

Address by the Right Reverend Bishop David WALKER

Good afternoon.

Introduction to the Church Commissioners and Ethical Investment Advisory Group

In the autumn of 1979, I announced to the Dean of King's College, Cambridge, that I felt called by God to leave my researches in Mathematics in order to train for the priesthood. At the end of our conversation, I remember him making a throwaway remark that he felt confident the Church would, at some point in the future, find a use for my interest in numbers. Events have borne out his comment. It is my honour to deputise for the Archbishop of Canterbury in chairing the Board of the Church Commissioners for England. We are the main national endowment fund of the Church, with something over £8Billion of assets under management. We produce a flow of distributions to the Church of several hundred million pounds a year. The cash we generate helps pay clergy pensions, supports bishops and cathedrals, sustains ministry in the poorer parishes of the country, and enables dioceses to start new mission ventures. We are a global fund, highly diversified across the main asset classes. In addition to stocks and shares, we are a large owner of agricultural and development land, and a major global investor in sustainable forestry. Our property portfolio contains residential estates in central London. In my comments, I will be drawing on my experience with the Commissioners, but I am treating today as an opportunity to test out a few personal ideas, and see how that influences our conference. I'm not giving the official view of either the Church Commissioners or the Church of England.

Our principle theological challenge as Commissioners is how we align the investment and distribution sides of our work, so that together they help deliver the mission of God's Church. And here there has been a massive shift in very recent times, from a strategic approach based around identifying categories of business we would not invest our funds in, to a strategy led by engagement. We now want to influence the companies in which we hold investments. Our money should not just be growing; it should be pressing business towards better practice. Hence, we jointly sponsor, with two other national church investors, our Ethical Investment Advisory Group.

The Group has recently been reviewed and its membership reconstituted, so that it clearly brings together the range of skills and experience from business, the City of London, church and charities that we need. The review has reaffirmed and strengthened our belief that our work must be both grounded in and led by our theology. My colleague, Dr Malcolm Brown, who is with us as a delegate at this conference, supports us in that task as part of his role as Director of Mission and Public Affairs for the Archbishop's Council of the Church of England. I've been a member of the Group myself for several years now, and can attest to the fact that we spend at least as much time making sure we have got the theology fit for purpose as we do over the practical consequences of that theology. Theology is not an introductory chapter, or annex to a report, provided simply for the minority who like that sort of thing. It is, and has to be, at the heart of our deliberations.

In the remainder of this address I'd like to focus on some of the principle challenges and issues we are facing as an Ethical Investor, and share some of the insights and progress we have made. I've spent too many years in pulpits, delivering sermons where every point starts with the same letter, to depart from that now. So, my four themes will be: Process and Practices, Procuring Products, Practical Partnerships and Pro-activity.

Processes and Practices

A couple of years ago I led a small delegation to South Africa and Zambia. We were undertaking work on investments in the extractives sector and needed to get a first-hand view of businesses operating in a very different regulatory environment to the UK. Much of the product we saw: copper, cobalt and platinum for example, doesn't in itself pose major ethical problems. What we were more concerned about was how the extraction of natural resources is conducted; especially

the impact on the workforce and local community both during and after mining has been completed.

Mining often requires large workforces to be assembled in places that do not have anything like the quantum of labour required nearby. Providing dormitory accommodation separates workers from their families. It can contribute to high levels of wages spent on sexual services, and hence to the spread of sexually transmitted disease. Providing the option of family accommodation instead, pulls wives and children away from their support structures in their home areas. Unsurprisingly many choose to stay at home, preferring their partner to send as much money back as possible, whilst accessing the cheapest available informal accommodation near the mine. The same issues then arise as with dormitories.

We also saw huge tensions between the aims of governments, who see natural resources as belonging to the whole state, to be allocated according to national priorities; companies, who want good relations whilst operating but are wary of longer term responsibility for things that lie well beyond their core business; and local communities, who bear the brunt of the impact of extraction. Where and when should financial resources be lodged, in order to deal with making good a site and finding new employment for former workers once extraction is complete?

