

Position Paper - Pooled Funds

1. Introduction: definition and scope of issue

- 1.1. Pooled investment funds, or collective investment schemes, are assets of multiple beneficial owners aggregated into single investment vehicles.
- 1.2. Such funds 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.
- 1.3. Examples of pooled investment funds include: investment trusts; investment companies; mutual funds; real estate investment trusts (REITs); unit trusts; open ended investment companies (OEICs); exchange traded funds (ETFs); private equity funds; venture capital funds; property funds; infrastructure funds; hedge funds; funds of funds; common investment funds (CIFs); charity authorised investment funds (CAIFs); and limited partnerships.
- 1.4. When Epworth invests through pooled investment funds there may be indirect exposure to business activities and companies that would otherwise be excluded on ethical grounds. This is comparable with an investment in a large diversified company, which may not merit exclusion on ethical grounds but which, nonetheless, may have some exposure to activities which would result in an exclusion if they were the sole activity of the company.
- 1.5. Epworth has established pooled investment funds for the use of churches and charities. Consequently, those investing through these funds may have indirect exposure to business activities and companies that they wish to avoid on ethical grounds.

2. Biblical and theological background

- 2.1. The Bible provides little guidance on investment in pooled funds or diversified companies, although maintaining purity was a central aspect of the Mosaic Law, (eg Isaiah 52 vs 11).
- 2.2. 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'.
- 2.3. 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).

3. Methodist tradition and teaching

- 3.1. 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 distinguishing the 'elect' from the 'rest of the world.' In his Journal for 2 April 1739 he wrote, "At four in the afternoon, I submitted to be more vile, and proclaimed in the highways the glad tidings of salvation". 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 (he is willing to become 'more vile') 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).
- 3.2. Wesley's sermon, *The Use of Money*¹, also 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.
- 3.3. Examining the Epworth Mission Statement² provides some helpful insights.
- 3.4. "Epworth seeks to implement its aims:
- *By example, through the type of investments which are used and by relationships with both the investment community and company managements;*
 - *By providing the means of investment which allows our investors to use their assets not only to strive for an above average return but also to improve business practices and social justice.*
- 3.5. *Epworth is committed to wrestling with the tensions of seeking both superior returns and improving ethical standards within the portfolios we manage. However, we recognise the paradoxes and compromises which are involved and accept that our best efforts may justly be criticised as falling short of our ideals".*

4. Epworth and JACEI precedents

- 4.1. There are few relevant precedents resulting from advice issued by JACEI. However, two issues were considered at the June 2018 meeting:
- Downing Strategic Micro Cap, an investment trust which held a 5% stake in Ramsdens, a company with 25% exposure to pawn broking. The Epworth holding in this investment trust meant that there was a 0.06% exposure to pawn broking, but over 95% of the Trust was within ethical parameters. The Committee felt that: there was a difference between investing in Downing Strategic Micro Cap and investing in Ramsdens direct; Epworth should continue to engage with Downing and review the position regularly; and agreed there was no ethical bar to investment in the investment trust.
 - Oryx International & North Atlantic Smaller Companies, investment trusts which invested in Sportech, a betting technology business. Epworth exposure to this was less than 0.1% and the Committee agreed that due to the negligible exposure, there was no ethical bar to investment in either trust.
- 4.2. Epworth has from time to time considered ethical issues related to pooled funds and a number of decisions have been made, which continue to guide its actions.
- 4.3. In the 1990s, Epworth disinvested¹ from generalist pooled funds on the grounds that these incurred an additional cost without offering an investment expertise that the CFB could not provide, whilst allowing exposure to activities that on ethical grounds the CFB avoided through direct investments.
- 4.4. At the same time it was agreed that pooled funds would continue to be used to obtain specialist expertise which Epworth lacked, for example: geographical specialisations; sector specialisations; absolute return strategies; venture capital and other early stage enterprises; and private equity. This was seen as particularly useful in pursuing positive ethical strategies related to climate change and the environment.
- 4.5. Where pooled investment funds were chosen, it was agreed to seek:

- Funds with similar ethical policies to those of Epworth (for example Wespath US Equity

Fund, managed by Wespath Investment Management, a division of Wespath Benefits and Investments, a general agency of The United Methodist Church);

- If these are not available, funds with managers pursuing similar investment philosophies to that of Epworth (for example First State Investments and Stewart Investors, owned by Commonwealth Bank of Australia);
- In the event that neither of these options is available, low cost tracker pooled funds would be used as the pragmatic alternative, recognising that an appropriate ethical option was not always available.

4.6. Opportunities to influence the managers of pooled funds have been taken when possible, most notably in relation to property investment. The CFB Property Fund was a founding investor in the Property Income Trust for Charities. Its fund manager, Mayfair Capital Investment Management Limited, now part of Swiss Life Asset Managers, wished to develop a socially responsible policy and exclude tenants involved in businesses that many of its potential investors would find difficult. Consequently, Epworth was invited to join the Investors' Committee, which reviews all properties and their tenants before purchase. Epworth also assisted in drafting the Fund's ethical policy³. On the one occasion when a property was held with a tenant which did not comply with the ethical policy, Epworth was able to point out the discrepancy and an exit from the property was subsequently achieved.

