

## Policy Statement - Pooled Funds

### 1. Preamble

Pooled investment funds, or collective investment schemes are assets of multiple beneficial owners aggregated into single investment vehicles. They are used to provide access to specific asset classes, thematic investments or strategies that could not otherwise be accessed cost effectively or in the appropriate size without a heightened risk of liquidity becoming unbalanced.

In 2019, the Epworth position paper, *Pooled Investment Funds*, considered the ethical issues related to investing in collective investment schemes. These were due to potential indirect exposure to business activities and companies that would otherwise be excluded from Epworth funds on ethical grounds.

The position paper considered the biblical and theological background to investing in pooled investment funds, the approaches taken by other churches and previous actions taken by Epworth.

### 2. Biblical and Theological Background

The Bible provides little guidance on investment in pooled funds, or diversified companies, in an ethical way, although maintaining purity was a central aspect of the Mosaic Law, (e.g. Isaiah 52 vs 11) and was identified by the Church of England's Ethical Investment Advisory Group (EIAG) as a major biblical theme that could be applied to pooled investment funds.

However, Jesus appeared to be less concerned about purity regulations (e.g. Mark 7 vs 1- 23); an approach which was followed by the Apostles (e.g. Romans 14 vs 1-6; Acts 10 vs 28). God allows both evil and good to exist together until final judgement (Mathew 13 vs 24- 30; 36-43). Uprooting weeds was discouraged, as in so doing harm may be done to the wheat. It could be argued on this basis that it might not be inappropriate for a portfolio to have modest exposure to business activities and companies that would be avoided directly, providing it allowed far greater exposure to activities that were unequivocally considered to be 'good'.

The Parables of the Kingdom also provide important teaching in terms of:

- God's risky generosity towards his world and willingness to sow seed in different soils (Mathew 13 vs 1-23 and Mark 4 vs 3-9).
- Christian involvement in and engagement with the world as appropriate responses to the Gospel themes of salt, light and yeast (Matthew 5 vs 13-6 & 13 vs 33; Mark 9 vs 49-50).
- The importance of transparency in a Christian approach to investment, in that nothing is hidden that will not be revealed (Luke 8 vs 16-17).
- The sense that judgement can be seen as both provisional, based on what we know at the time, and final, when all things will be known, as evidenced in the parable of the wheat and tares (Matthew 13 vs 24-30).

John Wesley was much influenced by the view that God's gracious offering of salvation in Christ is offered to all people. This contrasts with a 'purity' ethic. His commitment to going out to where people lived and worked rather than waiting for them to come into Church, is hardly a 'purity' ethic, but rather can be seen as fulfilling the witness of St Paul that *'I have become all things to all people, that I might by all means save some.'* (1 Cor. 9.22).

John Wesley's sermon, *The Use of Money*<sup>1</sup>, provides useful background, reminding us that whilst we should gain all we can, it must not be at the expense of our life, health and mind or that of our neighbour. In particular it counsels against hurting our neighbour in his substance, through gaming, which would indicate that the avoidance of investment speculation, might be applied to a Pooled Investment Funds Policy. The Epworth Mission Statement<sup>2</sup> provides some helpful insights. In particular it recognises that paradoxes and compromises are involved and accepts that our best efforts may be criticised as falling short of our ideals.

Christian ethics must walk a fine line touched by both grace and sin. Consequently, we cannot always know where the line between good and evil lies and the challenge is to find the boundaries between them.

There are parallels with investment in diversified companies, such as food producers or engineering companies, which engage in a range of activities. It is possible for one of those activities to be of ethical concern. In those cases, the nature of the activity is considered alongside its significance with respect to the overall company. Where the ethical concern is particularly serious, for example exposure to nuclear weapons, or where the proportion of revenue or profits arising from the activity in question is significant, an ethical bar to investment may be appropriate. However, in most cases the route taken will focus on engagement and monitoring.

The debate over the Church of England's indirect investment in Wonga in 2014, through a pooled investment fund demonstrated that it is difficult to sustain an argument that allows an indirect holding in a company in which a direct holding would be excluded on ethical grounds without risking significant reputational damage from wider society.

### 3. Policy

Investment in generalist pooled funds should in normal circumstances be avoided on the grounds that they allow exposure to activities Epworth would avoid on ethical grounds, when making direct investments.

However, pooled funds may be used to obtain specialist expertise, for example, geographical specialisations; sector specialisations; absolute return strategies; venture capital and other early stage enterprises; and private equity. This may be particularly useful in pursuing positive ethical strategies related to climate change and the environment.

When pooled investment funds are used, they should be:

- Funds with similar ethical policies to those of Epworth;
- If this option is unavailable, funds with managers pursuing similar investment philosophies to that of Epworth;
- If neither option is available, low cost tracker pooled funds may be used as the pragmatic solution to achieve a particular strategy, recognising that an appropriate ethical option is not always available
- Funds that have investment policies and strategies that are transparent.

When pooled investment funds are used Epworth will explore the possibility (e.g. via a side letter) of ensuring that any investment complies fully or in part, with other CFB ethical investment policies.

Epworth will seek to influence the manager of any pooled investment fund in which it invests either through an investors' committee or regular engagement where holdings Epworth finds ethically problematic can be discussed.

- Any Pooled Investment Fund that has significant exposure to companies in which direct Epworth holdings would be avoided on ethical grounds, will also be avoided. The level of exposure to such excluded companies that would be considered acceptable in a Pooled Investment Fund, will be considered case by case, based on precedent and the advice of the Joint Advisory Committee on the Ethics of Investment (JACEI).

Epworth will consider prior to investment the extent to which a cost-effective and quick exit on ethical grounds could be made should it be required.

As Epworth offers pooled investment funds for other churches and charities it is important to consider their ethical policies and how they may be impacted by indirect investments through Epworth pooled investment funds.

#### 4. Notes

1. <https://www.umcmmission.org/Find-Resources/John-Wesley-Sermons/Sermon-50-The-Use-of-Money>
2. The Central Finance Board of the Methodist Church, Mission Statement [http://www.cfbmethodistchurch.org.uk/downloads/cfb\\_mission\\_statement.pdf](http://www.cfbmethodistchurch.org.uk/downloads/cfb_mission_statement.pdf)