



The Anglican Church of Canada



Investing with a Mission

A Guide to Responsible Investment
and Church Funds



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Investing with a Mission:

A Guide to Responsible Investment and Church Funds

In the fall of 2016 the Council of General Synod established a Responsible Investing Task Force, in response to Resolution A171-R2, with a mandate to review and, if deemed appropriate, recommend changes to the current investment portfolio and the investment policies of the General Synod and the General Synod Pension Plan in relation to environmental, social, and governance (ESG) concerns.

In pursuing this mandate, the task force quickly recognized that the financial holdings of the General Synod and the General Synod Pension Plan represent only a portion of Anglican-related investments held across Canada. Hundreds of millions of dollars are currently invested on behalf of dioceses, parishes, Anglican-affiliated educational institutions, the Primate's World Relief and Development Fund, the Anglican Foundation of Canada, and other entities. Many of these funds already employ ESG considerations in their investment decisions, while others are beginning to explore how they might integrate this into their approach.

Although the policies of these other funds are beyond the scope of the mandate of the Responsible Investing Task Force, the research and findings of the task force could be used by funds and stakeholders as they continue to reflect on how they might incorporate ESG factors into their policies. This document is offered as a guide for discussion and reflection for Anglican-affiliated funds wishing to further their engagement on ESG issues.

Introduction: Investment, mission, and the Kingdom of God

The mandate of our task force, to identify and articulate the social and environmental responsibilities of our institutional investments, derives from Resolution A171-R2 adopted at General Synod 2016. But beyond that, our mandate derives from the kind of people God, in Christ, has called us to be.

While some worldviews might seek to reduce all human endeavour to economic concerns, where maximization of profit determines strategy, this cannot be the case for us as Christians. As former Archbishop of Canterbury Rowan Williams has noted, while economic activity is among the things human beings *do*, it is not to be confused with the theological question of what human beings are *for*.

From Genesis onward, the Scriptures speak of humankind as bearing the very image of God, called to participate in God's creative work in and for all of creation. The commands to exercise dominion over creation on God's behalf (Gen. 1:27-28) and to till and keep the Garden of Eden (Gen. 2:15) reveal both work and stewardship as integral to God's original purpose for humanity.

Moreover, both Old and New Testaments present us with a vision of human life – and indeed the life of all God's creatures – as mutual and interdependent. The Torah sets out conditions under which all members of the community are enabled to flourish, including restrictions on the enrichment of a few at the expense of others, and measures to protect the fertility and integrity of the land and its creatures. Paul describes the interdependence of the community in terms of an organic whole, the body (1 Cor. 12:12-26), and holds up Christ as the one in whom *all things* are created, reconciled, and held together (Col. 1:15-20). This biblical emphasis on the interrelationship of the created order is echoed in traditional Indigenous understandings that describe land, water, and plant and animal life as “all my relations.”

It would be simplistic, and mistaken, to claim that the Scriptures view money as inherently evil. Both Abraham and Job are Biblical figures whose wealth is spoken of as a blessing, and Lydia, the dealer in purple cloth, is the first of Paul's converts in Europe. Wealthy women provide for Jesus and his disciples during their ministry (Luke 8:3) while Joseph of Arimathea and Nicodemus, out of their wealth, care for Jesus' body after His death. Stewardship, investment, inheritance, taxpaying, and almsgiving all find their place in Jesus' parables and teaching.

At the same time, both Old and New Testaments understand that love of money – what Jesus calls Mammon – has a tendency to become a false god, leading us to value what we grasp for ourselves rather than pursuing God’s vision for us. Thus the prophets excoriate those who “sell the needy for a pair of sandals” and “trample the head of the poor into the dust of the earth” (Amos 2:6-7) and Jesus’ parables point out the foolishness of those who amass great wealth without paying attention to God or to the poor (Luke 12:16-21, 16:19-31).

Pursuing and amassing money as an end in itself, or as a means to power and control, is the worship of Mammon.

But Mammon is “dethroned”, as Archbishop Justin Welby puts it, when we recognize wealth as a gift of God to be used for the flourishing of the wider community. The generosity of Jesus’ supporters and the early disciples allowed them to contribute to the needs of others, building relationships of generosity and solidarity (Acts 2:44-45; 2 Cor. 9:6-14). As theologian Ched Myers says, God’s gift must always move – when we keep it to ourselves is when it begins to corrupt, and to corrupt us. Thus the New Testament writers urge those who have wealth not to make it their goal, but rather to be “rich in good works, generous, and ready to share” (1 Tim. 6:17-18).

The Scriptural imperative towards bearing God’s image in our work *in* and stewardship *of* the natural order, as well as in a mutual interdependence marked by generosity, has implications for our economic activity both as individuals and as an institution. As former Archbishop of Canterbury Rowan Williams has said, “if my well-being is inseparable in God’s community from the well-being of all others, a global economic ethic in which the indefinitely continuing poverty or disadvantage of some is taken for granted has to be decisively left behind.” These disadvantages include the effects of environmental degradation and climate change, which affect us all but which the poorest are least able to mitigate. In the encyclical *Laudato si*,’ Pope Francis connects environmental degradation with the consolidation of wealth, especially where economic practice loses sight and connection with local communities, local workers, traditional and sustainable practices and the respect inherent in Jesus’ command to treat one’s neighbour as oneself. Thus our economic practices must be considered not in purely economic terms but through the lens of God’s vision for our human life, which includes the flourishing of all, including the non-human creation.

