

Converting boardrooms to a higher form of capitalism

After years in the shadows, the Church has become an active investor and serves as a moral compass for the FTSE 100, writes *Tom Rees*

‘Earn all you can, save all you can, give all you can,’ the Methodist Church’s founder John Wesley urged his followers two centuries ago. In 2018 his teachings are not considered essential reading for City fund managers but his words reverberate in the ears of Stephen Beer, chief investment officer at Epworth, an ethics-conscious asset manager owned by the Methodist Church.

An attempt by churches to shape modern corporate culture will surprise few but even the most seasoned parishioners might be unaware that they are leading the charge with investment arms managing billions of pounds.

The Church of England is also using the considerable weight of its £7.9bn investment fund to ramp up the pressure on boardrooms skimping on their social responsibilities, while also being an invaluable source of income.

The Church Commissioners, the Church of England’s investment arm, donated £230.7m to the Church, some 15pc of its funding, in 2016, paying clergy pensions, keeping cathedral doors open and investing in schemes to tempt people back to the pews.

Its strategy for influencing markets has evolved from quietly avoiding



Justin Welby, the Archbishop of Canterbury, has criticised capitalism and aimed to place more pressure on corporate boards

so-called “sin stocks” to holding corporate giants’ feet to the fire on a range of issues, from excessive pay to climate change, to modern slavery.

Church funds often avoid sinking their capital into stocks investing in arms, gambling, pornography, alcohol and tobacco, areas deemed inappropriate for the Church to profit from. Around 12pc of the FTSE All-Share Index is excluded on such ethical reasons at the Church Commissioners, for example.

Beer explains that Epworth’s fund managers draw extensively on the teachings of Wesley when making moral investment decisions. Epworth tries to offset the effect of excluding a

stock for ethical reasons by rebalancing its portfolio.

“If we exclude a tobacco company, our benchmark will have more in pharmaceuticals and food retailers, for example,” he says.

Keeping their noses clean dominated the approach of church funds for decades but they have found their voice as the market’s moral arbiters since the financial crisis, becoming active shareholders and turning up the heat on badly behaving boards.

Working conditions at Sports Direct, director bonuses at FTSE 100 housebuilder Persimmon, and inaction on global warming at US oil giant ExxonMobil have all been in the

crosshairs of the Church Commissioners. In the latter case Exxon eventually bowed to shareholder pressure led by the Church to outline its plans to tackle global warming, while Persimmon’s directors gave up part of their generous remuneration last week.

“They have increasingly found their voice around AGMs and proactively get involved in debates about governance, fossil fuels and green energy,” says Eve Poole, author of *The Church on Capitalism*.

“Other ethical investors follow the Church’s lead and that’s helping get a head of steam around ethical investment more generally.” On Friday

miner Rio Tinto became the latest City heavyweight to be targeted in the Church’s quest.

The Church of England Pensions Board teamed up with the Swedish National Pension Fund and Local Government Super Fund to co-file a shareholder resolution calling on the mining giant to disclose its relationship to the Australian coal lobbyists blocking efforts to tackle climate change. Environmental causes have become the Church’s leading ethical issue raised with company boards, and the Church Commissioners often bring together a coalition of



Housebuilder Persimmon is among the companies to face pressure from the Church over its director bonuses

shareholders to help enact change. The Transition Pathway Initiative, a programme co-founded by the Church evaluating the move to a low-carbon economy, has collected support from companies with more than £5 trillion in assets under management.

“It is an investment risk but however you come at this issue it’s something institutional investors need to be active on,” Edward Mason, the fund’s head of responsible investment, argues. “We need the products of the mining industry, they are very much the foundations of modern life, but it’s a high-risk sector and it’s important that ethical, social and environmental issues are handled responsibly by mining companies.”

The fund is in a unique and sometimes exposed position as a holier than thou investor. The Church Commissioners were left red-faced after investing indirectly in payday

lender Wonga, a company Archbishop Justin Welby had vowed to put out of business. It also had to sell its shares in the wake of the phone-hacking scandal.

Welby’s appointment as head of the Church of England five years ago has accelerated the Church Commissioners’ search for morality in markets. Last year he described capitalism as a “broken” system needing “fundamental reform”.

Poole explains that Welby’s personal interest in applying pressure on corporations and the financial crisis, exposing the “casualties of capitalism in a very visceral way”, has transformed the Church of England into an active shareholder.

“Because of the Church of England’s structure, they are the ones running the food banks so they know what this is costing,” she says. “There was always a worry about capitalism that was voiced periodically by the Church but it has got louder and louder.”

A proposal to jeopardise profits for principles would be met with a stony silence in even the most virtuous boardroom, but that trade-off is not an inevitable one.

The Church Commissioners made an excellent 17.1pc return on their investments in 2016, compared to the 8.8pc average of the UK equity income sector, according to the Investment Association.

“The performance of the Commissioners’ fund has been hugely impressive and that has helped turn the tide around ethical investment,” says Poole.

The Church’s role in capitalism is evolving from picking up those left behind to nipping ethical issues in the bud by influencing boardrooms. If it does so while continuing to reap the rewards, even the clergy of the City may be persuaded that ethical investment also pays dividends.