

28. Joint Advisory Committee on the Ethics of Investment

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Chair's Foreword

1. The year under review has seen the business sector face increased pressure to take action to tackle climate change. Many companies have responded, often in contrast with slow action by governments. A number of oil and gas companies have committed to new greenhouse gas emissions targets and climate-friendly lobbying practices. There has been movement too on other ethical concerns, many of which are outlined in this report.
2. The investment sector has also embraced responsible investment to an increased extent. This development has been global, with even the International Monetary Fund, in a quarterly Global Financial Stability Report, highlighting the role of Environmental, Social, and Governance (ESG) investment criteria. In the UK, changes to pensions regulations mean pension funds now need to be more specific about the financial and non-financial ESG risks they consider in their investment strategy.
3. It is important however to understand the extent to which business and investment sectors are acting differently in practice. The evidence is mixed. For example, companies have continued to pay excessive levels of remuneration to their executives and company boards and their executive teams are often not sufficiently diverse. There is still a lack of sufficient urgency in tackling climate change, with those companies which demand energy from fossil fuels facing increasing scrutiny. In such circumstances, a Christian voice is vital, rooted in Christian values and driven by a commitment to witness to our hope in God's future.
4. The year under review ended as COVID-19 spread across the world, requiring entire countries, one after another, to lock down. The impact on the economy is likely to be significant. There are implications for ethical investors. The crisis has revealed much about different corporate cultures. How companies treat their people, at this time and as we recover, will be an important factor in judging their ethical profile. The scale of the response also shows that when urgent action is required, governments and societies can move quickly. This has implications for tackling global warming: companies and investors would be wise to take note that it is better to act sooner than be forced to take action later. Although it is disappointing that the next United Nations climate change conference, known as COP 26, has been postponed, we can hope that this delay gives governments, business, and finance the opportunity to intensify their efforts.
5. Once again, this Annual Report to the Conference has as its focus our activity advising and reviewing the work of the CFB on climate change. Most of the work in this area has

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been in response to the Methodist Conference Memorial and Reply on climate change and fossil fuel companies in 2017. We have now provided the CFB with our advice, which is summarised in this report and explained in more detail in a separate report to the 2020 Conference.

6. JACEI has concentrated on climate change at each meeting. In order to complete our report, we required two additional meetings this year. We want to express our thanks to the Central Finance Board (CFB) Investment Team, which devoted considerable resources to undertaking the work required and facilitating the work of JACEI, including the provision of secretariat services. The CFB work included assessing 17 fossil fuel companies with up to 25 different metrics, and considerable engagement with companies held in CFB funds. We were encouraged to see the CFB also conduct a range of additional engagement activities on climate change, including collaborations with other investment institutions.
7. JACEI also reviewed other CFB engagement activities during the year, which have been extensive. We examine the application of policies, the outcome of engagements, and advise on ethical dilemmas. We review the minutes of CFB internal ethical investment meetings and quarterly reports on ethical investment matters.
8. JACEI continues to welcome the role the CFB plays in supporting the Connexion in the Mining and Faith Reflections Initiative and other ecumenical engagements with mining companies. This work, bringing mining executives, church leaders, and communities together, has great potential. The CFB has been active in many other areas including human rights and human and animal welfare. It has continued to vote at company AGMs, working with other church investors.
9. Once again, JACEI members have shown themselves to be fully committed to their roles, with intellectual rigour and good humour. JACEI would also like to express particular thanks to the CFB team for the considerable work it has undertaken over the year. It has done this while successfully launching new funds for Epworth Investment Management and adapting to new regulations. In addition, as we were completing the work on climate change and writing this report, the CFB team were managing investment funds during a period of considerable market volatility while moving to working from home as the lockdown began.
10. This Report to the Conference is evidence of the oversight JACEI has brought to bear, in support of the CFB's commitment to invest ethically in accordance with the aims of the Methodist Church.

The Revd Dr Stephen Wigley
Chair, JACEI

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Executive Summary

11. Climate change

The main priority of JACEI's work this year was climate change. In particular, we focused on responding to the Conference's request to look again at fossil fuel companies in the light of the Paris Agreement to keep the average rise in temperature to "well below 2°C". Fifteen oil and gas companies were assessed and the results presented to JACEI meetings. Of these companies, JACEI advised that ten should be excluded from investment on ethical grounds. The ten recommended exclusions included companies held in CFB Epworth portfolios: ARC Resources, BP, and Total. The other companies were: ExxonMobil; EOG Resources; Conoco Phillips; Hess; Gazprom; Chevron; Woodside. Four companies held in CFB Epworth portfolios, Repsol, ENI, Equinor, and Royal Dutch Shell, were judged on the basis of this analysis to have business investment plans consistent with the Paris Agreement or at least well on the way to this. We also welcomed the considerable company engagement on climate change that the CFB was able to undertake.

