

## 10. The Methodist Church Joint Advisory Committee on the Ethics of Investment

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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. This report covers the 12 months to 31 March 2014.

During this period, the Committee took forward two policies, completing work on a *Gambling Position Paper* and *Policy Statement*, and an important extension of our work on climate change that has led to a *Position Paper* and *Policy Statement* on the electricity generation industry.

The impact of fossil fuels has been uppermost in our minds this year, and the Committee devoted much of its time to climate change. Whilst the Central Finance Board's (CFB) portfolio carbon footprint is commendably smaller than that of its benchmark, the FTSE All Share Index, we are aware of the need to support moves to a lower carbon economy and share the frustration of many at the slow progress towards international agreement. We are aware of the campaigns for fossil fuel divestment, and the belief of those supporting the campaign that this is necessary in order to meet the targets for reducing emissions set out in the Conference statement *Hope in God's Future*. Realistically the world will be dependent on fossil fuels for some time to come, but the investment in the transition to a low carbon economy must begin now. This report shows how much work we have devoted to the subject and the importance we attach to it.

Although climate change has been the 'big issue' it is far from being the only issue we have considered. Ethical investment remains complex and challenging which was demonstrated tragically last April by the collapse of the Rana Plaza complex, Bangladesh, killing over 1,000 people. The cause was an unsafe building, which raised the question of how far should companies be held responsible for the structural integrity of buildings they do not own but where their products are made. The scale of the tragedy led to prompt action to develop a legally binding accord that seeks to ensure building safety in future. This may well save lives and we commend it.

At home, 2013 was the year in which pay justice and growing pay inequality stole the headlines, but it also saw encouraging progress in companies adopting the Living Wage. CFB engaged with more companies than ever before, making it a core strand of its work on investment ethics. JACEI also welcomed the CFB Council asking for advice in relation to the high interest lending sector given the profile of pay day loan companies and the hardship they can engender. We will progress this work during 2014.

We have long viewed collaboration with other church investors as a key strength of the CFB approach to ethical investment, and welcomed further ecumenical activity during the year. The CFB and other Church Investors Group (CIG) members routinely collaborate at company engagement meetings, which sends a powerful message to companies of the seriousness of our combined approach. Extending this internationally is now a key focus for the CIG. Reaching out to overseas church investors continued through a pioneering two-day conference held over the summer. JACEI meetings continue to benefit from the participation of colleagues from the Church of England, the United Reformed Church and the Methodist Church in Ireland.

Investment in extractive industries continues to exercise much attention, and regular engagement meetings were held with all the major holdings in the CFB portfolio. In addition CFB staff travelled to China to visit some of Royal Dutch Shell's operations, and have been involved in an ecumenical process assisting the mining industry to reflect on how it can develop a more sustainable business that contributes to the common good.

We commend this report to the Conference as evidence of the breadth and depth of issues regularly considered by JACEI and as part of the CFB's commitment to invest ethically in accordance with Methodist teaching. We are always delighted to receive comments and feedback on the report itself, and on the work undertaken.

### **Executive Summary**

#### **Position Paper and Policy on Gambling**

The Committee developed a *Position Paper and Policy on Gambling* which was subsequently approved by the CFB Council and is available on the CFB website. The policy reflects changes in the way gambling is accessed and recognises the impact it has on children.

#### **Position Paper and Policy on Electricity Generation**

The Committee developed a *Position Paper and Policy on Electricity Generation* which was subsequently approved by the CFB Council and is available on the CFB website. The policy encourages disclosure and emissions reduction by energy companies, and suggests that investment in unabated coal plant would entail emissions at a level inconsistent with meeting the 2050 reduction target. Further work is on-going.

#### **Fossil Fuel Divestment Campaign**

The Committee kept abreast of the growing calls for fossil fuel divestment during the year, and supported the CFB's collaborative engagement and response to enquiries.

#### **CDP Engagement and *Aiming for A***

The Committee supported moves by the CFB to encourage corporate 'laggards' to take part in the annual Carbon Disclosure Project (CDP) survey via collaborative engagement with CIG. The CFB has been a leading supporter of the *Aiming for A* initiative and engaged with Shell and Centrica as part of the project.

#### **The Living Wage**

CFB is an accredited London Living Wage employer. Working closely with Share Action, CFB engaged with a number of companies encouraging adoption of the Living Wage. Results have been positive, with a number achieving, or working towards Living Wage status.

