ETHICAL OVERSIGHT COMMITTEE MAY 2025

Proposed Deliverance

The General Assembly:

1. Receive the Report.
2. Welcome the Church of Scotland Ethical Investment Guidelines set out in the Appendix as clarifying the Church's position on ethical investing.
3. Urge and encourage all parts of the Church holding investments, locally, regionally, and nationally, to make use of the lessons and aspirations of these Guidelines.

Report

1.1 The Ethical Oversight Committee exists to support the Church, most specifically The Church of Scotland Investors Trust (COSIT), to be able to engage with the myriad of ethical dilemmas that are faced in the world of investment. How we manage and invest our money is an important part of our faith, and an important part of the mission of the church.

1.2 This year the Committee has built on the 'front door' language that was brought to the General Assembly last year. The Committee has continued to work with FaithInvest, an international non-profit network of religious groups and faith-based institutional investors which sees faith communities as natural powerhouses for ethical, faith-based, and impact investing that can contribute to environmental, social, and governance (ESG) or socially responsible investing (SRI). Building on the previous work framed around the Five Marks of Mission, the Committee has worked to translate that into a document that is much more specific about the values and priorities of the church, so that can be used to guide investment managers. This is advisory in nature, and does not change the fact that the COSIT trustees have sole discretion over how they direct investment managers.

1.3 Over the last year, the EOC has looked more closely at three broad areas – climate justice, economic justice, and peace and justice. The number of specific issues that came up under all of these broad areas was enormous and the task was to distil this to something that was robust enough to make it clear what the Church believes about using its assets, but avoid being so specific that investment managers would be overly restricted.

1.4 The restrictions that the Church already has have been written into this new document. At the recommendation of COSIT, the EOC was happy to include the exclusion of fossil fuels into the guidelines. The Church has not invested in fossil fuels for a number of years and it is unlikely that the current investment managers would do so, and so it seemed like the right time to add this to the excluded list. It has been written into the guidance document as:

> *We exclude investment in companies involved with the extraction or production of energy from oil shale or tar sands, coal mining or coal-fired power generation, and oil and gas extraction, refining, or energy production. We exclude companies that are actively exploring or developing any new fossil fuel resources.*

1.5 There are clearly many issues that are missing from this document. The ongoing work of the EOC is to be a locus for issues that are of interest to the church to be researched and discussed with the view to working out if there is a practical way to get them reflected in the investment guidelines. It is envisaged that the guidelines will evolve and develop over time.

1.6 The next stage of the EOC's work will be to understand how to better support investment managers to use the votes that they have in our name to lobby for change. The Guidelines are a helpful starting point for that, but there is work to do to craft a section that is explicit in how we would hope our investment managers might go about this.

1.7 This document was produced alongside COSIT and largely for COSIT to engage with; however there are more parts of the Church which undertake investment activities, and the EOC would encourage all parts of the church, locally, regionally, and nationally, who hold investments to use this document as guidance.

1.8 Once again, we acknowledged that what COSIT is doing at the moment is good, and the task of the EOC is to work with COSIT in support of a trajectory which will make it better. In this way the document in the appendix is aspirational. It is not envisaged that all of the things will be achieved quickly, some will be a work in progress for many years. However, it does signal a commitment from the Church that ethical approaches to investments are a key part of the Church's witness, and provides a context in which the General Assembly can ask for issues to be considered.

1.9 The EOC is currently made up of eight members. There are three representatives of COSIT, one from the General Trustees, three ministers, one young person and the Convener. We are delighted to report that the group has worked well together, and there has been a real willingness from all parties to make the EOC effective. It is clear that there are a variety of opinions in the group and the robust, intelligent, yet respectful, conversations that we have had thus far set us up well to be able to take forward our remit as a forum for engaging with the issues of interest to the Church and their intersection with the investments that the Church holds.

In the name of the Committee

VAL BROWN, *Convener*
IAN ALEXANDER, *Secretary*

Appendix

Church of Scotland Ethical Investment Guidelines

The Church of Scotland convened the Ethical Oversight Committee (EOC) to support the Church of Scotland Investors Trust (COSIT) in its work managing the Church's investments. The EOC has developed these guidelines and recommends their adoption by COSIT and all churches, members, and institutions associated with the Church of Scotland that have investable assets. These guidelines are advisory and aspirational in nature.

1. Background

1.1 The Church of Scotland ("Church") exists to proclaim the good news of Jesus Christ. The financial and investment activity of the Church and its charitable entities will intentionally and publicly be an active part of the Church's mission, as how we use our money is a key part of faith expression. The Church seeks investments that work towards increased positive outcomes and reduced negative outcomes for people and planet. To achieve this, the Church's investment approach includes positive screening, engagement and impact investing in organisations to lead to positive impacts aligned with the Five Marks of Mission, in addition to negative screening and divestment from activities that harm society and are contrary to the Church's mission.

1.2 The Church of Scotland recognises and supports the United Nations Sustainable Development Goals (SDGs) as a framework for addressing global challenges. These goals align with the Church's mission to transform lives and communities.

2. Investment Principles Aligned with Our Mission

Our investment decisions are guided by specific beliefs and commitments that align with the Five Marks of Mission:

2.1 Climate and Sustainability: The Church of Scotland strives to safeguard the integrity of creation and sustain and renew the life of the Earth. This compels us to reduce and stop investment in activities now known to damage life on Earth, including climate change, pollution, biodiversity loss, and extraction or consumption of resources.

2.2 Economic Justice: The Church of Scotland labours for the advancement of the Kingdom of God throughout the world. We seek to transform unjust structures of society, challenge violence of every kind and pursue peace and reconciliation. This means avoiding investment in companies that consistently demonstrate practices that prioritise short-term profits over human dignity and wellbeing, such as those with documented patterns of worker exploitation, unsafe working conditions, or predatory business practices that harm vulnerable communities.

