

SPECIAL COMMITTEE ON THE ETHICS OF INVESTMENT PRACTICE MAY 2023**Proposed Deliverance****The General Assembly:**

1. Receive the Report.
2. Agree the recommendations in section 11.
3. Establish as a Standing Committee of the General Assembly an Ethical Oversight Committee ('EOC') made up of nine people, each of whom would serve no more than two 3-year terms, to be populated as follows: (i) three persons would be trustees of the Investors Trust, (ii) one person from the General Trustees, and (iii) five appointed by the General Assembly through the Nomination process; of these five, three will have a social justice and/or world church background; one will be a parish minister; and one will be 30 years of age or under at first appointment.
4. Agree the following remit for the EOC:
The Ethical Oversight Committee (EOC) is an advisory group that will help the Church of Scotland Investors Trust (COSIT) to focus on the theological and ethical background of what the Church should be investing in, consider the complexities of the investment options, and be a space for intelligent conversations that can support the COSIT to provide the investment managers with very specific briefs, in line with the Church's values.
5. Thank and discharge the Committee.

Report**1. INTRODUCTION**

1.1 In Luke's gospel (3:1-6), John the Baptist preaches about repentance – but this is not merely spiritual repentance. Although he calls the people 'vipers' and warns them that 'any tree that doesn't produce good fruit will be cut down', he also makes it clear what needs to change. The repentance that John speaks of is active, requiring more than just asking for forgiveness. It calls for acts of love in action. The crowds ask John, 'what shall we do?' His answer is very clear: "Anyone who has two shirts should share with the one who has none, and anyone who has food should do the same." The message, amplified later by Christ's life-changing words and actions, is that we must care for those who have less than we have.

1.2 Note however, that when it comes to the tax collectors and soldiers, John goes beyond inviting them to simply share with those who are less privileged than them. He asks them to change the root causes of injustice; to practice justice. To the same question, 'What should we do', John replies, 'Don't collect any more than you are required to... Don't extort money and don't accuse people falsely—be content with your pay (3:12-14 NIV).

1.3 As a Church we are generous, such that a spirit of generosity could be considered a hallmark of our congregations and communities; and something of which we can be rightly proud. Ethical investment of the Church's money is a more difficult concept – in part because of the often contrary views of what "ethical" means in today's world. Investing ethically through the stock market often seems to mean making less-bad choices, rather than pro-active good choices.

1.4 The Church of Scotland ("the Church") has long had negative exclusions in place which ensure that there are no investments in companies that derive more than 15% of their total revenues from alcohol, gambling, tobacco, pornography, armaments and the extraction of thermal coal or tar sands – activities which are deemed to harm society more than they benefit it.

1.5 In the last thirty or so years, global finance has changed out of all recognition, to the point that the systems set up to regulate companies and their operations are generally acknowledged to be inadequate. In part, this is because the systems were not designed to police the huge multinational companies that operate across jurisdictions and are able to exploit different regional approaches to human rights, climate change, tax laws and governance requirements.

1.6 The Church has never shied away from engaging in difficult economic and social matters. And, unsurprisingly perhaps, there have always been different opinions on the Assembly floor as what should be done. Apartheid in South Africa is a good example of the church struggling to know what was right to do – the arguments to disinvest from that regime were countered for many years by a desire to stay invested and thus be able to influence. When a number of emerging countries were plunged into unsustainable debt and forced to liberalise their economies as part of the World Bank and International Monetary Fund Structural Adjustment Programmes, the Church not only was at the forefront of getting Fairtrade products into mainstream markets, but also lobbied actively for trade justice. At the turn of the millennium, the Church called on Governments to cancel the unpayable debt of many of the world's poorest countries. On-going close engagement with partners in Israel and Palestine has ensured that the Church is not invested in any company that profits from the Israeli Occupation of Palestine, although we own institutions there which means that we do have interests in the broader economy. More recently the Church has added its voice to the global calls for climate justice, recognising that extreme weather events are wreaking havoc across the globe, destroying homes and livelihoods, threatening food security, and pushing millions into poverty. However, when it came to addressing this issue, the old debate of disinvest or engage resurfaced again.

1.7 What this committee has attempted to examine is how the Church's investments sit alongside this desire for social justice.