This vision is reflected in the Marks of Mission of the worldwide Anglican Communion, particularly the Fourth and Fifth Marks of Mission:

- To transform unjust structures of society, to challenge violence of every kind and pursue peace and reconciliation; and
- To strive to safeguard the integrity of creation, and sustain and renew the life of the earth.

In practice, most of us lack experience considering the needs of the global and created world and the effects of our economic practices upon them. Yet through our connections both here in Canada and with Anglicans globally we are called to assist, support, and demonstrate transformed fiscal practices to people and communities affected by unjust work environments and governance structures as well as by environmental degradation and climate change – conditions which are often created or exacerbated by the economic and environmental practices of the developed world. Their plea and their perspective deserve our attention and response.

As fallen people, located within a society, institutions, and structures that share our fallenness, we acknowledge that we cannot simply extricate ourselves from them. Nor should that be our aim. Rather, we believe that we are saved by Christ's gracious self-offering on the Cross, not to be taken *out* of the world but to bear witness to Christ's transforming grace *in* the world. (cf. John 17:15-19). Like the Jewish exiles in Babylon, we are called to seek the welfare of the places into which we have been sent, because our welfare is bound up with theirs. (Jeremiah 29:7).

By following Christ's call within the locations and structures in which we find ourselves, we trust in and commit ourselves to God's transforming work in the world, so that all things may be reconciled in Christ (Colossians 1:20).

We delight in the labour and ingenuity of human beings in producing the goods and services on which we depend, as well as in the ability of church investors to produce and grow necessary capital for the present and future support of the community. Through their work, the needs of our families, communities, and Church body are met, and God's gifts are shared in ministry at home and worldwide.

At the same time, we are faced with the complex challenges of ensuring that our well-being is not achieved at the expense of that of vulnerable populations and communities, and of the land, water and air on which we all depend. Responding to these challenges will involve careful consideration of how the church and its affiliated investment contractors do business, and are seen to do business, so that in our investments, as in all things, we seek first the kingdom of God.

Responsible investment and Church funds

Whilst we note that Resolution A 170-R1 refers specifically to General Synod's 'desire to move to a low carbon economy' and that Resolution A 171-R2 identifies 'divestment in organisations deemed to conflict with the transition to a low carbon economy' as a possible guideline and policy for responsible investment, we understand our mandate issuing from A 171-R2 as one of addressing environmental, social and governance (ESG) principles in investment. To this end we have adopted the definition of responsible investing as provided by the United Nations Declaration on the Principles of Responsible Investment:

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

Examples of environmental factors include: climate change; greenhouse gas (GHG) emissions; resource depletion, including water; waste and pollution; and deforestation. Examples of social factors include: working conditions, including slavery and child labour; local communities, including indigenous communities; conflict; health and safety; and employee relations and diversity. Examples of governance factors include: executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, and tax strategy. These examples are not exclusive and will vary according to context.

Responsible investment is a secular term which promotes the integration of ESG information in investment decision-making to ensure that all relevant factors are taken into account in risk and return assessment. It will be noted that environmental considerations are a subset of a broader assessment of those operative factors in any investment decision.

It is also important to recognize that ESG considerations are not intended to substitute for traditional financial considerations, but to enhance them. That is, most funds still have as a purpose (and in some cases, duty) the achievement of a desired level of risk-adjusted financial returns, but will incorporate responsible investment practices as a means of reducing risk and enhancing long-term returns.

The rest of this paper is organized in five sections. Section A will outline four ways that our funds can incorporate ESG concerns in our investment practice, with examples and recommendations appropriate to the different size and type of funds present in the Church. Section B discusses relationships with investment managers and how you might evaluate their practice with regard to Responsible Investment. Section C is a discussion of the specific climate-change related issues which may be taken up by investment funds. Similarly, Section D examines options for Church funds to support the goal of Reconciliation with Indigenous peoples. Lastly, Section E discusses options for collaboration between Church funds that might assist with the uptake of Responsible Investment practices.

A | Four approaches to responsible investment for Church funds

While there are many ways of approaching responsible investment, the most common practices undertaken by funds of all sizes can be categorized in four ways: Integration of ESG factors, active ownership, impact investing, and screening and divestment.

Below we discuss each of these in turn, including a description of the practice, some guidance and resources, and recommendations to consider.

The applicability and scope of each practice will depend on the fund's mandate, resources, and structure. For example, when a fund invests directly in companies through a segregated fund, it has the ability to select the individual companies in which it invests, whereas a fund that invests indirectly through pooled funds or derivative products can only select the mandate and the managers that best meet their criteria. In each of the following sections we make note of the potential differences in practice for different types of investment funds.

1 | Integration of ESG factors

WHY:

While most people think of investment exclusions, negative screens, or divestment when they first consider responsible investment practices, many investors also employ positive, or affirmative screens that systematically incorporate consideration of ESG criteria into normal investment risk analysis to assess which companies perform best measured against similar corporations in their sector or asset class. Incorporating ESG factors into the analysis of a proposed investment can provide important insight into risks or opportunities that a strict financial analysis will not uncover. For mission-based investors, it can also help to align investments more closely with the fund's values, selecting companies whose policies and practices enhance the fund's mission or values.

For example, a fund may invest in a retail company whose due diligence program to root out child or forced labour in its global supply chain is stronger than its competitors' programs. This is not only better aligned with the Church's values, it may also be an indicator of stronger risk management practices by the company in general, and therefore a sign of good management and lower financial risk.

