

## 21. The Methodist Church Joint Advisory Committee on the Ethics of Investment - Summary Report

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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 2015.

Once again there has been wide debate in the Church and society as a whole on responsible and appropriate responses to the challenge of atmospheric climate change.

At every meeting of JACEI, climate change is a major agenda item. In 2014 the CFB Policy on Electricity Generation was applied resulting in two companies being excluded from investment, and a further two identified for focused engagement. We have further developed our thinking on the ethical implications of different fuel sources. This resulted in a Position Paper that will inform a CFB Policy Statement that should be ready later this year.

In reaching our conclusions, we have reflected on theological papers considering the ethics of investing in fossil fuels, closely followed the progress of the fossil fuel divestment campaign and reviewed the announcements by various bodies of their plans to divest.

The CFB continues to believe engagement is bearing fruitful change. A significant escalation this year saw the CFB and others co-filing shareholder resolutions at the BP and Shell AGMs in relation to their emissions reporting and portfolio resilience to climate change, both of which have been recommended by the respective Boards of BP and Shell for adoption.

Inevitably given the debate around fossil fuel divestment, climate change has dominated our agenda once again.

Hopefully, this report gives a broad flavour of the range of other ethical issues and dilemmas JACEI has had before it. There is an increasing willingness to work ecumenically on key ethical challenges and we warmly embrace partnership initiatives that seek to deliver stronger ethical business.

The Churches Investors Group (CIG) now has over 50 members and represents combined assets of more than £15bn. This is a huge achievement, and 2015 will see us working even closer as we realise a long-held aspiration of having a single proxy voting template for the UK churches. We committed to a new investor initiative in addition to the wide number already supported. The Business Benchmark on Farm Animal Welfare (BBFAW) addresses an ethical issue that has so far not been on the radars of most responsible investors. The CFB provided the Foreword to the 2014 BBFAW Report.

Pay justice has catalysed political debate. We continue to support CFB engagement efforts to encourage companies to move towards Living Wage accreditation. There has been notable success, with over 1,000 UK employers having adopted or working towards adoption, thereby significantly improving the life chances of the lowest paid in our society. Following several years of intense

company engagement, the CFB will conduct a review of its work in this area and make recommendations for next steps.

The breadth of the issues covered in this report attest to the complexities of modern responsible investment. Work has been conducted on human rights abuses in the tea industry and how airlines are monitoring and responding to the pernicious challenge of people trafficking. Work on water risk has been extended, and we remain engaged with sensitive subjects such as Israel/Palestine and Breast Milk Substitutes (BMS). The CFB is strongly represented on the FTSE4Good BMS process. Business ethics, tax, caste discrimination, high-interest lending and of course excessive executive pay have all demanded our time and attention.

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 Church thinking. We are always delighted to receive comments and feedback on the report itself, and on the work undertaken. I extend warm thanks to my colleagues who serve on JACEI for their time, commitment and contribution as well as the staff of the CFB and the Joint Public Issues Team (JPIT) who serve the Church so well.

## **Executive Summary**

### **Climate Change and Fossil Fuels**

The Committee worked collaboratively on carbon reduction engagement with CIG, on supporting *Aiming for A* and in co-filing shareholder resolutions at the BP and Shell AGMs. The Electricity Generation Policy (2013 Conference Report) was applied resulting in two companies being excluded from potential investment and identifying two more for focused engagement. In 2015 our thinking on the ethical implications of different fuel sources was further developed, resulting in a Position Paper being finalised which should result in a CFB Policy Statement being approved later in the year.

### **Extractives and Ecumenical Reflections Process**

The Ecumenical Reflections Process is a mining industry initiative seeking the help of Churches to develop sustainable business models for the common good. Building on a successful meeting convened by the Pontifical Council on Justice and Peace in 2013, the President of the Methodist Conference and the Archbishop of Canterbury co-hosted a further ecumenical day of reflection held at Lambeth Palace.

### **The Living Wage**

Working closely with Share Action, CFB once again 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**

JACEI reviewed the available literature on investment and high interest lenders and affirmed the CFB precedent to avoid investment in companies with significant exposure to this activity. The Committee noted that the Church of England policy provided helpful guidance.