2. ESTABLISHMENT OF A SPECIAL COMMITTEE (“THE COMMITTEE”)

2.1 The contentious issue around fossil fuels has come twice to the floor of the General Assembly, which heard the crippling effect that climate change was having on people around the world. However, when it came to discussing investments in fossil fuel companies that were contributing to the problem, there were differing views on what approach to take. In both 2018 and 2019 there was a deliverance proposed from the floor to disinvest from oil and gas companies. The will of the assembly in 2018 was to remain engaged and use the Church’s voice to influence the behaviour of companies, a task that was given to the then Church and Society Council, even though they had limited, if any ability to do this. In 2019 when the issue came again, the chair of the Church of Scotland Investors Trust (COSIT) spoke during the debate and asked the assembly to “resist the urging to disinvest from oil and gas companies because we (Investors Trust) believe it is the wrong way to influence change.” In 2019, like in 2018, the counter-motion calling for disinvestment fell.

2.2 The investment managers of the COSIT Growth Fund subsequently sold all the shares held in fossil fuel companies based on the view of its investment managers that there were better returns to be had in other sectors. The COSIT also accepted that there would be no new investment in fossil fuel companies without the prior agreement of the Faith Impact Forum.

2.3 Clearly there is a disconnect. When the fossil fuel companies were performing well, there was a desire by the COSIT to hold them, arguing that the best way to have a voice on climate change was to exercise the Church’s vote, via our Investment Managers, as a shareholder. However, when the companies were performing less well, they were sold solely for financial reasons and without regard to losing that influence; and irrespective of the will of the General Assembly to hold the shares and engage.

2.4 The on-going sparring on the Assembly floor led directly, in 2021, to the creation of a Special Committee (“the Committee”) with the brief to propose a framework from which the Church would be able to consider ethical investments more broadly and embrace alternative viewpoints, without necessarily having each issue come before the full Assembly and without unnecessarily hindering the ability of the COSIT to manage the Church’s money. The formal remit was:

2.5 *Appoint a Special Committee of five persons to consult with the Faith Impact Forum, the Church of Scotland Investors Trust and the Assembly Trustees to consider the best framework for future recommendations about the ethics of investment practice being brought before the General Assembly, and report to the General Assembly in 2023. (The membership is in Appendix 1, and the section of the Faith Impact Forum report is in Appendix 2.)*

2.6 A list of all the individuals and organisations consulted by the Committee is included in Appendix 3.

3. THE CHURCH OF SCOTLAND INVESTORS TRUST (COSIT)

3.1 The Church of Scotland Investors Trust was established by the Church of Scotland (Properties and Investments) Order Confirmation Act^[1], in the United Kingdom Parliament in 1994. It is a distinct legal entity whose trustees are bound by fiduciary duty to ensure good returns on the money that they hold. The line between fiduciary duty, which gives a degree of autonomy, and Section 41 of Part 6 of the Schedule to the Act that allows for, “the General Assembly from time to time to make bye-laws and regulations to be observed by the Investors Trust in the discharge of its duties and functions under this Order”, has to be properly understood, when considering a framework for future recommendations.

3.2 The Trust’s powers of investment are set out in Part 5 of the Schedule to the Act, and include wide powers as to investment of the funds held by it, to be exercised as the Trust shall think fit. The Solicitor of the Church informed the committee that it is a fundamental tenet of trust law that trustees may not fetter their discretion, and Section 41 should be interpreted as a reserved power for the General Assembly to make regulations in matters of administration only, and not to seek to interfere with the exercise by the Trust of the discretion given to it by the Act.

3.3 The primary and overarching duty of a charity trustee is to further the purposes of the trust. In terms of the Charities and Trustee Investment (Scotland) Act 2005, trustees are required to consider the suitability to the trust of any proposed investments and the need for diversification of investment in so far as is appropriate to the circumstances of the trust.

3.4 Investments are usually made to provide a financial return. In the charity context, investments are charity assets which are used to generate a financial return to allow the charity to deliver its charitable purpose. That is normally achieved by maximising the financial returns on the investments made, but it is not essential that this should happen in every instance. Trustees must ask what financial return is needed from the investments in order to properly support charitable activities, and balance the extent of any conflict with charitable purposes with the risk of financial detriment. A trustee has a legal duty to protect the charity’s resources and to ensure that the charity’s assets are not put at undue risk.

3.5 The Trust offers to congregations, councils and committees of the church, and to bodies within or connected to the church, cost effective and convenient participation in three professionally managed investment funds:

- The Growth Fund, managed by Newton, is expected to provide a growing total return, as a result of both income and capital value increasing over the long term. It is largely invested in global equities.
- The Income Fund, managed by Royal London, is expected to provide consistent high income without taking high risk of default. It is largely invested in UK bonds.
- The Deposit Fund, managed by Thomas Miller, is for short-term low-risk investment and seeks to provide a competitive rate of interest whilst preserving nominal capital value. Money is placed largely with Banks and Building Societies.