HOW:

To do this, a fund may either directly employ the services of an ESG ratings provider to assess the companies in its portfolio, or they may seek out an asset manager that either purchases similar services or provides its own analysis. The asset manager then incorporates this type of screening in its asset selection process.

Where a fund holds segregated assets, it may provide instructions to the manager on areas of particular interest for the screening process. The fund should consider the ESG criteria which are most important to it. Usually, a fund will address the use of ESG integration or screening in its Statement of Investment Policies and Procedures. Sample language your fund may consider using is included in the Resources section below. This can be done using the services of either your manager or an outside consultant to help discuss the relevance and implications of incorporating different ESG criteria in your investment decisions.

Where a fund is invested in pooled funds, it does not have the ability to direct the manager on its priorities. However it may a) choose a manager that incorporates positive ESG integration in its mandate for the pooled fund; b) choose a pooled fund product that incorporates ESG integration in its stated mandate; or c), if the fund does not currently incorporate ESG factors in its mandate, ask questions of the manager and express interest in ESG integration to encourage the manager to incorporate ESG factors into the fund's policies and practices.

OUR RECOMMENDATIONS:

The Responsible Investing Task Force recommends that funds establish a Statement of Investment Policies and Procedures (SIPP) that sets out the fund's investment objectives and how it will achieve those objectives. The SIPP should set out the governing body's beliefs about the value of Responsible Investing as defined above. The statement should indicate how ESG factors will be taken into consideration in carrying out the investment procedures of the fund, including how ESG factors will be taken into account in selecting and managing investments and/or in selecting and retaining investment managers. Some examples are included under "Resources", below.

RESOURCES

- Federal Pension Benefits Standards Regulations include some guidance on what should be included in a SIPP. See section 7.1 (1) of the federal regulations, at <http://laws-lois.justice.gc.ca/eng/regulations/SOR-87-19/FullText.html>. The Ontario provincial regulations, representing best practice in Canada, also require the SIPP contain “information about whether environmental, social and governance factors are incorporated into the plan’s investment policies and procedures and, if so, how those factors are incorporated” (see <https://www.ontario.ca/laws/regulation/900909>)
- *Putting Responsible Investment into Practice: A Toolkit for Pension Funds, Foundations and Endowments*. Shareholder Association for Research & Education (SHARE), 2008.
- There are a number of investment data providers that specialize in providing investors and asset managers with ESG data on companies. The two leading companies in Canada are Sustainalytics and MSCI. Normally your asset manager will purchase data from one or both providers and use it to evaluate ESG policies and performance when making investment decisions, but some large asset owners may also use their services to help screen their portfolios.
 - Sustainalytics: www.sustainalytics.com
 - MSCI: <https://www.msci.com/esg-investing>
- For an example of a Statement of Investment Policies and Procedures with strong ESG clauses, see the OPSEU Pension Plan Trust SIPP, available here: <https://www.optrust.com/documents/Investments/Statement-of-Investment-Policies-and-Procedures.pdf>
- The General Synod Pension Plan’s SIPP includes the following language on ESG considerations and on proxy voting:

The Board of Trustees, in fulfilling its legal and fiduciary responsibilities, shall undertake, at all times, to make decisions based on the best interests of the plan beneficiaries. The Board of Trustees believes in responsible investing, an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable long-term returns which should result in long-term benefits to the Fund and Plan beneficiaries. Investment managers, when acting on behalf of the Fund, are expected to consider all relevant and material ESG factors.

When selecting, appointing and monitoring investment managers, the Board of Trustees will review information on the investment manager’s ESG policies as well as details regarding related ESG activities, including research and engagement with companies. As part of its ongoing review of an investment manager, the Board of Trustees reviews evaluations of how the Fund’s investment managers integrate consideration of ESG issues into their investment analysis and decision-making processes.

Voting Rights:

The Board of Trustees believes that all shareholders should exercise their right to vote as part of their stewardship duties to beneficiaries. The responsibility of exercising and directing voting rights acquired through the Fund's investments may be delegated to the Managers, who shall at all times act prudently and in the best interest of the Fund and its beneficiaries. Each Manager shall provide to the Board of Trustees its voting rights policy. On request, each Manager shall prepare a report to the Board of Trustees, outlining how the Manager exercised the voting rights acquired through the Fund.

The Board of Trustees reserves the right to direct, or override, the voting decisions of the Manager(s) if in its view such action is in the best interest of the Fund and its beneficiaries. It is recognized, however, that the above constraints and policy on voting rights are not enforceable to the extent that the Fund is invested in pooled funds. Nevertheless, a pooled fund manager is expected to advise the Board of Trustees if a significant breach of policy is likely to occur or has occurred.

Any rights acquired to exercise the votes of pooled fund units and interests in partnerships shall be the responsibility of the Board of Trustees, who shall vote in the best interest of the Fund and its beneficiaries.

- “Do you have an investment policy statement?” InTrust Magazine, Summer 2017
<http://www.intrust.org/Magazine/Issues/Summer-2017/Do-you-have-an-investment-policy-statement>

2 | Active ownership

WHY:

Active ownership describes the use of a fund's position as a shareholder to influence the policies and practices of the companies they own. Various rights are attached to the ownership of shares, most notably the right to vote at annual meetings (“proxy voting”), the right to elect directors, and in many jurisdictions the right to file shareholder proposals. Shareholders may also engage directly with boards and management to express concerns and propose improvements.

