Church Investors Group

Working with your investment managers:

A guide to support church investors considering faith consistent approaches

www.churchinvestorsgroup.org.uk

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Introduction

The members of the Church Investors Group (CIG) are responsible for investing their pension schemes, endowments, and other investible assets in order to fund their mission. In addition to delivering appropriate risk-adjusted returns, our members want to ensure that these investments reflect and promote their organisation's ethical values.

Many of our members outsource some or all of their investment management to investment managers. This allows our members to benefit from specialist knowledge and investment expertise that would not otherwise be available. However, this outsourcing also involves the investment manager taking responsibility for the implementation of our members' policies, including those policies that set out their views and commitments on ethical matters.

This is why manager selection, manager appointment and manager monitoring are so important. These processes help ensure alignment between church investors' beliefs and values and the actions undertaken by their respective investment managers.

We have developed this document to support CIG members and other church investors in this process. It outlines what is involved in manager selection, manager appointment and manager monitoring and provides practical guidance to help ensure that their values, beliefs, and policies are integrated in the management of their investments. It does not represent investment advice, which is the responsibility of each church investor to seek as appropriate.

About the Church Investors Group

The Church Investors Group was born out of an informal alliance between a number of UK-based church and church organisation asset owners. It has now evolved into a large global membership organisation, representing charitable and pension funds of denominations, dioceses, religious orders, and Christian-based charities, with combined investment assets of over £26 billion. While CIG members are predominantly drawn from the UK and Ireland, CIG now has an increasing number of members from Europe and other continents. The CIG exists to promote faith-consistent investment for the public benefit. It does this by:

- Encouraging the formulation of investment policies based on Christian ethical and faith-consistent principles.
- Supporting faith-consistent investors with putting these policies into practice.
- Encouraging responsible business practices through engagement with company management.
- Sharing information and views on ethical matters related to investment.

It is divided into five sections as follows:

- Is responsible investment the same as faith-consistent investment?
- A guide to assessing managers' approach to responsible investment.
- Manager selection.
- Manager appointment
- Manager monitoring

Is responsible investment the same as faith-consistent investment?

When deciding on your investment manager, you may consider looking at:

- **The investment manager's overall approach to responsible investment.**
- **The specific details of the investment fund or product you are considering, in particular whether the fund is aligned with your beliefs and values.**

Church investors have specific beliefs and, in turn, ethical values they often would like to see reflected in the companies in which they invest and in an overall investment approach. These can include some or all of:

- Not supporting or benefiting from particular activities. For example, church investors may not wish to invest in activities such as armaments production or tobacco.
- Supporting positive outcomes in areas such as health, workers' pay, climate, or nature and/or minimising negative outcomes in these areas.
- Encouraging responsible and faith-consistent behaviour by companies and other entities.

Responsible investment has emerged as an approach that allows organisations to invest in line with their values.[1] A widely used definition of responsible investment is:

'Considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). It complements traditional financial analysis and portfolio construction techniques. Responsible investors can have different objectives. Some focus exclusively on financial returns and consider ESG issues that could impact these. Others aim to generate financial returns and to achieve positive outcomes for people and the planet, while avoiding negative ones.'[2]

Another way of understanding responsible investment is as an investment approach that can support the delivery of environmental and social objectives. Table 1 presents the most common responsible investment approaches, noting that these can be applied separately or in combination.

[1] *For an overview of the evolution of responsible investment and how it was shaped by churches' ethical investment practices, see Sparkes R (2002) Socially Responsible Investment: A Global Revolution.*

[2] *PRI (2024), What is Responsible Investment?, https://www.unpri.org/introductory-guides-to-responsible-investment/what-is-responsible-investment/4780.article, last viewed 15 May 2024.*

Table 1: Common terms associated with responsible investment [3]

ESG incorporation	Screening	Applying rules based on defined criteria (can be qualitative or quantitative) that determine whether an investment is possible. Box 1 presents examples of different screening practices.
	ESG integration	Considering ESG issues in investment analysis and decisions, with the aim of better managing risks and improving investment returns.
	Thematic investing	Searching for opportunities created by long-term sustainability-related trends (or structural driers), such as the move towards renewable energy. Thematic funds often require investments to deliver specific positive social or environmental outcomes in order to be considered acceptable for investment.
Stewardship / active ownership	Engagement with investee companies	Using the formal rights (e.g. voting shares, filing resolutions) and the informal influence (e.g. through access to company management) available to investors to encourage better social and environmental performance in investee companies. Investors frequently work (collaborate) with other investors to encourage companies to improve their practices and performance. Engagement with companies can be on the basis of both financial materiality and/or church investors' values and beliefs.
	Policy engagement	Engaging with regulators, standard-setters and policymakers to encourage the adoption of policies and measures that will result in companies improving their social and environmental performance. These measures could include disclosure requirements or incentives for better performance. As with company engagement, investors frequently collaborate with other investors in these efforts.

[3] *PRI (2023), Definitions for Responsible Investment Approaches,* *https://www.unpri.org/investment-tools/definitions-for-responsible-investment-approaches/11874.article, last viewed 13 May 2024.*

While an investment manager's general approach to responsible investment can support better social and environmental outcomes, church investors can ensure that the specific entities in which they invest are promoting their specific values and beliefs. This is what distinguishes a faith-consistent approach to investing from a purely responsible investment approach. After all, church investors are often interested in combining financial returns with an approach which reflects their specific ethical values, linked to real world outcomes. Therefore, when deciding which investment fund or product to invest in, church investors may want assurance that a fund will, as a minimum, not invest in companies whose activities, products or services do not align with the church investor's values and beliefs. Such a fund might also proactively invest in companies that support these values and beliefs.