At the end of 2021, a total of £519.7 million was invested:

Growth Fund	£330.2 million
Income Fund	£88.7 million
Deposit Fund	£100.8 million

3.6 The COSIT instructs its investment managers to adhere to Ethical, Social and Governance criteria (known as ESG). ESG research is carried out by the investment managers. Investment is sought in companies that demonstrate responsible employment and good corporate governance practices, have regard to environmental performance and human rights, and act with sensitivity to the communities in which they operate. Investment is avoided in any company substantially involved in the excluded sectors described above. "Substantially" is interpreted as resulting in 15% or more of a company's total revenues.

3.7 The COSIT is a member of the Church Investors Group which encourages the formulation of investment principles based on Christian ethical positions. As a shareholder, the COSIT is able to cast its vote at company General Meetings and this is executed on its behalf by the investment managers. The voice of the managers carries increased weight where they also represent other clients which have aligned values with the Church. Neither the Church of Scotland Investors Trust, nor the Faith Impact Forum, has a seat at the table of any company General Meeting.

4. INVESTMENT SPECTRUM

4.1 Recognised ways to invest include:

- Traditional where an investment manager is free to invest in any company that it believes will perform strongly and generate good returns for shareholders (sometimes irrespective of the quality of governance and potential ethical concerns}
- Responsible where negative filters are put in place to ensure that companies which derive more than, say, 15% of their income from excluded sectors are filtered out.
- ESG where Ethical, Social and Governance considerations are carefully researched by the investment managers both before making an investment and during the period that the investment is held.
- Impact where a proactive approach is taken to invest in companies that are seen to be "doing good" – for example by delivering measurable societal and/or environmental improvements.

The Church's investments are currently a mix of traditional and responsible, underpinned and informed by ESG principles.

5. TREASURERS' VIEWS

5.1 The Committee drafted a questionnaire and requested the Church's General Treasurer's office to send it to the treasurers of every congregation that they held an e-mail address for. We appreciate that not every congregation therefore got the opportunity to take part, but operating without a budget we chose to contact those we could ask insight from free of charge. We were delighted to receive 180 responses. Questions included:

How important is it for you that the church funds are invested ethically?

- a) Not at all important – 10
 - b) Fairly important – 61
 - c) I have no views on this issue – 9
 - d) Very important – 71
 - e) Essential – I would never consider investing in Church of Scotland funds unless ethical considerations were paramount – 20
- Answered A & B – 1
 Answered B & E – 1
 Answered D & E – 3
 Not answered – 4

If Church funds were invested with a greater emphasis on companies that are perceived to do good, as opposed to primarily avoiding companies which operate in sectors that are considered inappropriate, what would your reaction be to this?

- a) This is exactly what the church should be doing with its investments – 65
 - b) This is what the church should be doing as long as it doesn't impact adversely on investment performance – 89
 - c) Performance against benchmark is a priority over prioritising companies that are perceived to be doing good. – 12
- Not answered – 14

If, by investing more positively, less reliance could be put on the defined benchmark, what would your response be?

- a) Very likely to recommend the sale of any Church of Scotland funds held and would not invest – 8
- b) Would seriously consider recommending the sale of any Church of Scotland funds held and would be less likely to invest – 41

- c) Would be happy to see investment in more positive areas and divergence from the standard benchmark would not affect my views on the Church of Scotland funds – 113

Not answered – 18

The full questionnaire response is in Appendix 4.

5.2 What the treasurers' responses showed was that they feel their congregations' funds should be invested as ethically as possible, while at the same time providing a satisfactory return. Whilst this is essentially what the COSIT is seeking to achieve, the issue of benchmarking the funds becomes important when it comes to an investment managers ability to make stock selections. From the responses, it would appear that for many, investing ethically trumps measuring performance against benchmark. The Committee recognises that if investing ethically results in moving away from traditional benchmarking, there would still need to be a way of measuring investment performance.

6. ETHICAL INVESTMENT

6.1 A contributor to our deliberations made an important point, paraphrased as: *If, in order to keep your lights on, you need to do things that are actually damaging, and possibly unethical, have you then lost the purpose of being the Church at all? And are these amounts so huge that they would make a difference? If you said to people, in order to get, say, 1% more, it is necessary to do things that may not be ethical – would they say the end justifies the means?*

6.2 The Church's investment managers have a standing instruction from the COSIT that there is to be no direct investment in alcohol, gambling, tobacco, pornography, armaments and the extraction of thermal coal or tar sands. However, these exclusions don't preclude an indirect exposure to one or more of these sectors. For example, and this is purely illustrative, UK supermarkets sell many £billions of alcoholic beverage products. Although this is a small single figure percentage of their total annual revenue, it is exponentially much greater than that of (say) a Scottish Craft Gin company. Paradoxically, the Church can invest in a UK supermarket, but not in the small Scottish company, even where that company's ESG practices and societal contribution may be vastly superior to the supermarket.

