



Chairman's Letter

The Ethical Investment Advisory Group exists to serve the Mission of the Church by providing ethical investment advice to the national Church investment bodies. It seeks to do this in part by engaging with the corporate world on a range of issues, from climate change to human rights to supply chain issues. Collectively, the national investment bodies of the Church of England manage in excess of £8bn in investments, but the Church's influence and voice goes far beyond these headline figures. We believe the Church can be a positive force for good by taking our concerns and values directly to the managements of the companies in which we invest, and our work benefits additionally by being theologically informed. This review provides a flavour of the breadth of our policy and engagement work over the past 12 months. A new Statement of Ethical Investment Policy and an Investment Framework on Supply Chain were published in the autumn. Policy work on climate change and human rights is in development that will lead to published statements in due course. A key piece of work was the publication in November of our work on supermarkets and the effect on British farming livelihoods; work that has engaged with the Competition Commission, politicians, the food retailers and the farming community. This has been very favourably received, and indicates the type of complex, investigative work the Church can, and will undertake where it can make a difference.

I pay tribute to all the members of the EIAG and the staff for their dedication and enthusiasm for the work they undertake, and particularly this year to Bishop Peter Selby for the enormous contribution he has made to the Group over the past eight years. We shall miss him. To align ourselves with the Church's initiative "*shrinking the footprint*", we have, this year, opted to produce a slimmer, shorter Annual Review, providing clear links to web based documents, and where you can obtain more information. We hope you enjoy this Review and welcome your comments as we continue our work on behalf of the Church.

John Reynolds

Chairman, Ethical Investment Advisory Group



Meetings and Membership

The Ethical Investment Advisory Group met three times in the twelve months to 31 March 2008. The Group is made up of non-executive (voting) members (appointed either by a sponsoring body, a national Church institution or on a co-opted basis), and executive members nominated to attend meetings.

The Rt. Revd Dr Peter Selby retired as Bishop of Worcester and from the EIAG in September 2007. Bishop Peter joined the Group in May 1999 representing the Church Commissioners, and became Deputy Chairman in 2004. Bishop Peter has made an invaluable contribution towards our thinking and in leading discussion on many contentious issues. He has also served the Group with wisdom and modesty in Synod and as an advocate for responsible investment generally. The Group will miss him, and warmly wishes him well in retirement.

Mrs Katherine McPherson, who represented the Archbishops' Council left the Group in October 2007 and was succeeded by Mr Paul Boyd-Lee.

Accountability and Communication

The Group is accountable, primarily to the three sponsoring national investment institutions of the Church of England. However, the Group lays this Annual Review before General Synod, and also responds to parliamentary questions on ethical investment via Church Commissioners questions. Over 30 publications are now available at www.cofe.anglican.org/info/ethical/ where they can be consulted or downloaded. Paper copies are also available from the SRI Unit, and we welcome comments and feedback on our work and on the Church's approach to ethical investment.

Supermarkets and British Farming

Our major project over the past year has been the completion of an inquiry into super-markets and the effects on British farming livelihoods. The EIAG has been fully engaged in exploring aspects of supply chain management with the major food retailers over many years, and it was a desire to obtain evidence from farmers themselves that led to this work being conducted. As we reported last year, meetings were held with farmers throughout England – up to 50 in all – to gain at first hand real experiences of supplier relationships. These conversations yielded much that was valuable in supporting the view, that whilst supermarkets provide a vital route to market for farmers, all was not necessarily well within the supply chain.

A draft report was prepared in July 2007, and shared with ten food retailers for comment. The report also formed our submission to the Competition Commission's enquiry into the groceries market. In November 2007, the report was officially published at a launch in London chaired by the Bishop of Exeter, who also wrote the foreword. The full report is available at www.cofe.anglican.org/info/ethical/policystatements/fairtrade.pdf and can be obtained in hard copy from the SRI Unit. This published report was sent to the Competition Commission as our final submitted evidence to the enquiry.

Our work concluded that contractual arrangements within many parts of farming are putting livelihoods at risk. Although we believe there are many complex reasons for the difficulties being experienced in British farming, the skewed buying power of the food "supermajors" is undoubtedly playing a part. The review also identified a number of invisible or "pernicious" practices which are accepted by farmers as part of the price of doing business, but which exacerbate financial stress. These include retrospective contract terms, flexible payment terms subject to arbitrary change, facilitation payments and other deductions, plus little evidence that suppliers in the main share the benefits of promotions whilst shouldering much of the risk. We paid particular attention to the malaise in dairying, which owing to increases in

commodity prices, now has a brighter future. However, we note there is continued price pressure among pig farmers in particular, and some fresh fruit and vegetable producers. Farmers told us that they do not seek special treatment, merely a "fair price for a fair product", and a connection to be made by the consumer that "fair trade begins at home".

