his experience of senior roles in government and business to encourage the delegates to promote long-termism and to seize the opportunity to be a moral voice within The City.

He began by noting that capitalism within the UK had become increasingly fixated upon the short-term. Many company directors focused almost exclusively upon delivering short-term shareholder value for investors who, in turn, believed that they had a fiduciary duty to maximise quarterly investment returns for their beneficiaries. This did not reflect the requirement for company directors to act in the interest of all stakeholders and was negatively impacting the long-term competitiveness of UK business due, for example to reductions in training and research budgets.

Addressing this had, consequently, been a priority during his time as Secretary of State and he reminded delegates of two reforms that he had instigated. Following Kraft's Cadbury takeover, he had introduced the requirement for the takeover panel to include long-term factors in their thinking. This had already led to the proposed takeover of one large UK Company being rejected. Second, he focussed on Professor Kay's Report into the operation of UK equity markets. Through this review Professor Kay had identified that the erosion of trust and misalignment of incentives throughout the investment chain were key sources of short-term decision making. One of the Report's recommendations led to the Law Commission clarifying that fiduciary duty, for trustees and investment managers, did not necessarily mean the maximisation of short-term investment returns but allowed the incorporation of longer-term factors. Sir Cable reminded delegates that, as Church investors, they had a key role to play in demonstrating the benefits of long-term investing.

Sir Vince noted that many companies that had sought to take a long-term view were in industries that elements of the Church saw as being problematic. He particularly focussed upon the thinking that he had been involved with as Royal Dutch Shell's Chief Economist in the 1990's. This had recognised the importance of transitioning to a low carbon future and led to initial steps to move away from coal and other high carbon investments. Sir Vince noted the that the company had varied from this approach in the intervening years but welcomed the renewed focus on natural gas following the takeover of BG Group. In regards to climate change he concluded by recognising the continued need for fossil fuels but warning of the very real risk of high carbon assets, such as tar sands, becoming stranded.

Sir Vince finished by encouraging church investors to continue to use their moral values to make a positive contribution to addressing the issues of short-termism. He noted that the Church had a particular role to play in seeking to curb excessive executive pay and promoting better gender diversity on company boards.

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Nutrition and Obesity: Challenges for Global Food Producers and Retailers
Rachel Crossley and Katie Gordon

Global policy makers are becoming increasingly concerned about the implications of under nutrition and obesity. This session provided an overview of the key issues and challenged CIG members to engage on the topic.

Rachel Crossley, Senior Adviser, ATNI
Rachel Crossley informed delegates that 65% of the world's population lived in a country where obesity was responsible for more deaths than malnutrition and that McKinsey estimated that it cost over $2trillion globally, with the potential to rise to $90trillion. Investors were yet to seriously engage with this topic; the Access to Nutrition Index (ATNI) had been developed to help change this.

She reminded delegates that ATNI assessed food manufacturing companies against 200 indicators. These included the affordability and accessibility of their products, the labelling of nutritional content and governance. The companies' ratings were available online.

Recognising ethical investors' longstanding concern with the inappropriate marketing of Baby Milk Substitutes she introduced ATNI's approach to considering companies; this included conducting in-depth studies in Indonesia and Vietnam to assess marketing practices. Whilst all companies' practices required improvement, Nestle and Danone had achieved the highest ratings. CIG members had engaged extensively with both companies.

Ms Crossley concluded by encouraging CIG members to ask their fund managers about engagement on issues relating to nutrition and obesity.

Katie Gordon, Stewardship Director, CCLA
Katie Gordon provided practical examples of the potential for engagement on nutrition and obesity. Guided by the Access to Nutrition Index and the UK Government's Public Health Responsibility Deal (PHRD) CCLA had developed a set of minimum expectations. This had led to intense engagement with three companies over three years. Following engagement these particular companies agreed to disclose more details of the calorific content of their products to consumers, sign PHRD pledges on calorie and salt reduction and one company conducted a board level review of the risk that poor nutritional standards posed to their business.

Recognising the economic impact Katie concluded by informing delegates that she was developing an assessment framework about childhood obesity. This would look at companies' governance, long term strategy, marketing and promotion, product reformulation and nutritional labelling. Initial conversations had taken place with four UK Food and Beverage companies but the full scope of the engagement was still to be finalised. CIG members would be kept informed as it developed.