There is no 'one way' to be a church investor. Each church investor will have different ethical priorities and requirements, linked to their investment objectives. Box 1 provides some examples of how different church investors approach the issue of screening, and Box 2 reflects on the practical challenges faced by smaller church investors.

When reading this document, including boxes 1 and 2, it is important to remember that trustees need to ensure that their investments are aligned with their financial and fiduciary obligations.

Box 1: Screening practices

There are a variety of ways that church investors could implement screening.[4] Depending on their beliefs and values, church investors could choose to adopt negative screens (where particular activities, products or sectors are explicitly excluded or prohibited), positive screens (where particular activities, products or services are preferentially invested in or where companies with strong social or environmental performance are preferentially invested in) or norms-based screening (where companies that fail to meet minimum standards of business or ethical practice are excluded from investment).

Approaches to screening are usually formally specified and defined in church investors' ethical investment policies or similar documents.

Many church investors have included faith-consistent investment considerations, such as exclusions, within their investment policy. Examples include:

1. The Church of England's Ethical Investment Advisory Group advises that investing bodies associated with the Church of England should not "profit from, or provide capital to, activities that are materially inconsistent with Christian values, and are also mindful of the danger of undermining the credibility, effectiveness and unity of the Church's witness were they to do so…".[5]

[4] *For example, for Catholic Church investors, a detailed list of issues that may be accounted for in an exclusionary criterion can be found in The Pontifical Academy of Social Sciences (2022), Mensuram Bonam: Faith-Based Measures for Catholic Investors: Starting Point and Call to Action,* https://www.pass.va/en/publications/other-publications/mensuram_bonam_eng.html.

[5] *The Church of England Ethical Investment Advisory Group (2018), Statement of Ethical Investment Policy,* https://www.churchofengland.org/sites/default/files/2019-01/statement-of-ethical-investment-policy-october-20181.pdf.

2. The Joseph Rowntree Charitable Trust's investment strategy[6] states (p.1-2): "We wish to invest in companies which offer solutions to problems such as climate change, resource constraints and loss of biodiversity…we do not invest in companies whose primary business is the extraction of fossil fuels…we do not invest in companies who are profiting from the illegal occupation of Palestine...".

3. The Church of Sweden's Instructions for Ethical and Sustainable Investment document[7] states (p.3), among other things, that 'selected companies must comply with international regulations that aim to protect people and the environment. For this reason, the holdings list must undergo an annual screening (deep analysis) based on international norms…".

Box 2: Practical challenge

The reality is that many church investors are relatively small in terms of the value of the assets that they manage and many therefore choose to invest in pooled funds alongside other investors. One of the consequences is that it may not be possible to invest in a fund that fully aligns with an individual church investor's beliefs and values. In such situations, church investors can try to find investment funds that are as closely aligned with their beliefs and values as possible and should then work with their investment managers to move into closer alignment over time.

If investing via a segregated or bespoke fund (i.e. where the church investor is the only or the dominant investor), compliance with the church investor's investment policy should be an explicit requirement in the Investment Management Agreement (IMA).

[6] *The Joseph Rowntree Charitable Trust (2022), Investment Strategy,* [*https://www.jrct.org.uk/userfiles/documents/JRCT%20Investment%20Strategy%20Jan%202024.pdf*](https://www.jrct.org.uk/userfiles/documents/JRCT%20Investment%20Strategy%20Jan%202024.pdf).

[7] *Church of Sweden (2022), Instructions for Ethical and Sustainable Investment for the Church of Sweden's Asset Management at the National Level, https://www.churchofengland.org/sites/default/files/2019-01/statement-of-ethical-investment-policy-october-20181.pdf* [*https://www.svenskakyrkan.se/filer/1374643/Instructions%20for%20ethical%20and%20sustainable%20investment%20for%20the%20Church%20of%20Sweden%20April%202022.pdf*](https://www.svenskakyrkan.se/filer/1374643/Instructions%20for%20ethical%20and%20sustainable%20investment%20for%20the%20Church%20of%20Sweden%20April%202022.pdf).

A guide to assessing managers' approach to responsible investment

Tables 2 and 3 have been created to guide church investors in understanding the relative ambition of their manager's responsible investment approach.

Table 2 outlines eight expectations for asset managers, along with some statistics to give a sense of current practice among asset managers. In the Appendix, we have provided six case studies that illustrate how these expectations might be implemented in practice.

Table 2. Asset manager responsible investment expectations

Expectation	Why is this important?	Real world statistics
Clear investment beliefs and strategy	Investment beliefs set out investors' views on the nature of the financial markets and their role within them. Within this, asset managers should have investment beliefs specifically relating to responsible investment and/or ESG. These beliefs set the direction for investment policy and practice and are often used to inform ESG priorities. They also help provide guidance and expectations for internal teams who are key to translating investment beliefs into practice.	60% of managers define responsible investment and explain how they see the relationship between responsible investment and their investment objectives. See Note 1.
Responsible investment policy	Having a clear responsible investment policy is important as it sets the framework for how the manager's ESG-related beliefs will translate into action. These policies guide the organisation's approach to asset allocation, ESG incorporation, stewardship, and reporting. An investment manager may also have more specific ESG policies such as a climate change policy which guide the manager's activity in this area and helps better manage risk, ensure compliance with regulation, and drive long-term value creation.	Almost 85% of investment managers made their overall approach to responsible investment publicly available. See Note 1. 22% of asset managers have climate-related investment policies, while other themes (e.g. biodiversity, social issues) are more likely to be included in a general responsible investment policy. See Note 2.
Strong governance	Asset manager board and senior manager oversight of and accountability for ESG issues helps ensures that these issues are important for investment teams and helps ensure that responsible investment-related practices and processes are delivered across the organisation.	Two-thirds of asset managers have board and trustee oversight of responsible investment however, their responses reveal that their boards lack specific climate-related expertise. See Note 2. 90% of managers have C-suite responsibility for responsible investment while 43% said that a dedicated

