Paper Z1

URC investment policy

Investment committee

Basic information

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Action required	Discussion and possible resolution.
Draft resolution(s)	Recognising that 1. The URC Ministers' Pension Fund has had no direct or indirect investments in fossil fuel extraction companies since the inception of its current investment management arrangements in 2018 2. The URC Trust's equity investments are held in the form of units in CCLA's Ethical Investment Fund which already holds a significantly lower proportion of investment in fossil fuel extraction companies than any funds tracking major stock indices 3. CCLA's Ethical Investment Fund already has a larger percentage of investments in companies focused on providing environmental and social benefits (e.g., renewables etc) than it has in fossil fuel companies 4. CCLA's Ethical Investment Fund managers in practice already disinvest from fossil fuel extraction companies which they judge to be showing minimal interest in or progress towards a lower carbon emissions world; but that nonetheless 5. The pace of climate change necessitates a significant intensification of efforts by fossil fuel companies to align their business plans with a well-below-two-degree world, in accordance with the Paris climate agreement, **Mission Council, acting on behalf of General Assembly, commends the ongoing discussions between the URC Trust, its investment committee and its Investment Manager CCLA to ensure that engagement with all fossil fuel development and extraction companies is intensified with a view to achieving clear progress toward developing their business within the context of the below two degrees criteria set by the Paris Climate Change Agreement.** **For any companies that cannot meet the commitment by 31 December 2020, Mission Council requests the URC**

	Trust and its investment committee to disinvest as soon as is feasible thereafter.

Summary of content

Subject and aim(s)	To propose possible changes to the Investment Principles of the United Reformed Church in relation to climate change and investments in companies engaged in fossil fuel extraction or its development.
Main points	To determine our investment policy regarding meeting the climate change obligations of the Paris agreement.
Previous relevant documents	
Consultation has taken place with...	Mission committee representatives URC Trust Investment committee.

Summary of impact

Financial	Probably minimal unless a change in policy means we need to disinvest from CCLA's Ethical Investment Fund, in which case some alternative options could be very costly.
External (e.g. ecumenical)	Church Investors Group, CCLA.

Introduction

1.1 Our current policy towards investment in companies that develop and extract fossil fuels is coming under pressure because of the impact on climate change.

1.2 To many members of the United Reformed Church (URC) it seems that profiting from the development and extraction of fossil fuels is at odds with our theological beliefs. We already exclude the extraction of coal and coal tar from companies with whom we invest. To other members it seems that continued strong engagement with such companies can in the medium term achieve more than simple disinvestment.

1.3 This paper attempts to present the arguments from both sides to enable Mission Council to engage in a meaningful discussion about whether we need to change our policy.

The current situation of our investments

2.1 The URC's trusts invest in order to provide additional income to support the M&M fund and to provide growth of assets to fund the needs of our Ministers Pension Fund.

2.2 The URC centrally does not invest directly in any companies. The investment committee believes that investing through investment managers who are committed to our investment principles provides the best return on the funds that we invest and greater leverage in influencing companies' behaviour.

2.3 The URC centrally has two main investments in equities:

- Our Ministers Pension Fund is invested with Newton Investment Management in its Sustainable Global Equity Fund
- Our URC Trust investment is invested with CCLA in its COIF Ethical Investment Fund.

Each investment is valued at around £50 million.

2.4 The Newton fund has no investments in fossil fuel extraction companies and sets out its aims as investing only in companies that meet the United Nations Global Sustainability Goals and which manage their environmental, social or governance (ESG) issues actively. It has no specific exceptions apart from tobacco, but is unlikely to ever consider investments in pornography, armaments, gambling, fossil fuel extraction or alcohol where these form significant parts of a business.

2.5 Our CCLA investment includes three fossil fuel extraction companies totalling around 4% of their total fund. It does not invest in coal or coal tar extraction. It also has some 5% of its investments in companies focused on environmental and social benefits, including those seeking alternative methods of generating energy.

2.6 Both our investment managers are fully committed to engage with the companies in which they invest and actively vote their shares at company meetings. They both believe that meaningful engagement can and does change the behaviour of companies.

