

15. Joint Advisory Committee on the Ethics of Investment (JACEI) – Summary Report

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Chair's Report

2016 was marked by political and economic uncertainty following the UK EU Referendum result and the outcome of the US Presidential election. The latter in particular raises questions as to whether global progress on climate change is maintained – or stalls. It is perhaps too early to tell, but there is a risk that the Paris Agreement which came into effect in November 2016 suffers a worrying setback in the wake of US withdrawal of support. This is important, as 2016 marked the first year in human history when every month witnessed atmospheric carbon exceeding 400 parts per million (ppm). Irreversible or 'catastrophic' climate change, scientists believe, will set in when atmospheric carbon reaches or exceeds 450ppm.

This Annual Report sets out a year of continued reflection and engagement on climate change, which included the Methodist Church becoming a founding partner of the Transition Pathway Initiative and a signatory to the UN Montréal Pledge on portfolio carbon footprint disclosure.

At every meeting of JACEI, climate change is a major agenda item where the work of the Central Finance Board of the Methodist Church (CFB) is reviewed, as well as latest thinking and key literature.

Elsewhere, the work of JACEI has continued to cover a range of social justice issues such as funeral poverty and modern slavery, as well as more pioneering ethical investment issues such as farm animal welfare. We note that CFB intends to develop policy work in this area during 2017, the first UK church to do so.

A new area of engagement focus during 2016 concerned corporate lobbying. Whilst often legitimate, lobbying can nevertheless be secretive and much misunderstood. Using the results of a Transparency International report, CFB challenged 14 UK companies on their lobbying practices, with a view to improving public transparency. This has had good results with several companies showing real leadership in the way lobbying is carried out and communicated to stakeholders.

A principal area of policy work in 2016/2017 concerned refreshment of the 2005 Food and Beverages Policy, now newly focused on health, nutrition and wellbeing. The Position Paper published in March 2017 outlines the biblical and Wesleyan traditions as regards food and health, and goes on to scope the various ethical issues associated with it.

The Policy, which will be focused on engagement, will seek to encourage companies to provide healthy, affordable choices, and to refresh or fortify recipes where either undernutrition or diet-related obesity is a concern.

CFB encourages ecumenical and investor collaboration to benefit responsible investment; this has been achieved principally through the Church Investors Group (CIG), which has now grown to 59 members. Using the CIG Voting Template, proxies are cast ecumenically, so that CFB and Church of England voting decisions are aligned. CIG has very publicly announced its members will be taking even more robust action against excessive executive pay during the 2017 proxy voting season.

There is much in this Summary Report that we trust will encourage the Conference. Ethical and responsible investment has been a key priority for the CFB and for the Church for many years. The Committee takes its role and responsibility seriously and to that end, re-affirmed its purpose and practice by holding a Strategy Day in February. Members are tasked with providing oversight and

expert input on a range of complex ethical dilemmas affecting social justice and they do this with diligence and humour. I would like to thank all my colleagues on JACEI for their time and commitment to this important work.

However, there are two people in particular to whom special thanks are due. The first is the Revd John Howard who led JACEI for nine years as Chair and who stepped down in June. John led the Committee during a time in which the number of issues the Committee had to review grew significantly. We are greatly indebted to his wise chairing and careful stewardship over this period.

The second is Mr Bill Seddon who retired as Chief Executive of the CFB at the end of 2016. For over three decades, Bill has shown unwavering commitment to the principles of ethical investment exercised as Christian witness on the Church's behalf. The strong reputation Methodism has for investment ethics, begun by Charles Jacob CBE and Brian Brown, has been most ably continued and nurtured by Bill in his senior roles at the CFB. We wish him a long and happy retirement which comes with our sincere thanks.

Executive Summary

Climate Change

2016 saw continued focus on climate change following the introduction of the CFB Policy on 'Different Fuel Types'. During the year, CFB became a signatory to the UN Montréal Pledge, and fully disclosed its portfolio carbon footprint in compliance with the Pledge. JACEI welcomed the collaborative Transition Pathway Initiative in which CFB was a founding supporter. Papers on oil sands and fracking were received, and engagement took place with key companies including electricity generator SSE.

Thinking has begun concerning the influence of the financial sector in providing funding for fossil fuel projects. Climate change is fully integrated into proxy voting, whereby CFB will vote to oppose the Report and Accounts where the company is perceived to be a climate change laggard.

Extractives and the Mining and Faith Reflections Initiative

JACEI followed developments in the *Mining and Faith Reflections Initiative*, which brings together mining executives and church leaders to discuss sustainable mining. Preparations are in hand for a major day of reflection later in 2017, and constructive meetings were held during the year including further mine visits. JACEI continually monitored the situation following the Samarco mine disaster in Brazil, and noted the action BHP Billiton, one of the joint venture partners, had taken. JACEI will continue to monitor the company's response.

