



**CHURCH IN SOCIETY FORUM**

*Ethical Investment Study*

JUNE 2012



## Introduction

In April 2011 the Church in Society Forum of the Irish Inter-Church Meeting discussed the impact of the economic crisis. A key issue to emerge from the discussion was the considerable extent to which the Churches too have been participants in a capitalist economic model which has now been shown to have failed our society, particularly the most vulnerable. Indeed, taken altogether, the financial returns of all the Christian Churches in Ireland, together with their various constituent parts and associated bodies, represent significant investments. It was therefore decided that ethical investment would be the focus of our study. Showing leadership in this area will require the Churches to engage in critical self-reflection as well as articulating the ethical principles that should guide decision-making in the wider society.

The members of the Church in Society Forum believe that the matter of 'ethical' investment is one that the Churches would do well to explore more fully, sharing resources and examples of good practice. There is a common impression that the financial returns from investments that are deemed 'ethical' or 'socially responsible' may be significantly less than those that come (or used to come) from more traditional investments, but in fact an analysis of the performance of such funds indicates that – in addition to the benefits to society – they may be equally financially remunerative, especially over the long term.

This paper represents a contribution from the Church in Society Forum to this debate. Following approval from the

Irish Inter-Church Committee, Forum members met with senior finance personnel and trustees from member Churches, from July-October 2011 to learn about their Church's approach to ethical investment. These consultations took place under Chatham House rules and so, in the report that follows, individual Churches will not be identified and specific details of individual ethical investment policies will not be disclosed.

We believe that reflection on this topic of ethical investment is timely and that public opinion, widely disenchanting with current economic thinking and a system that has so clearly let us down, would be receptive to a prophetic voice from the Churches.

Our core aims in publishing this document are to:

- Stimulate reflection and discussion on why ethical finance is important to Churches;
- Raise awareness of the need for ethical guidelines in relation to investment;
- Highlight the important work that is already being done in this area;
- Suggest further initiatives that Churches might consider with a view to increasing their engagement on both a national and local level, while also encouraging engagement from individual members.

## INTRODUCING THE DEBATE<sup>1</sup>

### Defining Socially Responsible /Ethical Investment

The philosophy of Ethical Investment combines the financial objectives of the investor with concerns about environmental, social and governance issues. It seeks to maximize social good, while also protecting financial returns. Current estimates suggest that ethical investments have now been extensively incorporated into the mainstream and may represent as much as 15% of European institutional financial markets.

The four key aspects of Ethical Investment are:

- Avoidance of investment in areas with moral or ethical issues (commonly referred to as negative screening);
- Application of social responsibility criteria (commonly referred to as positive screening);
- Return Enhancing Approach – looking at environmental, social and governance issues and regarding superior performance in these areas as evidence of good management;
- Shareholder engagement, involving dialogue between investors and management e.g. utilisation of leverage through voting rights.

The concept of Socially Responsible Investment is also widely referred to in this context, with some commentators positioning 'ethical investment' as a specific concern of investors with a religious motivation.

<sup>1</sup> Adapted from a paper prepared for CSF by Tony Brown, Economist and European Affairs Analyst.



**How do we define 'ethical'?**

There is a dilemma at the heart of the Ethical Investment concept, centred on two questions: 'What is or is not ethical?' and 'Who decides?'

Responding to these questions will require the establishment of criteria, such as:

- Product categories deemed unacceptable (e.g. weapons, tobacco, gambling, alcohol, pornography);
- Undesirable practices in raw material sourcing (e.g. worker exploitation, animal cruelty, environmental degradation);
- Meeting agreed standards in areas of corporate governance, including tax compliance and employment practices;
- Respect for principles of human rights;
- Environmental sustainability;
- Respect for local communities;

**Levels of Engagement**

Ethical Investment cannot be merely negative in the sense of refusing to invest or disinvesting; nor should it be passive. Engagement with companies and industry sectors can prove significant in advancing the ethical agenda. This implies giving active support to companies that operate successfully and sustainably and which follow broadly ethical principles of governance and human relations. It further requires a commitment to dialogue with these companies, encouraging best practice, influencing corporate behavior and pointing to areas of potential improvement. It equally implies readiness to engage with companies that are operating on the limits of acceptability under any of the

criteria listed above with a view to education, persuasion and the option of disinvestment in the case of an inadequate response.

**Performance**

Investment decisions should not negatively affect performance unless there is a clear acceptance that financial outcomes can be sacrificed. In many investment situations there are trustees or boards which have the responsibility to achieve the financial best interest of those who expect to benefit from the investment. While there may be acceptance of the incorporation of social or ethical objectives into schemes or investment products, this must be undertaken in a fully transparent manner. The education and information dimension is therefore important.