#### **High Interest Lenders**

CFB Council invited JACEI to conduct a review of the high interest lending sector given fears the sector is exacerbating hardship. JACEI welcomed the approach, and has agreed to assess the current body of faith-based literature on the subject with a view to developing further thinking.

#### **Textiles Supply Chain: Bangladesh**

The Rana Plaza tragedy in April concentrated attention on conditions in the Bangladeshi retail clothing sector. CFB in conjunction with the Methodist Church, supported moves by the industry to establish the *Bangladesh Fire and Building Safety Accord* which will provide a legal underpin in ensuring building safety. The CFB engaged with Associated British Foods (owner of Primark) following the collapse.

#### **Telecommunications and Pornography**

The Committee noted CFB engagement with BT Group and Vodafone Group on controls in place to protect children and vulnerable users from adult content. The fast changing nature of communications ensures this is a subject the Committee keeps closely under review.

#### **Business Ethics and Tax Justice**

2013 saw little let up in the revelations of poor corporate practice, with regulators handing down significant penalties for wrongdoing. The CFB has remained involved with several initiatives that are trying to refocus and reform capitalism. JACEI welcomed the investor template on tax justice published by Action Aid, and met with the Methodist Tax Justice Network.

### **Breast Milk Substitutes (BMS)**

The Committee keeps CFB investment in breast milk substitute manufacturers under close review. It welcomed CFB and JPIT involvement with the FTSE4Good initiative that sees companies, NGOs and investors brought together to assess compliance with FTSE4Good index criteria. Independent audits into Nestlé's policies and processes in Laos and Morocco revealed few material issues.

### **Human Rights Engagement**

The Committee noted CFB engagement with Intercontinental Hotels Group (IHG) on its proposals to develop a hotel resort in Lhasa, Tibet. IHG has progressed its thinking on human rights risk and has become a signatory to the Tourism Code, which the Committee welcomed.

### **CFB Voting and the UK Stewardship Code**

The Committee monitors CFB proxy voting decisions at every meeting, placing high importance on the CFB exercising its shareholder stewardship. The Committee noted that the CFB revised its *UK Stewardship Code Statement* during the year. The CFB takes a robust position on excessive remuneration, voting to oppose executive remuneration that fails to deliver superior performance or is deemed to be excessive.

### **The Church Investors Group (CIG)**

The Committee continues to view CFB collaboration with the ecumenical CIG as making an important contribution to the impact of faith-based investment in the UK and Ireland. 2013 saw CIG hold an impressive two-day conference that brought together investors from the UK, Europe and North America. CIG now takes a key role in co-ordinating faith based responses to climate change and fossil fuel divestment.

All CFB ethical investment policies, position statements and full reports on the items summarised here are available from [www.cfbmethodistchurch.org.uk/ethics](http://www.cfbmethodistchurch.org.uk/ethics)

### **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)**; the **Carbon Disclosure Project (CDP)**; the **UN Principles for Responsible Investment (UN-PRI)** and the **Extractives Industry Transparency Scheme (EITI)**;
- collaboration with the **General Board of Pensions and Health Benefits (GBOPHB)** of the United Methodist Church.

### **\*\*\*RESOLUTION**

**10/1. The Conference received the report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2014.**

## **Committee Membership**

The Revd John Howard is the Chair of the Committee. Mr Howard has been appointed Chair for a second six year term to 2018.

Members nominated by the Methodist Council are:

Professor David Clough, Dr Brian Gennery, Ms Alison Jackson, Mr Chris Moorhouse and Ms Rachel Lampard.

Nominated by the Central Finance Board (CFB) are: Dr Keith Aldred, Mr Alan Emery, Ms Jennifer Potter, Mr John Reynolds and Mr Bill Seddon.

There were no changes to the Committee's membership during the year.

The Revd Winston Graham 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 Russell Sparkes, Mr Miles Askew, Mr Stephen Beer, Mr Christophe Borysiewicz, Mr Steve Hucklesby, Mr James North, and Mr Paul Morrison.

Ms Kate McNab is the JACEI Minutes Secretary.

Mr Neville White is the JACEI Committee Secretary.

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A member of the Ethical Investment Advisory Group of the United Reformed Church attends as an observer, and Mr Richard Nunn attended from time to time in this role.

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 Edward Mason, Secretary to the EIAG, and Mr James Featherby, Chair of the EIAG attend JACEI from time to time in this role, whilst Mr Seddon, Mr Sparkes and the Revd John Howard attend meetings of the EIAG.

*(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](mailto:jaceichair@methodistchurch.org.uk)).*

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