Is it the national government, which has the power to set up sinking funds from part of the royalties and taxes paid by the mining company as well as being responsible for its citizens? That's fine as long as the political regime has sufficient stability and integrity to be trusted to preserve the monies vested in it for those purposes, often over many years. Is it the company, which could be subject to more effective scrutiny of its finances, have staff on the ground and have built up relationships with local people over the years? Here the problem is that a mine may change ownership several times during its period of operations. The entity finally owning the asset, when the costs of restitution crystallise, may be an empty shell. Would it help if industries that impact on communities, to the huge extent that mining does, were required to lodge a bond, not where extraction happens, but in the jurisdiction where the shares in the parent body are principally traded?

I don't want in these remarks to draw a sharp moral distinction between the larger western economies and the rest of the planet. We are currently also engaged in looking at treatment of employees closer to home. Health and safety at work, where and when it is right to use zero hours contracts, the manipulation of tax regimes and the dignified treatment of employees, are all matters of concern which we take up on a case by case or sector wide basis.

The thrust of this section of my remarks is that the knotty issues around ethical investment can lie not in *what* is produced but *how* it is produced. They are questions that take us away from immediate production into areas of ethical consideration regarding regimes and jurisdictions, and what sorts of innovative trans-border financial instruments might help mitigate problems.

Procuring Products

Part of the fun of being an institutional investor with the prominence of the Church of England is that we attract the attention of financial journalists on the lookout for hypocrisy. Usually that means that someone prominent in the Church has criticised the practices of a company which an eagle eyed investigator then discovers we hold shares in. The most high profile example in recent years was when, just after the Archbishop of Canterbury had spoken about wanting to see a named pay day loan company be run out of business, a journalist revealed that, via a pooled fund, we owned around £75,000 of shares in the venture. It was a very small exposure. Less than one part in a hundred thousand of our total assets, and well below the level at which our Board of Governors or senior leadership would have been alerted. But had it only been a penny, the accusation of hypocrisy would still have been levelled.

Ironically, our holding kept the story running for so long that high interest short term loans became a sufficient public scandal to cause the government to legislate for limits on them. A few years later

the company itself went out of business. As it happened, I think we were less embarrassed than the manager who ran the particular fund. They found a way of eliminating our exposure, without our having to withdraw from the fund in its entirety. And if that could be done for us, it could be done for others.

An increasingly visible trend over the last few years is the capacity of investors to influence the range of available products on the market. The analogy I use is that if I want to buy a tin of beans, I have to go into the supermarket and choose from what they've put on the shelf. If I want to buy several million tins of beans, the manufacturers will ask me very politely what ingredients I want in the can. Ethical investors have reached a level of significance where I believe we have moved from the first category into the second.

If enough of us band together, we can set out our terms regarding what sorts of investments we want put together into the packages we need in order to extend our holdings across the pooled funds and venture capital territories of the investment universe. After all, that's how a market is meant to work. If there is sufficient call for a product, then suppliers will move to satisfy the demand. We've resisted the pressure to pull out of the more complex investment sectors. Instead, we've concentrated on getting parts of those sectors to align with our values. The greater the alliance of similarly minded investors we can gather, the more we will be able to influence what the market puts on its shelves. Investor influence is not just about pressing demands on individual companies to improve their products and practices, engagement should be part of every investment decision.

Practical Partnerships

Those last few comments take me neatly into my next point, the building of practical partnerships. The single most dominant and abiding public interest in the Commissioners holdings over the last few years has been in the area of Climate Change. I can also say, with some confidence, that it has been the scene of our greatest successes.

Churches have been at the leading edge of campaigns to address climate change, and particularly the levels of carbon dioxide being discharged into the atmosphere from human activities, for a good number of years. Outside of those fringe theologies that see the return of Christ as imminent, and efforts to sustain the Earth into the long term as, in consequence, somehow unfaithful, there's a broad consensus that this both matters and is urgent. In response, some church based organisations have taken the view that nothing less than immediate full scale disinvestment from the major carbon based industries (especially oil and gas) will do. I accept that for small investors, with little hope of influence, that may well be the best path. I also acknowledge that some larger institutions believe sincerely that a mass selling of stocks and shares will send the only signal that the big polluters will listen to. But I beg to differ.

We have pulled out of the most polluting and least changeable parts of the energy economy, divesting from companies with an exposure to tar sands and thermal coal that consistently amounts to greater than 10% of their market cap. But I still believe that clear and focussed engagement is the better path with most other high energy industries. We need to stay in and influence suppliers of fuel, manufacturers of products, such as motor vehicles, that consume fuel, and industries whose industrial processes are very high consumers of energy.