"Poor nutrition & obesity are greater threats to society and the economy than climate change"

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BankingFutures

The culture and practices of the UK banking sector has long been a particular focus for church investors: an interest that has intensified since the financial crisis. This session informed CIG members of the BankingFutures initiative that brings together a wide variety of stakeholders, including the banks themselves, to bring about change.

"The focus on short-term shareholder value destroyed long-term value in the banking sector"

Sophia Tickell, Meteos & Anne Wade, Leaders Quest

Ms Tickell and Ms Wade introduced BankingFutures as being an ongoing dialogue on the future of the banking sector between over 200 stakeholders, including civil society, regulators, investors and senior representatives of the banks themselves. Whilst the banking sector, rightly, had been seen as being primarily responsible for the financial crisis all of these Groups had played a role in bringing it about and needed to work together to find a solution.

Specifically the initiative had identified a number of tensions in the sector. These included the size of the sector relative to GDP, meaning that from a government perspective, the sector as a whole – if not individual banks – is too big to fail. The resulting implicit or explicit public subsidy, means that the sector should underpin – and serve – the public interest. However, the key finding was the need to rediscover 'the purpose of banking', as concentration had moved away from serving the public to delivering short-term shareholder value.

Ms Tickell and Ms Wade concluded by stating that although BankingFutures had been expected to finish in 2016, work would continue on three specific topics. These were rebuilding links with the real economy, creating a culture of long term value creation, and treating customers with respect.

The CIG would be involved in the project as it developed.

Matt Hammerstein, Managing Director, Head of Customer & Client Experience, Barclays

Mr Hammerstein began by informing delegates that banks needed to work hard to restore pride in the profession. He was aware that many of his colleagues hid where they worked from their friends and that this was an indictment upon the industry's behaviour and public standing. To regain pride the industry needed to demonstrate to society a clear sense of purpose and re-establish their role promoting economic development.

It was not, however, simply good enough to return to how banking was provided in previous decades. Matt suggested to delegates that views about 'the good old days of banking' were often misplaced. Whilst it had many benefits including a direct relationship with customers, 'old style' relational banking was frequently divisive and exclusive. Bank managers, as exemplified by Captain Mainwaring in the popular sitcom 'Dad's Army', were drawn from a particular social class who naturally favoured other people like them. The development of technology offered banks the opportunity to re-establish contact with their customers but in an inclusive and non-discriminatory manner. Banks needed to become the "the love child of Captain Mainwaring and Siri".

"My name is Matt and I am a banker"

Mr Hammerstein spoke about the BankingFutures project's findings from the perspective of a senior bank employee.

He noted that several of his colleagues sought to hide their career and that this was indicative of a lack of pride in banking. This needed to be readdressed.

In rebuilding an appropriate culture he highlighted a need for the sector to avoid dehumanising their workers. This would include co-operation between the banks and regulators. Financial services regulation operated in a way that required some of Barclay's investment banking departments to operate in a manner that required employees to leave all contact to the outside world at the door. This was having negative consequences in regards to promoting behaviour that was removed from society's expectations.

Mr Hammerstein was committed to continuing to participate in BankingFutures.

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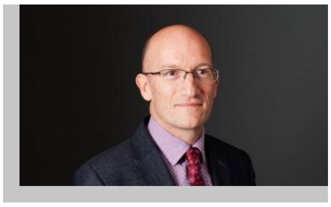
The Transatlantic Challenge: Climate Change and Engagement

Climate change is the key ethical investment issue of our time. Whilst the particular methods used differ the members of the Church Investors Group agree on the moral and financial need to limit global temperature rises.



Dominic Emery,
Vice President, BP

In addressing the challenges of climate change Mr Emery told delegates that BP had been around for over one hundred years and that it wanted to be around for another hundred. However, due to global efforts to limit temperature rises, this would of course require BP to adjust their business models and approach.

BP also recognised that they needed to play a key role in accelerating the low carbon transition. This was particularly reflected in their public policy work with legislators. BP felt that carbon pricing was the most effective way of promoting an orderly energy transition; as such they were a member of the World Bank Carbon Pricing Leadership Group.

