The Ministers' Pension Trust: Ethical Investment Explainer

This note is provided by the Trustees of the MPT as an "explainer". Other, formal, legal documents govern the Trustees' investment decisions and set out information which must be made publicly available, including the Trust Deed and Rules, Statement of Investment Principles (SIP) and Engagement Policy Implementation Statement (EPIS). This explainer is not a legal document and does not vary or override any of the formal documentation or bind the Trustees. Rather it aims to provide for all interested URC members an accessible explanation of the way in which the Trust seeks to translate its ethical objectives and beliefs into action.

The trustees of the MPT are charged with the fiduciary responsibility of investing the fund's assets securely and prudently in order to provide the pension benefits promised to its members. However, over the last few years, as general awareness has grown of the way environmental and social factors can influence returns over the long-term, the legal requirements on pension trustees have grown, and we are now explicitly required by law to take account of

- environmental, social or governance factors that affect expected returns (so-called material financial factors); and
- non-financial matters that may not strictly affect the return, but may be considered sufficiently important to the pension fund (for example as a result of the views of its supporting religious organisation) to be also borne in mind when deciding on investments.

In practice, the MPT has been ahead of the curve in its ethical thinking because the trustees have been keen to ensure we give expression to our Christian faith in our investment activity, though without taking on the onerous responsibility of managing the assets ourselves.

We've recognised that there are in theory two ways to do this: one can either take

- a strict **list approach**, using
    - a black list (everything is OK unless it's on the black list) or
    - a white list (nothing is OK unless it's on the white list); OR
- a **principles-based** approach.

In either case, the aim is to *guide* all the investment managers: it's not possible to turn the principles into a policy which *directs* the professional investment managers on the specific choice of stocks (this would be to step into their shoes, which would be beyond our competence and resource).

The difficulty with a list approach, however, is that it needs continually updating and can get complicated as more items are added to the list: a principles-based approach is generally better because it provides a more practical guide to action by focusing on the good outcome that is desired.

In the early days, as the URC began to develop its own ethical investment approach, the trustees took the view that, coupled with the other factors we had to consider, we could use the URC principles (including the then more limited list of "exclusions") to help inform our investment strategies and as an investment guide for the managers who managed a specific portfolio of assets belonging to the Trust. However, in 2017, we decided that we would get a better service on our equity portfolio if we chose a fund manager for a small, active portfolio whose outlook and philosophy were very close to ours.

The active manager used by the pension fund, Newton Investment Management (NIM), has a pooled fund with an ethical framework that is currently very close to the URC's principles. This give us a practical way to implement our ethical approach, since, although they have total discretion within the mandate we have given them over the specific companies in which to invest, we can be very comfortable that their investments are in keeping with our ethical principles.

Moreover, as the EPIS explains, we don't just "mandate and forget". We maintain a regular dialogue with NIM to ensure our ongoing thinking is kept fresh in the investing team's mind and we hold our team to account for voting our equity holdings consistent with our principles. Playing our part as an active asset owner therefore complements the way we seek to drive our direct investment through the choice of fund manager. The same principles apply to our pooled property fund and its assets.

Ethical investment and the situation in Israel-Palestine

The resolution before GA 2021 in relation to Israel-Palestine provides a good example of how the principles work.

In the mandate for NIM, there is no specific exclusion for the companies targeted by this resolution. But because NIM's mandate requires them to take into account financially material considerations of a social nature (under ESG) and we would expect the social impact of what those companies do to have clear adverse financial consequences, investment in those companies will be ruled out.

Finally, where specific controversies arise in relation to any businesses in which our managers currently invest, we will raise the issues with the manager immediately to seek clarification as to the nature of the conflict and how the manager intends to respond to the situation.

What of the future?

Of course, over time, of course, situations change; and as investment mandates have to cover a whole host of issues, it may become more difficult in the future to address some kinds of practical concern through a manager's mandate, in line with our governance responsibilities. Maintaining a close working relationship with the manager will ensure we do not encourage divergences in operating principles.

However, in the same way that we can use the principles to help choose the right fund manager, if we decide that we need to move for example, to another a pooled fund, we can use our same principles to help choose the right fund, making sure that the practical operation of the pooled fund is appropriate in terms of the principles.