There has been a long history of constructive shareholder engagement by the Church,¹ including its participation in the Task Force on Churches and Corporate Responsibility (TCCR), an ecumenical coalition and pioneer in the field of responsible investing which, starting in the 1970s, led shareholder engagement campaigns around apartheid

1. Throughout this document, when we refer to the “Church”, we are referring to the Anglican Church of Canada.

in South Africa and other relevant human rights and environmental concerns. While TCCR disbanded in 2001 and its shareholder work was not continued under the new ecumenical coalition KAIROS, the Shareholder Association for Research and Education (SHARE) regrouped many of the same religious participants in a collective program of shareholder engagement and proxy voting alongside other institutional investors (foundations, endowments, pension funds and others).

In the UK, the Church of England currently plays a very prominent role as an active owner, leading shareholder engagement efforts alongside other religious and secular investors, and supporting the Church Investors Group which brings together 60 Christian institutional investors² to collaborate on responsible investment practices.

The primary tools of active ownership are:

Proxy voting: Owners of voting shares of a public company have a legal right to vote on certain matters related to the company, including voting for the board of directors, appointing the auditors, and subjects formally raised by other shareholders. Responsible investors may use proxy voting as a tool for encouraging companies to improve their transparency and accountability to shareholders, as well as to improve companies' management of environmental, social, and governance (ESG) issues. For example, a majority of shareholders at Exxon Mobil voted in favour of a shareholder proposal filed by the Church of England and co-filed by SHARE on behalf of a Canadian fund asking the board to report on the resilience of the company's business plan under globally-agreed climate change targets.

Shareholder engagement: Funds may individually or collectively engage with the board or management of a corporation by writing letters, attending meetings, asking questions at annual shareholder meetings, or by filing shareholder resolutions for consideration at annual meetings. Shareholder engagement is a constructive process to improve company policy, practice, and ultimately its value. When shareholders engage with a company, they are acting not just out of concern for an issue but with the success of the corporation and their investments in mind. This is why productive engagement is also solutions-based – it seeks effective governance, policies and processes that provide benefits or mitigate risks for the company at the same time as they enhance social or environmental values. For example, the Sisters of Charity – Halifax successfully engaged in discussions with Enbridge Inc. to improve the company's due diligence systems for identifying Indigenous and environmental concerns when acquiring new pipeline or other assets from other companies, which holds the promise of both reducing risks for the company and improving its relationship with Indigenous communities. Other investors have joined in an Investing in Reconciliation project which evaluates and engages with companies on

2. <https://churchinvestorsgroup.org.uk/about/cig-membership/>

Call to Action #92, issued by the Truth and Reconciliation Commission.³

HOW:

Proxy voting:

- If a fund holds its assets in pooled funds, it has fewer options to direct how those votes are cast. In a pooled fund, you do not hold shares directly and therefore only the fund manager can decide how those shares are voted. However an owner of units in a pooled fund can still engage with the pooled fund manager on proxy voting. For example, the fund can:
 - ask its manager for a copy of its proxy voting guidelines and to explain how it votes on environmental or social proposals that are raised by shareholders;
 - require any manager to report regularly on its voting record, explaining how it voted and whether or not it voted with or against management’s recommendations;
 - ask its manager to cast votes on specific proposals, if known. While the manager has the discretion to vote in the manner they see fit, sometimes managers will be willing to cast some or all of the pooled fund’s votes in the manner requested, or can explain why they are voting otherwise.
- If a fund holds segregated assets, it will usually hold direct shares in a company and therefore has a number of options to direct its proxy voting.
 - The fund’s approach to proxy voting should be outlined in its Statement of Investment Policies and Procedures (SIPP). For example, the Ontario pension fund OPTrust has included the following language in its SIPP:

*Proxy voting is a key component of active ownership with publicly-listed investee companies. OPTrust retains overall responsibility for voting proxies related to securities owned by the Fund and engages a proxy voting service provider to assist with share voting responsibilities. OPTrust exercises voting rights in a manner that is consistent with OPTrust’s Proxy Voting Guidelines. OPTrust may exercise judgment in connection with the voting of any proxy on a case-by-case basis.*⁴
 - As noted above, the fund may adopt formal proxy voting guidelines that tell its agents (e.g. its asset manager or a dedicated proxy voting service provider)

3. For more information, see https://share.ca/documents/investor_briefs/Social/2017/Business_and_Reconciliation_How_can_investors_evaluate_the_efforts_of_Canadian_public_companies.pdf

4. The full statement is available at: <https://www.optrust.com/investments/responsible-investing.asp>

how to vote its shares in line with the fund's priorities. Some investors make their proxy voting guidelines available publicly, as a model for others (see resources, below).

- The actual casting of proxies is typically carried out by an investment manager or a dedicated proxy voting service provider. The fund should require any manager or service provider to report quarterly or annually on its voting record, explaining how it voted and whether or not it voted with or against management's recommendations. For example, the General Synod Pension Plan requires that

“each manager shall provide to the Board of Trustees its voting rights policy. On request, each manager shall prepare a report to the Board of Trustees, outlining how the manager exercised the voting rights acquired through the fund. The Board of Trustees reserves the right to direct, or override, the voting decisions of the manager(s), if in its view such action is in the best interest of the Fund and its beneficiaries.”