Mr Emery praised the role that Church investors had played in their active engagement with the company, claiming that this had a significant impact. By way of example, he explained that "portfolio resilience" – the concept of assessing the robustness of the company's portfolio against the climate sensitive future energy requirements - wasn't a term in the oil sector lexicon prior to engagement.

In conclusion, Mr Emery recognised the right of Church investors to respond by addressing climate change in their own ways. However, having experienced the power of engagement he challenged delegates not to lose their voice by divesting.

Kirsty Jenkinson,
Managing Director, Sustainable Investment Strategies, Wespath Investment Management

Kirsty Jenkinson provided conference delegates with the perspective from a church investor in the United States. She remarked that hearing BP's openness was almost like "listening to a different world" compared to her experience with many US oil and gas companies.

The biggest difference between the UK and US was the political environment in which oil companies operated in. Despite reforms by the current US administration, scepticism about action on climate change still existed within the US Senate and across parts of the country. Ms Jenkinson highlighted Exxon and Chevron's ongoing reluctance to engage on the issue. However, she pointed to the unprecedented support from their investors for recent climate-related shareholder resolutions at both companies, led by Wespath and the Church Commissioners.

Welcoming the growing co-operation between UK and US Church investors, Ms Jenkinson finished by explaining her future priorities for engagement with oil and gas companies. This would continue to be based upon the Global Investor Coalition's 'Oil and Gas Expectations' document to promote better climate preparedness and to ensure public policy alignment with the Paris agreement.

Edward Mason,
Head of Responsible Investment, The Church Commissioners

Edward Mason updated delegates on the efforts to internationalise the 'Aiming for A' initiative, which had been working with the largest UK-listed companies on their response to climate change.

He reminded the Conference that the largest CIG members had been core members of 'Aiming for A' and that many CIG members had participated in the programme by co-filing successful Shareholder Resolutions at BP and Royal Dutch Shell in 2015 and AngloAmerican, Glencore and Rio Tinto in 2016. These shareholder resolutions had been designed to be supportive of the companies' existing activity but to push them to do more in regards to five key factors; including assessing the resilience of portfolios against future energy scenarios. They had been supported by the companies and over 95% of shareholders.

The Church Commissioners had also co-filed a similar resolution at ExxonMobil. Engagement with the company had been much more difficult; the company had, unsuccessfully, requested that the Securities and Exchange Commission remove the resolution from their ballot paper. Despite the company's opposition the resolution was supported by 38% of shareholders. Work would continue with the company and its shareholders.

Mr Mason left the church investors with a positive message. He was personally "more optimistic than ever on where investors are on climate change engagement"

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Keynote Speech
Iain Conn,
Chief Executive, Centrica

"We've begun to make the changes that are necessary to make this planet sustainable."

Iain Conn provided delegates with an overview of the transition to a low carbon economy from the perspective of an energy and services company.

He began by noting that the low oil price coupled with a lack of an effective international carbon price meant that the incentives to move from a high carbon economy were not there. That said global energy use per GDP had begun to fall and, whilst it would not limit global temperature rises to 2 degrees above pre-industrial levels, the Paris Agreement had made a seminal change in how climate change was perceived. Mr Conn noted that the international community needed to adopt a pragmatic pathway to a low carbon future.

Mr Conn continued to note that the amount of carbon released per unit of energy was declining at Centrica. The company had a big role to play in the move to a lower carbon economy and he identified two areas where they were being proactive in this regard. First, in addition to its focus on gas (a relatively clean fuel source) it continued to incorporate renewable energy into the electricity it supplied to customers. As part of this commitment it had completed power purchase agreements that enabled the further development of wind farms. Second, the company sought to help its customers use less energy. Technological developments such as Hive, smart meters and devices that provide real-time energy consumption data and help identify unusual spikes in energy usage (as this was often a clue that consumer goods were faulty), were enabling its' customers to control and limit energy usage to when it was most required.

On a wider basis further work was needed in four areas in order to decarbonise the electrical grid over the medium term: greater energy efficiency, short term increases in natural gas, more nuclear power and cost efficient renewables.

Recognising the Church's concerns about fuel poverty Mr Conn noted that Centrica worked to support vulnerable customers through the Warm Home Discount Scheme but also through its independent energy trust. This provided help with debt rescheduling and in some cases wrote off debts completely. Centrica had given the Trust £85m to date which had helped 176,000 people.