6.3 Although negative exclusions help to create awareness of injustices and contradictions, they don't necessarily bar investing in things we don't like. And this is before taking into account the ethical issues associated with global supply chains, including human rights concerns, and carbon emissions.

6.4 The Church was recently a shareholder in Nestle, which was the target of the world's longest boycott over their aggressive marketing of baby foods in breach of international standards and has also been the subject of fresh water disputes in Canada and the US.^[ii] And, despite having no direct exposure to fossil fuels, the Trust holds shares in Barclays Bank which, "financed £4.1 billion for new fossil fuel projects" between January and November 2021.^[iii]

6.5 Electric cars produce significantly less CO₂ than their petrol counterparts. However, there are emerging ethical concerns around the sourcing of the cobalt and lithium metals that are integral parts of their batteries. Amnesty has reported that, "Cobalt production is linked to child labour in the Democratic Republic of the Congo.^[iv] Some Indigenous communities are resisting lithium mining on their land in South America."^[v]

6.6 Some major energy companies are making strident efforts to transition to renewables. Orsted, for example, transitioned from being one of the most coal-intensive companies in Europe to become "the world's largest producer of off-shore wind energy"^[vi] Should it and others like it be encouraged in their transition or shunned as potential investments because of their continuing oil and gas operations.

The above examples are included to emphasise that, although negative exclusions undoubtedly add value when an attempt is made to invest ethically, they do not necessarily achieve the desired objective of doing good, and also to indicate how complex it is to invest ethically.

6.7 As a Church we know that poverty is not an accident; we know that poverty is not only a lack of money, but also a lack of power and opportunity. And as John the Baptist reminded the people of the day, economic issues become spiritual issues, because the decisions that we make have direct repercussions on others. And those 'others' are our sisters and brothers both at home and around the world. So how we invest our financial resources is something that we need to consider very carefully.

6.8 Given the complexity of the issue, it would be easy to accept the status quo– doing the best with exclusions, accepting that nothing is perfect, and recognising the need to ensure that the returns are sufficient not only to keep the lights on and the roofs watertight, but also to enable the Church to pursue its mission effectively and continue to give generously.

6.9 As Christians, we are rightly called on to be salt and light (Matthew 5:13-16), to act justly (Micah 6:8) and to care for creation. It is therefore only right that we dig deeper to see what might be possible in order to ensure that the Church's investments properly reflect the mission and values of Christ. As we were reminded by one of the many people interviewed by the Committee, "we shouldn't let perfect be the enemy of good".

7. ETHICAL CRITERIA

7.1 Many investment managers offer ESG aligned investment portfolios, and the Church's assets are currently invested using ESG principles. The perceived "sin sectors" are excluded and fossil fuels have recently been shunned. However, is this enough?

7.2 The Edinburgh-based Global Ethical Finance Initiative comments, "Asset managers and asset owners alike face very real problems of defining what it means to be a responsible investor."^[vii] Their research into ethical investment provision in Scotland demonstrated the very broad definitions of ESG leading them to conclude that the "consequence of this is the risk of ongoing confusion, 'greenwashing' and funds being wrongly categorised by data providers."^[viii]

7.3 The Committee looked closely at the pros and cons of impact investing – where there is a deliberate decision to invest in companies that are actively working to bring about positive social and/or environmental change, as well as seeking a satisfactory return on investment. Using the Sustainable Development Goals and the Paris Climate Convention as a framework is a road that some have gone down and is increasingly being used by investment managers. Whilst this may not offer an immediate fix, it does signal an intention of trajectory of travel. Both the Quakers and the Joseph Rowntree Foundation have adopted this approach and have rigorously sourced investment managers aligned with their values and principles.

7.4 The Committee also looked at bespoke investment. An example is Oikocredit, a worldwide cooperative and social investor that promotes sustainable development by providing loans and capital in low income countries. It seeks to create social impact in return for a modest financial return that is fair in terms of the prices charged to partners for the financing.^[ix] Historically it has paid two per cent dividend on the shares, which was reduced to one per cent in order to enable Oikocredit to restructure and become more cost effective. The Church, through the former World Mission Council, invested £200,000 in Oikocredit, and chose to continually reinvest the dividends as a commitment to supporting some of the world's poorest communities. The Church still holds these investments, presently overseen by the Assembly Trustees, not the Investors Trust.