4.7. Where a pooled fund does not have an Environmental, Social or Governance policy, and the relationship is purely that of an investor, every opportunity is taken to meet the manager to discuss the portfolio in depth and highlight any holdings Epworth finds ethically problematic. Historically, such engagement has been very successful in developing a relationship of trust.

4.8. 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.

5. Other church and charity position

5.1. The Church of England's Ethical Investment Advisory Group (EIAG) published its Pooled Funds Policy in 2014⁴. In its theological reflection, purity was identified as a major Biblical theme that can be applied to pooled investment funds. It also pointed out that the Reformed and other Free Church traditions had tended to have a stronger emphasis than the Anglican Church on the difference between the 'elect' and the 'rest of the world' with 'purer' boundaries and admission criteria. This highlights an element of debate between denominations as to where lines on purity should be drawn, which could be relevant in the context of pooled investment vehicles.

5.2. The EIAG policy notes that we live in the theological interim between the coming of the Holy Spirit at Pentecost and the final judgement when Jesus returns and God draws all things unto himself. *"In this interim age, the life of the Christian is touched by both grace and sin, and Christian ethics must walk a fine line between a naïve trust in an innate human goodness, which will always be frustrated by sin, and a crude 'realism' which leaves no room for altruism, virtue and the work of the Spirit. We cannot always know where the line between good and evil lies and may often have to risk sin if we are ever to rise above it".* Therefore, *"the challenge is to find the boundaries which rule out known and easily predictable unethical practices, to weigh any remaining risks with care and accept that no action can guarantee purity"*.

5.3. The debate over the Church of England's indirect investment in Wonga in 2014, through a pooled investment fund, demonstrated that it can be 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.

5.4. The EIAG policy also suggested that solidarity is an important consideration, indicating that it has been a significant theme within post-war Roman Catholic social thought and referencing two encyclicals:

- *Populorum Progressio* (On the Development of Peoples, 1967)⁵. . This stressed the need for solidarity between the economically strong and the economically weak as a requirement for development that is in tune with God’s purposes for the common good;
- *Sollicitudo Rei Socialis* (On Social Concerns, 1987)⁶. This added reflections connected to a theological understanding of solidarity, based on God’s solidarity with the human race in Jesus Christ, the solidarity between human beings within the Church and the solidarity between human beings within the new creation foreshadowed by the resurrection of Jesus Christ.

5.5. The EIAG used Romans 15 vs 2-3 to remind us that: *“the solidarity with the human race that Christ has demonstrated should directly influence the way in which we must build up our neighbour (not just our fellow Christians). While this ‘building up’ and solidarity is often expressed in terms of friendship and charity, it seems possible to understand a proper collaboration through co-investing as an act of solidarity, so long as all concerned are able to share in the true flourishing which results. If so, use of appropriate pooled funds should be understood as playing a part in honouring the ‘building up’ of neighbour that Christians are called to pursue”.*

5.6. The EIAG recommended that: direct investment is more advisable; that investment should be avoided in pooled funds that focus on excluded activities; any underlying holdings in a pooled vehicle should be able to be monitored, and that any aggregated exposure to excluded activities should be no more than 1% of the portfolio.

5.7. In addition it was noted that continued investment in a pooled fund would be inappropriate if exposure was *“particularly damaging to the credibility, effectiveness and unity of the Church’s witness”.*

6. Considerations for a policy framework

6.1. Epworth provides pooled investment funds for churches and charities, which have their own ethical requirements, as well being a potential investor in pooled investment funds managed by others.

6.2. The Biblical and theological reflections of most relevance to pooled investment funds relate to purity, speculation, transparency and solidarity.

6.3. Investment in pooled investment funds may result in indirect exposure to business activities and companies that would be avoided on ethical grounds if direct investment was considered. There is a parallel with investing in large diversified companies.

6.4. The credibility, effectiveness, and unity of the Church’s witness could be damaged by investment in pooled funds with exposure to inappropriate business activities and companies.

6.5. There is little to indicate that a distinctive Methodist approach is necessary.

6.6. JACEI has provided advice in the past that may serve as a precedent to inform a more detailed Policy approach.

7. Notes

1. <https://www.umcmission.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
3. Mayfair Capital Investment Management Limited, Responsible Property Investment Policy and Ethical Policy <https://pitch.mayfaircapital.co.uk/responsible-property-investment-policy>
4. Church of England Ethical Investment Advisory Group, Pooled Funds Policy, September 2014
<https://www.churchofengland.org/sites/default/files/2017-11/Pooled%20Funds%20Policy.pdf>
5. http://w2.vatican.va/content/paul-vi/en/encyclicals/documents/hf_p-vi_enc_26031967_populorum.html

6. http://w2.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis.html