Shareholder Engagement:

- Shareholder engagement is most often conducted by an external service provider, although some very large Canadian funds (e.g. the Canada Pension Plan Investment Board, Ontario Teachers Pension Plan) have assigned internal responsibilities for shareholder engagement where they have the capacity to devote resources to the research, networking, due diligence and meetings that good engagement requires.
- In some cases asset managers may conduct engagement with companies in their portfolios, either by their own internal staff or by hiring an external service provider. Although there has been increasing interest in shareholder engagement by asset managers, the practice is not yet widespread and the scope of issues and approaches undertaken by most asset managers is still limited. A fund should ask its asset managers whether and if so how they engage with corporations in the portfolio, including examples of the types of issues raised, how often they do so, and what results they have achieved (see Section B, below).
- Religious investors in Canada, the US and the UK have most often engaged collectively, working with other religious investors to develop common priorities and enhance their voice. For example, the Church Investors Group (CIG) in the UK, which represents investors with more than \$28 billion in assets under management, speaks more powerfully than each individual institution could on its own, and lessens the costs that any one investor would have to meet to run an effective engagement program. In Canada, the two networks that have represented religious investors are the Shareholder Association for Research & Education (SHARE), which represents investors with more than \$22 billion in assets, and the Regroupement pour la Responsabilite Sociale des Entreprises which represents a group of Catholic congregations and foundations in Quebec. In the US, the primary

network for religious investors is the Interfaith Center for Corporate Responsibility (ICCR). The religious investor networks in the UK, Canada and the US work in their respective countries but collaborate internationally on specific issues and engagements (for example, in the spring of 2018 SHARE, the CIG and ICCR launched an international network to coordinate efforts to tackle modern slavery and human trafficking issues).

- Although unit holders in pooled funds still hold an economic interest in the success of individual companies held in the pool, and therefore may still engage with those companies, they are not able to file shareholder proposals nor can they attend annual meetings. Shareholder proposals may only be filed by those that own shares (not units in the pool). That said, where there is a need to file a proposal, a fund may work with others (for example, in a collaborative program as above) to ensure that a proposal is filed and the issue may be brought to the company's annual meeting.

OUR RECOMMENDATIONS:

The Responsible Investing Task Force recommends that all funds explore active ownership strategies, including:

- a. Outlining the fund's approach to proxy voting in its Statement of Investment Policies and Procedures (SIPP), ensuring that where possible the fund's shares are voted in line with the fund's objectives and priorities.
- b. Adopting proxy voting guidelines that take into account good ESG practices and engage proxy voting service providers or asset managers that will execute votes in accordance with those guidelines; or, where the fund does not have voting rights, seek out managers that have positive ESG components in their voting guidelines and a track record of voting in favour of shareholder resolutions on ESG issues.
- c. Seeking opportunities to engage with the companies in which they have invested to encourage the companies to improve their ESG policies and performance while providing desired returns, either directly or through a service provider. Where invested in pooled funds, the fund may still choose to engage an external engagement service provider or to ask the pooled fund manager to do so.
- d. Acting in concert with other investors to amplify their effect, for example by associating themselves with third parties that assemble groups of investors to further particular ESG objectives through shareholder engagement.
- e. Signing on to public policy letters by groups of investors that encourage better regulation of corporate and capital markets behaviours.

RESOURCES:

- British Columbia Investment Management Corporation's proxy voting guidelines: <http://read.uberflip.com/i/785259-20097-proxyvotingguidelines-rebrand-secured>
- Example of a public policy letter sent jointly by investors: Letter to the Government of Canada regarding Modern Slavery (2018) (<https://goo.gl/wtpFNQ>)
- How does shareholder engagement work? <https://share.ca/services/shareholder-engagement/>

3 | Impact investing

WHY:

Funds may choose to direct a part of their investments towards organizations or assets that are selected primarily for their positive social or environmental impacts. One example might be investments in constructing social housing, which generates a financial return as well as meeting a social need. Funds may also want to target investments in green energy, or Indigenous economic opportunities, as two additional examples.

There are three primary types of impact investing:

1. Public markets impact investing, selecting companies producing environmental or social solutions, and/or green bonds. These types of investments produce market returns with market risk – i.e. no real difference between this and a regular portfolio.
2. Private placements in companies producing environmental or social solutions, with similar financial returns but higher risks (e.g. startup risk, liquidity risk, concentration risk)
3. Focused investments in social enterprises, which generate lower financial returns and possibly higher risks, but generate more direct social or environmental returns.

In recent years more investment products have come on the market that provide opportunities to invest for specific impacts without necessarily facing the same liquidity risks traditionally found in private placements. For example, the number of “green bonds” issued has multiplied, allowing a group of environmentally-focused projects to receive financing through a tradeable bond. Other mutual funds directed at specific environmental or social purposes have been developed, and some asset managers are running pooled funds with a social or environmental lens.

One area of interest is the potential for investment in Indigenous-owned enterprises as part of a Reconciliation mandate. While there are few mainstream products aimed specifically at Indigenous investment, some specialized managers may be able to identify opportunities. We discuss this further in Section D of this report.

HOW:

- Funds with pooled fund investment managers can ask their manager if they do any impact investing within the pool. Funds could also consider specific pooled funds who primarily make impact investments.
- Some managers specialize in impact investing, and can provide an investment portfolio that addresses specific concerns.
- There are a number of consultants that will help a fund determine appropriate impact investments based on its priorities, risk tolerance, and liquidity needs. Funds that are interested in pursuing impact investing may hire a consultant to help chart a course that is both prudent and effective.

