

Special Commission on Ethical Investment Speech—General Assembly 2023

Moderator,

When the five of us that comprise the special commission were tasked with this role two years ago, I think we all felt that we had taken on something of a poisoned chalice. The task seemed so enormous and we could easily have spent the two years just trying to come up with a working definition of the term ‘ethical’. We’re still working on it!

So instead we threw ourselves into meetings to learn as much as we could about investment practice, ethical investment – it’s successes and limitations, what the church is currently doing, what other churches are doing, and to hear from people who wanted the church to be cautious and not risk income, and from people who felt the church should be prophetic and take a lead in making sure that our money is as ‘clean’ as possible. Clean being another word that we’re working on a definition of.

And all of this before we even got to the thorny little issue of fossil fuels, which is what got us here in the first place.

What we do with our money is not a peripheral issue, it is a deeply spiritual issue, because at its heart, it portrays our values and priorities. As we know, the Bible has plenty to say about money, how we get it, and how we use it. The prophet Amos castigates those who earn money at the expense of the poor, accusing them of: “Skimping on the measure, boosting the price and cheating with dishonest scales” (Amos 8v4). A theme that is echoed by many of the prophets. And that theme continues on into the New Testament. John the Baptist makes it clear that tax collectors should only take what is due to them, Jesus condemns the teachers of the law who take advantage of widows, and he saddens the rich young man by telling him that it is easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of heaven. James has a few choice words for the rich landowners who have squirreled away wealth while their workers are crying out because they haven’t been paid their wages.

How we acquire our money and what we do with it is in many ways central to our faith. If things were difficult in Biblical times, they are even more complex now. We live in a globalized world, where companies can criss-cross the globe to seek out and take advantage of cheap labour, non-unionised work forces, lax environmental controls and tax breaks. While it brings us cheaper goods, it often brings misery and ruin to people and planet. The controls set up to regulate trade never envisaged globalized markets, which is one of the

reasons that companies can so easily evade taxation – they merely shift location to low tax jurisdictions to declare profit. In a world where people need jobs and governments need tax money to pay for essential services, how do we stop a race to the bottom in an attempt to attract global capital to invest? And how do we as a Church invest in this space?

Another question we had to consider was the relative merits of divesting from things we didn't like versus remaining invested and trying to influence from within. These conversations dominated the fossil fuel debates here in this hall in 2018 and 2019 and, as such, was an issue that we sought lots and lots of opinions on. It soon became clear that this wasn't a clear-cut issue – we've highlighted in the report the limitations of merely excluding things we don't like from the portfolio in the belief that we are then no longer invested in them. In reality, we are just not invested in any company that derives more than 15% of its revenue from that sector. So, a company with a revenue of 20 billion pounds, therefore, could still have 2.5 billion pounds worth of revenue coming from something we didn't like – that's less than 15% of their total revenue.

Exclusions therefore are a fairly blunt instrument. Similarly if there are things we don't like we need to think about who is financing them and are we invested in them? So at the moment, we are not directly invested in fossil fuel companies, but we are invested in one of the biggest backers of fossil fuel development. So, does the exclusion on fossil fuels make our portfolio 'green'? Let's add that word to the 'to be defined list' as well.

And what about engagement? We heard that selling shares makes no material difference to a company – when we sell, someone else buys. A company is not harmed by us not investing in them. Potentially reputationally damaged, but not financially. And as long as we are invested then we can exercise an influence via voting. Now let's be very clear on this – we have a vote proportionate to the size of our investment and usually done on our behalf by investment managers who are voting on behalf of all of their clients. In theory that means that we add weight to a group of like-minded people, but it's also not unusual for an investment manager to cast votes both ways, depending on the views of their many clients. There is no scope for people in this Assembly Hall to sit across the table from company directors and have a 1-1 conversation. (Unless, of course, you have personal links that we don't know about.)

The Presbyterian Church in the United States of America, the PCUSA, is investing around ten times as much money as we are, and they find engagement difficult. Which is why they chose to engage with companies across a number of issues only for as long as they see progress. When they feel they are not making any perceivable difference, they move to disinvest.

