A4S ASSET OWNERS NETWORK

AN APPROACH TO STEWARDSHIP

Practical example: Church of England Pensions Board

THE PRINCE OF WALES'S CHARITABLE FUND

THE CHURCH OF ENGLAND PENSIONS BOARD

KEY HIGHLIGHTS

- Investor stewardship is core to enabling the Church of England Pensions Board (CoEPB) to deliver on our fiduciary responsibilities; helping us to mitigate long term risks that members are exposed to, and to invest in a way that is consistent with the ethos and ethics of the Church of England.
- Our stewardship approach includes active engagement – both direct and alongside external managers – seeking to vote on all shares, collaborate with other investors, and working to address systemic challenges within our priority areas.
- We look to collaborate with other investors to innovate ways to bring influence to bear in the interest of our members. Such as through co-founding the Transition Pathway Initiative an 'open access' climate action benchmarking tool which assesses corporations on climate transition preparedness.

WHAT?

We provide retirement income for 40,000 members who have worked for the Church of England across more than 700 employers. We manage funds in excess of £2.8 billion.

Noting our role and responsibility as asset owners at the top of the investment chain, we have taken a broad view of stewardship and engagement. To us, stewardship covers proxy voting, screening – whereby we have excluded over 400 companies for a combination of both ethical and stewardship reasons – and asset manager selection, monitoring and engagement. It also includes direct corporate engagement, escalation strategies such as co-filing shareholder resolutions, and collaborating with other investors on stewardship topics. Our approach to stewardship is both broad while also focusing on two priority areas: climate change and extractive industries.

Stewardship offers the opportunity to form partnerships for change, rather than a purely critical dialogue. While there is a place for writing letters and engaging with individual companies, when we work in collaboration with other investors we have an opportunity to set expectations and frame the terms of debate for entire sectors of the economy.

WHY?

As trustees of a pension scheme, we have a clear interest in fostering the long-term success of the companies in which we invest. We see good quality stewardship, which helps to determine the direction a company takes, as an inherent part of being a good investor. We also take the view that passive investment does not mean being a passive owner; we have a responsibility to be an active owner across asset classes.

Addressing the ongoing climate emergency is one of our priorities. We believe it is necessary to intervene when our investee companies are failing to mitigate the impact they are having on the climate, or are exposing themselves to risk as a result of inaction.

Similarly, we recognize that while extractive companies provide important resources for modern day living, many mining, oil and gas companies are exposed to a range of ethical and material environmental, social and governance (ESG) risks. For example, we have recently focused on supporting mine waste safety (such as tailings storage facilities) and the rights of indigenous peoples.

HOW?

There are many elements to good investor stewardship and, ideally, they are consistent and mutually reinforcing. For us, it is important to think carefully about the topics we want to focus on and ensure stewardship is embedded in our governance structure.

We work with the Church's Ethical Investment Advisory Group and a suite of ethical policies that guide our investment approach and help prioritize our stewardship interventions. A significant development of our approach has been to integrate the investment and ethics / engagement teams. We now have one investment team led by our Chief Investment Officer and Director of Ethics and Engagement. Therefore, at an operational level we work as one team; stewardship experts attend all manager update meetings, and the manager performance presented to our investment committee incorporates stewardship analysis.

When we engage with companies directly, we do so through a combination of face-to-face meetings and written communication. We find being transparent on what we expect from a company paves the way for a trusting relationship with management. Generally, we will set a timescale, and have an escalation process if our concerns are not adequately addressed. As a final resort, we may divest from an investee company, though only when we have exhausted alternatives. Some stewardship topics require further exploration before engagement, if for example the issue is emerging or poorly served by current 'ESG' data. We have convened investor and company roundtables to explore tailings storage facilities, and cross-supply-chain net zero climate commitments.

It is not possible for us to engage with every company that we invest in, though many of our interventions have a wide scope. For example, the **Transition Pathway Initiative** (TPI) analyses 380 of the highest emitting companies in the world.