Ethical Issues in the Food and Beverage Industry

A Position Paper was approved scoping ethical issues in the food and beverage sector connected with health, nutrition and wellbeing. Subsequently, a Policy Statement was recommended to the CFB for approval. The Policy will replace an earlier one dating from 2005 as well as the specific Policy on Nestlé and Breast Milk Substitutes.

Nestlé and Breast Milk Substitutes (BMS)

JACEI remains strongly supportive of a process of robust dialogue with Nestlé on Breast Milk Substitutes (BMS), and monitors the engagement process closely. JACEI welcomed the addition of Danone into the FTSE4Good Index after it met the qualifying standard on BMS.

Corporate Lobbying

A new strand of work saw CFB engaging with 14 companies on their approach to lobbying. Whilst often legitimate, inadequate transparency can be an impediment to trust. The initial round of engagement resulted in some promising responses, and this work continues.

Funeral Poverty

This strand of social justice work came to an end with a very constructive response from the Co-operative Group setting out their commitment to the Fair Funerals Pledge.

Water Risk

CFB leads the CIG engagement project on water risk and completed the final round of engagement with 37 companies where water stress appears to be a strategic or operational risk. The project has resulted in several companies improving disclosure. CIG is now reviewing whether to repeat the exercise in 2017.

Israel-Palestine

A refreshed Israel-Palestine Policy was approved by the CFB during the year. Engagement continued with Unilever and Heidelberg Cement regarding activities in the Occupied Territories.

Modern Slavery and Human Rights

Companies are now required to report under the Modern Slavery Act, and CIG has taken up this important work. Meetings were held with several companies to discuss their Modern Slavery statements and their approach to supply chain auditing from a trafficking risk perspective.

Farm Animal Welfare

CFB became a signatory to the groundbreaking *Investor Statement on Farm Animal Welfare*. Engagement took place with companies that had not improved their ranking in the *Business Benchmark on Farm Animal Welfare* (BBFAW), and also on the routine use of antibiotics in the food supply chain. CFB expects to progress a Position Paper on Farm Animal Welfare during 2017.

CFB Voting and Executive Remuneration

The collaborative CIG voting template is supported by CFB with all UK and European voting executed by our service provider, ISS based on the template. A robust approach to executive remuneration continues with CFB opposing executive pay proposals where these are deemed excessive.

The UK Stewardship Code

CFB was accredited a Tier I signatory to the *UK Stewardship Code* by the Financial Reporting Council.

Principles of Responsible Investment (PRI)

JACEI commended CFB for achieving the highest score (A+) for strategy and governance as part of the annual reporting cycle.

Church Investors Group (CIG)

The Committee considers that CFB collaboration with 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 and now comprises 59 UK and international faith members. A fourth International CIG Conference was held in June 2016.

JACEI Strategy Day

In February, the Committee held a Strategy Day to reflect on the purpose of its work and how its service on behalf of the Church can be strengthened.

For more detail on the issues contained within this summary report, and other matters considered by JACEI, we recommend referring to the full 2017 Annual Report which can be found 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 Institutional Investors Group on Climate Change (IIGCC); CDP (formerly the Carbon Disclosure Project); the Principles of 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) and the Church Investors Group (CIG).

*****RESOLUTION**

15/1. The Conference received the report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2017.

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 to 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.*

SRI Reporting Requirements

In July 2000 regulations came into force obliging pension funds to consider their policy, if any, on socially responsible investment (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 2017 Statement disclosure is available at www.cfbmethodistchurch.org.uk.

The CFB is rated a Tier 1 signatory to the Code by the Financial Reporting Council (FRC).

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 2016/2017, 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.

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

The Revd John Howard's term of office concluded in June 2016.

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

Members nominated by the Methodist Council are:

- The Revd Dr Sheryl Anderson (from 1 April 2017)
- Professor David Clough (until 31 March)
- Dr Brian Gennery
- Ms Alison Jackson
- Ms Rachel Lampard
- Mr Chris Moorhouse

Nominated by the Central Finance Board (CFB) are:

- Dr Keith Aldred
- Mr Stephen Beer (from 1 January 2017)
- Mr Alan Emery
- Mr John Reynolds (until 31 May)
- Mr John Sandford (from 1 December 2017)
- Mr Bill Seddon (until 31 December)
- Mr Terry Wynn

The Revd Dr John Stephens attends as a representative of the Trustees of the Methodist Church in Ireland.

In attendance from time to time to facilitate the workings of the Committee were: Mr David Palmer, Mr Christophe Borysiewicz, Mr Miles Askew, Mr Steve Hucklesby and Ms Sophie Leake.

Ms Ashmar Ponniah is the JACEI Minutes Secretary.

Mr Neville White is the JACEI Secretary. He 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, Mr Stephen Beer and Mr David Palmer attended 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'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.