OUR RECOMMENDATIONS:

The Responsible Investing Task Force recommends that all funds consider setting aside a percentage of their assets to be used for impact investing in assets that provide a financial return while furthering an ESG objective such as transitioning to a low carbon economy, Indigenous business development, reducing income inequality, etc. In order to do so, we recommend that the fund:

- a. discuss investment principles and whether there are social or environmental impacts that are relevant to the mandate of the fund;
- b. discuss the fund's risk tolerance and liquidity needs that may be relevant to investment decisions;
- c. retain a consultant to help explore possible investment opportunities that match the social or environmental outcomes above while staying within the financial mandate of the fund.

RESOURCES:

Among the consultants and managers who can provide guidance in impact investing are:

- MaRS Centre for Impact Investing (impactinvesting.marsdd.com);
- Purpose Capital (www.purposecap.com);
- Genus Capital Management (<https://genuscap.com/financial-institutions/>)

4 | Investment exclusions/divestment

WHY:

Investment exclusions recognise the Church's desire not to profit from or provide capital to activities which are inconsistent with the Church's social and ethical understanding of the Gospel. We acknowledge that to invest in such activities would detract from the Church's witness, integrity and mission. Some examples of activities that Church funds and other responsible investors may have excluded from their portfolios are:

- Production of land mines (which are illegal under Canadian law)
- Gambling institutions
- Pornography

In exceptional circumstances, responsible investors may choose to divest from a particular company where such company has not responded positively to concerns raised about its policies or practices. For some, especially mission-based investment funds, this divestment may be practiced on ethical grounds. For others, especially those with a fiduciary duty to beneficiaries, this would more likely be based on an assessment of material risks represented by the company's unmitigated practices.

HOW:

To exclude or divest from a sector or company, a fund may either directly employ the services of an ESG ratings provider to assess the companies in its portfolio, or they may seek out an asset manager that either purchases similar services or provides its own analysis. The asset manager then incorporates this type of screening in its asset selection process. Some ratings agencies construct indices that explicitly exclude particular companies or sectors based on ESG concerns. For example, the rating service MSCI provides an index that excludes coal-producing companies for investors that are concerned about the financial or environmental risks associated with coal production.

Exclusionary screens usually include thresholds for a business to address diversified businesses that may have only tangential relationships to the product or service in question. For example, some funds that have screened out coal producers still allow production of metallurgical coal (used in making steel) or a company in which thermal coal production is less than 10% of its revenues (see section C, below).

The fund should consider the exclusionary criteria (if any) which are most important to it and for which it has a clear rationale. Usually, this will be set out in its Statement of Investment Policies and Procedures. Sample language your fund may consider using is included in the Resources section below.

OUR RECOMMENDATIONS:

The Responsible Investing Task Force recommends that, if ESG ratings or active engagement efforts indicate that a company's activities will not likely be modified to address material risks or salient ESG concerns, divestment be considered. Before divesting completely from a sector the fund should consider if best in class companies in that sector would meet the fund's standards for investment. Areas to be considered for screening or divestment might include tobacco, pornography, weapons manufacturing or fossil fuel production. Funds should consider the extent of a company's involvement in a specific activity since too tight a screen may exclude companies with only tangential relation to the issue.

Where a fund is invested in pooled funds, specific company or sector exclusions may not be possible. If exclusions are important to the fund's mandate, it may select pooled fund managers that are willing to provide products that make those exclusions.

RESOURCES:

- *Climate change: the policy of the National Investing Bodies of the Church of England and the Advisory Paper of the Ethical Investment Advisory Group of the Church of England. April 2015*
- *Church of England Ethical Investment Advisory Group – Statement of Ethical Investment Policy. March 2017*

B | Overseeing investment managers

WHY:

When undertaking an investment manager selection process, it is important that trustees ask their investment consultants to evaluate fund managers on their responsible investment capabilities and performance. Fund custodians should also ask potential service providers questions about their approach to specific responsible investment approaches, including analysis of ESG issues, engagement with companies, proxy voting and ideas for economically targeted investments.

HOW:

- Investment consultants may be able to provide the fund with evaluations of current and prospective managers based on responsible investment criteria. You can ask your consultants if they can provide this service to you.
- If not, there are some questions you can ask managers directly that may help the fund in determining whether these managers are acting responsibly on ESG matters. For example, the Church of England is developing an asset manager rating tool which asks several key questions about a manager's policy, practice and performance. Similarly, SHARE has developed a set of more than 20 questions to ask your managers (see resources, below) which can help you to identify managers that take an active role in responsible investing, such as:
 - “Do you systematically monitor environmental, social and governance (ESG) issues at companies? Is this monitoring conducted by a dedicated ESG team or by financial analysts?”
 - “How do you evaluate shareholder proposals dealing with environmental or social issues? What is your voting record on shareholder proposals regarding environmental and social issues?”
- The US Methodist-affiliated manager Wespeth Investment Management has developed an excellent guide to integrating ESG considerations in manager selection, including ways to rate managers (see resources, below).