		department had this responsibility. Based on their responses, having investment committee oversight was common across all size of managers. See Note 1.
Appropriate resources and incentives	A well-resourced responsible investment and stewardship team helps ensure that the investment manager effectively manages ESG risks and delivers on its responsible investment commitments. Given the pace of developments and changes across the ESG landscape, organisations should provide regular training on ESG and RI-related topics to facilitate deeper understanding and more informed investment decisions. Examples of financial incentives linked to responsible investment could include performance-based bonuses (e.g. reducing carbon emissions of a portfolio) or ESG-linked compensation metrics. Establishing these types of financial incentives can help align ESG goals and performance and can incentivise employees to more actively manage ESG risks.	Less than a third of asset managers have responsible investment related KPIs and objectives for all members of their executive board. See Note 2.
Clear process for integrating ESG issues into investment processes	Clear processes can help ensure that sustainability-related research and data are systematically and consistently integrated into investment decision-making.	54% of managers define their approach to exclusions and 42% have asset-class specific investment guidelines for ESG incorporation. See Note 1.
Robust and ambitious stewardship with investee companies and clear escalation process	Stewardship (or engagement) is how investment managers communicate their expectations to the companies and other entities in which they invest. It is important that this engagement is focused on outcomes (e.g. improving social and environmental performance, improving management practices and processes), that these outcome-related expectations are clearly communicated and that progress against these expectations is tracked over time. In terms of	Roughly 70% of managers have a stewardship policy, either a standalone document and/or part of a broader investment policy. More than half of these policies included their main stewardship objectives; how they prioritised ESG factors and linked them to engagement issues and targets; how they approached collaboration and conflicts of interest. See Note 1.

	the form of engagement, common methods include face-to-face meetings followed by telephone and email correspondence. It is good practice for a manager to have an escalation policy in place in situations where engagement with companies has not been constructive or has not resulted in sufficient progress. An escalation policy clarifies the next steps that the asset manager will take; these may include issuing a public statement, voting against a board re-election, voting in favour of shareholder resolutions, co-filing shareholder resolutions or, in extreme cases, divesting.	One in two managers have escalation strategies. The likelihood of having such strategies increases as AUM increases. See Note 1.
Robust and ambitious stewardship with policymakers	Investment managers can engage with policymakers and standard setters to encourage effective action on systemic issues such as climate change and biodiversity loss.	In 2021, 42% of asset managers engaged with policy makers directly. See Note 3.
Clear voting policy, including a commitment to voting all shareholdings	Voting is a formal right granted to investors in publicly listed companies. The way in which investors vote their shareholdings sends a clear signal to company boards and management about how their investors view their performance (both business performance and also wider social and environmental performance). It is good practice for investment managers to have clear voting policies that explain how they will vote on relevant social and environmental issues. It is also good practice for investment managers to publish details of how they have voted in practice.	82% of asset managers have voting policies on climate change, and 81% on social issues (up from 56% and 53% respectively in 2020). Only 38% of asset managers reported that their voting policies considered biodiversity. See Note 2.
Collaboratively engages with other stakeholders	Collaborative engagement occurs when investors come together to engage companies on ESG issues. By presenting a unified front, investors can more effectively communicate their position and exert greater pressure to encourage change in companies. This type of	For example, many church investors support Climate Action 100+ and CDP (previously the Carbon Disclosure Project).[8] [9]

[8] *For further details on Climate Action 100+, please see https://www.climateaction100.org.*
[9] *For further details on CDP, please see https://www.cdp.net/en.*

	engagement also creates opportunities for knowledge sharing and can be an efficient use of church investors' resources	
Clear, comprehensive reporting	Reporting allows clients (e.g. church investors) to assess how their investment managers have performed on relevant social and environmental issues, and to assess ESG incorporation, stewardship practices and sustainability outcomes. As such, it is an important input to discussions between clients and their investment managers.	70% of the largest managers share qualitative ESG analysis, descriptive examples or case studies with their clients, while 65% of the smallest managers report doing so. See Note 1.

Note 1 - From the 2023 PRI report that assessed publicly available responses from 1,858 asset managers. For further details see: PRI (2023), *Inside PRI Data: Investment Manager Practices* https://www.unpri.org/download?ac=18151.
Note 2 - From the 2023 ShareAction report that ranked 77 of the world's largest asset managers' approaches to responsible investment. For further details see: ShareAction (2023) *Point of No Returns 2023* https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Point-of-No-Returns-2023-General-Findings_2023-03-01-115320_htgw.pdf.
Note 3 - From the 2022 PRI Policy Engagement handbook that assessed publicly available responses from 1,927 asset managers. For further details see: PRI (2022), *A Sustainable Finance Policy Engagement Handbook (November 2022)* https://www.unpri.org/download?ac=17538.