2.7 Many synod trusts and local churches also have investments, probably exceeding those held centrally. Many of these investments are also held with CCLA. The Methodist Church's Epworth Funds operate with similar policies.

The theological background

3.1 Our basis of union sets out our beliefs.

3.2 We are a part of the one Church catholic and reformed, mandated by the Basis of Union "to live out, in joyful and sacrificial service to all". That involves us in both being a part of the whole Church of God and having a care for the world in which we live.

3.3 Therefore, the URC Trust, the URC Ministers Pension Trust and several synods are members of the Church Investors Group (CIG) where we join with colleagues from other denominations to work together to use the weight of our combined investments to encourage companies to be more responsible in their decisions particularly as these impact their workforce, their contractors, their investors, and the communities and environments in which they operate. The CIG members have around £21 billion of investments under management.

3.4 Because of our beliefs we have investment principles to set out how we can invest both ethically and responsibly. These policy statements are attached as an Annex

to this report. As regards the current issue, the paragraph on sustainability seems to be critical:
sustainability – investment decisions will be guided by the principle of financial and environmental sustainability, with a view to the long-term maintenance of well-being for the economic, social and natural environments;

3.5 Appendix two of that annex also outlines our current approach to climate change investment issues. Both our investment companies have agreed to follow these guidelines.

3.6 Clearly climate change is a critically important issue for the church as it seeks to be a good steward of the resources of the world.

Climate change

4.1 The Paris agreement on climate change proposed limiting climate change rises to less than two degrees Celsius above pre-industrial levels, but many scientists believe this is insufficient and that a target of 1.5 degrees is more likely to have the desired effect of reducing the impact of our use of fossil fuels on greenhouse gases and global warming.

4.2 Both our investment managers are committed to minimizing the impact of climate change. Both portfolios comprise investments with lower carbon emission, and significantly below those found in the wider investment universe.

4.3 CCLA believes that through concerted engagement some fossil fuel companies can over time be persuaded to change direction to be compatible with the Paris agreement. Over the past few years CCLA has disinvested from others where they have identified a lack of commitment to the necessary level of change.

4.4 Because of such engagement, Shell has invited the Church of England to assist them in formulating a policy for remuneration of senior managers and executives which better reflects the expectations of the investment community.

4.5 CCLA's Ethical fund has investment in 3 fossil fuel companies. Shell and Total have committed to bring their companies into alignment with the Paris agreement through investing in new ways of generating energy, but on present plans they are unlikely to achieve this before the mid-2030s at the earliest. CCLA currently expects Chevron to follow a managed decline, because of the composition of their business.

4.6 There are serious questions about whether CCLA will continue with such an investment based upon such vague statements.

Engage or disinvest

5.1 At the heart of the argument is whether it is more effective to disinvest or engage.

5.2 There is no disagreement about the need to meet at the very least the level of the Paris agreement on climate change.

5.3 CCLA now believe that the fossil fuel development and extraction companies that are held within their Ethical Fund are unlikely to meet our expectations in respect of climate change in a timeframe that is acceptable to many of their investors. That does not imply that engagement is ineffective.

5.4 Following pressure from the Aiming for A coalition developed by CCLA, academic bodies and the Institutional Investors Group on Climate Change (IIGCC), Royal Dutch Shell announced that it will seek to reduce the net carbon footprint of its energy products by around 20% by 2035, and to deliver cuts consistent with societal ambition (currently embodied in the Paris Agreement) by 2050. Although Shell's statement of intent is welcome, CCLA are continuing to engage with them, asking for greater clarity on how the company envisages achieving its aim over the short and medium term. While the 2020s will still see demand for fossil fuels, by the 2030s these companies must either have diversified or be in managed decline. Failure to map out a realistic path to this outcome will result in shareholder value being put at risk.

5.5 The reality is that at present there are no viable mainstream alternatives to the use of fossil fuels for transport, and limited options regarding heating. There are many ways to generate alternative sources of energy, but few that offer the level of supply that the world wants now.