Call to action

CONSUMERS need to question the impact on farmers of very low prices, and the nature of special promotions in store and who benefits

SUPERMARKETS must examine their buying practices with a view to providing greater clarity and transparency. The worst abuses should have no place in a responsible supply chain and each supermarket is urged to adopt a Buyers Code setting out how it does business

GOVERNMENT also has a role to play. The Code of Conduct is not working and the need for an independent ombudsman should be seriously examined given the limitations imposed by competition law to effect real change

Accompanying the report's launch we published a Call to Action, to consumers, retailers and government, as we believe a wider debate is urgently needed on the issues the report raises in exacting "below cost" supplier agreements. The EIAG has also responded to the Competition Commission's Provisional Decision on Remedies published in February 2008 (our third submission to the groceries enquiry), welcoming the provisional recommendation that an ombudsman be appointed to oversee supplier relationships and to arbitrate conflicts.

The EIAG would like to thank the many farmers and others who met with us to discuss this project, and for the warm support it has received in many quarters. We will continue to use the findings to dialogue with business and policy formers to support a vibrant and flourishing agricultural sector.



Policy Work

The EIAG regularly reviews its policy work and copies of all current policies can be found at: www.cofe.anglican.org/info/ethical/policystatements.

During the period under review, the EIAG updated its **Statement of Ethical Investment Policy** to ensure that it remains relevant. For the first time we published, as part of the Statement, the specific criteria attached to the areas excluded from investment.

The Group also published a new framework pertaining to engagement around **supply chain issues** relating to companies in which the church invests. As companies come under increasing levels of scrutiny, they need to ensure that the operations beyond their direct business impacts are well managed to minimise the external reputational risks to the business. This framework complements an earlier report, "Company supply chains: The issues for responsible investors", published in March 2007. The framework supports an engagement policy around five broad areas that encompass the extensive ethical issues along the supply chain. These are the environment, human rights, employment and labour issues, community issues, and business ethics such as bribery and corruption. The SRI Unit regularly engages with company management on these issues, using the framework as a basis for discussion.

There are two new policy frameworks in development. The first is a **climate change investment framework** which follows a number of detailed research papers taken to the group during the year. The Group has received papers in the past that have included the science of climate change, the findings of the Stern Review and clean technologies (such as ocean and tidal power). The framework will be in

addition to the general environmental policy statement already in place which does not address climate change specifically. In formalising its approach to climate change, the investment bodies will support a proactive approach that can work in part towards achieving reductions in global greenhouse gas emissions and help minimise man-made climate change.

The second policy framework in development is on **human rights**. During the year, there have been a number of disinvestment campaigns and concerns raised with regard to human rights abuses in Sudan, Burma and Zimbabwe. Campaigns today are more sophisticated than before, and no longer necessarily take a blanket-ban approach to avoiding companies that may have exposure to oppressive regimes. Engagement now forms a significant part of any work on human rights standards within business. Research taken to the Group tries to capture this more sophisticated approach and a framework is currently being developed that will respond to this challenge. The Group hopes to develop criteria which will help it in reaching decisions relating to investment and human rights that encompasses engagement, caution and disinvestment.

The Group is working on updating its investment framework in the area of **human embryonic stem cell research**. The current policy needs to address fast moving scientific developments as well as company and government approaches to research using human embryos. In particular, the policy will need to address the new issue of cytoplasmic hybrids, which cross animal eggs with human DNA to create embryos for research. This is a sensitive and complex area of scientific development that requires careful consideration.

Corporate Governance

The EIAG has long placed a high regard on the corporate governance of the companies in which the Church invests. As such, informed shareholder voting is undertaken across the portfolios of the three Church investment bodies, and a corporate governance policy and voting template have been adopted by the national Church institutions. Information relating to the voting record of the three investment bodies should be requested from them directly.

Engagement

The engagement work undertaken during the year under review encompasses a range of issues, some of which we outline in this section to provide a flavour of the breadth and depth of our coverage.

The Group has long been concerned with the destruction of the rain forests in Indonesia. One of the driving forces of this destruction is the global growth in the demand for **palm oil**, a pure form of oil used in cooking, food production and as a biofuel. The SRI Unit at CCLA continued to engage with companies on this issue and recently met with J Sainsbury and Nestlé. Dialogue with J Sainsbury resumed following its announcement that it was to convert its own brand labels to certified sustainable sources. The engagement also encompassed speaking to stakeholders in the Roundtable on Sustainable Palm Oil, an organisation working toward a certification system, and NGOs who have long advocated a moratorium on forest destruction and the consequent near extinction of “charismatic species” such as the orang-utan and Sumatran tiger.