Achievement of an optimum outcome in terms of both ethics/social responsibility and financial results will require a balanced, diversified approach to building an investment portfolio. It must be understood and accepted that all investments carry risks of loss and that the traditional warning against putting too many eggs in one basket must be seen as a fundamental principle.

Doing good and making a good return are not mutually exclusive.

**THEOLOGICAL REFLECTION**

As a forum of Christian Churches, a core element of our approach to ethical investment is an attempt to discern how the light of the Gospel might shine on this complex subject. Applying biblical values – our shared normative values – to the subject, we strive to respond to the challenge to

discover in our own place and time what it means to “hunger and thirst for righteousness.”

The Christian social ethics which permeate the Bible are embedded in a covenantal worldview rooted in the biblical revelation of God as a God of love and justice. We are heirs of the biblical prophets who summon us

*“To act justly and to love mercy and to walk humbly with your God”*  
(Micah 6:8).

This is the foundational ethical injunction for Christians who see their calling to discipleship as a call to love God and make his love known in the world through the creation of a just and compassionate social order.

The story of Israel and the entire Judaeo-Christian tradition provides the anchor and framework for the development of this social order.

**The Hebrew Testament**

The dignity of all of creation and of each and every human being is affirmed in the book of Genesis. In addition to possessing an inherent worth as part of God's creation, human beings are created in God's image and are given stewardship of creation (Gen 2:15).

*The earth is God's earth and therefore the goods of this world are not meant to belong only to the groups of people who are able to pay for them. Those who own capital and goods have to be aware that their possessions also have to be used for the well being of all.... With gratitude churches and their members understand themselves as part of*

*God's redeemed people, thus accepting the responsibility that goes along with it: To witness to the rest of humanity the ethical principles of Old Testament law and living by God's values and priorities*<sup>2</sup>

The above statement, from the Conference of European Churches, reminds us of the ethical principles according to which we must live and articulates the requirement for 21st century responsible stewardship of the earth – enjoined on all in Genesis. Human beings are part of the created order and are not radically distinct or separate from it. As a result, the interests of humans cannot be achieved at the expense of the rest of God's creation. The biblical covenant reinforced the conviction that all human beings possess a special dignity and as 'imago Dei', are called into an active partnership with God. The covenant underlines the values of both human dignity and the centrality of relationships.

The biblical concept of justice is understood in terms of right relationships with God, with people and with the environment and a just society is seen as one which promotes right relationships, where human dignity is protected, human development facilitated and the environment is protected. Justice is expected by God in response to his loving kindness. The prophets of the Hebrew Testament denounced all forms of privilege, confronted the religious and social elites with the demands of justice and

<sup>2</sup> 13th CEC Assembly, Called to One Hope in Christ. Globalisation and Financial Crises. Faith-Ful Investments – Churches and Sustainable Investments (2009).

urged Israel to return to the way of the Lord. Amos urged:

*"Let justice roll down like waters, and righteousness like an ever-flowing stream" (Amos 5:25).*

This justice is no mere mechanistic norm to be fulfilled but is an ever changing and evolving challenge.

The evolving challenge remains at the heart of the mission of the church today and in a time of economic and financial crisis impels Christians to search out means of supporting sustainable development of economies in which human flourishing is facilitated and the rights of the most vulnerable protected.

#### **The New Testament**

The Gospels tell us that Jesus preached that the reign of God had already broken into human history. Jesus first public words affirm his mission:

*"The Spirit of the Lord is upon me, therefore he has anointed me. He has sent me to bring glad tidings to the poor" (Lk. 4:18).*

The kingdom announced by Jesus requires radical conversion and a prioritization of justice. As Professor Enda McDonagh puts it

*"The story of Christian new creation is a story of the breakdown of self – indulgence"*<sup>3</sup>

The beatitudes (Mt 5:3-12) are the template for God's agenda in the world and their upending of worldly values challenges Christians both at a personal level and at a communal level – we are

<sup>3</sup> Quoted from a report on a conference on 'Socially Responsible Development' Dublin March 2009

challenged to assess lifestyles, policies and social institutions in terms of their impact on people, especially on the poor. This challenge does not pit one group against another but rather promotes the strengthening of the whole community by assisting those who are the most vulnerable. The values of the Hebrew Testament are echoed here:

*By privileging the outcast, the Gospel challenges us to see the inherent and inalienable dignity and worth of each person. The heart of the gospel message is that each person, no matter how despised and abused, is special in God's sight, possesses a value which can never be extinguished.*<sup>4</sup>

Alongside respect for the inalienable dignity of each person and respect for all of creation is the recognition of the importance of relationality which is central to our humanity. As relational beings we are called to live in community and in order to do so well we struggle to create the institutions and conditions which best serve human interests and the healing and protection of planet earth. This involves confronting those things which thwart human flourishing and which undermine relationships and destroy solidarity. The present economic and financial crisis is – partially at least – the result of a loss of solidarity and communal values which allowed rampant unrestrained capitalism and consumerism to flourish enriching the few while impoverishing many.