7.5 There are many platforms that enable investors to buy bonds in social projects such as solar panels for schools and community-owned clean energy initiatives. Whilst these investments may be much more ethical than the stock market and may generate as good, if not better, financial returns, they require much more hands-on management than the COSIT could be expected to provide. The Presbyterian Church in the United States of America (PCUSA), has the staff capacity to do a mixture of stock market investing, and investing in bespoke projects, seeing it as an extension of their mission work.

7.6 The Church is a signatory to the [Edinburgh Finance Declaration, alongside the Islamic Finance Council – an initiative brought about by the Global Ethical Finance Initiative](#). The Initiative was directly inspired by the legacy of Rev. Henry Duncan (founder of the Saving Bank movement) and seeks to create a practical ethical finance solution in Scotland that is open to all in society regardless of faith or ethnic background and is built on the shared values between the faith traditions. This is a conversation that could be picked up in the future.

8. TO ENGAGE OR DIVEST?

8.1 Whether the Church should remain invested in fossil fuels and press for change from inside or divest has tended to dominate recent General Assembly investment debates – with strong arguments advanced on both sides. Those advocating engagement have argued that divesting from a company does not mean that company has less money – because the shares sold are bought by someone else.

8.2 The Committee has heard from many voices on this issue and there is a real difference of opinion within the Christian community on what is most effective. Climate change is a global emergency and swift and urgent action is needed. One argument is that divesting sends a strong signal that the Church no longer want to be part of the problem, especially since there is ample evidence that many companies are merely paying lip-service to substantial change.^[x] By staying invested, they say, the Church legitimises greenwashing. Indeed, it is for that reason that Desmond Tutu embraced a call for divesting, comparing the argument to remain invested and push for change, to the policy of 'whitewashing' in apartheid South Africa.^[xi]

8.3 Others argue that divesting is a waste of time because it achieves nothing. Shares are merely sold to other investors who may be less willing to engage. Divesting, they say, does no substantive damage to the company and what is needed to bring about change is aggressive shareholder action.

8.4 The Quakers have chosen to completely disinvest from fossil fuels and have attempted to build a portfolio of investments that are as clean and ethical as possible. This enables them to direct their money proactively to places they want to invest in.

8.5 The PCUSA, with very substantial funds, has a policy of engaging directly with companies to campaign for change. However, if it doesn't see evidence of necessary improvement within two or three years, it then moves to divest. This is something that the Investors Trust, in conversation with us, has indicated that it is in favour of doing going forward- only staying invested for as long as having a voice is evidently having an impact. The amounts that the COSIT is investing on behalf of the Church and its congregations are very small in comparison with the PCUSA which means that its voice and votes carry little weight. Employing investment managers, who invest on behalf of many clients, helps that voice to become louder. The COSIT already liaises with a number of ecumenical bodies in order to share experiences and work together to achieve change and strengthen corporate governance.

9. THE PROPOSED INTRODUCTION OF FAITHINVEST

9.1 [FaithInvest](#) is an international non-profit network of religious groups and faith-based institutional investors. FaithInvest sees faith communities as natural powerhouses for ethical, faith-based and impact investing that can contribute to environmental, social and governance (ESG) or socially responsible investing (SRI). Recognising that the world's religions are responsible for billions of pounds worth of investments, FaithInvest helps groups define their values and beliefs in order to then guide investment choices.

9.2 As investors, faith communities are often good at knowing what they *don't* want to invest in. FaithInvest seeks to support faith communities in clarifying what they *do* want to invest in, motivated by passionate convictions that investing in line with values will achieve a just and sustainable world, through actively using investments for the benefit of people and the planet.

9.3 Having engaged over several months with FaithInvest, including three-way conversations with the Investors Trust, the Committee is persuaded that there would be value in working closely with them to support the Church in defining what its core values and beliefs are and how that can translate into a clear mandate to the investment managers as to how the Church wishes to see its money work. For the last year, FaithInvest have been working with us free of charge and have offered to act as facilitators to this process going forward. The majority of FaithInvest's funding to date has come from [CHR Foundation](#) of the United States, and [Porticus Amsterdam](#), a group coordinating the philanthropic activities for the Brenninkmeijer family. Going forward there will be a small charge for this work.

10. THE FUTURE

10.1 Part of the Committee's remit was to consider what any future structure would look like. Given the legal autonomy of the COSIT, any structure needs to be acceptable to the COSIT, be advisory in nature, and prepared to work with and make suggestions in the knowledge that the COSIT has a fiduciary responsibility for investment decisions.