5.6 Operation Noah, an Ecumenical Christian Charity working to inspire action on climate change is among those who argue in favour of disinvestment. They state that it is inequitable to gain advantage using materials that are destroying our world. However, we all use these materials in carrying out our daily lives. The mission of the URC would be impossible without using fossil fuels today.

5.7 A few smaller organisations, including some URC investment bodies, have removed their investments from fossil fuel companies, but the impact of such decisions has not been significant.

5.8 Disinvesting is something of a one-time hit, and by disinvesting from a company we potentially leave the leadership in the hands of those who have less interest in the issue of climate change.

5.9 The proponents of engagement claim that through engagement with appropriate companies we can change them. If we disinvest, they will simply revert to their former ways, and change to more environmentally friendly alternatives will be delayed. So far the evidence is mixed, with both successes and failures. It seems that engagement can produce instant results, but it is more likely to take time as the various parties develop an understanding of mutual objectives. Changing direction of a company can be like attempting to turn around a super tanker: it takes a long time, and time is in short supply.

5.10 If we have a history of engagement with a company, even if we disinvest from that company, it may still be possible to engage with a view that if it changes its ways, we could then reinvest.

5.11 Our partners in CIG have a similar direction to our current position. Both the Church of England and the Methodist Church have chosen to engage, but with a time limit for action. Methodists set a time limit of 2020. The Church of England currently has a target of 2023.

Potential options

6.1 There seem to be several potential options:

a) Commend our investment committee to work with our investment managers to remove fossil fuel companies from their portfolios as soon as reasonably practical

b) Continue to invest in fossil fuel companies but to ensure a complete removal from the portfolio of any company which is unable to meet the target of the Paris accord by a date to be agreed

c) Make no change to our current policy.

6.2 The first option will cause us immediate difficulty as either we would need to persuade CCLA to change their stance with their Ethical Fund (the URC and its synods own around 1/6 of the total Ethical fund) or we would then have to find an alternate investment manager.

6.3 If we fail to find another investment manager prepared to observe our revised ethical guidelines within a pooled fund, we might have to manage our investments ourselves. It is highly questionable if we have the capacity to do this properly and some options for managing that would be prohibitively costly. Using a discretionary investment manager is likely to cost more, offer a much smaller range of investments and lack the diversity which our current pooled fund offers.

6.4 The second option would be likely to enable us to retain our current investment management arrangements. Putting a time limit on the engagement process would put us in line with our main denominational colleagues in CIG, and 2020/2021 is a sensible date by which it should be clear whether engagement is achieving the desired results.

Next steps

Whatever steps we choose, then we should be open with our churches and synods to recommend that they take similar actions.

Annex 1

Ethical investment policy statements 2010-7

Mission Council, meeting in March 2010, received a report on ethical investment principles for the use by the United Reformed Church. These principles are based on theological reflection on how to express mission responsibility through investment and developments in ethical investment policy and practice to reflect both positive and negative screening criteria based on social, environmental, governance and ethical concerns. General Assembly 2010 adopted these principles in the following terms: *General Assembly welcomes the statement 'Ethical investment principles for the use of the United Reformed Church' for the guidance of those responsible for making investment decisions and commends the summary statement 'Recommended Mandate for Investors'.*

Additional material was added in 2013 and 2015 as described in appendices one and two and an amendment made in 2017. A revised recommended mandate for Investors taking account of these is attached as Appendix three.

The oversight and monitoring of these guidelines, given to the ethical investment advisory group in 2010, is now the responsibility of the investment committee under the general oversight of the mission and finance committees.

Ethical investment principles for use by the United Reformed Church:

1. The General Assembly of the United Reformed Church considers investment decisions to be an integral part of the Church's mission and witness and is committed, as far as it is legal and practical, to expressing Christian responsibility through investment decisions. Towards this end, Assembly requests that those responsible for investment decisions on behalf of the URC and its Trust bodies are guided by the principles set out below.