OUR RECOMMENDATIONS:

Funds should include ESG considerations in asset manager selection and oversight processes. For example,

- a. Include questions about ESG and active ownership in any RFPs or manager selection processes;
- b. Ask your manager for relevant active ownership policies, for example the manager's policy and guidelines related to proxy voting.
- c. Include questions about ESG concerns, including how the manager voted on shareholder proposals, in periodic portfolio reviews; and
- d. Ask managers to present information on the ESG performance of the portfolio when providing regular updates

RESOURCES:

- ESG Integration in External Asset Manager Selection: Uncovering Managers' ESG Strengths in the Search Process (Wespath Investment Management)
<https://www.wespath.com/assets/1/7/5152.pdf>
- Questions to Ask Investment Managers in SHARE's *Responsible Investment Toolkit*, page 14. Available at: https://share.ca/documents/educational_resources/2008/Responsible_Investment_Toolkit.pdf

C | Relevance to climate change

We believe that climate change is an urgent ethical issue requiring an immediate response from all sectors of society. We acknowledge our responsibility to ensure that our investments are managed in a manner that is consistent with the Church's stance on climate change. At the same time our task force is mindful of the social impacts of a transition to a low-carbon economy, and supports the vision of a "just transition." A just transition is a transition "towards an environmentally sustainable economy [that is] well managed and contribute[s] to the goals of decent work for all, social inclusion and the eradication of poverty."⁵

"There can be no doubt that a zero-carbon world is possible, but we have choices about how we manage the transition. A just transition ensures environmental sustainability as well as decent work, social inclusion and poverty eradication. Indeed, this is what the Paris Agreement requires: National plans on climate change that include just transition measures with a centrality of decent work and quality jobs."

– Sharan Burrow, General Secretary, International Trade Union Confederation⁶

Decisions we make about the transition – including our own investment decisions – may have impacts on individuals, families, and communities. We need to be inclusive in our thinking and our discussions, and make those decisions in ways that minimize or mitigate negative impacts even as we try to address our common concerns about climate change.

The responsible investment approaches outlined above can be used to assist with addressing climate risks in our portfolios and promoting a just transition. For example, integration of ESG factors in investment decision-making may help address climate change by prioritizing investments in companies or sectors that contribute to or are expected to benefit from a transition to a low-carbon economy or other environmental solutions. It may also help protect the fund from risks associated with climate change by identifying physical, regulatory, operational or legal risks that may affect investments in an asset class or specific asset.

Similarly, active ownership can demonstrate shareholder support for a just transition from carbon-intensive activities and methods towards a low-carbon economy and for measures that reduce the environmental impacts of current operations.

A fund's approach to divestment should be consistent with the trustees' responsibilities for

5. http://www.ilo.org/wcmsp5/groups/public/--ed_emp/--emp_ent/documents/publication/wcms_432859.pdf

6. <https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf>

sound risk management and securing financial returns.⁷ A fund's approach to climate change, as with other ESG issues, should be focused on making a positive change if possible rather than simply on avoidance of one or more sectors of the economy. With this in mind, funds have an opportunity as owners to assist the transition to a low carbon economy through engagement with companies and policy makers, as has been demonstrated effectively by the Church of England in its "Aiming for A" engagements and its shareholder proposals.⁸

Some funds have chosen, however, to exclude some sectors or companies from consideration based on specific criteria. For example:

- Divesting from coal: The Church of England National Investing Bodies decided in 2015 to not invest in any company where more than 10% of its revenues are derived from the extraction of thermal coal.
- Divesting from companies that have not aligned their plans with climate goals: While continuing its active shareholder engagement program, the Church of England National Investing Bodies decided in 2018 to assess companies' progress on climate change transitions by 2023 and disinvest from any companies not on track to meet the aims of the Paris [climate] Agreement.⁹

Whether or not the fund chooses to divest from some sectors, tackling climate change also requires other energy-consuming sectors to change their own energy usage. Shareholder engagement with companies in those sectors is an important part of encouraging a transition to a low-carbon economy. For example, religious investors in Canada have engaged collaboratively with companies in the retail, real estate and transport sectors to set energy use and greenhouse gas reduction targets. They have also engaged with energy sector and utility companies to reduce short-term methane emissions which are an extremely potent greenhouse gas.

As noted earlier in this document, the options available for those that hold assets in pooled funds differ from those that hold assets in segregated funds. For those in pooled funds, divestment from individual companies or sectors is not possible, although the fund may choose to invest in a pooled fund with a specific climate change related mandate, such as a fossil fuel or coal-free pooled fund. Similarly, its ability to file and/or vote on shareholder proposals will be limited, so it may seek managers that share its concerns related to the investment impacts of climate change and/or work collaboratively with other religious investors through a shared engagement program.

7. A recent Canadian legal analysis found that consideration of climate change risks is not only consistent with a pension fund's fiduciary duty, but required by that duty. See http://share.ca/documents/educational_resources/2015/Fiduciary_duty_and_climate_change.pdf

8. For example, see the resolution filed by "Aiming for A" partners at Glencore, led by the Church of England: <https://www.churchofengland.org/media-centre/news/2016/05/%E2%80%98aiming-for-a%E2%80%99-climate-change-resolution-overwhelmingly-approved-by-glencore-shareholders.aspx>

9. <https://www.churchofengland.org/more/media-centre/news/national-investing-bodies-approach-climate-change-affirmed-general-synod>

D | Contributing to Reconciliation

In 2015, the Truth and Reconciliation Commission of Canada (TRC) issued its final report on the legacy of Canadian residential schools, which affected generations of Indigenous people in Canada and their relationships with non-Indigenous Canadians. The Commission's report provides a roadmap for a reconciliation process that will lead to better relationships between the Indigenous and non-Indigenous peoples of Canada.