10.2 The PCUSA has an informed group that oversees its approach to investment with a dedicated staff member who manages the process on a day-to-day basis. The Scottish Episcopal Church and the Methodist Church in Britain have also established ethical investment advisory groups which have proved effective in articulating their values and principles.

10.3 The Committee proposes that, working with FaithInvest, an Ethical Oversight Committee (EOC) is formed, comprising three representatives from the COSIT, three from a social justice / world church background, one who is under 30, one from parish ministry, and one nominated by the General Trustees.

It is envisaged that the involvement of FaithInvest would only be required for a couple of years in order to support the establishment of the EOC and the drafting of a comprehensive values statement that would then be used to brief the investment managers. It needs to be made very clear that the fiduciary duty and legal obligations of the Investors Trust remains unchanged – the COSIT will always have ultimate decision-making power. The EOC's role would be to help the COSIT to focus on the theological and ethical background of what the Church should be investing in, understand the complexities of the investment options, and be a space for intelligent conversations that can be used to support the COSIT to provide the investment managers with a very specific brief. It is envisaged that this would be the space where difficult issues could be discussed. The EOC would not be a voting group, however they could discuss and make recommendations, for example on whether an energy company had adequately switched the majority of its business towards renewables to warrant consideration for investment.

10.4 We are proposing that the EOC should be asked to report back every year to the General Assembly. This does not replace or detract from the report of the Investors Trust, but rather is to ensure that there is a focus on the ethical issues discussed over the previous twelve months. Given the legal authority that the COSIT will always retain, the EOC has to be given some ability to use its voice, and if the EOC and the COSIT are functioning well together, then the reports should be complementary.

10.5 These have not been easy conversations, and we are aware that the proposals in this report may fall short of what some would wish. However, we are keen to ensure that the investments held by the church are as ethical as possible, and believe that the direction we are recommending brings us into line with what other Christian churches around the world are doing, and works to support the COSIT towards continual improvement, rather than to sit in opposition to it. We are happy to say that while the Investors Trust doesn't endorse everything in this report, they are happy with the proposed creation of the EOC and the plan to work alongside FaithInvest. The following proposals, therefore, are being made with the support of both the Investors Trust and the Faith Impact Forum.

11. RECOMMENDATIONS

The Committee's recommendations, which are supported by the COSIT and the Faith Impact Forum, and which the General Assembly is invited to approve, are:

1. Establish an Ethical Oversight Committee ('EOC') made up of nine people, each of whom would serve no more than two 3-year terms. Three would be trustees of the Investors Trust, and one from the General Trustees. The General Assembly would appoint three from a social justice and/or world church background; one parish minister; and one who was 30 years of age or under at appointment.
2. Encourage COSIT, working with FaithInvest within the EOC, to define and make public the Church's investment values.
3. Encourage the EOC to work with the Investors Trust and encourage them to reduce from 15% to 10% the percentage of a company's total revenues in the excluded sectors that would mean it could not be held as an investment by the Church.
4. Encourage the Investors Trust to work alongside the EOC to develop, and review annually, a detailed investment policy statement to be used to inform and instruct the investment managers.
5. Encourage the Investors Trust to involve the EOC in conversations with the investment managers, highlighting holdings that it believed did not adequately conform with the Church's values.
6. Encourage the Investors Trust to work with the EOC to define a clear policy on what engagement the Church should employ, and how best to co-operate with Christian and other kindred groups in order to increase leverage. It should also set out the parameters for engagement and how to know if it is being successful.

7. Require the EOC to report annually to the General Assembly on the thematic issue areas they have worked on with Investors Trust and to reassure the General Assembly that ethical issues are being considered in investment practice.
8. Noting that the Church already has an investment in Oikocredit and potential commitments to the UK Islamic Finance Council and the Edinburgh Finance Declaration, encourage the areas of the Church for which this kind of investment is pertinent (presently this does not include COSIT) to keep the EOC advised of what they are doing.

In the name of the Special Committee on the Ethics of Investment Practice

VAL BROWN, Convener

Appendix 1

Membership & Meetings

The General Assembly appointed: Val Brown (Convener), Ewan Brown, Hannah Dunlop, Tom Kisitu, and Alasdair Ronald to serve on the Special Committee. Ian Alexander served as staff support.

The Special Committee met on over 35 occasions, mostly electronically, between summer 2021 and early 2023.