Mr Conn interacted with delegates discussing issues such as gender diversity, the Living Wage and carbon capture and storage. He concluded by thanking the Church Investors Group's members for being active shareholders. He found engagement dialogue to be particularly productive and welcomed ongoing conversation.

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Church Investors Group, working for you

The Church Investors group seeks to play a positive role in promoting responsible business practices through engagement with the management of investee companies. This session highlighted ongoing work and the impact that it was having.

Andrew Adams,
CBF Church of England Funds

Andrew Adams presented longstanding engagement work with FTSE 350 constituent companies, in prioritised sectors, who had not achieved a CDP Climate Change Performance Grade of 'C' (rated on an A-E scale). He noted the success of the engagement. 59 of 96 companies that had been engaged between 2013 and 2015 had shown improvement in their CDP score. Of these, 35 had reached the requested 'C Grade'. This work had been assessed by academics at the University of Edinburgh who had found, to a 95% confidence level, that engagement had been responsible for the improvements.

To provide more details of the steps that companies had taken to improve their CDP score Mr Adams gave delegates the example of an energy services company. This particular company had achieved a C Grade by setting new greenhouse gas emission reduction targets, implementing GHG reduction initiatives, increasing the percentage of their energy that came from renewable sources and improving their risk reporting.

Mr Adams concluded by informing members of engagement undertaken in 2016. Following this work he expected 23 companies to improve when the 2016 CDP Scores were released in the autumn.

Kate McNab,
Central Finance Board of the Methodist Church

Kate McNab presented the delegates with details of engagement work that she had done on corporate water use.

She informed the Conference that in just 11 years demand for water was set to outstrip supply by 40% and that the World Economic Forum ranked water crises as being the most impactful of their top 10 risks. As a consequence, water scarcity was both a material issue for companies and an ethical issue for Churches who wished to ensure appropriate access for local populations.

Ms McNab had engaged 37 companies who had not responded to CDP's Water Stewardship Programme. The CDP Programme asked companies in high water use sectors to provide data on their approach to managing appropriate usage. Following engagement seven companies had committed to participate in 2016 for the first time and a further nine said they were open to participating in future years.

Ms McNab finished by noting that CDP would be ranking companies responses to the Water Programme for the first time in 2016 and that this would allow for more detailed engagement in the future.

James Corah,
Church Investors Group

James Corah introduced the Church Investors Group's focus on inequality.

He began by stating that inequality was an increasing area of focus for investors. Recent research published by MSCI had shown that high levels of inequality amongst staff could reduce long-term company performance and the Organization for Economic Co-operation and Development (OECD) had highlighted that higher levels of inequality, at the nation state level, negatively impacted upon economic growth.

Dr Corah continued to note that CIG members had long sought to address inequality through company engagement. The CIG proxy voting initiative used strict criteria to assess executive remuneration reports and policies. This routinely led to CIG members voting against the vast majority of UK remuneration proposals.

Dr Corah also described how the CIG had been successful in encouraging FTSE 100 constituent companies, within the financial services and pharmaceutical sectors, to become accredited living wage employers. Following engagement, conducted between 2010 and 2015, 11 out of 13 companies engaged by the CIG had sought the living wage accreditation or expected to do so soon

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Debate: "This Conference believes that ethics are damaging to the growth of responsible investment"
Chaired by Daniel Brooksbank

Responsible investment, loosely defined as the integration of environmental, social and governance factors into investment decision making and stewardship activities, has enjoyed significant growth over the past few years. However, despite a focus on similar issues the industry has been keen to distinguish itself as being based upon financial materiality rather than 'ethical' considerations. Daniel Brooksbank, Editor at Responsible-Investor.Com chaired the first CIG Conference debate to consider whether ethics were, indeed, damaging to the growth of responsible investment.

For The Motion

Simon Howard,
Chief Executive, UKSIF

Simon Howard spoke for the motion arguing that ethics were highly subjective and opened the industry up to more questions than it answered. He noted that different fund managers were likely to have different ethical codes, leading to different behaviours and that there was no clear and consistent clarification between excluding or engaging with companies on issues of ethical concern. Instead he argued that responsible, sustainable, investment operated to clear, understandable and transferable practices.