2.3 Peace Building: As part of our commitment to working for a just peace for all people, we want to avoid investing in companies that enable war through the production or distribution of armaments, those who provide technical component parts designed for weapons systems, and those involved in the provision of strategic parts or services for weapons of war.

2.4 Diversity, Equity and Inclusion: We recognise that all people are created in God's image and deserve equal opportunities and fair treatment. We expect companies to demonstrate this through their policies and practices at all levels of their organisation.

2.5 We want our investments to be as ethical as possible and recognise that companies can score well on one measure and poorly in another. We seek investment in companies that are well governed, taking climate recommendations seriously, offering fair prices for their services, adhere to responsible tax practices, and demonstrating strong commitment to environmental and social responsibility.

3. Objective Investment Restrictions

Our investment restrictions apply to measurable company activities through turnover thresholds. Companies deriving more than 10% of their turnover from the following activities are excluded from investment:

3.1 Environmental Impact: We exclude investment in companies involved with the extraction or production of energy from oil shale or tar sands, coal mining or coal-fired power generation, and oil and gas extraction, refining, or energy production. We exclude companies that are actively exploring or developing any new fossil fuel resources.

3.2 Social Impact: We exclude investment in companies deriving turnover from alcohol production, tobacco products, recreational cannabis, gambling operations, sexually exploitive entertainment, and pornography.

3.3 Peace and Security: We exclude companies involved in military weapons systems, anti-personnel mines, cluster munitions, chemical or biological weapons, and conventional weapons and ammunition.

4. Qualitative Investment Considerations

Beyond these clear restrictions, we expect asset managers to evaluate investments based on their broader impact.

4.1 Environmental considerations include a company's climate transition strategy, environmental management systems, and impact on natural resources. Asset managers must scrutinise companies' use of freshwater resources, (e.g., plastic bottled drinks production), as well as those involved in rainforest destruction or deforestation. Companies must take the Paris Climate recommendations seriously and implement clear transition pathways. We are concerned about companies that promote monocultures (agricultural practices focused on growing a single crop over large areas) or rely heavily on pesticide or herbicide use. Additionally, asset managers must examine companies' practices regarding pollution of air, waterways, or land, particularly in industries such as mining and resource extraction and must also assess companies' involvement in greenwashing practices, such as making misleading environmental claims about their products.

4.2 Social responsibility encompasses fair labour practices, diversity and inclusion across all levels, supply chain management, community impact, and tax practices. Asset managers must expect companies to demonstrate commitment to fair wages, worker safety, and equal opportunities. Companies should not exploit people either directly or indirectly through their supply chains. Asset managers should examine companies for involvement with modern slavery, defined as the exploitation of people through practices such as forced labour, debt bondage, human trafficking, and other forms of coerced work or service from which victims cannot freely leave. Asset managers should look closely at companies' marketing practices, particularly regarding products targeted at children, and their approach to making essential products and services accessible and affordable to all. Asset managers should be cognisant of companies that actively prevent unionised labour or demonstrate poor worker rights practices. Asset managers must apply heightened scrutiny to companies operating in conflict-affected regions, including the Occupied Palestinian Territory, to ensure that their human rights practices, security arrangements, and impact on local communities are not exacerbating tensions or benefiting from conflict conditions. Asset managers must examine companies' treatment of vulnerable workers, including migrant and immigrant labourers. Companies must demonstrate robust policies and practices to prevent forced labour, human trafficking, and worker exploitation throughout their operations and supply chains. This includes ensuring fair recruitment practices, preventing document retention, providing fair wages and safe working conditions regardless of immigration status, and maintaining transparent labour practices that protect all workers' rights and dignity.

4.3 Corporate governance evaluation considers board effectiveness, executive compensation, business ethics, and transparency. Companies should demonstrate good governance through fair business practices, responsible tax practices, and clear reporting. Asset managers should identify and avoid companies that utilise aggressive tax avoidance strategies or operate through shell companies and offshore arrangements.

5. Positive Investment Approach

We actively seek to invest in companies that demonstrate good practices in environmental stewardship, social responsibility, and governance. This includes companies developing sustainable solutions (such as renewable energy providers and companies researching alternative technologies), financial institutions that prioritise sustainable and ethical investments (such as banks avoiding harmful investments and those with strong ethical ratings), and companies implementing sustainable practices (such as those committed to sustainable palm oil production). We particularly value companies that invest in their people by paying wages that meet or exceed credible independent living wage benchmarks (such as the Global Living Wage Coalition standards) in all countries where they operate, with transparent reporting of their wage practices and standards. We look favourably upon companies that maintain fair trade certifications, demonstrate leadership in ethical business operations, and score well across multiple ethical measures while showing commitment to continuous improvement. We expect asset manager to consider investing in companies that have actively removed themselves from profiting from conflict, such as those that voluntarily withdrew from operations in conflict zones.

6. Implementation

We recognise that implementing these guidelines requires careful judgment. Asset managers should maintain appropriate portfolio diversification while faithfully applying these principles. Regular engagement with companies and thorough documentation of evaluation processes are essential.

7. Reporting and Review

7.1 Asset managers should provide regular reports to COSIT (or their relevant trustees) on compliance with turnover restrictions, implementation of qualitative guidelines, engagement activities, and progress in positive impact investing. These reports should include practical recommendations for improvement.

7.2 The EOC will review these guidelines annually to ensure they effectively support our goal of achieving positive outcomes for people and planet through our investments and evolve them as new issues arise that conflict with the objectives of the Five Marks of Mission.