Table 3. Assessing your investment manager's approach to responsible investment

	No action	Basic	Intermediate	Advanced
Beliefs and strategy	The manager has published investment beliefs, but these beliefs make no reference to ESG.	The manager has published investment beliefs and a broad statement regarding the relevance of ESG, but the ESG-related statement is limited in detail.	The manager has published investment beliefs that clearly explain how ESG factors are relevant to their investments but provides limited information on how these beliefs are to be implemented.	The manager has published investment beliefs that include ESG beliefs. The manager has a clear strategy for implementing their ESG beliefs. The strategy is clear on how the needs and interests of clients with different beliefs and needs are addressed. See Appendix, case study 1.
Policy	The manager does not have a responsible investment statement or policy.	The manager has a brief responsible investment statement or policy, with limited detail on how the policy is overseen or implemented.	The manager has an overarching responsible investment policy that explains how the policy is to be implemented but provides limited information (either in the policy or in supporting statements) on the manager's approach to specific ESG topics such as human rights and climate change.	The manager has an overarching responsible investment policy that explains how the policy is to be implemented. In addition, this policy (or supporting policies) provides a clear account of the manager's approach to specific ESG topics such as human rights and climate change.
Governance	The manager has no board or senior management oversight of or accountability for responsible investment.	Accountability for responsible investment rests at the operational management level but limited evidence of board or senior management oversight.	The manager has clear senior management oversight of and accountability for responsible investment.	The manager has clearly defined board and senior management oversight of and accountability for responsible investment. The manager demonstrates that responsible investment and ESG

				factors are routinely discussed at board and senior management level.
Resourcing and incentives	The manager does not have an individual or team responsible for responsible investment-related activities.	The manager has limited resources allocated to responsible investment (e.g. in a larger manager, this could be one person covering all aspects of responsible investment). The manager does not provide responsible investment-related incentives for investment professionals.	The manager has allocated resources for responsible investment, with some delineation of responsibilities/expertise for different areas e.g. stewardship, voting, integration. Responsible investment is not integrated into other job roles in the organisation. All investment professionals have received some generic training on ESG issues. The manager does not provide responsible investment-related incentives for investment professionals.	The manager has a well-resourced responsible investment and stewardship team and can explain how these resources are sufficient to ensure the manager's policy is effectively implemented. Responsible investment is integrated into other job roles – specifically in investment team, the risks team, and the senior management team – in the organisation. All investment staff have received training on ESG and responsible investment tailored to their job roles. The manager provides responsible investment-related incentives for investment professionals. See Appendix, case study 2.
ESG integration	ESG factors are not explicitly integrated into	There is some evidence of ESG integration, but the approach	ESG is well integrated into investment decision-making	ESG is fully integrated into investment decision making. Advanced managers will use

	investment decision-making.	appears relatively ad hoc and relies on only one data source.	and based on more than one data source. The manager can outline the general approach to integrating ESG into investment decision-making.	multiple sources of data, both qualitative and quantitative to ensure that all relevant issues are identified and assessed. The manager can detail the specific methodologies, metrics and processes used to integrate ESG into investment decision-making. This may include examples of how ESG has been integrated into specific funds and into specific investment decisions. See Appendix, case study 3.
Stewardship with investee companies and escalation processes	Manager does not engage with investees/companies.	The manager engages with companies on an ad hoc basis. The manager has few examples of engagement. The manager does not have an escalation strategy.	The manager engages routinely with listed companies but has limited engagement with companies or entities in other asset classes. The manager has a clear process for prioritising engagements. The manager can provide and explain multiple examples of engagement. The manager occasionally escalates engagement but does	The manager engages companies across all asset classes and has a process for prioritising engagements. The manager has set long-term engagement objectives aligned with its ESG beliefs and investment strategy. The manager can present multiple examples of engagement including the outcomes achieved. The manager has developed, implemented, and publicly

			not have a formal process for doing so.	disclosed a clear escalation strategy that includes time-bound objectives. The manager is able to provide examples of where the escalation strategy has been applied and the outcomes that have resulted from this escalation. See Appendix, case studies 4 & 5.
Stewardship with policymakers	The manager does not engage with policymakers.	The manager engages with policymakers on an ad hoc basis, but this is generally confined to financial sector topics (e.g. fund labelling).	The manager engages policymakers on a more regular basis including responding to policy consultations and/or participating in sign-on letters. The manager engages on ESG and responsible investment-related topics (e.g. ESG disclosures, climate change).	The manager proactively engages with policymakers to tackle systemic issues. The manager might provide technical input via government or regulator-backed working groups and/or make direct requests and recommendations in bilateral meetings.
Voting	The manager does not have a voting policy. The manager votes on less than half of the shareholder resolutions that it could vote on.	The manager has a voting policy, but this pays limited attention to environmental or social issues. The manager votes on most of the resolutions that it could vote on, but it follows the recommendations of its voting provider on all environmental and social issue-related resolutions.	The manager has a voting policy which is aligned with its responsible investment policy, but it does not explicitly commit to supporting shareholder resolutions on environmental or social issues. The manager votes on most of the resolutions that it could vote on. The manager's default is to follows the recommendations of its voting	The manager has a detailed voting policy which is aligned with their responsible investment policy. The voting policy articulates the manager's position on specific ESG issues and explicitly commits to supporting shareholder resolutions on certain ESG issues.

			provider on all environmental and social issue-related resolutions, but it may occasionally deviate from these recommendations.	The manager votes on all portfolio holdings and can provide robust explanations for all its voting decisions. The manager explicitly reviews and decides on all environmental and social-issue related resolutions. See Appendix, case study 6.
Collaboration	The manager is not a member of any collaborative initiatives.	The manager may have publicly endorsed or become a member of collaborative engagement initiatives but does not have much active involvement in these initiatives.	The manager is an active participant in one or more of the collaborative initiatives it has joined.	The manager is a lead or co-lead investor in one or more of the collaborative initiatives it has joined.
Reporting	The manager does not report on its ESG-related activities.	The manager provides some quantitative and/or qualitative information to clients on ESG-related activities but does not report consistently or in a manner that allows actions and outcomes to be tracked over time.	The manager provides regular quantitative and/or qualitative information to clients on ESG related activities, although this is not tailored to the specific interests of individual clients.	The manager provides comprehensive quantitative and/or qualitative information on ESG related activities and outcomes. The manager can provide several case studies and metrics and can provide comprehensive responses including data and evidence to client queries on social and environmental issues.