2. Assembly wishes the basic, aspirational ethical principles outlined below to inform all investment decisions:
    - mission integrity – the URC will, in all investment related activities, aim to avoid undermining the credibility, effectiveness and unity of its mission and witness;
    - stewardship – those entrusted with responsibility for investment decisions on behalf of the URC, its Trust bodies and their agents will exercise due diligence and care in the exercise of their duty to ensure that mission and fiduciary responsibilities are creatively and effectively balanced;
    - legality – all investment decisions will comply with the legal requirements for trustees as outlined in the Charity Acts and other legislation;
    - sustainability – investment decisions will be guided by the principle of financial and environmental sustainability, with a view to the long-term maintenance of well-being for the economic, social and natural environments

- solidarity – investment decisions will be guided by the biblical principle of solidarity with those who are poor and marginalised and seek social justice as expressed in Statement nine of the URC's Mission Framework[1];
- accountability – URC trustees, working in liaison with fund managers, will aspire to the highest level of compliance with this policy which can be achieved;
- transparency – reputational risk will be minimised by ensuring openness and transparency in reporting on URC investment portfolios and compliance with this policy;
- partnership – the URC recognises the value of collaborative action in terms of effecting change in companies' policies and practices and commits to working with the other members of the Church investors group (CIG), the ecumenical council for corporate responsibility (ECCR) and other ecumenical agencies to engage with companies and, where relevant, to act in support of their initiatives.

3. Expression will be given to these principles through both negative and positive screening of companies as well as through selective direct engagement with companies. Each of these investment strategies is outlined below, and should be considered as part of an integral approach to ethical investment by the URC.

4. The existing URC ethical investment policy will be developed to guide our investments in terms of negative screening. This policy states:

   General Assembly recommends that trustees and all those with investment responsibilities connected with the United Reformed Church should avoid any investment in:
   a) companies directly engaged in the manufacture or supply of weapons of destruction
   b) companies a significant part of whose business is in the supply of alcoholic drinks or tobacco products or military equipment (other than weapons of destruction); or the provision of gambling facilities; or the publication or distribution of pornography.

   General Assembly notes that the definition of these activities, or of what constitutes a significant part of a company's business, requires judgement and the ethical investment advisory group (EIAG) of Mission Council [now the investment committee] is available to offer advice. In general, EIAG will deem 'significant' to mean where the share of turnover derived from the activity concerned is more than around 10-20% of the company's total turnover.

   General Assembly recognises that this policy can only be advisory as the responsibility of specific investment decisions remains with each body of trustees. However, in addition to the criteria listed above, the URC's investment bodies are encouraged to avoid investment in companies whose management practices are deemed to be unacceptable or whose operations are deemed to:
   - contribute to the oppressive nature of regimes which are guilty of gross human rights violations

[1] See p.22 of the Vision 2020 – planning for growth in the URC booklet for details - http://www.urc.org.uk/what_we_do/mission/images/vision2020_booklet_colour.pdf

- contribute to a harmful impact on the social or natural environment
- harm the society in which they operate more than they benefit it
- promote injustice.

5. **Positive screening and 'best in class/sector' strategy** – URC trustees are encouraged to support companies that seek to develop their businesses successfully and sustainably in the long term interests of shareholders and other stakeholders. The URC will seek to invest in companies which have an active commitment to the following:
   - responsible employment practices
   - equal opportunities policy and practice
   - good practice in terms of corporate governance
   - environmental sustainability expressed by comprehensive environmental and climate change policies and audits
   - positive attitudes to customers and active monitoring of employment practices across the supply chain
   - openness in reporting to stakeholders
   - Sensitivity towards communities in which they operate
   - integrity in all their dealings
   - the promotion of human rights, especially in countries with oppressive regimes.

6. **Engagement and dialogue with companies** – the URC endorses the strategy of direct engagement with companies through correspondence, face-to-face meetings and shareholders' attendance at AGMs as a means of influencing the practices of these companies. This is based on an understanding of the theological and moral duty to monitor the policies and practices of companies in which a URC body is a direct shareholder and to raise concerns with a company if we are not fully satisfied with its business.

