



Church Investors Group

Possible Discussion Points for CIG Members on Ethical and Responsible Investment

“CIG members invest in a variety of different ways with a wide range of investment objectives and different ethical policies.”

Church Investors Group members are charged with the responsibility of investing their Pension Scheme, Church, or charity’s financial resources in order to fund the continued mission and ministry. This requires them to deliver appropriate risk adjusted returns whilst also seeking to reflect and promote the values of their faith when making investments. Each of our members is responsible for developing and implementing their-own investment policies to meet this dual responsibility.

CIG members invest in a variety of different ways with a wide range of investment objectives and different ethical investment policies. In implementing their policies the majority of our members invest their assets through third party investment managers. Using investment managers allows our members to benefit from scale as well as specialist knowledge and expertise that would not otherwise be available. However, it also involves passing responsibility for the implementation of investment policies to the investment manager. This requires a clear understanding of each other’s requirements and processes.

To aide with this process the CIG has developed some suggestions that our members might want to consider when appointing, meeting with, or reviewing their investment manager. The discussion points are explained in full in the document and re-organised specifically for manager appointment and review meetings in the appendix.

Reflecting the Church Investors Group’s Aims and Objectives this guidance is limited to implementing existing ethical and responsible investment. Guidance on broader investment issues can be found from organizations such as the Association of Charitable Foundations. This guidance is also only focussed on ethical and responsible investment in Listed Equities.

Ethical and Responsible Investment

The Context

“The Charity Commission defines Ethical Investment as ‘investing in a way that reflects a charity’s values and ethos and does not run counter to its aims’.”

The definitions of ethical and responsible investment are contested. For the purpose of this document ethical and responsible investment issues are defined as follows:

The Charity Commission defines Ethical Investment as: ‘Investing in a way that reflects a charity’s values and ethos and does not run counter to its aims’

In seeking to reflect and further the values of the faith many CIG members have included ethical investment considerations within their investment policy. This includes: the restriction of certain business activities from investment (such as the production of armaments), identifying some areas for making positive investments (such as renewable energy) and conducting engagement to change corporate practice (on issues such as the Living Wage). Specific ethical investment requirements will differ by member.

The Principles of Responsible Investment (PRI) define Responsible Investment as being: ‘An approach to investment that explicitly acknowledges the relevance of environmental, social and governance (ESG) factors, and the long-term stability of the market as a whole. It recognises that the generation of long-term sustainable (investment) returns is dependent on stable, well-functioning and well governed social, environmental and economic systems’.

The implementation of Responsible Investment involves: altering stock selection processes to incorporate ESG criteria, and conducting engagement with companies and public policy makers to lead to improvements in ESG practice or performance. The primary reason for the adoption of Responsible Investment practices for some investors is the belief that they will lead to better long-term risk adjusted investment returns. The PRI also believes that RI will better align investors with the broader objectives of society. Several CIG members explicitly identify responsible investment considerations in their Investment Policies.

Ethical Investment

Questions for Your Fund Manager

The majority of CIG members rely upon their fund managers to implement ethical investment policies. As a consequence, the ability for a manager to incorporate ethical investment criteria into their investment approach is likely to be a key consideration. This section highlights some questions on ethical investment that members may wish to ask of themselves and/or their investment manager as part of the manager selection, monitoring, or review process.

Ethical Restrictions: The majority of Church Investors Group members have ethical investment policies that require fund managers to identify which companies fail to meet the terms of the policy (normally conducted via a specialist data provider), and implement resultant restrictions from investment. In this area CIG members may wish to ask:

- a. *The extent to which the manager is able to comply with any investment restrictions as required under your ethical investment policy?*

Many CIG members invest via pooled funds and may not be able to identify a Fund that meets the full terms of their policy. Instead they may wish to *test the appropriateness of prospective Fund policies* against their own. CIG members investing via pooled funds may wish to *confirm that the Scheme Particulars accurately reflect the advertised ethical restrictions*

CIG members investing via a 'segregated' or bespoke account may wish to *consider incorporating their ethical investment policy into the legally binding Investment Management Agreement*

Whether investing through a pooled or segregated fund, CIG members may periodically want to review the holdings within the fund to ensure that they are consistent with their ethical positioning

- a. *Is ethical screening data used in the management of the portfolio? Who is providing this information and what research guidelines are being used to implement the ethical screen? How often do they update their data?*
- b. *What is the process for screening companies that are not covered by the ethical screening provider?*
- c. *How are ethical investment criteria taken into account when your manager is considering making an investment in another fund?*
- d. *Are ethical restrictions incorporated into trading systems to prevent purchases being made in error?*