Following the 2019 mining disaster that killed 270 people in Brumadinho, Brazil, we instigated a global engagement initiative together with the Swedish National Pension Funds that engaged 726 mining companies, founded the first ever Global Tailings Portal, and co-convened an independent international process to create the first ever Global Industry Standard on Tailings along with the UN Environment Programme. This was a sector wide systemic intervention seeking to address something - mining waste - that has been treated as an externality by many.

We prefer to engage companies alongside our asset managers and encourage our managers to join our engagement initiatives. We expect our external managers to be transparent around their engagement process, push for the changes we hope to achieve, and report back to us on progress. Our manager monitoring looks at:

- Policies
- Reporting
- A manager's internal ESG capacity
- Their ethos and willingness to dialogue and partner with us on stewardship
- The ESG metrics of the portfolio they manage for us

We want responsible investment to be part of the way our managers think, not just something to comply with.

We undertake all our voting in-house, as opposed to delegating this responsibility to our external managers. We provide the proxy advisory firm ISS with a voting template which reflects our policy documents, but we exercise a case-by-case approach on approximately 1,000 ballots per annum. In 2019 we cast over 35,000 votes at 2,409 company meetings, 99% of eligible ballots.

Finally and most importantly, we collaborate with other asset owners through participating in global engagement endeavours like **ClimateAction 100+**. We have sought to harmonize our approach to stewardship by integrating the insights of TPI - that also provides the indicator framework for CA100+ - into our voting, sector engagement and most recently into a newly developed passive index: the FTSE TPI Climate Transition Index.

NEXT STEPS

We are continuing to collaborate with other investors to drive meaningful change in the interests of our members. Some examples include:

- Supporting and co-chairing the development of a **Net Zero Investment Framework** with the Institutional Investors Group on Climate Change, which will provide a methodology for investors to align portfolios to net zero emissions.
- Encouraging the roll out of the Global Tailings Standard on Tailings Management, working with the UN Environment Programme and Swedish National Pension Funds.
- Developing a global framework to drive sector and value-chain-engagement, which we believe can enable leading companies to work together and with investors to transition to a low carbon economy, even in hard-to-abate sectors.

"No single pension fund is sufficiently influential to drive the change that is essential if we are to address the challenges of climate change. However, when we come together we can make a huge difference. Whether it is holding big corporates to account, spreading best practice or developing new financial instruments, the Church of England Pensions Board is determined to collaborate as effectively as possible with other funds and institutions. This really enables good stewardship and puts us in the best position to serve the long-term interests of our beneficiaries and stakeholders. Developing the FTSE TPI Climate Transition index together with FTSE Russell and TPI is just one of a number of recent high profile examples. It speaks to the impact we can make through collaboration and demonstrates that even if you are passively invested, you can still be very active in your stewardship responsibilities."

CLIVE MATHER,
CHAIR, CHURCH OF ENGLAND PENSIONS BOARD

TOP TIPS

COLLABORATE WITH PEERS

Your voice can be amplified when working with other asset owners with the same vision, leveraging many times over your AUM. This is essential to drive change at the level and pace needed.

PRIORITIZE STEWARDSHIP

Ensure stewardship is integrated throughout, from operational processes to the investment committee's decision making. Passive investment does not mean passive ownership.

BE STRATEGIC

Prioritize areas – for example we focus specifically on climate change and extractive industries – and seek creative partnerships to address systemic issues.

WORK WITH EXTERNAL MANAGERS ON THE SAME PAGE

Stewardship must be in the "DNA" of the managers you appoint – they must be active owners, have the capacity to understand and act on ESG issues, and report on their engagement activities.

RISE TO SYSTEMIC CHALLENGES AND CHANGE

Long-term investments are vulnerable to systemic risks. Asset owners at the top of the investment chain can and should play a significant role in bringing about systemic change in partnership with others.

GET IN TOUCH OR FIND OUT MORE

@PrincesA4S

The Prince's Accounting for Sustainability Project (A4S)

ThePrincesA4S

info@a4s.org

www.accountingforsustainability.org

A4S ASSET OWNERS NETWORK

The A4S Asset Owners Network is a grouping of pension fund chairs and trustees to discuss integrating sustainability into investment decision making. Click here to find out more.