7. **Project or socially-directed investment** – in addition to the positive screening, the URC will continue to set aside a proportion of its capital for investment where the return is principally social rather than financial. This echoes the Church's mission strategy.[2] The following social investments have considerable overlap with ethical investment portfolios and may sometimes offer market rate investments:
   - community land and reinvestment trusts
   - ecological building projects
   - organic food and fair trade initiatives
   - micro-credit based social development programmes.

   In supporting any such initiative, URC Trust bodies should be satisfied that effective governance monitoring is in place.[3]

8. **Disinvestment** – as a last resort, the URC will consider selling its shares in a company on ethical grounds in cases where a company fails to amend its operating policies and practices after engagement and dialogue over an extended period of

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[2] See Vision 2020 – planning for growth in the URC at http://www.urc.org.uk/what_we_do/mission/images/vision2020_booklet_colour.pdf

[3] Cited in EIRIS/UKSIF Charity Project, Responsible Investment Approaches to Non-Equity Investments: An Introduction for Charity Trustees, 2006, www.charityysri.org

time. Such action will generally be taken in conjunction with ecumenical partners through the CIG (or similar body) based on advice from the EIAG [now the Investment Committee]. However, such decisions will be subject to periodic review in the light of these principles to maintain the integrity and credibility of the policy.

9. **Monitoring of policy** – The monitoring of these principles on behalf of the URC is principally the task of Mission Council's ethical investment advisory group. EIAG [now the investment committee] is required to report on issues of concern and develop policy statements on various issues related to ethical investment as necessary. However, every investment body and officer within the URC family (whether at assembly, synod or local church level) needs to share in this responsibility to ensure the Church retains its mission integrity.

Appendix one

Ethical investment: Usury

Background

1. The 2010 General Assembly agreed a substantial statement of ethical investment principles for the use of the United Reformed Church (see the first section of this paper).

2. The mandate was always intended to be kept under review and this Appendix gives the background to the 2013 addition relating to usury.

The Usury debate

3. In the law of Moses, the charging of interest on loans between Israelites is forbidden (e.g. Deuteronomy 23.19-20) with a suggestion that this principle is especially important when lending to the poor (e.g. Exodus 22.25). How far such teachings should apply to Christians, and to communities where Christians have influence, has been a perennial debate over the centuries. Some contemporary Christian economists argue that when Jesus said **"**Lend, expecting nothing in return" (Luke 6.35) he was endorsing exactly the same principle; others find it harder to hear any clear guidance in the New Testament.

4. While Christians disagree about the basic concept of charging interest, even those who accept the legitimacy of interest in principle often agree that the charging of very high rates of interest is exploitative and immoral. The recent economic difficulties have heightened widespread concern about the charging of such rates to the poorest members of society. These rates are only possible because such borrowers do not have access to the forms of borrowing available to their richer contemporaries who may, for example, have property to offer as collateral. Many who do not regard interest as wrong in principle have nevertheless argued for some limits on the rates charged.

Proposed revision

5. Against this background, the Mission Council agreed to amend the 2010 guidance to make explicit reference to usury – defined as charging excessive rates of interest. This brought the Church into line with a growing number of other ethical investors. As with other elements of the guidance, it would need assessment on a case by case basis.

6. The investment committee, in line with the policies of other members of the ecumenical Church investors group, suggested that URC investors should seek to avoid any company one of whose main business activities (defined as exceeding 25% of group turnover) is the usurious provision of home-collected credit ('doorstep lending'), unsecured short-term loans ('payday loans') or pawnbroker loans, directly or through subsidiaries, or hire purchase. In May 2017 the threshold was reduced to !0% of turnover, also in line with ecumenical partners. Investment should be avoided

in specialist consumer finance businesses that may exploit, or over-burden with debt, lower income borrowers.

7. Typical indicators of potentially exploitative lending will be:
   a) triple-digit, or close to triple-digit, Annual Percentage Rates (APRs)
   b) short loan term durations (less than 18 months); and no requirement for security.