Ethical Investment

Questions for Your Fund Manager

Ethical Engagement: As part of their ethical investment policy some CIG members stress the importance of engagement on issues that are important to them as church investors. Whilst the CIG conducts some engagement, CIG members may wish to enquire as to:

- a. *The extent to which the manager is able to conduct engagement on ethical issues that may be required by the client?*
- b. *Does the manager report progress on engagement and, if so, how?*
- c. *Does the manager have an engagement escalation process and how would the manager respond on unsuccessful engagement?*

Positive Investment: Some CIG members' ethical investment policies mandate small allocations to investments that deliver clear environmental or social benefits. In such cases CIG members may wish to explore:

- a. *How the manager would define a 'positive' investment*
- b. *The extent to which the manager would be able to deliver such investments?*

Responsible Investment

Questions for Your Fund Manager

Responsible Investment is different to ethical investment. Investment managers are responsible for the implementation of CIG members' ethical investment policies. However, Responsible Investment is an integrated part of investment management, they are responsible for both policy development and implementation. As a consequence when appointing and monitoring managers CIG members may wish to consider the following:

Overall Responsible Investment Process: There are an increasing number of signatory bodies and ratings services for assessing Fund Managers' approach to responsible investment. CIG members may wish to ask:

- a. *Is the Manager a Signatory to the Principles of Responsible Investment and, if so, what is their most recent PRI Assessment?*
- b. *Does the manager support the Financial Reporting Council's Stewardship Code? What tier rating has their response to the FRC UK Stewardship Code been given?*
- c. *Who has responsibility for Responsible Investment policy and practice? Is this considered routinely by the Fund Manager's Board of Directors?*
- d. *How does the manager report on their responsible investment activities (including engagement and voting)?*
- e. *How is Responsible Investment incorporated into Investment Management Agreements and Scheme Particulars?*

Whether investing through a pooled or segregated fund, CIG members may periodically want to review the holdings within the fund to ensure that they are consistent with their manager's responsible investment positioning

Environmental, Social and Governance Criteria in Stock Selection and Portfolio Management:

PRI Principle One asks managers to incorporate environmental, social and governance criteria into stock selection and portfolio management. CIG members may wish to ask:

- a. *How are environmental, social and governance criteria included in stock selection processes?*
- b. *How does this actively influence portfolios?*
- c. *Does the manager monitor and report on the ESG characteristics of their portfolios compared to benchmarks/comparators?*
- d. *Does the manager commission an annual carbon-footprint of the portfolio? If so how does this compare to benchmark/comparator?*
- e. *Has the manager de-selected stock on ESG grounds?*

Responsible Investment

Questions for Your Fund Manager

Active Ownership: PRI principle Two asks signatories to be active owners and incorporate ESG practices into dialogues with companies and policy makers. Similarly, the UK's Stewardship Code (produced by the Financial Reporting Council) aims to increase the standard of engagement between companies and investors in order to help deliver appropriate risk adjusted returns. In assessing and monitoring investment managers CIG members may want to ask:

- a. *Does the manager conduct engagement?*
- b. *How does the manager set priorities for engagement with portfolio companies?*
- c. *How is engagement progress monitored and reported? How would the manager deal with unsuccessful engagement?*
- d. *How does engagement relate to the investment management process? Can the manager give examples of specific engagement work that they have carried out and how it has affected the investment process?*
- e. *How does the investment manager vote at AGMs? In what circumstances would the manager vote against management? (The CIG member may wish to compare their fund manager's voting record to the CIG voting initiative or the annual TUC Voting Report).*
- f. *How does the Fund Manager consider ESG shareholder resolutions? Has the Fund Manager ever co-filed shareholder resolutions on ESG issues?*
- g. *Does the Fund Manager engage with public policy makers on ESG issues and if so how?*

Appendix One

Possible Issues to Consider as Part of Manager Appointment

CIG members may wish to consider whether the following are relevant considerations when appointing a new Fund Manager or conducting a formal review of the incumbent. Priorities will differ from CIG member to CIG member dependent upon their investment policy. This list should not be used without consideration of your own context.

