

23. The Methodist Church Joint Advisory Committee on the Ethics of Investment (JACEI) – Summary Report

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Chair's Report

The World Economic Forum Global Risks Report, published annually, is a respected and comprehensive appraisal of the key risks facing the world. For the first time, the 2016 assessment places the failure to mitigate and adapt to climate change as the single most pressing risk facing the world in terms of impact. Extreme weather events and failures associated with climate change are assessed as the second and third biggest risks in terms of likelihood.

2015 was a momentous year with the COP21 Paris Climate Change talks deemed a success. In addition, the BP and Shell shareholder resolutions on climate change resilience, co-filed by the Central Finance Board (CFB), were adopted by an overwhelming majority. The success of this *Aiming for A* initiative will, we hope, be repeated in 2016 when the extractives sector is targeted and, once again, the resolutions have gained the support of the company boards.

Without doubt the most significant aspect of our work over the past year related to the new Policy Statement, *Ethical Implications of Different Fuel Sources*, which JACEI drafted, the CFB adopted, and was then implemented. This resulted in the sale of three companies including Glencore.

At every JACEI meeting climate change is now a major agenda item. We not only review the work of the CFB, but the latest thinking and key literature to inform our advice.

We have been mindful of the strong interest expressed by the Conference. Seeking to address concerns expressed by the 2014 Conference, a report, *Fossil Fuels and Ethical Investment*, was received by the 2015 Conference.

Climate change rightly dominates this Report, but it is far from the only subject that commands our attention. Each JACEI meeting contains a range of issues and concerns addressed by the CFB in its day to day work.

This Summary Report particularly acknowledges the amount of work undertaken in support of the Living Wage Campaign. The CFB has been active in this area since 2011, and a review of its work conducted during the year showed it has been a significant success, with 47% of the 19 targets either being in near compliance or becoming accredited Living Wage employers.

2015 saw the roll out of a unified Church Investors Group (CIG) global voting template and policy, with members benefitting from an arrangement to use a single service provider, ISS. This has been a long-held aspiration, and has taken some time to bring to fruition. It means for the first time that Church of England, Methodist and other CIG members will vote at company meetings with one voice so as to maximise our influence, particularly on executive pay.

CFB is signatory to a number of industry initiatives such as Access to Medicines, Access to Nutrition, Business Benchmark on Farm Animal Welfare and the Extractives Industry Transparency Initiative. Our Report sets out how we use these and factor their findings into our engagement.

CFB is a signatory of the Principles for Responsible Investment (PRI), and with extra resource committed, we hope to make more use of the international network of investors to engage on global

environmental, social and governance issues. We were heartened that CFB received the highest overall rating of A+ for its process and performance.

Other issues that have seen focus this year include water risk (leading a CIG water engagement initiative), human rights and trafficking, exposure to Israel/Palestine and engagement with Nestlé. Noting the interest expressed by the Conference in this work, we provide more detail this year on how we engage with Nestlé and the benefits of close engagement with the company.

A new issue we have grasped this year in response to a Church Action on Poverty report is funeral poverty. Funeral costs have risen sharply, bringing along with bereavement, the risk of being plunged into serious long term debt. We see this as a strong issue of social justice and have engaged with the UK's largest provider of funerals encouraging them to adopt the *Fair Funerals Pledge*.

Executive Summary

Climate change

JACEI took particular note of the debates and decisions of a number of items of business that related to climate change and investment at the 2015 Conference. As part of our commitment to consultation and dialogue a *Fossil Fuel Forum* has been arranged to help us discern a direction of travel in response to changing circumstances.

Climate change has once again been the most significant issue on our agenda over the past year. On our advice, the CFB approved its new policy *Ethical Implications for Different Fuel Sources*, which included avoiding companies significantly exposed to thermal coal and oil sands. As a result the CFB added nine companies to its ethical exclusion list, three of which were held. These have now been sold.

JACEI particularly noted the extensive CFB engagement with companies on climate change issues, including through the Church Investors Group CDP (formerly the Carbon Disclosure Project) laggards programme and the investor coalition *Aiming for A*, in which it took the lead in co-filing a shareholder resolution at the Anglo American AGM. The CFB continued to measure the carbon footprint of its UK portfolio, which remains lower than the Index and invested positively through 'green bonds'.