Manager selection

The manager selection process should ensure that the selected investment manager has the resources in place to meet the ESG or other requirements of the asset owner. Importantly, this process should also ensure the selection of a manager who the respective CIG member trusts. Whilst harder to objectively measure, trust is crucial for the relationship particularly where church investors lack specific expertise in responsible investment. A trusted manager will help ensure that investment decisions are aligned with the church investor's beliefs and values.

Manager selection generally consists of three steps:

- Longlisting of investment managers
- Shortlisting of investment managers
- In-depth due diligence

Together, these steps encourage the selection of a manager (or managers) who can best serve the long-term interests of the asset owner.

Practically speaking, in the manager selection process, church investors should consider:

- Setting general expectations on managers across responsible investment categories (see tables 2 and 3 above). For example, the church investor may specify that managers achieve at least intermediate performance on all eight expectations or have clear plans for achieving this level within a reasonable timeframe. This process of measuring managers against a set of minimum and preferred expectations can be built into long-listing processes (see box 3 below).
- Ensuring that funds that fail to deliver on faith-consistent obligations are not included in the longlist.
- Asking questions (see below) that test the manager's actual implementation of responsible and ethical investment. For example, the church investor could ask for examples of company engagement on ethical issues or could explore whether the manager has de-selected stocks on ESG grounds. This will help reveal whether the manager is able to deliver the church investor's investment objectives, and whether the manager is willing to put high level commitments into action. How transparent and open the manager is in their responses can also be a good indication of whether they can be trusted.

Box 3: Selecting a manager

Church investors may wish to work with investment managers who:

- Share similar investment principles and beliefs.
- Have strong oversight and accountability for ESG issues, and an appropriately resourced responsible investment team which manages these issues.
- (For active managers) Systematically integrate ESG factors into investment decisions.
- (For active managers) Analyse ESG issues and performance before investing and monitor performance after investing.
- Act as good stewards and implement robust engagement and voting practices. Church investors may be best served by seeking investment managers who can display that these activities are applied across their assets rather than a limited number of specific funds, as they are more likely to be more effective if implemented consistently across the business.
- Address positive and negative outcomes caused by its investments.
- Provide robust disclosures about the social and environmental performance of their investments.

Box 4: Practical reflections when working with your manager

The asset owner – asset manager relationship is often seen as a formal relationship, driven by the specific expectations and obligations defined in contracts and investment manager agreements. In practice, however, there is much that can be achieved through working collaboratively with investment managers. Such collaboration can enhance investment outcomes, can deliver social and environmental benefits, and can improve the overall investment experience.

For example, the investment manager may be able to offer practical information on the potential impact of different investment approaches on financial returns and risk. This information can help church investors test different options to ensure that their portfolios are aligned with their faith-consistent beliefs and their desire to drive meaningful impact, while still achieving their desired financial returns. These conversations also benefit managers by helping them better understand the specific issues that matter to church investors and explore ways to integrate faith-based issues into investment practices and processes.

Additionally, they allow church investors to ask whether the manager has other clients with similar faith-consistent considerations and policies and, if so, what investment decisions they have made. Finally, this type of dialogue may offer practical information on how well these types of investments perform as well as help church investors assess their investment manager's level of experience with faith-consistent investing.

Possible questions to ask during the in-depth due diligence process

Below is a list of questions that church investors may wish to ask potential investment managers as part of the final step in manager selection – in-depth due diligence. Priorities will differ between church investors depending on their investment policy. This list should be considered in the context of the church investor's responsible and ethical investment requirements and their investment management and performance requirements.

The questions have been divided into two tables so that the member can assess both a) the fund manager's overall approach to responsible investment and b) the fund itself to ensure it meets their investment policy and ethical requirements. It is important to stress that the church investor can decide not to invest with the investment manager and can decide not to invest in a particular fund.

Asking investment managers for tangible examples of how non-financial considerations have influenced decisions can often be a good test of the credibility of whether they are actually doing what they say they are doing.

FUND MANAGER'S OVERALL APPROACH TO RESPONSIBLE INVESTMENT	
Beliefs and strategy	
Has the investment manager published ESG beliefs?	
Has the manager explained how the beliefs are implemented?	
Does the manager commit to aligning with recognised norms (e.g. Paris Agreement)?	
Policy	
Does the manager have a responsible investment policy?	
Is it clear how the policy is to be implemented?	
Does the policy – or separate stand-alone policies - cover specific ESG issues such as climate change?	
Governance	
Who in the organisation has oversight of responsible investment?	
Resourcing and incentives	
Does the manager have a responsible investment team?	
How big is the responsible investment team?	
Do others in the organisation have responsibilities relating to responsible investment?	
Does the manager provide training on ESG and responsible investment (and to whom)?	
Does the manager have incentives for employees in the investment team linked to responsible investment?	
ESG integration	
Does the manager integrate ESG into investment decision-making?	
How many (and which) data sources does the manager use when integrating ESG?	
Can the manager clearly explain the specific methodologies and processes used to integrate ESG into investment decision-making?	
Stewardship with investees/companies	
Does the manger conduct engagement with companies (and across what asset classes)?	
Does the manager have engagement objectives and a process for prioritising engagements?	
Can the manager provide examples of their company engagement including the outcomes?	
Does the manager have a clear escalation strategy, and can the manager explain how it has been applied?	