### **Water Risk**

Pilot engagement on the important issue of water-related business risk saw the CFB engage with a number of companies where water represents a material direct or supply chain issue. Using the Carbon Disclosure Project (CDP) as a precedent, companies were asked to outline their approach to managing water resource risk.

## **Gambling**

The CFB engaged with ITV concerning its appetite to grow revenues from gambling and gambling-related programme sponsorship. The company provided reassurance that it went beyond legal minimum regulatory requirements and that revenues remained modest.

## **Business Ethics and Tax Justice**

The CFB and JACEI engaged with GSK regarding its ongoing corruption challenges in China, meeting with the Chairman. The Committee received a detailed scoping paper on tax justice.

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

The Committee keeps CFB investment in breast milk substitute manufacturers under close review and noted the Conference Memorial on Nestlé and the response provided by the Joint Public Issues Team (JPIT). It welcomed CFB and JPIT involvement with the FTSE4Good initiative that sees companies, NGOs and investors brought together to assess company compliance with FTSE4Good BMS index criteria.

## **Human Rights Engagement**

JACEI welcomed CFB engagement on a number of human rights issues. The CFB engaged with tea processors and producers regarding allegations of severe human rights violations in Assam, India. CFB engaged with several airlines on how complicity in trafficking can be avoided and airline response to its victims. CFB was part of an investor coalition on conflict minerals due diligence.

## **Animal Welfare**

JACEI welcomed CFB support for a new initiative focused on raising business standards in the treatment and welfare of farm animals in the food production, processing and retail sectors. The CFB was delighted to be asked to write the foreword to the latest Business Benchmark on Animal Welfare Report as a supportive investor.

## **CFB Voting and Stewardship**

The Committee monitors CFB proxy voting decisions at every meeting. It places high importance on the CFB exercising its shareholder stewardship. Significant steps were taken towards realising the ambition for the UK churches to operate a single voting template using one dedicated voting service provider. The CFB takes a robust position on remuneration, voting to oppose packages that are deemed excessive. The 2015 CFB UK Stewardship Code Statement was reviewed.

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

The Committee continues to view CFB collaboration with the CIG as making an important contribution to the impact of faith-based investment in the UK and Ireland and increasingly overseas. 2014 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.

## **Regular Reporting Items**

JACEI regularly reviews reporting items pertinent to the ethics of investment; these include alcohol and tobacco, armaments, corporate governance and business ethics, environment, medical and food safety, human rights, media ethics and pornography and ecumenical (and other) networking. JACEI also reviews the CFB quarterly voting records, ethical overview of UK sectors, the list of UK and European excluded stocks and minutes of the monthly CFB Ethics Meeting.

## **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**

**21/1. The Conference received the report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2015.**

#### ***Full Report***

*This is a summary of the full JACEI Report. The full report is available at [www.cfbmethodistchurch.org.uk](http://www.cfbmethodistchurch.org.uk) or in hard copy from: Mr Christophe Borysiewicz, 9 Bonhill Street, London EC2A 4PE, Telephone: 020 7 496 3630 or email [Christophe.borysiewicz@cfbmethodistchurch.org.uk](mailto:Christophe.borysiewicz@cfbmethodistchurch.org.uk)*

## **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.*

### **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.

### **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 2014/15 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;
- e-mail 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 the Chair of the Committee; he was appointed Chair for a second six-year term concluding in 2018.

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, the Revd Jennifer Potter, Mr John Reynolds, 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 Stephen Beer, Mr Christophe Borysiewicz and Mr Steve Hucklesby.

Ms Kate McNab is the JACEI Minutes Secretary.

Mr Neville White is the JACEI Committee Secretary, [neville.white@cfbmethodistchurch.org.uk](mailto: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 James Featherby, Chair of the EIAG, Mr Edward Mason, Secretary of the EIAG (until December 2014) and Mr Adam Matthews, (Secretary of the EIAG, from January 2015), attended JACEI meetings during the year.

The Revd John Howard, 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'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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