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FINANCIAL NEWS

Churches aspire to ethical investment

The principles of faith groups have paid off, writes William Hutchings

Christian investors have been holding their heads high of late, and not just because last week they were celebrating Easter, the most important period in their religious calendar.

They had a relatively good financial crisis. That is partly in the sense that their returns over the past three years were respectable and, more significantly, maintained their record of long-term outperformance compared with other institutional investors. But beyond this – and more encouraging still for the church-related pension schemes, endowments and asset management advisers, which collectively manage more than £12bn (€13.5bn) in the UK – other investors have been taking a greater interest in their ethical approach to investment.

Edward Mason, secretary to the Church of England's ethical working group, said: "There is definitely heightened interest in what the church has to say on economic issues."

Bill Seddon, chief executive and investment manager at the Central Finance Board of the Methodist Church, said: "People have become more interested recently, and I can see there is more interest in socially responsible investment."

The Ecumenical Council for Corporate Responsibility, a voluntary coalition of church-based investors and ethical asset managers, has seen Co-operative Financial Services and Triodos Bank join its ranks.

Faith-based investors focus a lot on excluding investments that conflict with their beliefs. They won't invest in armaments companies, because they believe in the sanctity of life; nor publishers of pornography, as this "hurts minds", in the words of 18th century preacher John Wesley; nor gambling, alcohol or tobacco.

Judgments can be fine: the Baptists have just disinvested from Tesco on the grounds that the company might exceed the church's limits on revenue from tobacco and alcohol. The Baptists will invest in companies that make money from these products, but only if the proportion of revenue is less than 5%.

Philip Putman, head of finance and administration for the Baptist Union of Great Britain, said: "We didn't have precise figures; Tesco wouldn't tell us the percentage, even privately. But given there was doubt, we sold our shares. If you've got a policy, it's better to stick to it where there's uncertainty."

Faith-based investors like to take a more constructive approach where they can. The Church of England held a seminar in January to increase awareness of private equity opportunities in Africa. The Ecumenical Council for Corporate Responsibility is looking at the impact of large-scale industrial mining on food security in the Philippines. Climate change is near the top of every faith-based investor's agenda.

The specific issue uppermost in the Methodists' minds at the moment is the proposal of BP and Shell to look for oil in the Canadian tar sands. Seddon said: "It is such a destructive process that consumes a lot of energy and water in the production of the oil, and seems at best only marginally worth doing. If they are going to do it, they should cost everything in and be quite clear what the impact will be, including the carbon cost."

But the churches' vision goes still deeper, to the heart of the financial system itself.

In late 2008 John Sentamu, Archbishop of York and the second most important figure in the Church of England, complained that hedge funds were like bank robbers for short selling financial institutions.

Sentamu may have been mistaken on the detail – the banks' shares were overpriced – but the general sense of what he was saying struck a chord. Financial markets should not be seen as amoral, in his opinion. Many agree with him, particularly those affected by unemployment and the long-term prospect of higher taxes as a result of the financial crisis.

Equally, Angelo Caloia, who until September was president of the Institute for the Works of Religion, the primary financial unit of the Catholic Church, told Inside the Vatican magazine last year that a real solution to the problems of the financial system required a different outlook. He said: "This different perspective is that of social economy of the market where ethics is not something exogenous, but something internalised into all economic activity."

Christian investors took a significant step in this direction last month when the Church Investors Group, representing 37 mainstream faith-based organisations, published a 30,000-word study, The Ethics of Executive Remuneration: A Guide for Christian Investors.

This was a foray into more controversial waters than normal, tackling a hot topic at the heart of business life. It recommended that the pay ratio, the highest-paid executive's remuneration compared with the average of the lowest 10%, should not be more than 75 and should be set on a downward trajectory.

However, those in charge of the churches' investments are realistic about the limits of their influence.

Putman said: "We would like the marketplace to be ethical. But we would like a world without sin. Our response is to do what we can with our money."

Seddon said: "We would like the financial system to be founded on morality. Is it likely to happen? Probably not, but the Christian approach is to act according to your beliefs and try to persuade others to go in your direction. It is a thread woven through all our activities."

Miles Litvinoff, co-ordinator for the Ecumenical Council for Corporate Responsibility, said: "Deeper change is needed. The centre of economic life should be the community and the natural world, and the health of our society would be better if investment was focused on that.

"But in the meantime, we have to try to bring about change within the limitations of our resources. We try to highlight good and bad practice, draw wider attention to issues and stimulate a wider debate."

Mason said: "The mission of the Church of England wants to see the financial system change, and that's where the Archbishop's comments come in. But the investing bodies have to pay pensions, and we have to deal with the system as it is. We are investing in a fallen world, and we are not trying to change it so much as trying to make an inroad into company boardrooms to engage with them on issues that matter to us."

The fiduciary responsibility to look after the interests of beneficiaries was mentioned by all the faith-based groups. Interested individuals debate the legal, moral and philosophical arguments for and against a trade-off between investment returns and an ethical approach, and there is room for judgment in selecting the period over which to measure returns; but the trustees of pension schemes and charities know that ultimately they must invest in the best financial interest of their members.

Happily for Christian investors, long-term returns have been good. The Methodist Ministers' Pension Scheme, which has assets in the hundreds of millions of pounds, has beaten its benchmark by an average of 60 basis points a year over the past nine years. Seddon said: "Ethics might cost you money and it might mean reduced returns over short periods of time, but over the long term it doesn't. What it does cause is volatility."

The Church of England has beaten its benchmark, the WM Pension Fund Universe, by an average of two percentage points a year over the past 10 years.

Christians hit the campaign trail

The Church of England has begun a review of all of its ethical exclusions to take into account that it is investing increasingly overseas – it estimates that 10% of the UK stock market are "sin stocks", largely because of drinks and tobacco companies, compared with a global average of 5%. It is also reviewing its policies, particularly with regard to the ethics of investment in the defence, alcohol and financial services sectors, and climate change is near the top of its agenda.

The Methodists too are focusing on climate change. They have also been working on caste discrimination, ethical issues relating to children and to the banking sector. Last year they had a meeting with broadcaster BSkyB in relation to the control of online gambling.

The Methodists take a strong line on executive remuneration. In 2008 – the most recent year for which they have made figures available – they voted against 78 remuneration reports and abstained on a further 33 out of a total of 118 resolutions, meaning there were only seven they found acceptable.

The Baptists also consider executive remuneration important. Philip Putman, head of finance and administration for the Baptist Union of Great Britain, said: "We are not so naive not to know that some people will get paid more than others. But I'd express our view as: for the top earner to be paid a hundred times as much as the lowest earner is too much; for him or her to be paid three times, maybe not too much. Discuss."