In May 2009 the President of CEC stated at the occasion of

<sup>4</sup> Linda Hogan, Human Rights, (Dublin: Veritas, 1998)



the European Church leaders meeting:

*‘People have lost confidence in a system which is mainly based on individual profit. The present crisis is an ethical crisis in which churches and religious communities need to highlight ethical values such as human dignity, freedom with responsibility, solidarity and sustainability’<sup>5</sup>*

Last year the Pontifical Council for Justice and Peace called for the establishment of a global authority to regulate the international financial and monetary system, underlining that the causes of the current financial crisis have been both technical and moral.<sup>6</sup>

This study aims to assist Irish churches to once again highlight those ethical values which are at the heart of Christian living.

#### **A GENERAL OVERVIEW OF CURRENT PRACTICE**

The combined financial reserves of all the Christian Churches in Ireland, together with their various constituent parts and associated bodies, represent significant investments. This money – obtained through various forms of donation – needs to be properly managed in order to ensure that the Churches have adequate funds to pay the salaries of the clergy, finance the various forms of work and outreach – pastoral, educational, social – they may be engaged in, and maintain Church property. Management of these investments requires the

Churches to give consideration to ethical criteria in order to ensure that their practice in this area is in line with their Christian beliefs and their commitment to the creation of a just and compassionate social order. This presents considerable challenges which may be exacerbated as incomes fall as a result of the economic crisis.

Although not all Churches have been affected to the same extent, or in the same way, by the crisis, the impact has been felt everywhere. Churches reported losses from shares, bank accounts and property investments. Some Churches found themselves exposed to excessive risk and were forced to re-examine investment practices as a result. At the same time, income levels were difficult to maintain in some areas as members of the congregation were experiencing the impact of the crisis on their personal finances. As a result of the rising age profile in the leadership structures of the Churches there is also an increased proportion of retired clergy and ministers requiring financial support, resulting in further demand on Church resources.

Since the level of spend for Churches remains fairly constant, they are conscious of the need to minimise risk in their investments and protect income. When questioned about possible tensions between the need to maintain income levels, on the one hand, and uphold ethical policies on the other, all the Churches consulted in the course of this study were clear that their investment policy is not aimed at simply maximising return on investments. Ethical considerations will not be sacrificed in the pursuit of income. For this

reason, most Churches have declined to opt for passive fund management – where fees are significantly lower but investors have less control over how their investments are managed – choosing instead to pay higher fees in order to ensure greater levels of oversight in terms of where their money is invested.

All Churches consulted had given consideration to ethical guidelines in relation to investments, although the extent to which these have been formally developed varies. The focus to date has been primarily on the application of negative screening (i.e. refusing to invest in funds that do not meet specified ethical criteria). Positive screening (where investors actively seek out investment opportunities in sectors they would wish to promote for ethical reasons) has, to date, proved to be challenging for Churches as potential opportunities – such as, for example, renewable energy – are largely regarded as “untested”. Mindful of their responsibilities as trustees, those tasked with managing investments on behalf of the Churches are unwilling to approve investments that might be considered risky. Negative screening can also be seen as more urgent and important; here Churches are often using their influence to try to stop harmful practices.

Legislation around financial regulation on the provision of financial advice prevents the central finance offices of the Churches from providing investment advice, or information which might be legally interpreted as advice, to other parts of the Church structure. This can lead to low levels of awareness among members, as well as subsidiary or

<sup>5</sup> President of CEC May 2009

<sup>6</sup> Pontifical Council for Justice and Peace, Towards reform of the international financial and monetary system in the context of a general public authority (October 2011).

associated structures, regarding ethical investment policies and practices within the Church.

It was clear that the representatives of the Churches participating in this study welcomed the opportunity to share their experiences and are keen to learn more about how they might further develop and enhance their ethical policies. The section which follows outlines some of the key challenges and opportunities for Churches identified by representatives.