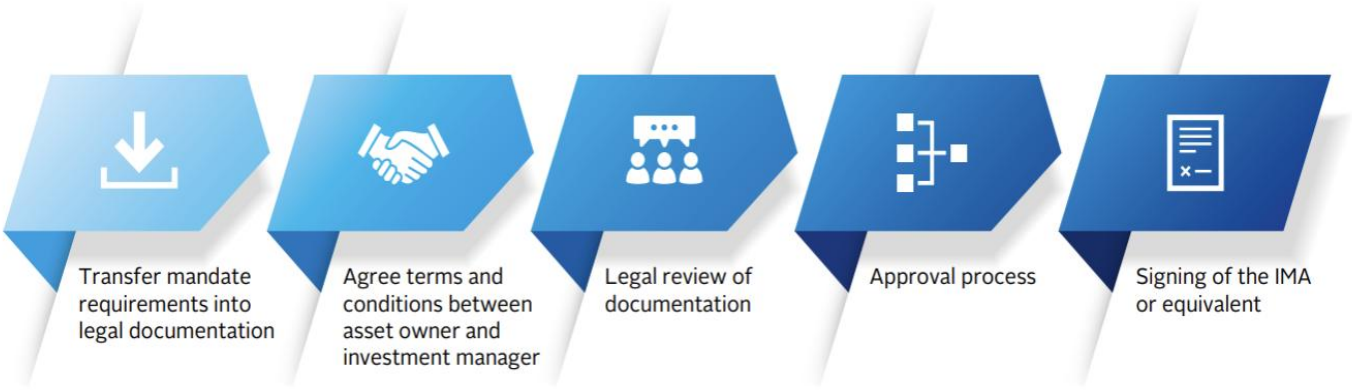
Stewardship with policymakers	
Does the manager engage with policymakers?	
What type of engagement does the manager conduct with policymakers (e.g. sign-on letters, responding to consultations, providing technical input)?	
Voting	
Does the manager have a voting policy?	
If the manager has a voting policy, does it explicitly commit to support shareholder resolutions on certain ESG issues?	
Does the manager vote on shareholder resolutions (and which ones)?	
Can the manager cite examples of voting activity include the rationales for votes cast?	
Does the manager have a process for overriding recommendations from external voting providers?	
Collaboration	
Is the manager part of any collaborative initiatives?	
What role does the manager play in the collaborative initiatives it is part of?	
Reporting	
Does the manager report on ESG-related activities?	
How regularly does the manager report on ESG-related activities?	
Does the manager's reporting on ESG-related activities include case studies and both qualitative and quantitative information?	

THE SPECIFIC FUND	
For pooled and segregated funds	
Has the manager confirmed that it can meet the exclusions or other requirements in the church investor's policy?	
Are these requirements included in fund marketing documents and other formal documentation associated with the fund?	
Are there specific requirements that cannot be met?	
For each requirement, can the fund manager explain: *a) How the requirement is interpreted?* *b) Which companies/entities are excluded as a result?*	
What actions are taken if the fund invests in a company/stock that does not meet the fund's ethical requirements?	
Engagement	
Does the manager engage on the topics/issues covered by the church investor's investment policy?	
Does the manager report on this engagement?	
What steps does the manager take if this engagement is unsuccessful?	

Manager appointment

The purpose of the manager appointment process is to transfer mandate requirements into legal documentation. It consists of five main steps, as illustrated in Figure 1.

Figure 1: The investment manager appointment process [10]



An Investment Manager Agreement (IMA) is the legal document that sets out the terms and conditions by which the investment manager shall manage the capital of investors. A key consideration of church investors at the appointment stage is to assess or ensure that their ethical requirements (e.g. exclusion lists) have been adequately integrated into the IMA. Explicitly stating these requirements can better ensure alignment of interests and expectations as, if they are in a formal document, they are more likely to be adhered to. The IMA is also an opportunity to define and agree on monitoring expectations, and on the format, content and frequency of reporting.

If you already have a manager, you may need to wait until a new IMA is being discussed before you can press for changes to be formally integrated into the way in which your money is managed. In this situation, you can identify areas where you might ask the manager to take voluntary action (e.g. to provide additional disclosure) and signal elements you would like to see included in future IMAs.

Where there is no IMA (for example, some CIG members invest via pooled funds on an 'execution only' basis), church investors may wish to confirm that the Scheme Particulars accurately reflect the advertised ethical restrictions.

[10] PRI (2020), *Investment Manager Appointment Guide*, https://www.unpri.org/download?ac=11970.

Manager monitoring

Manager monitoring is an integral component of the investment process. It allows church investors to assess the extent to which assets are being managed in line with their values and beliefs. As church investors will often also be seeking tangible and positive social and/or environmental outcomes from their investments, monitoring can be used to assess whether a manager is stewarding their resources in a way that is driving real change.

Disclosures provide the foundations of the monitoring process and church investors should request that information is provided in a way that allows them to evaluate progress year-on-year, and thereby assess whether there have been improvements in the manager's practices. When seeking disclosures, asking for real-life, tangible examples from the reporting year can be valuable in revealing whether a manager's claims are legitimate, and address concerns around greenwashing.

Possible questions to ask during the manager monitoring process

The list of questions has been divided into two tables so that the member can assess both a) the manager's overall approach to responsible investment including activities in the reporting year, and b) the specific fund to ensure it meets the church investors investment policy and ethical requirements. The questions relate both to processes (and changes to processes) and outcomes in the reporting year, in addition to any questions about investment management and performance that investors may need to ask.

