

**Investment Policy Statement (Approved January 2021)****Ethical Considerations and Sustainable investment**

It is important that the holdings within the portfolios are sensitive to and in keeping with the objectives and mission of the Catholic Church. The Trustees are committed to conducting the financial affairs of the Diocese in a responsible manner, consistent with the ethical obligations of stewardship, relevant legal requirements, and their fiduciary duties. As such they have provided responsible and ethical investment guidance to be followed by the investment manager as contained in this appendix.

The Trustees may see fit to exclude other areas from the investment portfolio in the future and will inform the investment managers of any such changes or areas of concern as they arise.

The Trustees are concerned that the investments held within the portfolios are only held after due consideration has been given to the long-term sustainable nature of the companies in which the investments are made, to ensure that the investments held are not exploitative, and they support a long term sustainable future for the needs of society, its people and the environment. In particular, the Trustees require the fund managers to be fully aware of the Catholic Church's teaching on bio-ethical, ecological and environmental issues in such reports as '*Evangelium vitae* - on the Value and Inviolability of Human Life', '*Dignitas Personae* – On Certain Bioethical Questions', '*Laudato Si* – on the care of our common home' and '*Laudato Si* - on the path to caring for the common home: five years after *Laudato Si*'. The Trustees will look for opportunities to explore these issues with its investment managers, to understand the options available for screening in these areas.

Where there is any doubt, or clarification is required by the investment manager regarding the suitability of individual assets held within the Archdiocesan portfolios, on the grounds of either ethical considerations or long-term sustainability issues, these should be brought to the attention of the Director of Finance who will obtain the necessary clarification from the Trustees.

**Responsible and Ethical investment guidelines**

While recognising the practical difficulties in managing an investment portfolio, the Trustees are of the view that there are some categories of investment where there should be an absolute ban on the investment, in order to reflect the teachings of the Catholic church. There are other areas where investment could be tolerated to a limited extent within a collective investment vehicle or segregated fund.

**Absolute Ban:** This comprises a limited number of sectors where the Trustees consider that companies are involved in activities contrary to the teaching of the Catholic Church. These investments shall be banned from either direct investment in a company's shares by the Diocese, or investment within a collective fund or other investment vehicle. These sectors currently comprise:

- A company which is involved in abortion or euthanasia;
- A company which is involved in the collection, research of, or clinical use of cells from aborted fetuses or human embryos or so-called 'hybrid' human embryos.
- Companies materially or principally involved in the production, promotion or provision of contraceptives or the "morning after pill";
- A company which is involved in the exploitation of sex (including the production, promotion or provision of pornography);
- A company which is involved in the production of certain weapons, namely anti-personnel landmines, weapons of chemical warfare or indiscriminate weapons of mass destruction. It should be noted that investment in a British manufacturing company involved in the manufacture of military equipment and armaments is acceptable on the grounds of self-defence, or that the UK Government's practice of licensing such exports should ensure that they will not end in the hands of groups who would use them indiscriminately against ordinary citizens.

The Trustees draw the attention of their fund managers to the statements by the Scottish Catholic Bishops on defence matters.

**Bans limited to Direct Investment and "Top 10":** it is also recognised that there is a further group of companies whose profits benefit from the addictive quality of their products or where a majority of Catholics would have concerns about the activity. For these companies, then in terms of a segregated

portfolio under a discretionary management arrangement, there should not be a holding where such a company falls in the top ten investments of the investment fund. In relation to any investments in pooled vehicles, such as unit trusts or investment trusts, the Trustees will assess the screening processes in regard to this guidance.

The companies concerned are in the following sectors:

- Companies significantly involved in tobacco;
- Companies significantly involved in gambling;
- Companies significantly involved in animal testing (unless humanely done for medical research).
- Companies significantly involved in fossil fuels (see below).

In all these cases, the Trustees are concerned that an investment could end up as a stranded asset of little value.

Climate Change: In relation to this issue, the Trustees note that this is a rapidly changing area bearing in mind developments in the demand for and supply of energy, new regulatory standards, scientific research and the responses from companies involved in these sectors. The in-depth research and investment decisions made by the Church of England Commissioners and by NEST, as well as documents from the Holy See such as *Laudato Si*, are considered to provide a useful steer for the Diocesan funds.

Accordingly, the following guidelines have been made to assist the fund managers in their portfolio construction:

- Fossil fuel producers can be included in the portfolio if they have signed up or are in the process of signing up to the goals of the 2015 Paris climate change agreement, or any subsequent international guidelines (although not as a Top Ten holding).
- The following areas of fossil fuel production should be excluded from the portfolio - tar sands and thermal coal and drilling in the Arctic region – unless such production is a very minor aspect of the company's business.
- The fund managers are required to carry out regular assessments of the carbon intensity of the entire portfolio, both equity and debt, with the aim of reducing such carbon intensity as much as possible over time, discussing the practicalities with the Trustees where appropriate.
- The Trustees encourage the fund managers to invest in renewable energy companies when it will not significantly affect the investment returns of the whole portfolio.

Other concerns: In addition, the Trustees are very aware of the fundamental importance of human rights, including such issues as modern slavery, working conditions, the living wage or pay day loans. The Trustees require their fund managers to be aware of Roman Catholic Social Teaching, including the Church's understanding of human rights, and set out since Pope Leo XIII, including the encyclical *Rerum Novarum*, and found in the magisterium of the Church ever since, not least in that of Pope St John Paul II'. The Trustees also require the Investment managers acting for the Archdiocese to draw to the attention of the Trustees, through the office of the Director of Finance, any issues involving such human rights affecting the companies in which the fund manager holds as an investment. The Trustees will then decide whether they consider the investment to be appropriate or not and will give instructions regarding the holding of such investment.

### **Application of Criteria**

The Trustees require the Archdiocesan Investment Managers to apply these criteria at the time of making an investment. Recognising that a company, investment trust or other collective can change with time, the Trustees require the Investment Manager to screen their holdings at least every year. If any direct investment holding, investment trust or other collective then falls foul of either the "absolute ban" list or the "limited ban list" it should be reported as soon as practicable to the Director of Finance and the Trustees. It will be up to the Trustees to decide on the meaning of the word "significantly" in the lights of the facts available at the time, and give instructions for sale or retention.

These Guidelines reflect the views of the Diocesan Trustees as at January 2021. The policy will be reviewed every three years.