Does engagement work? Some companies have made great strides in improving practices across a number of metrics - human rights, environmental concerns and governance, and so there is evidence that active engagement can be useful, and indeed the Investors Trust (COSIT) has been involved with broad church alliances on anti-trafficking work that has made progress in getting companies to be more accountable for their supply chains. There are companies that used to derive most of their revenue from oil and gas but have transitioned towards renewables. And then there are those that have merely paid lip service to changing practices. A blunt exclusion on any sector fails to allow for these nuances.

I hope I've managed to paint you a picture of both how interesting this is, and how complex. What about the Church's finances - the majority of the Church of Scotland investments are looked after by COSIT that was set up by an Act of Parliament and therefore not bound by the General Assembly. COSIT are bound by trust law that means they need to be responsible for the trust's assets. Normally that means that an investment is there in order to provide good financial returns, but can do so in keeping with the trust's aims and values.

So what about ethical investment? What we found when we spoke to people about ethical investment was a broad assumption that if we were to be more ethical we would lose money. Now with all the usual small print caveats of 'investments can go up as well as down and past performance is not indicative of future performance', we didn't come across any evidence of that being the case. We didn't speak to any church body who had lost income in order to be more ethical. We did hear from people who were investing slightly differently and had specifically recruited investment managers to be able to deliver against more stringent ethical criteria.

So where did all of this get us to? When we met with FaithInvest, an organization set up to support the rapidly developing movement of faiths actively using their investments to create a better world for people and planet, I think we had a bit of a lightbulb moment. They were proposing a structure that other churches have tried, or are in the process of trying, and wasn't dissimilar to what we had heard about from the PCUSA. As soon as we had met with them, I approached COSIT and told them that I thought we might just have cracked a way to work this through together in a way that moved this conversation forward without impinging on their role as trustees. And I want to say thanks to Robert and COSIT for being willing to work with us, and to have both challenging and constructive conversations with us.

What we are proposing to you today is the creation of an Ethical Oversight Committee (EOC) that will be made up of nine people. Three from COSIT, one from the General Trustees, then five appointed by the Assembly Nominations Committee – three of whom

would have a knowledge of social justice/world church issues, one would be a parish minister and one would be aged 30 or under at the point of their first appointment. That committee will be a space for intelligent and honest conversation around the kind of issues I've highlighted to you today, and the ones that are in the report. It is a committee to support COSIT as they work with Investment Managers and it's a place to locate the conversations that the church needs to have. It's probably fair to say that heated debates on the floor of the assembly are useful for getting issues to the fore, but less useful at pinning down the actual practical working out of what to do about them. The EOC is envisaged as the place those conversations can be fleshed out and pros and cons considered. The EOC will have no voting power, they will be purely advisory in nature. The legal / fiduciary role of the COSIT trustees will not be affected by the creation of this group.

FaithInvest has given their services free of charge over the last year/18 months and our proposal is that we ask them to facilitate the creation and setting up of the group and work with the group to support COSIT to come up with a very clear statement of the church's values that would then act as the basis of what would be used to brief investment managers. The cost for this is in the region of £7-10 thousand pounds, dependent on how much time the new chair of the EOC can give to the process, and we are very grateful that Faith Action have agreed to find budget for this.

The creation of this group is by no means a solution in and of itself. A speaker at a recent Global Ethical Finance Initiative conference was very clear that substantive changes come about because of changes in government policy. If we want real change to happen then companies and governments must be held accountable. Investors play one part in that process. The church has a voice in society that it can use to lobby for change – whether that is for fair wages, the paying of taxes, incentives for the renewable sector, adherence to the Paris protocols or speaking out against sweatshop labour. The journey for justice goes on.

I want to thank everyone that was on the special commission – as a member and as staff support as the last couple of years have been interesting, but hard work. Thanks also to everyone who took the time to speak with us, e-mail us, or read and comment on drafts of the report.

I am pleased to say that the recommendations and deliverances of this report have been agreed by both COSIT and Faith Impact Forum.

Moderator, I am not a commissioner and so can I ask the Principal Clerk to move the deliverance.