Appendix 2

From the Faith Impact Forum Report to the 2021 General Assembly

"For the future, there needs to be a mechanism whereby the ethics of investment practices can be discussed from a broader perspective than the purely financial. The Faith Impact Forum and COSIT have disagreed about oil and gas shareholdings, and so there may be benefit in exploring a fresh approach to agreeing policy on ethical investment. In discussion with the Assembly Trustees, it seems appropriate to seek to appoint a Special Committee of five persons to consult with the Faith Impact Forum, the Church of Scotland Investors Trust, and the Assembly Trustees to consider the best framework for future recommendations about the ethics of investment practice being applied in the church and being brought before the General Assembly. The Special Committee will take account of social and environmental impacts, as well as learning from other Churches and Christian agencies, the Church Investors Group, and bodies with experience of assessing the practical constraints of managing funds on behalf of investors. The Forum believes that this group must combine the expertise of those from a financial background, alongside those with a depth of understanding of the ethical issues which the church should consider when dealing with finance. It should draw from the broad range of church membership, and be inclusive and diverse."

Appendix 3

List of individuals and organisations consulted by the Committee

- **Brewin Dolphin**
 - Lynne Lamont, Head of Charity Service
 - Kelly Eva, Sustainability Manager
- **CCLA Investment** (www.ccla.co.uk)
 - Heather Lamont, Director, Client Investments
 - Josephine Carlsson, Sustainability Team
 - James Corah, Head of Sustainability
- **Church Investors Group** <https://churchinvestorsgroup.org.uk>
 - Edward Carter, Chair
 - Stephen Beer, Vice Chair; former Chief Investment Officer and Head of Ethics for the Central Finance Board of the Methodist Church and Epworth Investment Management
- **Christian Aid**
 - Bob Kikuyu, Global Theology Adviser based in Nairobi
 - Chris Hegarty, Finance/Justice
 - Kathy Galloway, Former Head of Christian Aid Scotland
- **Church of Scotland Assembly Trustees**
 - John Chalmers
 - David Harrison
 - Barry Hughes
 - Jean Couper
 - Peter McEnhil
- **Church of Scotland staff**
 - David Kendall, Chief Officer
 - Mary Macleod, Solicitor of the Church
 - Anne Macintosh, General Treasurer

- **Church of Scotland Faith Impact Forum**
 - Susan Brown
 - Alan Miller
 - Richard Baxter
 - Peter Lloyd
 - Forum Meeting
- **Church of Scotland General Trustees**
 - Alan Kennedy, Chair, pro tem.
 - Michael Craig
 - Barri Millar, Chief Executive.
- **Church of Scotland Investors Trust**
 - Robert Burgon, Chair
 - Brian Duffin, past Chair
 - Elaine Crichton, Vice-Chair
- **Church of Scotland Pension Trustees**
 - Graeme Caughey, Chair
 - Ray Martin, Chair of Investment Sub Group
 - Jane McLeod, Pensions Manager & Secretary to the Trustees
- **Edentree IM**
 - David Osfield, Fund Manager
 - Ian Dale
- **Evangelische Kirche von Westfalen (EKvW), Germany**
 - Ulrich Möller, Head of Department for Ecumenism, Mission & Global Responsibility
- **Faith Invest (www.faithinvest.org)**
 - Nana Francois, Director of Investment Solutions
 - Mathew Jensen, Investment Solutions Officer
 - Hasnane Arain.
- **Global Ethical Finance Initiative (<https://www.gloablethicalfinance.org>)**
 - Graham Burnside, Co-Founder & Senior Adviser
 - Omar Shaikh, Co-founder and Managing Director
 - Natalie Jackson, Executive Manager
 - Dame Susan Rice, Chair, Global Steering Group
 - GEFI Faith in Finance Conference
- **Newton Investment Management Ltd**
 - David Moylett, Client Director
 - Alan Goodwin, Head of Charities
 - Bhavin Shah, Portfolio Manager
- **Oikocredit (<https://www.oikocredit.coop/en>)**
 - Lydia Tomitova, Manager of Investor Relations Unit
 - Belen Ortiz, Senior Investor Relations Officer
- **Palestine**
 - Professor Mazin Qumsiyeh, Founder: the Palestine Museum of Natural History; advocate/activist for justice and peace.
 - Charlotte Marshall, Sabeel-Kairos Director
- **Presbyterian Church USA**
 - Rob Fohr, Director of Faith Based Investing & Corporate Engagement
- **Quakers**
 - Linda Batten, Trustee and Voluntary Treasurer (Trustee for the Joseph Rowntree Charitable Trust and Chair of Investment Committee)
- **Operation Noah**
 - James Buchanan
- **Adrian Shaw**, Former Church of Scotland Climate Change Officer
- **Tilney Smith & Williamson**
 - Keith Burdon, Head of Charities, Scotland & NI
 - Debbie Hair, Senior Investment Manager
 - Kate Capocci, Stewardship and Social Responsibility

- **United Reformed Church, Ministers Pension Fund**
- Bridget Micklem
- **Wespath** (The United Methodist Church, USA Pension Fund)
- Dave Zellner

Appendix 4

Questionnaire

QUESTIONNAIRE SUMMARY – 180 Questionnaires returned

1) Does your church have money invested in the stock market (i.e other than monies on deposit)?