Ethical Investment: Restrictions	
For Pooled Funds Only:	
<i>Does the Fund implement ethical restrictions that are appropriate for your policy?</i>	
<i>Are these Ethical Restrictions included in Fund Marketing Documents and the Scheme Particulars?</i>	
For Segregated Accounts Only:	
<i>Will the Manager implement your ethical investment restrictions in full?</i>	
<i>Will this be written into the Investment Management Agreement?</i>	
For all Account Types:	
<i>Who provides ethical screening data?</i>	
<i>What is the process for screening companies that might not be covered by your ethical screening data provider?</i>	
<i>How is ethical investment criteria considered when making investments in subsequent funds?</i>	
<i>How are ethical restrictions coded into trading systems to prevent purchases being made in error?</i>	
Ethical Investment: Engagement	
<i>Does the manager conduct engagement? Does this meet the needs of your ethical investment policy?</i>	
<i>How is engagement reported?</i>	
<i>What steps does the manager take if engagement is unsuccessful?</i>	
Ethical Investment: Positive Investment Allocations	
<i>How does the manager define a 'positive' investment?</i>	
<i>Can the manager meet any expectation you might have to make 'positive investments'?</i>	
Responsible Investment: Strategy	
<i>Is the Manager a Signatory to the Principles of Responsible Investment, if so how did they compare to peers in the most recent UNPRI Assessment?</i>	
<i>Does the manager support the Financial Reporting Council's Stewardship Code Statement? If so, what tier have they been graded at?</i>	
<i>Who has overall responsibility for responsible investment policy and practice? Is this routinely discussed by the Fund Manager's Board of Directors?</i>	

<i>How does the Manager Report on Responsible Investment activities including engagement and voting?</i>	
<i>Is Responsible Investment included in the Scheme Particulars or IMA?</i>	
Responsible Investment: Integration into Investment Decision Making	
<i>How are Environmental Social and Governance Considerations incorporated into investment decision making? How does this alter portfolios?</i>	
<i>Does the manager monitor ESG characteristics of portfolios compared to benchmarks?</i>	
<i>Does the manager commission an annual carbon footprint of the portfolio? How does this compare to benchmark?</i>	
Responsible Investment: Active Ownership	
<i>How does the manager set priorities for engagement with portfolio companies?</i>	
<i>How is engagement progress monitored? What happens if engagement is unsuccessful?</i>	
<i>How does engagement relate to investment decision making?</i>	
<i>How does the manager vote at AGMs? When would they vote against management? How does this compare to the CIG voting initiative?</i>	
<i>Does the manager engage with public policy makers on ESG issues?</i>	
Other Best Practice: <i>Will the manager share portfolio constituents?</i>	

Appendix Two

Possible Issues to Consider in Manager Review Meetings

CIG members may wish to consider whether the following are relevant considerations to be covered in a regular manager review meeting. The relevance of these topics will differ from CIG member to CIG member dependent upon their investment policy. This list should not be used without consideration of your own context.

Ethical Investment: Restrictions	
<i>Please explain any investments which appear to contradict the agreed ethical investment policy.</i>	
<i>Has there been any breach of the agreed ethical investment policy? If so how has this been dealt with and processes altered to ensure that it does not happen again?</i>	
<i>Have any companies been purchased who are outside of their coverage?</i>	
<i>What percentage of the Net Asset Value of any 'fund' investments held within your portfolio is dedicated to restricted activity? (NB this relates to when your investment manager is making investments in other funds)</i>	
Ethical Investment: Engagement	
<i>What engagement has been conducted in the past 12 months?</i>	
<i>Does this meet the needs of your policy?</i>	
Ethical Investment: Positive Investment Allocations:	
<i>Has the manager met any agreed allocations for 'positive' investments?</i>	
Responsible Investment: Strategy	
<i>What are the manager's most recent PRI Assessment Scores (annual process)?</i>	
<i>What is the manager's most recent FRC UK Stewardship Code tiering grade?</i>	
<i>Has there been any change in the manager's approach to responsible investment?</i>	
Responsible Investment: Integration into Investment Decision Making	
<i>Please explain any investments which appear to contradict the manager's responsible investment positioning.</i>	
<i>How does the portfolio's ESG characteristics compare to benchmark?</i>	
<i>Has any potential investment been abandoned due to ESG considerations? Please give examples.</i>	
<i>How has the portfolio's carbon footprint altered? (annual process)</i>	
Responsible Investment: Active Ownership	
<i>What are the manager's current engagement priorities? How does this relate to companies in your portfolio?</i>	
<i>What engagement has been conducted since the last meeting? What progress has been achieved?</i>	
<i>How has the manager voted at company AGMs? Have their votes differed from voting policy and if so why?</i>	

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

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