## **CHALLENGES FOR CHURCHES IN DEVELOPING AND MAINTAINING ETHICAL INVESTMENT POLICIES**

### **Definition of 'ethical' investments**

How accurately and concretely can we define the word 'ethical'? This is an area where Churches are aware of possible contradictions. For example, all Churches consulted had a policy of not investing in arms production, but within this shared principle there is a spectrum of different views ranging from an uncompromising commitment to non-violence, which rejects all arms production, to the view that states have a legitimate right to arm themselves for defence. The latter view would imply that not all arms production can really be considered unethical, but can we really distinguish between purely defensive arms and wider military uses?

### **Churches have different priorities**

It follows then, that if there is no universally-applicable definition of what constitutes an ethical investment, different Churches will have different priorities. A

useful illustration is the drinks industry. Some Churches have a very strict, explicit policy on not investing in alcohol, while others do not consider it necessary to apply negative screening in this area. Different approaches were also noted in relation to Sunday trading and gambling. These differences mean that it would not currently be possible for all Christian Churches to adopt a common framework on ethical investment.

### **Reliance on external fund managers**

Lacking the resources to manage all aspects of their finances internally, Churches are forced to rely, to varying degrees, on external fund managers. In terms of ethical policy, this can mean that Churches are placing considerable trust in the fund manager to follow the agreed ethical guidelines, as independent verification may be beyond the resources of the Church. Often, fund managers will only be willing to apply ethical criteria to those funds that are large enough to be segregated. Smaller funds are 'pooled' and subject to criteria beyond the control of the investor. Some Churches have reported, however, that this can be overcome if Churches are sufficiently aware of their influence as potential investors.

### **Obstacles to investigation of large multi-national companies**

In an increasingly globalised world, the greater part of investment funds are likely to be directed towards large corporate entities. The complexity of these structures makes it very difficult to obtain accurate information about all the activities of all the component parts. Further complications arise in relation to 'dual use components', defined

by the European Commission as goods and technologies that can be used for both civilian and military purposes.<sup>7</sup> These products may be harmless in themselves, but are then put to use in a way that conflicts with the Churches' ethical policies. An example might be a computer chip produced in one factory which is then sold to a second company which uses it to control a missile. Tracking and monitoring all aspects of a company's activity and all applications of its products is beyond the resources of Churches.

### **Responsibility as trustees**

Several interviewees made reference to the Bishop of Oxford case (1991), which has had a significant impact in UK law. In summary, the Anglican Bishop of Oxford and others brought a case against the Church Commissioners for England, arguing that the model of financial management in operation did not give sufficient weight to ethical principles. It was argued that the Church should do more to invest in activities that were in keeping with its ethical principles, even when these did not offer secure financial return. The judge found that Churches have a legal obligation to spend their income in accordance with their charitable objectives (and thus presumably ethically) as well as their legal obligation to maximise the return on the investments. These two legal obligations have both to be complied with, and, if in conflict, some appropriate balance found.<sup>8</sup>

<sup>7</sup> <http://ec.europa.eu/trade/creating-opportunities/trade-topics/dual-use/>

<sup>8</sup> Detailed information on the judgement is available from [www.eccr.org.uk](http://www.eccr.org.uk)



## FUTURE OPPORTUNITIES FOR CHURCHES IN DEVELOPING AND MAINTAINING ETHICAL POLICIES

### Increased public awareness and interest

The economic crisis has motivated people to seek greater accountability from financial institutions and inform themselves about what is being done with their money. Having experienced in their own lives and local communities the devastating consequences of unethical financial practices, many people are now more receptive to the promotion of ethical values in investment. Churches are well placed to show leadership in this regard, and stimulate dialogue, but it is vital that they are seen to practice what they preach. This consultation indicated that the results for the Churches from their engagement to date have been very positive.

### Investors have influence

In a challenging economic climate, those who have funds to invest can exercise significant influence with financial institutions and businesses. Ethical investment policies can provide an important channel for Churches to pursue social justice issues, using their position as share-holders or potential investors to challenge damaging or immoral practices. The Christian Churches in Ireland together represent significant investment potential and their collective voice would be difficult to ignore. Sharing expertise and experiences would help Churches gain confidence in this area, maximising their potential to bring about positive change.

### Dedicated ethical investment funds

As a result of increasing public awareness and interest in ethical investment, many financial institutions have now established dedicated 'ethical' funds which apply both positive and negative screening and follow stricter criteria in relation to investments.