- Yes 118
- No 56
- Not answered 6

2) If yes, how are the monies for your church invested?

- a) Church of Scotland Growth Fund – 23
 - b) Church of Scotland Income Fund – 2
 - c) Both the Growth Fund and the Income Fund – 64
 - d) Other – please indicate briefly the method of investment – 11
- Answered A & D – 4
 Answered B & D – 9
 Answered C & D – 12
 Not answered – 55

3) How important is it for you that the church funds are invested ethically?

- a) Not at all important – 10
 - b) Fairly important – 61
 - c) I have no views on this issue – 9
 - d) Very important – 71
 - e) Essential – I would never consider investing in Church of Scotland funds unless ethical considerations were paramount – 20
- Answered A & B – 1
 Answered B & E – 1
 Answered D & E – 3
 Not answered – 4

4a) At present the funds’ performance is assessed against appropriate indices/benchmarks. How important is performance against benchmark to you?

- a) I would never consider investing in Church of Scotland funds unless they performed well against the benchmark – 87
- b) I am happy to invest in Church of Scotland funds regardless of their performance against the benchmark – 68
- c) Not answered – 24

4b) Are you aware of what the benchmark is for both the growth and income funds?

- Yes – 50
- No – 123
- Not answered – 7

5) If Church of Scotland funds were invested with a greater emphasis on companies that are perceived to do good, as opposed to primarily avoiding companies which operate in sectors that are considered inappropriate, what would your reaction be to this?

- a) This is exactly what the church should be doing with its investments – 65
- b) This is what the church should be doing as long as it doesn’t impact adversely on investment performance – 89
- c) Performance against benchmark is a priority over prioritising companies that are perceived to be doing good. – 12
- d) Not answered – 14

6) If, by investing more positively less reliance could be put on the defined benchmark, what would response be?

- a) Very likely to recommend the sale of any Church of Scotland funds held and would not invest – 8
- b) Would seriously consider recommending the sale of any Church of Scotland funds held and would be less likely to invest – 41
- c) Would be happy to see investment in more positive areas and divergence from the standard benchmark would not affect my views on the Church of Scotland funds – 113
- d) Not answered – 18

7) Engagement with companies to try to change some of their practices for the better (such as encouraging oil companies to make greater use of renewable energy) is a key component of ethical or responsible investment and something that the church already does, but could do to a greater extent. Which statement best categorises your feelings about being invested in companies with 'unethical' dimensions (recognising that very few companies are perfect)?

- a) I appreciate that there is no such thing as a truly ethical company, but I expect only to be invested in companies that have social goals that go beyond the maximisation of profits – 55
- b) I understand the complexities of the modern world, and am content to be invested in 'unethical' companies on the basis that we use our voice to try and lobby for changes to be made, however if I saw no change in a company's behaviour over a couple of years I'd want to disinvest. – 51
- c) I understand the complexities of the modern world, and am content to be invested in 'unethical' companies on the basis that we use our voice to try and lobby for changes to be made, and am content that is a slow process.– 58

Not answered – 14

Answered A & B – 1

Answered A & C – 1

References

- [i] <https://www.legislation.gov.uk/ukla/1994/5/enacted/data.html>
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- [iii] [Barclays has financed \\$5.6bn in new fossil fuel projects since January | Barclays | The Guardian](#)
- [iv] [Industry giants fail to tackle child labour allegations in cobalt battery supply chains – Amnesty International](#)
- [v] [Communities challenge lithium production in Argentina \(dialogochino.net\)](#)
- [vi] [Ørsted's renewable-energy transformation | McKinsey](#)
- [vii] [Mapping-the-Responsible-Investing-Landscape-in-Scotland-EXEC-SUM.pdf \(ethicalfinancehub.org\)](#) Page 5
- [viii] [Mapping-the-Responsible-Investing-Landscape-in-Scotland-FULL-REPORT.pdf \(ethicalfinancehub.org\)](#) P57
- [ix] [How Oikocredit works – Oikocredit International](#)
- [x] [Protect the Arctic – Reclaim Finance](#)
- [xi] [Don't 'faithwash' fossil-fuel firms \(churchtimes.co.uk\)](#)