

# 2019 Report

The Methodist Church  
Joint Advisory Committee on the Ethics of Investment

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## Chair's Foreword

Every year the World Economic Forum (WEF) aggregates economic opinion to form the basis for its Global Risks Report. This looks at the most pressing problems facing the world in terms of their likelihood and impact. The 14<sup>th</sup> such survey for 2019 shows the unprecedented urgency of climate related risk. For the first time, environmental risks account for 60% of the most urgent risks facing the planet; extreme weather events and the failure to mitigate and adapt for climate change are ranked #1 and #2 in terms of their likelihood. The WEF bleakly states "*the world is sleepwalking into catastrophe*", given the failure of international will to make progress at the climate talks in Poland (COP24).

This Annual Report to Conference is again dominated by our extensive work of reviewing CFB analysis on climate change. The 2017 Methodist Conference requested JACEI (through Methodist Council) to examine the pace of change in the extractives sector, and actively consider disinvestment criteria, and timescales required in respect of oil and gas companies whose business plans were not aligned with the Paris Agreement on climate change. JACEI is charged with returning to Conference next year with our conclusions based on a considerable body of work produced by the CFB.

Each meeting of JACEI dedicates a significant amount of time to climate change, the pace of which has intensified in 2018/19. JACEI is pleased with progress, but has also recognised the enormous drain on resources this has inevitably had, and its impact on the completion of wider work.

This report therefore contains a detailed summary of the work overseen by JACEI on climate change in 2018 and our conclusions to date. More information will be provided when the work is completed in readiness to report to Conference in 2020.

As I reported last year, the intense focus means, necessarily, that there is less time for other ethical investment matters. Nevertheless, time was found to progress and complete three new ethical investment policies; on Fixed Income, Tobacco, and Pooled Investment Funds. Whilst the majority of ethical investment issues concern CFB's role as a shareholder, it is important to keep in mind the ethical implications of investing in other areas of the market and the Policies on Fixed Income and Pooled Investment Funds set out clearly how these are addressed.

Every JACEI meeting also dedicates time to CFB engagement on other matters; on the use of water resources; of human rights in the supply chain; accrediting to the Living Wage and increasingly, on the use of plastics. We also engage proactively with companies on the marketing of breast milk substitutes. The year in review saw us maintain our due diligence by engaging actively with companies operating in Israel and the Occupied Territories.

The CFB continued its involvement with the newly established Workforce Disclosure Project, looking at UK workplace practices, and also cemented a new partnership

with FAIRR (Farm Animal Investment Risk & Return) by joining their collaborative engagement on antibiotic resistance.

JACEI also spent time thoroughly revising its own Terms of Reference, and has established a process of Committee refreshment that will see the appointment of new members by both the CFB and Methodist Council over the next two years. Although we were unable to conclude JACEI's inclusion in Standing Orders at the 2018 Conference, we are optimistic this will be completed and regularised in 2019.

JACEI meets four times a year and always finds itself debating a very full agenda of policies, ethical dilemmas, briefing papers and engagements. We review the minutes of CFB internal ethics meetings as well as its other quarterly reports. Consequently, there is much in this report that we hope will continue to reassure and encourage Conference on the way ethical investment is closely undertaken.

JACEI members are tasked with providing oversight and input on a range of very complex ethical dilemmas affecting social justice. They continue to do this with intellectual rigour and good humour. I would like to thank all my colleagues on JACEI for their time and continuing commitment to this important work.

During the year we welcomed a new member; the Rev Anne Ellis, appointed by the CFB, and we said farewell to our Secretary and the CFB Ethics Consultant, Neville White, who stood down at the end of March after nine years.

We are always delighted to receive comments and feedback on the Report itself, and on the work undertaken.

Finally, I commend this Report to Conference as evidence of the oversight brought to bear by JACEI as part of the CFB's commitment to invest ethically in accordance with Methodist Church thinking.

**The Rev. Dr Stephen Wigley**  
**Chair, JACEI**

# Executive Summary

## Climate change

JACEI has allocated considerable time and resource as part of its commitment to Conference to agree an assessment methodology and implementation timeline. The methodology was endorsed by Conference in 2018 and a suite of internal research reports have been prepared. During 2018/19 JACEI reviewed and oversaw several CFB climate initiatives including the annual portfolio footprint exercise, participation in TPI, CA100+, IIGCC and CDP initiatives, engagement with Canadian Banks on their financing of oil sands, and co-filing a shareholder resolution on climate change at BP. (Pages 6-8)

## Policy development

### Approved and amended policies

JACEI recommended ethical investment policies on Fixed Income, Tobacco and Pooled Investment Funds during the year which were approved by CFB Council and subsequently published on the website. (pages 9-11)