Extractives and the Mining Reflections Initiative

The *Mining Reflections Initiative*, which brings together mining executives and church leaders to discuss sustainable mining, remained a high priority. The CFB participated in visits to mines in Peru and South Africa, whilst preparations are in hand for a Global Day of Reflection in 2017. JACEI noted with concern the Samarco mine disaster, but was encouraged by the operator's swift and compassionate response. Meetings occurred with a range of extractives companies to discuss health and safety, community and environmental issues.

The living wage and funeral poverty

JACEI reviewed progress over five years of working on living wage engagement. This concluded that in 62% of targeted engagement a notable shift in position occurred. The CFB was encouraged to continue working with Share Action on a targeted programme. JACEI welcomed the constructive CFB dialogue with Dignity on adopting the Fair Funerals Pledge.

Water risk

CFB, which leads the CIG engagement project on water risk, identified 37 companies where water stress appears to be a strategic or operational risk. The CFB is urging participation in the annual CDP Water Survey and more disclosure around water management and conservation. Early responses

have been encouraging with several companies indicating they will now participate in the next survey request

Nestlé

JACEI remains strongly committed to a process of robust dialogue with Nestlé on breast milk substitutes (BMS) and on a range of other material sustainability issues such as child and adult nutrition. JACEI believes that the comprehensive nature of its engagement over the course of the year provides strong evidence that its advice on Nestlé continues to be firmly grounded.

Tax justice and financial ethics

Tax Justice was also considered at the Conference and we will need to report back on progress by 2018. This is a huge subject best approached in partnership with others. We therefore welcomed an evolving consensus for reform initiated by the G7. JACEI has maintained its focus on the banking sector as the industry recovers from multiple scandals, meeting with HSBC and RBS. The Committee began to look at corporate lobbying as an area of potential poor behaviour lacking disclosure and transparency.

Israel-Palestine

CFB engaged with Volvo and Heidelberg Cement regarding activities in the Occupied Territories. JACEI noted final confirmation that Veolia had exited all of its Israeli interests. A review showed that no other direct CFB holdings are exposed to Israeli settlements.

Human rights

An encouraging response was received from British Airways as part of CFB engagement with airlines over trafficking. The CFB joined a coalition of investors in signing an Investor Statement calling on companies to improve disclosure on integrating the UN Guiding Principles Reporting Framework into risk management. SOCO International was added to the CFB excluded list for failing to meet its environmental and human rights standards.

Farm animal welfare

JACEI noted that engagement with Compass Group and Whitbread around their poor rating in the 2015 Business Benchmark on Farm Animal Welfare resulted in a marked improvement by both in the 2016 Benchmark. The CFB were part of the panel that launched the 2016 Benchmark results.

CFB voting and executive remuneration

JACEI places high importance on the CFB exercising its voting rights as part of its shareholder stewardship. It uses the CIG global voting template agreed collaboratively with other UK churches. The CFB takes a robust position on executive remuneration, voting to oppose packages deemed to be excessive and writing to explain our objections.

The Church Investors Group (CIG)

The Committee considers that the CFB collaboration with the CIG is making an increasingly important contribution to the impact of faith-based investment. CIG takes a key role in coordinating faith-based responses on a variety of issues.

For more detail on the issues contained within this summary report, and other matters considered by JACEI, we recommend referring to the full 2016 Annual Report on the CFB website, along with all Position Papers and CFB Policy Statements. www.cfbmethodistchurch.org.uk

Conclusion

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

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 and EIRIS reviews of the CFB UK portfolio carbon footprint;
- participation of the CFB in the Church Investors Group (CIG); the Institutional Investors Group on Climate Change (IIGCC); CDP (formerly the Carbon Disclosure Project); the Principles for Responsible Investment (PRI); Access to Medicines Index (ATMI); Access to Nutrition Index (ATNI); Business Benchmark on Farm Animal Welfare (BBFAW), and the Extractives Industry Transparency Scheme (EITI);
- collaboration with Wespeth (the investment arm of the General Board of Pensions and Health Benefits of the United Methodist Church).

Constitution of the Committee

The need to appoint a new Chair of the Committee led to consideration of the process of appointing a successor. A job description was approved by the Committee. However, it was noted that JACEI is not presently constituted by Standing Orders. Consequently, the Conference Office drafted a proposal that covered: terms of reference; terms of appointment of committee members, and the reporting requirements of the Committee to the Methodist Conference. These were reviewed and agreed by the Committee.

***RESOLUTIONS

23/1. The Conference received the Report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2016.