In 2007, Tesco faced a shareholder resolution calling on the company to ensure workers in its supplier factories are guaranteed decent working conditions, a living wage, freedom of association and so forth. Many investors felt that Tesco had a case to answer and 9% supported the resolution, with a further 11% abstaining their support for management. We have long had dialogue with companies on **clothing supply chain issues**, but this resolution raised the sourcing of cheap goods from countries such as Bangladesh and China. We have joined with a group of other investors to speak to companies and NGOs with

regard to their adopting best practice in these areas. We have also had conversations with the Ethical Trading Initiative, Labour Behind the Label, Impactt and others to understand the complexities of the clothing supply trade on the ground. In particular, conversations focused on paying a living wage, the difficulty of reliable audits and freedom of association. National minimum wages are often insufficient to pay for basic necessities, and companies, alongside NGOs and investors, are working to formulate what these might look like and how they might be paid. This work is on-going.

Following a growing concern in the Christian community of **mining activities in the Philippines**, we have spoken to a number of companies on this issue. Significant concerns were brought to our attention in the report “Mining in the Philippines: Concerns and Conflicts”. This report was prepared by a number of groups including the Catholic Bishop’s Conference of the Philippines alongside the Rt. Hon Clare Short, MP. Concerns focused on the displacement of indigenous people, local land rights, environmental damage (loss of biodiversity), and a failure by the government to meet its own standards. Our engagement involved speaking to Anglo American, Xstrata, BHP Billiton and Standard Chartered, among others. We also wrote to the World Bank and the Philippines Government to understand the different challenges. This work remains ongoing, and we have been joined by other institutional investors in a joint engagement initiative to tackle some of these issues with the companies in which we invest.



Other Research

The Group made a submission to the government during the period under review relating to the future of new nuclear build in the UK. The EIAG believes the ethical arguments for operation and construction of new **nuclear power** stations are not clear-cut, and the submission explored the ethical issues surrounding the construction of new nuclear plant.

Other research conducted on behalf of the Group during the year included occupational pension scheme disclosure, the ethics of private equity, internet censorship and human rights, African investment opportunities, and the ethical implications of short selling.

Who we are

The Ethical Investment Advisory Group

The EIAG was established in 1994 to co-ordinate policy development and thinking on ethical investment in a collaborative and mutually beneficial way. The EIAG only advises; the legal responsibility for managing the Church's investments rests with the Church Commissioners, the CBF Church of England Funds, and the Church of England Pensions Board. The Group has ten voting members including an independent Chairman. There are three sponsoring bodies:



The Church Commissioners for England

manage the greater part 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. They were formed in 1948 after the amalgamation of two predecessor bodies, the Ecclesiastical Commissioners (1840) and Queen Anne's Bounty (1704). They are represented on the EIAG by Mr Gavin Oldham. There is currently one Church Commissioner vacancy.

www.cofe.anglican.org/about/churchcommissioners



The Church of England Pensions Board

administers the pensions, housing, retirement home schemes and charitable funds entrusted to its care in support of the retired clerical and lay ministry. The principal powers and responsibilities of the Board were established in 1926. The Board is represented on the EIAG by Mr Ian Clark.

www.cofe.anglican.org/about/cepb



The CBF Church of England Funds

are collective investment schemes established as common funds under the Church Funds Investment Measure 1958. They provide Church of England parishes, dioceses and church charitable trusts with a ready made service for their money and investments across five funds managed by CCLA Investment Management Ltd. They are represented on the EIAG by Mrs Lesley Farrall.

www.ccla.co.uk

The EIAG has representation from other parts of the Church to provide broader expertise and insight. The **General Synod** is represented by the Rev Jeremy Crocker; the **Mission and Public Affairs Council** by the Rt. Rev Dr Lee Rayfield, Bishop of Swindon, and the **Archbishops' Council** by Mr Paul Boyd-Lee. Up to two **co-opted members** are appointed for their financial, technical, theological or scientific expertise; Mr Tony Hardy and the Rev Canon Edmund Newell, Chancellor of St Paul's Cathedral, currently fulfil this role.

The Socially Responsible Investment Unit at CCLA Investment Management Ltd provides the secretariat and research function to the EIAG. The Group's Secretary and senior analyst are employees of CCLA, and the SRI Unit is the point of contact for information on any aspect of the Group's work. Requests for speakers, copy, or information should be directed to:

The Socially Responsible Investment Unit

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CCLA Investment Management Ltd is a specialist investment manager for churches, charities, and local authorities. CCLA provides a broad range of funds designed specifically for its 45,000 church and charity clients and is owned entirely by them. As pioneers of socially responsible investment (SRI), we are proud to offer ethical and responsible investment services to the EIAG and to the Church of England. More information on CCLA is available at www.ccla.co.uk

The Church of England

The Ethical Investment Advisory Group

Annual Review 2007/08

**"The earth is the Lord's and the
fullness thereof"** *Psalm 24 v1*

Although not yet endangered, the habitat of the red-eyed tree frog is shrinking at an alarming rate, and their highly recognisable image is often used to promote the need to protect and preserve the world's remaining rain forests.