FUND MANAGER’S OVERALL APPROACH TO RESPONSIBLE INVESTMENT	
Beliefs and strategy	
Has the manager reviewed or amended its investment beliefs in the reporting period?	
Policy	
Has the manager reviewed or amended any of its ESG related policies?	
Has the manager reviewed compliance with the church investor’s responsible investment policies and, if yes, what were the findings?	
Governance	
Has responsible investment oversight at the organisation changed in the reporting period?	
Resourcing and incentives	
Has the resourcing of responsible investment changed in the reporting period? (e.g. change to number of employees in the responsible investment team)	
Have the responsible investment-related incentives for employees in the investment teams changed?	
What responsible investment & ESG training has been provided (and to whom)?	
ESG integration	
Has the manager implemented any changes in its overall approach to ESG integration?	
Can the manager provide examples of how ESG issues have been integrated into investment decision-making processes, and how this integration has affected investment decisions?	
Stewardship	
Have any changes been implemented to the manager’s engagement processes in the reporting period?	
What have been the manager’s engagement priorities in the reporting year?	
Can the manager provide specific examples of company engagement conducted including the outcomes achieved?	
Can the manager provide specific examples of its engagement with policymakers?	
Voting	
Has the manager implemented any changes to the voting policy (e.g. scope) in the reporting period?	
Has the manager voted on any shareholder resolutions in the reporting year? If so, can the manager explain the rationales for specific votes?	
Collaboration	
What collaborative initiatives has the manager taken part in and what role has the manager played in these initiatives?	

THE SPECIFIC FUND	
CIG member policy alignment	
Is the fund currently aligned with the church investor's investment policy? Are there any further implementation measures required to become aligned?	
Does the fund hold, or has it held in the reporting period, any companies that do not align with the church investor's investment policy? *(Please note, it can be useful for church investors to read the fund holding list and identify whether there are any companies they are concerned about. This way, there are in a better position to ask the manager why these companies are being held.)*	
ESG integration	
Can the manager provide examples of specific ESG risks identified in the fund over the reporting period, especially those relevant to the concerns of the church investor?	
Can the manager provide examples of specific ESG opportunities identified in the fund over the reporting period, especially those relevant to the priorities of the church investor?	
Does the manager report on whether companies are meeting their ESG-related targets?	
Have any potential investments been abandoned due to ESG considerations? Please give examples.	
Positive investment allocations	
Does the fund's allocation strategy align with the church investor's goal of promoting positive outcomes? If so, have specific targets for positive investments been met?	
Stewardship	
Does the manager engage with companies on issues that are relevant to the church investor's concerns and/or priorities?	
Can the manager provide examples of how engagement with companies has informed investment decisions?	
If applicable, can the manager provide examples of how its escalation strategy has been applied?	
Voting	
Can the manager provide specific examples of voting activities and decisions related to the church investor's concerns and/or priorities?	
Can the manager provide the rationale for those voting decisions that relate specifically to the church investor's concerns and/or priorities?	

Helpful resources for church investors

PRI (2020), *Investment Manager Selection Guide*, https://www.unpri.org/download?ac=11969.
PRI (2020), *Investment Manager Appointment Guide*, https://www.unpri.org/download?ac=11970.
PRI (2020), *Investment Manager Monitoring Guide*, https://www.unpri.org/download?ac=11971.
Thinking Ahead Institute (2024), *Putting resources where stewardship ambitions are,* https://www.thinkingaheadinstitute.org/content/uploads/2024/05/PRI_TAI_Stewardship_Resourcing_Report.pdf.
Impact investing Institute *Impact investment resources* Home | Impact Investing Institute

Appendix

Case studies

Please note Drawn from publicly available information these are examples of how some investment managers incorporate responsible investment expectations.
Please note, these are not recommendations and other examples can also be found.

Case study 1. British Columbia Investment Management Corporation – beliefs & strategy [11]

British Columbia Investment (BCI) Management Corporation is one of the largest institutional investors in Canada and manages a broad portfolio of public and private market investment for 32 public sector clients in British Columbia. The manager has clearly articulated ESG beliefs, which are embedded in their investment beliefs, and a process to ensure they are put into practice. As stated in their investment beliefs:

We believe ESG makes a difference because:

1. "Taking environmental, social, and governance (ESG) matters into account enables investors to better understand, manage and mitigate risks and take advantage of opportunities associated with long-term investments."
2. "Companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with favourable practices."
3. "Improving the sustainability and integrity of global capital markets creates favourable economic conditions that benefit investors over the long term."

To ensure these beliefs translate into action, BCI has established seven ESG principles and an ESG strategy that applies to all investment decision-making at the asset, pool, and total portfolio levels. These comprise four pillars: integrate, influence, invest, and insight.[12]

[11] *British Colombia Investment Management (2024), Environmental, Social, & Governance at BCI, https://www.bci.ca/approach/esg/, last viewed 15 May 2024.*

[12] *For more information, see British Colombia Investment Management (2020), ESG Strategy, https://www.bci.ca/wp-content/uploads/2020/07/BCI-ESGStrategy-FINAL.pdf, last viewed 15 May 2024.*

Case study 2. Border to Coast – resourcing and incentives [13]

Border to Coast is an asset manager that was established in 2018 to pool the investments of like-minded Local Government Pension Scheme (LGPS) funds – 'Partner Funds'. It is one of the largest LGPS pools in the UK.

Border to Coast's approach to resourcing and incentives includes:

1. A dedicated Responsible Investment Team that helps manage and co-ordinate responsible investment related activities. The team comprises of a lead – the Head of Responsible Investment – and five responsible investment specialists who work across various areas including strategy, integration, monitoring, and reporting.
2. Consideration of responsible investment as part of the performance evaluation of employees. Although Border to Coast does not currently operate a performance-related pay scheme linked to responsible investment, adherence to stewardship and responsible investment policies is part of the performance review process for investment, risk, and senior executive colleagues.
3. Training to ensure responsible investment is embedded across the business and relevant skills and knowledge are up to date. For example, in 2022/23, training was provided to the Investment Team on topics such as carbon metrics and on different investor tools such as the Transition Pathway Initiative (TPI) and Climate Action 100+ disclosure indicators. Training on responsible investment-related issues was also provided to Border to Coast's Partner Fund officers and committees.
4. Responsible investment responsibilities for employees outside the responsible investment team. The Investment Committee and the Board are responsible for overseeing responsible investment. The Chief Investment Officer is accountable for implementing the Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy.