The Conference gave permission for Resolution 23/2 to be withdrawn (Daily Record 3/19/1)

Drafted as follows:

23/2. The Conference amends Standing Orders as follows:

233 (1) The Conference shall each year appoint, upon the nomination of the Methodist Council, a Joint Advisory Committee on the Ethics of Investment, having the constitution and responsibilities specified below.

(2)The Committee shall consist of eleven persons and shall comprise:

- i) a chair, who shall be a Chair of District;*
- (ii) five persons nominated by the Central Finance Board;*
- (iii) five persons with relevant skills or experience, nominated by the Methodist Council.*

(3) The Committee shall meet as frequently as needs be, but in any event, at least once a year.

(4) The Committee shall be responsible for:-

(i) advising the Central Finance Board on ethical aspects of its investments and proposed investments, and

(ii) reporting annually to the Conference its judgment as to whether the Central Finance Board has managed the funds under its control in accordance with ethical policies approved by the Conference, and

(iii) advising the Conference on ethical issues concerning the investments being proposed or made by the Central Finance Board.

Appendix - Role and Function of the Committee

Terms of reference

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 report annually to the Conference. Its terms of reference, which were last revised in 2001, are as follows:

The Joint Advisory Committee of the Ethics of Investment shall have a Chair appointed by the Methodist Council. 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 share;*
- to make public where appropriate any ethical policy of the CFB and in particular 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 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.*

Socially responsible investment (SRI) reporting requirements

In July 2000 regulations came into force obliging pension funds to consider their policy, if any, on SRI. In April 2005 similar requirements were extended to charities under the SORP guidelines. The UK Stewardship Code, published in July 2010, provides further clarity on reporting by investors. The CFB is investment manager to large pension funds that use the JACEI Conference Report as part of their assessment of CFB compliance with their SRI policies. The report should therefore enable trustee bodies to assess clearly whether the CFB has 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 in 2012, and its 2016 Statement disclosure is available at www.cfbmethodistchurch.org.uk

JACEI procedures

The latest procedural amendments (2008) agreed:

That each meeting should have:

- one or two major items for debate either previously agreed by the Committee, requested by the CFB or driven by events;
- regular reporting items to keep the Committee fully informed of ethical issues relating to investment and to assist in the selection of items requiring a major debate;
- a report from the CFB on its 'ethical performance'. This would include the EIRIS screen, voting records and any divestment on ethical grounds.

That the Committee should:

- hold four meetings a year (in 2015/16 these took place in June, September, December and March);
- have its own identity with an address located at Methodist Church House;
- advise the CFB in relation to current Methodist Church policy;
- examine all aspects of a company's operations rather than simply focus on one particular issue;
- take responsibility, where appropriate, for making public any ethical policy of the CFB and in particular any investment decision taken on ethical grounds;
- seek ways to make the advice provided by the Committee available to the wider Methodist Church.

That Committee members should:

- feel free to contact the Secretary between meetings about issues of concern to them;
- email their comments on position papers or other matters to the Secretary if unable to attend a particular meeting.

Committee membership

The Revd John Howard is Chair of the Committee.

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

Mr Howard will stand down in 2016 after completing nine years as Chair.

Members nominated by the Methodist Council are:

- Professor David Clough
- Dr Brian Gennery
- Ms Alison Jackson
- Ms Rachel Lampard
- Mr Chris Moorhouse

Nominated by the Central Finance Board (CFB) are:

- Dr Keith Aldred
- Mr Alan Emery
- Revd Jennifer Potter (until June 2015)
- Mr Terry Wynn (from June 2015)
- Mr John Reynolds
- Mr Bill Seddon

The Revd Winston Graham attended as a representative of the Trustees of the Methodist Church in Ireland.

He stood down in December 2015 and was succeeded by the Revd Dr John Stephens.

In attendance from time to time to facilitate the workings of the Committee were: Mr Stephen Beer, Mr Christophe Borysiewicz, Mr Miles Askew and Mr Steve Hucklesby.

Ms Kate McNab is the JACEI Minutes Secretary.

Mr Neville White is the JACEI Committee Secretary who can be contacted at:

neville.white@cfbmethodistchurch.org.uk

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 Adam Matthews, (Secretary to the EIAG) attended JACEI meetings in this capacity during the year.

Mr Bill Seddon and Mr Stephen Beer attend meetings of the EIAG.

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

Enquiries about the Committee's work are encouraged, with letters to be addressed to the Committee 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, tel: 020 7496 3630 or email: Christophe.borysiewicz@cfbmethodistchurch.org.uk