Other ethical investment work

12. Mining and Faith Reflections Initiative (MFRI)

The CFB has continued to represent the Methodist Church on the steering committee of the Mining and Faith Reflections Initiative, which brings together mining executives and church leaders to discuss mining and the common good.

13. Extractive industries

JACEI reviews engagement with extractives companies regularly and we noted during the year that a number of meetings and discussions took place on a variety of issues of ethical concern.

14. Nestlé & Breast Milk Substitutes

JACEI supports the CFB's process of robust dialogue with Nestlé on BMS and other material sustainability issues, which has been applied over many years.

15. Health, well-being and farm animal welfare

Work continued on a range of issues related to health and well-being including engagements through the Access to Medicine Index and the Access to Nutrition Index.

16. Environment

JACEI welcomed the engagement undertaken relating to plastic pollution with Ted Baker and 50 global consumer goods companies through collaboration with As You Sow.

17. Employment and labour

CFB continued engagement on the Living Wage with four companies though the year. JACEI noted that the CFB attended the Workforce Disclosure Initiative Conference in June 2019.

18. Israel Palestine

Ethical investment issues relating to Israel Palestine were discussed at each JACEI meeting during the year. The CFB Overseas Fund sold its holding in Heidelberg Cement for investment reasons and we do not expect the CFB to purchase shares again before asking us to update our advice.

19. Human rights

As members of the Church Investors Group, the CFB participated in the launch of the 'Find It, Fix It, Prevent It' investor initiative which is currently focusing on a selection of companies within the UK hospitality sector. The aim of the initiative is to take a more targeted approach to engaging with companies on modern slavery, based on the assumption that it exists in most supply chains.

20. Tax Justice

The CFB met with the Fair Tax Mark to learn more about the approach it takes to encourage companies to become accredited. The Fair Tax Mark certification scheme was launched in February 2014, and seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place.

21. CFB voting and executive remuneration

The CFB is part of the Church Investors Group (CIG) proxy voting coalition, which integrates diversity and climate change, among other issues, into its voting decisions. The CFB's quarterly voting summaries are reviewed at JACEI meetings. These summary reports are available on the CFB website, with the full voting report available on request.

22. The UK Stewardship Code

CFB has maintained its accreditation as a Tier I signatory to the *UK Stewardship Code* as determined by the Financial Reporting Council. There are significant changes coming to the UK Stewardship Code, which come into place in 2021. The CFB is working to maintain its Tier I signatory status under the new recommendations.

23. Principles of Responsible Investment (PRI)

CFB has been a member of the PRI for many years. JACEI commended CFB for again achieving the highest score (A+) for strategy and governance.

24. The Church Investors Group (CIG)

The CFB closely collaborates with the ecumenical Church Investors Group, which works

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to promote ethical investment for the public benefit. The CFB Chief Investment Officer serves as Vice-Chair of the CIG.

25. Communication

All CFB publications including quarterly responsible investment reviews, voting summaries, Position Papers and Policy Statements are available on the CFB and Epworth websites in keeping with a strong tradition of full transparency.

26. The CFB ethical review

JACEI's responsibility to the Conference includes a resolution that CFB Funds are managed in support of an ethical stance *which is in accordance with the aims of the Methodist Church*. It regularly reviews CFB performance across a range of reports and reviews.

Governance

27. Role, function and membership of the committee

The Committee began the process agreed for appointing new members. The current membership and the Standing Order are set out in the Governance section.

Conclusion

28. The Committee judges that the CFB has managed the funds under its control in support of an ethical stance which is in accordance with the aims of the Methodist Church.

29. In arriving at this conclusion the Committee scrutinised compliance with CFB ethical policies through the:

- voting record of the CFB;
- ethically excluded lists of UK and European companies;
- monthly ethics meeting minutes of the CFB;
- company engagement record of the CFB;
- Trucost review of the CFB UK portfolio carbon footprint;
- CFB participation in the **Church Investors Group (CIG)** and collaboration with **Wespath Benefits and Investments** (the United Methodist Church pension, benefits and investment agency);
- CFB participation in the **Institutional Investors Group on Climate Change (IIGCC)**; **CDP** (formerly the Carbon Disclosure Project); the **TPI** (Transition Pathway Initiative); **Climate Action 100+**; the **Principles of Responsible Investment (PRI)**; **Access to Medicines Index (ATMI)**; **Access to Nutrition Index (ATNI)**; **Business Benchmark on Farm Animal Welfare (BBFAW)**; **Farm Animal Investment Risk & Return (FAIRR)**; the **Workforce Disclosure Initiative (WDI)**; the **Corporate Human Rights Benchmark (CHRB)**; the **Plastic Solutions Investor Alliance**.

