**SCOTTISH EPISCOPAL CHURCH**
**ETHICAL INVESTMENT ADVISORY GROUP**

**POLICY FRAMEWORK FOR INVESTMENT OF**
**SEC UNIT TRUST POOL MONIES IN POOLED FUNDS**
**Approved by General Synod June 2021**

1. The SEC Unit Trust Pool ("UTP") was established to provide the Dioceses and charges of the Scottish Episcopal Church with the opportunity to have their investments managed along with those of the General Synod. Such pooling of investments provides all investors in the UTP with access to professional fund management whilst benefitting from reduced management fees associated with economies of scale. All of the General Synod's investments are held in the UTP. Dioceses and charges of the SEC are not required to hold their investments in the UTP and not all choose to do so. The majority of the UTP (approximately 65%) comprises the General Synod's investments – the balance (approximately 35%) comprises investments held by Dioceses and about 180 charges. The Investment Committee of the SEC has responsibility for the UTP, under the supervision of the Standing Committee, who are the charity trustees for the General Synod.

2. The EIAG recognises that UTP investment decisions and the choice of investment managers are ultimately a matter for the Investment Committee, informed by, amongst other things, the advice of the EIAG insofar as that advice has been accepted by Standing Committee.

3. The EIAG recommended in its interim report dated 3rd September 2020 that the use of pooled funds should not be excluded for the UTP. This recommendation was received by Standing Committee and General Synod in 2020. We here give the rationale for this recommendation and a proposed policy framework by which we recommend its implementation.

4. By "pooled funds", we mean investments in holdings that are themselves comprised fundamentally of collections of other investments selected and managed by a fund manager. Investors buy units in a pooled fund rather than owning shares directly. Examples of pooled funds are unit trusts, investment trusts and other professionally managed collective investment schemes. Pooled funds are contrasted with "direct investment" where shares in a particular company are purchased and held in the name of the investor.

5. We understand from the Investment Committee that investment in pooled funds is a valid and important strategy by which the UTP can be invested so as to meet its objectives. These particular advantages have been cited:

    (a) pooled funds can minimise volatility (fluctuation) in the overall value of the UTP, e.g. by spreading investment over multiple asset types;

    (b) they can diversify the UTP so as to minimise investment risk (e.g. loss through businesses failing) by spreading investment over a wider range of investments than is practicable with direct investment alone;

(c) they can maximise overall returns, e.g. by combining within a single investment assets which offer particular potential for capital growth alongside those which offer dependable income;

(d) they can access investment opportunities which might otherwise be hard for smaller investors such as the UTP to access, for example in commercial property;

(e) they can reduce average costs of highly-skilled investment management because the costs of managing the assets within the pooled fund are spread amongst all those investing in the fund; and

(f) some individual pooled funds have ethically-focussed remits that may accord generally with the ethical values of the SEC and/or positively promote investment which reflects the SEC's values, e.g. in clean energy generation and new technology to address issues of climate change ("impact investment").

6. There is nonetheless a danger that investment in pooled funds may jeopardise the SEC's approach to ethical investment, in that a pooled fund might at some point in time be invested partly in one or more entities which the UTP would not choose to invest in directly for ethical reasons.

7. Accordingly, the EIAG recommends the following policy framework for pooled fund investment for the UTP:

(a) If the Investment Committee is considering investing, or continuing to invest, in a particular pooled fund, it should review, and consider the suitability of, the pooled fund against the SEC's broader policies on ethical investment at the material time, 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. The Investment Committee should also consider how easy it will be in future to review the exposure of the pooled fund to investments which would not be permitted to be held directly under the SEC's policies.

(b) The Investment Committee should not invest in a pooled fund if, as a result of such investment, more than 1% of the UTP's total funds will be invested ultimately in businesses in which the UTP would not hold any direct investment on ethical grounds. The figure of 1% is chosen as a *de minimis* figure that allows some flexibility, given the practical difficulties for the Investment Committee and its selected investment managers in tracking the entities invested in within pooled funds over time, and in monitoring what business fields each entity is involved in at any given time.

(c) The Investment Committee should review pooled funds held by the UTP on an annual basis so as to consider the continued appropriateness of the UTP investing in each pooled fund, and whether this policy framework is being complied with overall.

(d) If the Investment Committee is of the view, on such a review, that the holding of a particular pooled fund within the UTP has come to jeopardise compliance with the 1% limit set out above, it should so report forthwith to Standing

Committee along with their explanation as to how that situation has arisen and their recommendation as to the appropriate way to proceed, bearing in mind Standing Committee's fiduciary duties in relation to the UTP and the need for efficiency and economy in management thereof. Standing Committee may then approve that recommendation or require its amendment. The Investment Committee will then forthwith implement the recommendation as approved (with or without amendment) by Standing Committee.

(e) If between such annual reviews it comes to the notice of the Investment Committee that compliance with the 1% limit has been so jeopardised, it may accelerate such a report to Standing Committee, notwithstanding that the time for the annual review provided for at (c) above may be far off. Standing Committee will have the same powers in those circumstances as under para (d) above.