The TRC's Call to Action 92 included three recommendations focused specifically on the business sector. Foremost amongst these was a call for companies to apply the principles, norms and standards of the UN Declaration on the Rights of Indigenous Peoples to corporate policy and core operational activities. The Commission also recommended that businesses "ensure that Indigenous peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Indigenous communities gain long-term sustainable benefits from economic development projects."

A 2017 study of Canadian corporate reporting¹⁰ related to the goals of Call to Action 92 found that few companies have adopted comprehensive policies or provided adequate data for investors to evaluate the success of efforts to obtain the free, prior and informed consent of Indigenous peoples for relevant projects. Few companies report adequately on strategies to train, recruit and advance Indigenous employees, and provide meaningful opportunities for Indigenous contractors. Fewer still include Indigenous ancestry as a target criteria in board recruitment policies. Currently these concerns are also not well represented in ratings by investment research agencies. This makes it difficult to fairly assess the performance of publicly-traded companies on reconciliation.

At present there is one external certification by the Canadian Council for Aboriginal Business (CCAB) which assesses companies that apply for certification under the CCAB's Progressive Aboriginal Relations¹¹ (PAR) program. The PAR program is a good guide for those looking to invest in companies that have developed a comprehensive approach to improving Indigenous economic outcomes within Canada.

Shareholder engagement may provide an avenue for encouraging both better practices related to reconciliation, as well as better and more consistent reporting on those practices. For example, SHARE has convinced companies to set time-bound targets for employing Indigenous people and to recognize Indigenous people as a specific group for board and executive diversity programs. It has also convinced companies to adopt new systems for recognizing Indigenous rights and concerns in the process of making corporate acquisitions.

10. Available at: https://share.ca/documents/investor_briefs/Social/2017/Business_and_Reconciliation_How_can_investors_evaluate_the_efforts_of_Canadian_public_companies.pdf

11. <https://www.ccab.com/programs/progressive-aboriginal-relations-par/>

Another active step would be for funds to consider investing in opportunities that have many of the characteristics of standard securities but are aimed specifically at furthering Indigenous interests. One example would be the debt securities issued by the First Nations Finance Authority which has 72 current member First Nations. The FNFA was established to provide First Nations with access to capital markets similar to that enjoyed by local and regional governments. The FNFA regularly issues securities providing a market rate of return which are rated investment grade by Moody's and Standard and Poor. The proceeds are used to fund projects in First Nations communities such as clean water infrastructure or sustainable housing developments. Funds doing direct investing can purchase FNFA securities. Funds using segregated or pooled funds can encourage their investment managers to consider investing in FNFA securities.¹²

The number of "impact investment" opportunities related to Indigenous peoples is increasing.¹³ These are projects designed to benefit Indigenous people but which may not provide market returns. As described earlier, the extent to which a fund might engage in impact investing would depend on its specific return requirements and fiduciary responsibilities.

As this field expands and more Canadians are called to respond to the call of reconciliation, the opportunities to find investments that meet the return, liquidity and risk requirements of Church funds and provide tangible benefits will increase, and Church funds should be mindful of any opportunity to contribute to reconciliation through its investment practices.

12. For more information see CIBC Special Report: First Nations Finance Authority, October 20, 2017 <https://fnfa.ca/wp-content/uploads/2017/10/Special-Report-First-Nations-Finance-Authority-October-20-2017.pdf>

13. See, for example, *Impact Investing in the Indigenous Context*, available at: <https://static1.squarespace.com/static/598b47ff6a49631e85d75e53/t/5a985acbe2c483bd315e25ed/1519934161426/Impact+Investing+in+the+Indigenous+Context+-+Executive+Summary+-+FINAL.pdf>

E | Opportunities to collaborate

Many of the investment practices discussed above can be developed by individual funds working with their managers, consultants, or other service providers. However our work as a Task Force has also demonstrated the value of collaboration both within the Church and with others who are struggling with the same questions, and share similar values.

There has been a long history of ecumenical collaboration on responsible investment in Canada, starting with the Task Force on Churches and Corporate Responsibility in the early 1970s, which pioneered the work of responsible investment in Canada and provided leadership to the generations that have followed. A growing number of religious institutions are already working together to learn from each other and specifically to collaborate on shareholder engagement work, and we recommend that Church funds take advantage of these opportunities to learn, grow, and demonstrate leadership in responsible investment and active ownership.

Reflecting this desire to collaborate both within and outside the Church, the companion resolution to the one that created our task force, Resolution A170,¹⁴ called on the 2016 General Synod to become a signatory to the United Nations Principles for Responsible Investment, to make full use of its affiliate membership with SHARE and encourage dioceses to become affiliate members.¹⁵

Being a UN PRI signatory implies agreement with six core principles¹⁶ which are consistent with the ideas discussed in this guide, including incorporating ESG issues into investment analysis and decision-making processes, and being active owners that incorporate ESG issues into ownership policies and practices. PRI signatories are also expected to report annually on their responsible investment policies, practices and activities.

Whether or not they have themselves become signatories, some funds have explicitly looked for asset managers that are PRI signatories, or asked current managers to become signatories.

14. <https://www.anglican.ca/wp-content/uploads/a170-R1.pdf>

15. <https://share.ca/getting-involved/>

16. <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

RECOMMENDATIONS:

We recommend that the Church continue its tradition of collaboration with other religious institutions and communities in exploring opportunities to improve our practices and magnify our collective impact through collective shareholder engagement and advocacy.



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