***RESOLUTION

28/1. The Conference receives the Report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2020.

For more detail on the issues contained within this Summary Report, and other matters considered by JACEI, please refer to the full 2020 Report which can be found on the CFB website along with all Position Papers and CFB Policy Statements.
www.cfbmethodistchurch.org.uk

Governance: Role, Function and Membership of the Committee

The Joint Advisory Committee on the Ethics of Investment (JACEI) was established in 1983 by a Resolution of the Methodist Conference to provide a mechanism for the Methodist Church to tackle ethical dilemmas associated with investment and to report annually to the Conference.

Terms of reference

The Joint Advisory Committee of the Ethics of Investment shall have a Chair appointed by the Methodist Council who should be able to represent Methodism at a senior ecumenical level. This position has to date always been filled by a District Chair

The Committee shall have five members appointed by the Central Finance Board of the Methodist Church (CFB) and five members appointed by the Methodist Council. The function of the Committee shall be:

- *To advise the CFB of ethical considerations relating to investment, it being accepted that the CFB legally has responsibility for making the final decision on the purchase or disposal of any investment;*
- *To act as an advocate, where appropriate, in respect of any ethical policy of the CFB, any investment decision taken on ethical grounds, and any other advice the Committee may provide on ethical matters relating to investment;*
- *To report to the Methodist Conference on the workings of the Committee and in particular to comment on the performance of the CFB in managing the funds under its control according to an ethical stance which is in accordance with the aims of the Methodist Church;*
- *JACEI may comprise both executive and non-executive members, with the expectation that the CFB and Methodist Council may each nominate one executive officer to be a Member of JACEI;*

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- *Each non-executive member appointed by either the CFB or by Methodist Council shall be eligible to stand for membership for up to two successive terms of three years, up to a maximum of six years in total;*
- *Members, on the completion of each three-year term, may stand down, be asked to stand down, or be asked to give their assent to continue to serve up to the normal maximum of six years. Their re-appointment shall be recorded in the Minutes; executive members of JACEI representing the CFB and Methodist Council shall have no upper limit to their terms;*
- *The Committee, may agree to a non-executive member, including the Chair, serving for an additional period of up to three years at the completion of any six-year term, to facilitate continuity of the Committee's business;*
- *A Minute shall be taken of any meeting of the Committee, approved by JACEI members, and signed as a true and fair record of proceedings by the Chair;*
- *The Committee shall appoint a Secretary to act on its behalf.*

Standing Order

The following Standing Order relating to JACEI was approved by the 2019 Methodist Conference.

- (1) *There shall be a Joint Advisory Committee on the Ethics of Investment, appointed annually in accordance with clause (2) below.*
- (2) *The committee shall consist of eleven persons and shall comprise:-*
 - (i) *a chair appointed by the Methodist Council;*
 - (ii) *five other persons appointed by the Methodist Council;*
 - (iii) *five persons appointed by the Central Finance Board;*
- (3) *The committee shall meet as frequently as need be, but in any event at least once a year.*
- (4) *The committee shall be responsible for advising the Central Finance Board on ethical aspects of investments, and proposed investments, and shall report annually to Conference.*

Responsible investment reporting requirements

In September 2018 the UK Department for Work and Pensions announced that it will legislate to clarify and strengthen pension trustees' investment duties, with particular reference to "environmental, social and governance considerations" (including but not limited to climate change) and also the stewardship of the companies they invest in.

The new legislative requirement defines 'non financial issues as "*the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to*

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social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme". These new requirements apply from 1 October 2019, with publication of implementation statements applying from 1 October 2020.

The CFB is investment manager, through its subsidiary Epworth Investment Management Ltd, to large pension funds that use the JACEI Conference Report as part of their assessment of compliance with their ethical and responsible investment policies. The report should therefore enable trustee bodies to assess clearly whether the CFB, and its subsidiary, Epworth Investment Management Limited, have operated in a way consistent with the aims of the Methodist Church.

The CFB has been a signatory to the UK Stewardship Code since its inception, and updates this annually. Its most recent Statement disclosure is available at www.cfbmethodistchurch.org.uk.

The CFB is rated a Tier I Signatory to the Code by the Financial Reporting Council (FRC).