Case Study 3. Aviva – ESG integration [14]

Aviva Investors is a global asset manager that delivers wealth and retirement outcomes to investors. Its approach to ESG integration is underpinned by a four-pillar framework – research, connectivity, portfolio construction, evaluate and monitor. This framework is embedded across the business and tailored to reflect the nuances of asset classes and strategies.

In the research phase, Aviva's investment teams use a variety of approaches, tools and data sources that ensure robust integration of ESG. These include:

- Qualitative and quantitative research. This holistic approach, with an emphasis on qualitative analysis, offers insights that might be overlooked by traditional quantitative scoring tools. For example, qualitative evaluations conducted by ESG analysts are used to assess the future ESG trajectory of companies and countries.
- Both corporate and sovereign scoring tools.
- Large scale data providers with multiple data sets and deep coverage. These include MSCI, Beyond Ratings, Green Revenue and Truscost ESG Analysis.

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[13] *Border to Coast Pensions Partnership (2023), RI & Stewardship Report 2022/23, https://www.bordertocoast.org.uk/wp-content/uploads/2023/07/Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23.pdf, last viewed 15 May 2024.*

[14] *Aviva Investors (2022), Responsible Investment Annual Review 2022, https://www.avivainvestors.com/en-gb/about/responsible-investment/, last viewed 15 May 2024.*

Case Study 4. CFB of the Methodist Church – stewardship with investee companies [15]

The Central Finance Board (CFB) is the fund manager for the Methodist Church in Great Britain. Epworth Investment Management (Epworth) is its wholly owned subsidiary. In 2022, CFB/Epworth carried out multiple climate-related engagements with investee companies. These engagements have delivered substantial changes in company practice and performance. For example:

1. In December 2022, following engagement and the filing of two resolutions by ShareAction and a group of investors (including CFB/Epworth), HSBC announced that it would no longer provide direct finance to new oil and gas fields. Soon after the HSBC announcement, CBF/Epworth actively supported and signed letters – coordinated by ShareAction - to Barclays and BNP Paribas, urging them to follow suit and halt direct financing for oil and gas projects.

2. CBF/Epworth has engaged with MJ Gleeson, a housebuilder, for a number of years on its environmental performance and reporting. In 2022, the company finally reported improvements in its environmental performance, including diversifying its brick suppliers and shifting away from clay bricks towards concrete bricks (which have half the embedded carbon).

Case study 5. Edentree – prioritising engagement [16]

Edentree is a responsible and sustainable investment manager with £3.6bn of assets under management across a range of funds. It is part of the Benefact Group, a charity owned, multinational network of specialised financial service firms that channel all profits to charity and good causes.

Each year, Edentree reviews its thematic engagement priorities to identify and highlight key focus areas. These focus areas tend to run for several years which allows Edentree to have sustained impact through its investments and through its engagement with policymakers. In 2024, its engagement priorities were reviewed and now fall under three broad themes:

1. **A Just Climate Transition** – priority engagements include decarbonisation of high emitters, Paris Alignment of Banks, and just transition in renewable energy.
2. **Water Stress** – priority engagements include river pollution in the UK and water stewardship of chemical companies.
3. **Social & Financial Inclusion** – priority engagements include financial inclusion within the UK and the responsible use of technology.

[15] *Central Finance Board of the Methodist Church (2023), 2023 Annual Report, https://www.cfbmethodistchurch.org.uk/downloads/jacei-annual-report-2023.pdf, last viewed 15 May 2024.*

[16] *Edentree Investment Management (2024), Engaging for Change: Water, Climate Change and Financial Inclusion Lead Engagement Themes, https://www.edentreeim.com/insights/engaging-for-change-water-climate-change-and-financial-inclusion-lead-engagement-themes, last viewed 15 May 2024.*

Case study 6. CCLA – voting [17]

CCLA Investment Management is the fund manager for the Church of England as well as various other charities and churches, local authorities, individual investors, and professional investors.

CCLA's approach to voting includes:

1. An explicit commitment to support shareholder resolutions on certain ESG issues. This includes voting against the chair of the remuneration committee in cases where CCLA has concerns about executive pay plans, voting against the chair of the nomination committee if the company has a poor approach to gender diversity and voting against the chair if the business is not adequately addressing climate-related risk.
2. A commitment to vote at all UK and overseas company meetings where CCLA has portfolio holdings, and where it is practical to do so.
3. The annual publication of a detailed voting record which includes a description of all CCLA's votes and associated rationales in the relevant reporting year.
4. An annual review of the alignment of recommendations by their voting provider, Institutional Shareholder Services (ISS), against CCLA's own voting policy. In 2023, CCLA opposed nearly five times as many management proposals as the standard ISS template.

[17] *CCLA (2024), Voting Records, https://www.ccla.co.uk/sustainability/corporate-governance/voting-records, last viewed 15 May 2024.*

Notes

This report has been prepared by Dr Rory Sullivan, Aisling Eyers and Robert Black of Chronos Sustainability, on behalf of the Church Investors Group.

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Important Information: *The views expressed in this document do not constitute financial, investment or professional advice. They been informed by resources from organisations such as Principles for Responsible Investment (PRI). Should members seek more tailored suggestions, CIG recommends seeking financial/investment advice*.

The Church Investors Group represents institutional investors from many mainstream Church denominations and church related charities. Whilst each investor is responsible for its own investment policy our members come together on issues of common concern.

Currently the CIG has 67 members, predominantly drawn from the UK and Ireland, with combined investment assets of over £26 bn.

Further information
www.churchinvestorsgroup.org.uk

or from the CIG Secretary at:
information@churchinvestorsgroup.org.uk

or call (+44) 0207 489 6119

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