"I think that there is a possibility that aggressive following of ethics will damage responsible investment"

Andreas Hoepner, Associate Professor of Finance, Henley Business School

"Divestment can be 'feel good' ethics, not' impactful' ethics"

Andreas Hoepner focussed upon the impact of ethical decision making. Taking a controversial topic for Church Investors, fossil fuel divestment, he questioned whether decisions to exclude stocks had any wider impact other than ensuring that the investor felt comfortable that they were not profiting from the activity.

Responsible investment allowed more fund managers, who did not necessarily act ethically, to invest in a way that recognised long-term factors.

Against the Motion

Rob Lake,
Rob Lake Advisers

Rob Lake argued against the motion claiming that it was 'errant nonsense' that responsible investment could exist without ethics. In order to be genuinely responsible, investors needed to be aligned with the values and needs of society as a whole. This was the approach of genuinely ethical investors. Mr Lake concluded by stating that for all the importance of metrics and alpha, responsible investment risked becoming side tracked and dehumanized by them. It would thereby fail to address the true need to question the purpose of investment.

"The Separation of Head and Heart is arguably the greatest systemic risk that we face"

Barbara Ridpath,
Director, St Paul's Institute

"People are scared of saying that something is wrong. Church investors need to do this"

In arguing against the motion Ms Ridpath reminded delegates that it was impossible to separate the economy or the market from society; by way of example Adam Smith was not just the author of *The Wealth of Nations* but also *The Theory of Moral Sentiments*. She argued that a perversion of economic theory had occurred which meant that we knew the price of everything and the value of nothing. This was the danger posed by separating responsible investment from ideas and notions of ethics. Ms Ridpath concluded by reminding delegates that they were in a unique position of having a clear moral purpose and that they needed to do what others would not; say that somethings are wrong.

The Conference rejected the motion unanimously.

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Faith investing outside the UK

The Church Investors Group is actively seeking to build an international network of faith investors.

Josh Zinner,
CEO, the Interfaith Center on Corporate Responsibility

Josh Zinner introduced himself to CIG delegates as the new CEO of ICCR and noted the productive relationship that existed between the two organizations.

In seeking to articulate his vision for ICCR Mr Zinner stated that faith-based and values-based investors play a critical role in the SRI movement, in focusing on the community impacts of corporate practices; in continually raising the moral as well as the business case; and in pressing companies on the long-term value of ethical business practices. He welcomed the impact of CIG engagement, particularly on the Living Wage as investors often overlooked the importance of the social, as well as the environmental, factors in the ESG equation.

ICCR's current priority areas are climate change, human rights/human trafficking, water sustainability, and food justice, including childhood obesity and the use of anti-biotics in the food chain.

Mr Zinner concluded that whilst US and UK faith investors may have different cultures and different styles, they shared a deep commitment to social change and there were many opportunities to work together productively.

"A lot of environmental, social and governance integration talk is just words, it is devoid of meaning"

Karin Bassler, Secretary, Arbeitskreis Kirchlicher Investoren

"We hope that we can engage with German companies for you and that you can engage UK ones for us"

Revd Dr Bassler informed CIG delegates that AKI, a group of Investors from the Protestant Church in Germany, had now become a formal organization. They were developing their activities and aims and would be seeking to publish a new version of their Sustainable Investment Guidelines in the medium term. As an organization they clearly saw the potential for a formal link with the CIG that would allow for international engagement co-operation.

Peter Chapman, Executive Director, Shareholder Association for research and Education

Mr Chapman informed delegates of the growing interest in responsible investment being shown by Church Investors in Canada. SHARE had recently hosted their third annual church investor conference which had discussed the need for more international co-operation.

Mr Chapman welcomed the ability to join in with initiatives such as Aiming for A and noted that human rights would continue to be a key focus in the coming years.

"Canadian church investors have benefitted from involvement with the Church Investors Group"

The Church Investors Group represents institutional investors from many Church denominations and church related charities. Whilst each investor is responsible for its own investment policy our members come together on issues of common concern.

Currently the CIG has 59 members, predominantly drawn from the UK and Ireland, with combined investment assets of over £16bn.

Further information
www.churchinvestorsgroup.org.uk

or from the CIG Secretary at:
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The CIG secretariat is provided by CCLA GOOD INVESTMENT