To progress that agenda we have produced a technical instrument that assesses the progress of companies towards the Paris Agreement and beyond, and have formed a broad based alliance of institutional asset owners and managers committed to its usage. From a standing start a couple of years ago, we now help lead an alliance that is more than a thousand times larger than our own fund, with over \$10Trillion of assets under management. Members of this alliance include large pension funds, sovereign wealth institutions and insurance companies. Their motives are not all identical. A pensions fund may be responding to what its beneficiaries want. By contrast, insurance

providers have a very strong long term commercial interest in the number of extreme weather events across the globe not continuing to expand at its current rate.

We received overwhelming endorsement for our direction of travel from the Church of England's General Synod last summer, seeing off an amendment that asked for more immediate disinvestment. But more importantly, we have led specific shareholder engagements with companies from Shell in The EU (I'm still allowed to consider Britain as part of that alliance for a few weeks longer) to Exxon Mobil in the USA. Our University partners at the Grantham Institute here in London produce regular sector wide reports on the progress of major named companies across a staircase of achievements which lead to alignment with our desired outcome. The Climate Change 100+ group of investors, with over \$30Trillion AUM, has endorsed the tool for its members. Getting results in the USA has been particularly pleasing. It required challenging a culture that expects shareholders to be much more hands off than is customary this side of the Atlantic. Directors have not only resisted our incursions into what they see as their business, they have attempted to have AGM resolutions ruled out of order. I'm not pretending we have won the war, but the formation of large shareholder led pressure movements, which I would have never predicted a decade ago, could well be the game changer.

Pro-activity

The final area and most tentative topic I wish to turn to briefly today is what I have called pro-activity. Rather than begin with a success, I want to admit a failure. Five years ago the Commissioners took a leading position within a consortium of investors looking to buy a bank. One of the UK's largest banks was being required to demerger a major part of its business in order to comply with regulations following its being bailed out by government during the 2008 financial crisis. One aim was to produce a bank of reasonable size from day one that would set high ethical standards in its business. The process collapsed not on the ethical issues but because it proved impossible to separate the IT systems of the two entities the demerger would create. We weren't harmed financially by the failure, but it was a significant frustration.

What this left me with was a greater appetite for investors to seek out areas in which to put their money. How far can an institution with clear, core ethical values invest for impact? This may be a matter of finding a business that will operate to standards well aligned, or at least rather closer than in the rest of the relevant sector, to its values; both to support its approach and to demonstrate standards that then can be pressed more firmly on other businesses operating in the same field. It may also be about investors choosing to be more exposed to particular sectors that produce social good.

If an ethically led institution is to invest for impact, then how far does that require an expectation that those investments will perform at least as well as its other holdings? Does it have to be a pure "win-win"? Or is there some way for an investor that raises money for social purposes to allocate a level of subsidy to investments directed at similar socially good ends? Within the particular legal framework that an individual body works, how far can the opportunity cost of impact investment be seen as part of its planned expenditure, rather than an invisible loss on its income generation? And if a number of institutions wished to make such investments, is it possible to identify a partnership that can develop together the necessary expertise to make the required judgements? Or, in view of my previous section, should the purpose of shared work be to prime the market itself to produce the vehicles in which customers wish to invest? I have, as you can see, far more questions than answers.

Final remarks

In conclusion, some of the most severe critics of the Church Commissioners, usually strident secularists, tell me that we should follow the teaching of Jesus and give all our assets away to the poor. My response is always that this is exactly what we are doing; we are just managing those distributions so that they will have maximum impact both now and into the long term future. We

sustain church ministry in places it would otherwise not be viable, and the church communities in those places deliver a level of spiritual and practical care for the needy that far surpasses what could be achieved by a one off donation of £8Billion.

Other, less militant, critics suggest all our investments should be confined to a narrow range of ethically pure products. Today, I've tried to explain a very different trajectory, one that engages with the realities of market capitalism as it is, but seeks to influence both individual businesses and entire market sectors. To do that we face a range of challenges and need a robust theological underpinning and resourcing, drawn from both Anglican and wider social teaching, to sustain and refresh us. My hope is that over these next 24 hours or so, we will be able to engage on some of those topics and benefit from each other's wisdom and challenge. Thank you.