

Ethical Investment Policy Statement for the Scottish Episcopal Church Pension Fund

The Trustees of the Scottish Episcopal Church Pension Fund (SECPF) endorse the principles outlined in the ethical investment policy for the SEC Unit Trust Pool (2022) and the policy on the use of pooled funds in the SEC Unit Trust Pool (2021).

1. Principles of responsible stewardship

The SEC Ethical Investment Advisory Group's (EIAG) 2020 report identified three foundational principles that informed the development of the ethical investment policy for the SEC Unit Trust Pool:

- The responsibility of prudent use of the money entrusted to the church, in wise and effective investments, in the context of the economic situation prevailing at the time.
- The responsibility to make investments directly or indirectly in companies whose activities are not inconsistent with the church's spiritual and moral values under God, reflecting the most pressing needs of the times, and not to invest in those whose activities are contrary to those values.
- The responsibility arising from the dependence of the missional work of the SEC upon the annual returns made from the investments for the work of the church, the staff it employs and the voluntary efforts of time, energy and talents of the wider church membership.

The Pension Fund Trustees (PFT) recognise a separate range of stewardship and investment principles which reflect that the purpose of the SECPF differs from that of the UTP. These principles include the Trustees' responsibility to:

- ensure there is enough money in the SECPF to pay members' pensions as and when they need to be paid.
- act in the best interests of the Scheme's beneficiaries.
- invest prudently, as if they are under a moral obligation to provide for others.
- use the power of investment for the purpose for which it was given, which will usually mean investing in the beneficiaries' best financial interests.
- ensure the security, quality, liquidity and profitability of the overall investment portfolio.
- bear in mind the nature and duration of the future benefits payable under the pension scheme.
- ensure the investment portfolio is diversified so as to avoid relying too much on any particular asset, issuer or group of undertakings.
- bear in mind the Church's wish to keep the contribution rate in respect of serving members of the Fund affordable for vestries, dioceses and the province.
- make investments directly or indirectly in companies whose activities are not inconsistent with the church's spiritual and moral values under God, reflecting the most pressing needs of the times, and not to invest in those whose activities are contrary to those values.

2. Principles of ethical investment

Certain categories of investments are deemed to be inconsistent with the values of the Scottish Episcopal Church. Therefore, in keeping with the SEC's ethical investment policy for the UTP, the PFT will avoid direct investment in companies deriving more than 10% of their revenues in the following restricted categories:

- Armaments
- Fossil Fuel extraction
- Gambling
- Pornography
- Tobacco

It should be noted that the PFT rely exclusively on the use of pooled funds to achieve the investment objectives for the SECPF which has held no direct investments since 2010 and is unlikely to do so in the future.

3. Selection of pooled funds

The PFT will consider the suitability of the pooled fund against the SEC's broader policies on ethical investment, including any policies on ethical exclusions, the integration of environmental, social and governance (ESG) factors into investment management, stewardship and the desirability of impact investment.

- a) The PFT will avoid investment in a pooled fund if, as a result of such investment, more than 1% of the SECPF's total funds would be invested in businesses in the restricted categories.
- b) The PFT will monitor pooled funds held by the SECPF on an annual basis and consider the continued appropriateness of the SECPF investing in each pooled fund, and whether this policy framework is being complied with overall.
- c) If the PFT identify holdings the holding of a particular pooled fund within the UTP has come to jeopardise compliance with the 1% limit set out above, it will seek independent investment advice on appropriate action.

4. Positive Investment Criteria (Impact Investment)

The PFT recognise that ethical investment includes far more than simply avoiding areas that are incompatible with the SEC's values. It can involve making a commitment to investing in areas that actively produce social and environmental benefits.

EIAG identified broad criteria to guide the assessment of what may or may not be an ethical source of revenue. The PFT will therefore consider the impact of the investments held in the SECPF on:

- a) the health and dignity of human beings, particularly the most disadvantaged in society;
- b) the long-term stewardship of the planet; and
- c) the mission of the worldwide church.

Assessment of ESG criteria (Environmental, Social and Governance) can be a useful tool for understanding how seriously a company takes such questions and integrates them into its business practices. However, as yet there is no universally accepted standard for assessing relative ESG performance. The PFT therefore depend on their investment advisers and fund managers for analysis of ESG performance.

When considering the appointment of an investment manager for the SECPF, PFT will seek to appoint a firm that can demonstrate a responsible and progressive ESG policy.

In addition, PFT will have regard to the desirability of investing in funds with a focus on making a positive contribution in one or more of the following areas:

- Developments in human health, wellbeing, education and communications.
- Sustainable development of just and peaceful societies.
- Businesses that minimise and mitigate the harmful effects of industry, recognising that all human activity has an impact on the planet.

5. Practical considerations

The PFT are required to take independent investment advice when selecting investments.

In selecting appropriate funds to invest in, the practical considerations include balancing ethical criteria with the need to meet the investment and funding objectives and the resources required to administer the investments.

The PFT adopt the following guidelines:

(a) Selection and monitoring of funds

- A pooled fund under consideration for the SECPF must comply with this policy at the outset.
- The PFT will engage with the SECPF's investment manager on ESG issues at least annually.
- The PFT will have regard to the level of impact investment in any fund under consideration for investment.
- The PFT will include ethical investment criteria in their formal review of the SECPF's investments which takes place after each Actuarial Valuation.

(b) Triggers to change fund or investment manager

- The PFT will monitor the SECPF's compliance with the policy on an annual basis.
- In the event of a breach of the policy on pooled funds the Trustees will seek independent investment advice on appropriate action.

(c) Framework for investigating ethical concerns

- The PFT will take account of the ongoing work of EIAG and implement recommendations in accordance with this policy.