JACEI procedures

The Committee has agreed it should:

- Hold at least four meetings a year;
- Have its own identity with a postal and electronic address located within the Connexional Team at Methodist Church House;
- Advise the CFB and its subsidiary Epworth Investment Management Ltd in relation to Methodist Church policy in respect of ethical and responsible investment;
- Examine all aspects of a company's operations rather than focus on one particular issue;
- To act as an advocate, where appropriate, in respect of any ethical policy of the CFB, any investment decision taken on ethical grounds, and any other advice the Committee may provide on ethical matters relating to investment;
- Seek ways to make the advice provided by the Committee available to the wider Methodist Church.

Observers

Observers, particularly those representing other church denominations and/or organisations may attend meetings of JACEI at the invitation and agreement of the Chair and Committee.

The Methodist Church in Ireland has permanent observer status to attend meetings of JACEI.

Observers may be invited to speak and participate in discussion, but may not vote.

Quorum

For the purpose of conducting meetings of JACEI, a quorum shall be deemed as being four

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members including the Chair. At least three members of any quorum including the Chair should be non-executive representatives.

Conduct of business

JACEI business may be conducted electronically before, between and following meetings. Any decisions arising from remote and electronic communication shall be noted by the Secretary and made available to all members.

JACEI agendas

JACEI receives at each meeting:

- the work-plan
- one or two major items for debate, usually Position Papers and Policy Statements either previously agreed by the Committee or requested by the CFB;
- other significant matters for discussion (including climate change and extractives industries as standing items);
- CFB engagement, including company notes and briefings;
- a CFB ethical performance review including voting summary reports, ethical exclusions and a note of any disinvestment on ethical grounds;
- a note of any significant collaborative engagement work.

The Committee confirms it:

- ✓ held five meetings; in 2019/2020 five meetings took place in June, September, December, February, and March, with an additional meetings in April 2020 to finalise Conference reports;
- ✓ has its own identity with an address located at Methodist Church House;
- ✓ advised the CFB in relation to current Methodist Church policy;
- ✓ examined all aspects of a company's operations rather than simply focus on one particular issue;
- ✓ took responsibility, where appropriate, for making public any ethical policy of the CFB and in particular any investment decision taken on ethical grounds, and;
- ✓ sought ways to make the advice provided by the Committee available to the wider Methodist Church.

The Committee receives and reviews the CFB work-plan at every meeting, which sets medium-term policy priorities.

Committee membership The Committee began the process agreed for appointing new members, in coordination with the CFB and the Methodist Council. This will lead to a natural rotation of members appointed by both bodies over the period 2019-21.

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The Revd Dr Stephen Wigley is Chair of the Committee. He assumed the role of Chair on 1 July 2016.

The JACEI Chair is independent, usually nominated from among the membership of the District Chairs, and appointed by the Methodist Council.

Members appointed by the Methodist Council are:

- The Revd Dr Sheryl Anderson
- Professor Brian Gennery
- Ms Alison Jackson
- Ms Rachel Lampard
- Mr Chris Moorhouse

Members appointed by the Central Finance Board (CFB) are:

- Dr Keith Aldred
- Mr Stephen Beer
- Mr Alan Emery
- Rev Anne Ellis
- Mr Terry Wynn

Mr David Hopley attends as a representative of the Trustees of the Methodist Church in Ireland, which has Permanent Observer status on JACEI.

Mr Richard Nunn, Chair of the United Reformed Church Ministers' Pension Trust Ltd attends JACEI as an observer.

In attendance from time to time to facilitate the workings of the Committee were: Mr David Palmer, Mr Miles Askew, Mr Harold Evans, Mr Matthew Jones, Mr Steve Hucklesby and Ms Sophie Forrest.

Ms Ashma Ponniah and Ms Janice Curd have acted as JACEI Minutes Secretary.

The Committee has a reciprocal arrangement with the Church of England Ethical Investment Advisory Group (EIAG) whereby representatives of JACEI and the EIAG attend as observers of each other's meetings and exchange Minutes.

Mr Stephen Barrie (acting secretary to the EIAG until September 2019) attended JACEI meetings in this capacity during the year, and Ms Anna MacDonald, attended from September 2019 as the new secretary to the EIAG. Mr Stephen Beer attended meetings of the EIAG.

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Enquiries about the Committee's work are encouraged, with letters to be addressed to the Committee's Chair c/o 25 Marylebone Road, London NW1 5JR, or by email to: jaceichair@methodistchurch.org.uk.

The CFB may be contacted through Mr Christophe Borysiewicz at 9 Bonhill Street, London EC2A 4PE. Telephone: 020 7496 3630 or email christophe.borysiewicz@cfbmethodistchurch.org.uk.