The products may have associated charges and loan rollover facilities that will compound the debt burden. Lenders sometimes provide funds without undertaking credit checks (or sufficient checks) on the borrower. In extreme cases where companies do not operate responsible collection practices there may be undue pressure on the borrower associated with repayment.

8. This advice was accepted in May 2013 in the following terms:

In accordance with the principles for ethical investment agreed by the General Assembly, Mission Council agrees to add to the recommended mandate for investors a new clause 1(c) as follows:

"(c) Companies who benefit by offering credit at usurious rates of interest to those who do not have access to funds through normal lending channels."

Appendix two

Ethical investment: Application of the Guidelines in relation to Climate Change

The following resolution was agreed by Mission Council, acting on behalf of the General Assembly, at its meeting in November 2015:

"Mission Council agrees to add the following text as an appendix to the 2010 statement of principles for the use of the United Reformed Church in making investment decisions:

Those responsible for investment decisions on behalf of the URC and its Trust bodies should:

a) engage intensively with those companies in which they are invested that make a significant contribution to global greenhouse gas emissions (such as fossil fuel producers, electricity generation utilities, large energy users, and producers of energy intensive products) to encourage them to assist in the transition to a low carbon economy

b) conduct corporate and public policy engagement wherever possible in collaboration with other investors, including through the Church Investors Group (CIG), the Institutional Investors Group on Climate Change (IIGCC) and the Carbon Disclosure project (CDP)

c) not invest in any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from oil sands

d) disinvest, after appropriate engagement, from companies that make a significant contribution to emissions of greenhouse gasses and that are considered not to be taking seriously their responsibilities to assist with the transition to a low carbon economy

e) where practicable increase their investments in climate change adaptation, and in sectors and activities such as sustainable energy, energy efficiency, carbon capture and storage that may make a significant contribution to reducing global greenhouse gas emissions or facilitating the transition to low carbon economy, to the extent that such investments meet their investment risk/return criteria

f) continue to encourage those organisations that invest money on their behalf to build climate change into their investment practices and processes, in line with the goals and objectives set out in this climate change policy, including through integrating climate change into relevant requests for proposals and due diligence processes, making climate change an explicit part of their asset management appointment processes, integrating climate change into their investment principles, and monitoring their asset managers' approach to climate change

g) monitor and report periodically on their implementation of this policy."

Appendix three

Summary statement – recommended mandate for investors

1. General Assembly recommends that trustees and all those with investment responsibilities connected with the United Reformed Church should avoid any investment in:
   a) companies directly engaged in the manufacture or supply of weapons
   b) companies a significant part of whose business is in the manufacture or supply of: alcoholic drinks, or tobacco products, or military equipment (other than weapons); or the provision of gambling facilities; or the publication or distribution of pornography; or in the extraction of thermal coal or the production of oil from oil sands
   c) companies who benefit by offering credit at usurious rates of interest to those who do not have access to funds through normal lending channels.

   General Assembly is of the view that in the definition of the activities outlined in b) and c) above, 'significant' means that the share of turnover derived from the activity concerned is more than 10% of the company's total turnover.

2. In addition to the exclusions listed above, the URC's investment bodies should reserve the right to avoid investment in companies whose operations are deemed to:
   - contribute directly to human rights violations or support the maintenance of oppressive regimes who are guilty of gross human rights violations
   - contribute to a systematic, harmful impact on the social or natural environment
   - harm the society in which they operate more than they benefit it;
   - promote injustice.

3. Further, it is expected that governance standards of our advisers, our fund managers, their agents, and the companies in which we invest, both directly and indirectly, should meet internationally accepted norms. By focusing on these standards, investors will favour companies which will be seeking to develop their businesses sustainably in the long term interests of their shareholders and other stakeholders.

4. Nestle Clarification: for investment purposes all companies should be treated in accordance with this ethical investment policy. There is no further requirement to exclude holdings in this company.

5. General Assembly recognises that this policy cannot be binding upon those with responsibility for specific investment decisions but when these bodies seek advice on investment matters they should apply due diligence to ensure that the integrity and reputation of the United Reformed Church is, as far as is practical, protected.

May 2017