### Ethical funds perform well

While it is true that Churches could potentially increase the return on investments through the relaxation of ethical policies, ethical investment funds have proved to be relatively stable throughout the economic crisis. Some have performed very well, showing significant potential for growth. It would appear that while the initial returns may not be as high, over time ethical funds can prove to be a sound investment.

## CONCLUSION

While the main thrust of this report has been about how churches (and church related bodies) manage, or should manage, their financial affairs, it is apparent to those involved in undertaking the study that this takes place within a wider context and set of questions. It seems appropriate in this concluding section to touch on some of these wider questions.

At its core, the focus of this study is to consider a moral, Christian, approach to financial management. So, for example, ethical investment strategies can be seen as good examples of this. Negative ethical screening seeks to avoid investing in organisations that are involved in activities with which we as churches do not agree. Using sharehold-

er power is a further step to promote corporate responsibility by seeking to ensure that our investments are only applied to activities we can morally accept. Positive ethical screening then takes this another stage further by actively seeking investments in companies engaged in the sort of activities that we want to actively encourage. But despite these valuable approaches, several questions remain.

Firstly, recent events would clearly illustrate that unrestrained capitalism has many undesirable effects.<sup>9</sup> It can be seen as fundamentally un-Christian with its focus on greed and maximising monetary gains for the few at the expense of wider goals. Particularly in the investment side of the banks, clearly a culture of essentially unrestrained gambling, with our money, became the norm in a large number of major organisations. This must be condemned. We would instead argue that the economy should be ultimately the servant of the common good, not its master. It is not too far-fetched to paraphrase the well-known saying of Jesus as 'The economy was made for people, not people for the economy'.

What is the alternative? The answer to that is multi-dimensional, but would include at least some of the following: moving away from 'bad' capitalism towards 'good' or at least 'fair' capitalism; seeking to reduce the level of inequality in society

<sup>9</sup> An interesting analysis of this theme from a Christian perspective has been provided by Michael Schluter in *Beyond Capitalism: Towards a Relational Economy* (Jubilee Centre, 2010). In this paper, Schluter outlines what he considers to be the five moral flaws of capitalism, before going on to propose a vision for a new way forward, based on five key strategies.

which has been shown to lead not only to economic benefits but also improving many other aspects of life including health; shifting the focus of corporate value from a narrow focus on shareholder value alone to a more inclusive stakeholder (shareholders, employees, customers) value; and so on. The essence of all these points can be summed up in saying that a socio-economic system which takes the good aspects of both left and right perspectives would lead to a more humane and moral society (and, we would argue, more in tune with Christian perspectives). This sort of approach is often summed up in the phrase 'social market' recognising the need for market perspectives to ensure efficient use of economic resources, but seeking to ensure that the whole economy is structured in such a way as to serve the public good in a fair and equitable manner.

How can we as churches address these questions? We can put our theology into practice by our actions and also by advocacy measures pointing the desired way forward for society. In the context of this study, however, it is clear that our approach to our own financial management will give the best indication of what we really believe. We need to start with how we manage our own affairs, before we can effective critique the wider society.

## RECOMMENDATIONS

In conducting this research the Church in Society Forum committee was greatly encouraged by the findings and recommend that Churches publicise, more generally, the work they are doing individually in the area of ethical investment to the wider society in which they serve.

There is a clear need to recognize that the Christian Churches in Ireland together represent significant investment potential. Therefore the churches together should devise strategies to harness and utilise collectively their potential to influence financial investment policy by:

1. Raising awareness of ethical finance issues, particularly through communicating, within their own structures, details of policies and initiatives in the area of ethical finance, with a view to informing and resourcing individual members of the Church. These communication strategies must necessarily comply with all relevant legislation in relation to financial regulation to ensure that Churches are not deemed to be providing advice in relation to personal investment choices of members.
2. Encouraging investors to examine the range of existing consumer-accessible ethical funds, while also urging the financial institutions to increase the range of ethical investment options available;

3. Establishing a meeting for regular exchange and sharing of information between key church personnel in the area of finance and investments, following the model of the Church Investors Group in the UK. Such a meeting might lead to the establishment of joint working groups to develop policy recommendations on specific issues and/or the possibility of sharing resources, which might extend to the acquisition of external analyses.
4. Examining ways in which, in addition to the negative screening already in place, Churches might develop models of non-binding positive screening that could encompass aspects such as:
  - responsible employment practices, including equal opportunities;
  - best corporate governance practices;
  - promotion of human rights, especially in countries with oppressive regimes;
  - sustainable environmental practices;
  - promotion of justice;
  - sensitivity towards the communities in which business operates;
  - positive attitude towards customers and the active monitoring of employment practice across the supply chain.