## Other ethical investment work

### Mining & Faith Reflections Initiative (MFRI)

CFB has remained committed to the ecumenical Mining & Faith Reflections Initiative, which brings together mining executives and inter-denominational church leaders to discuss approaches to sustainable mining. (Page 12)

### Extractive industries

JACEI reviewed CFB activity which included meetings with several mining companies on their environmental and social performance. (Page 12)

### Business ethics

CFB divested from Danske Bank and suspended it from the approved lender list following allegations of systemic money laundering. CFB looked at Wespath's approach to investment in small arms manufacturers following a mass shooting in the USA. (Page 12)

### Nestlé & Breast Milk Substitutes

JACEI supports CFB engagement with Nestlé and welcomed the company's new focus on the 'First 1,000 Days'. Reckitt Benckiser's (RB) integration of Mead Johnson was kept under review, and JACEI noted the company's inclusion in the FTSE4Good Index, the addition of which means that there are now three BMS manufacturers in the Index. (Page 12)

### Health, wellbeing and farm animal welfare

JACEI welcomed engagement by CFB on a range of issues including management of farm animal related risk, antibiotic resistance in livestock production, and Access to Medicines. (Page 13)

### Environment

Work on plastic continued with CFB drawing up a plastics work-plan, joining an investor coalition and engaging with apparel retailers on micro-fibres. (Page 13)

### Employment & labour

Further work was undertaken on pay justice with CFB engaging with seven companies on the Living Wage. JACEI welcomed CFB's support of the Workforce Disclosure Initiative (WDI) which,

in its second year, saw over 100 companies respond to its detailed survey on workplace practices. (Page 13)

### Israel/Palestine

CFB has continued constructive engagement with Heidelberg Cement on its operation of a quarry in Area C, which it has now proposed to sell. The situation has been complex, but JACEI concluded the engagement had been worthwhile. (Page 14)

### Water risk

JACEI reviews collaborative engagement with global companies on water risk, which CFB has led since 2016 on behalf of the Church Investors Group (CIG). (Page 14)

### Human rights

JACEI welcomed a submission by the CIG to the Home Affairs Select Committee on how the Modern Slavery Act is performing. CFB engaged with tea producers on human rights abuses on tea estates, reviewed significant engagement with Vodafone on Cobalt sourcing, and welcomed Nutrien ceasing to source phosphate from Western Sahara. (Page 14)

### CFB voting & executive remuneration

CFB supports collaborative voting as part of the CIG proxy voting coalition. A robust approach to executive remuneration continues with CFB opposing executive pay proposals where these are deemed excessive. Diversity and climate change are fully integrated into voting decisions. (Page 15)

### 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. (Page 16)

### Principles of Responsible Investment (PRI)

JACEI commended CFB for again achieving the highest score (A+) for strategy and governance, in addition to other high scores, as part of the annual reporting and assessment cycle. (Page 16)

### The Church Investors Group (CIG)

JACEI commends the continued strength of collaborative effort via the 67 member CIG. The CFB Chief Investment Officer serves as Vice-Chair of the CIG. (Page 16)

### 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. (Page 16)

### The CFB ethical review

JACEI's responsibility to 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* (Page 4). It regularly reviews CFB performance across a range of reports and reviews. (Page 16)

## Governance

### Role, function & membership of the committee

The Committee thoroughly revised its Terms of Reference during the year and set in place a refreshment process for appointing new members. The current membership and proposed Standing Order are set out in the Governance section. (Page 18-21)

## Conclusion

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.

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 (11) of the CFB;
- company engagement record of the CFB;
- Trucost review 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 **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) and the **Extractives Industry Transparency Scheme** (EITI).
- collaboration with **Wespath Benefits and Investments** (the United Methodist Church pension, benefits and investment agency) and participation in **the Church Investors Group** (CIG).

## Resolution

The Conference receives the report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2019.

# Climate Change

## Climate change

The Committee devotes considerable time and attention to climate change, which is usually the main item for discussion in each meeting. In 2018, Conference approved JACEI's substantive report '*Climate Change and fossil fuels: an update*', part of JACEI's ongoing commitment to keep Conference fully apprised of progress.

We provide here a high-level summary of work undertaken in 2018/19 in readiness for reporting more fully to Conference in 2020.

## Context

Methodist Conference asked Methodist Council to request JACEI to;

- examine the pace of change in the extractives industries sector;
- in the light of the increasing urgency for more global action, continue actively to consider divestment criteria, timescales, and consultation processes required to divest from oil and gas companies;
- report to Conference 2018 with the expectation that any such company in which the Church invests has not aligned their business investment plans with the Paris Agreement target of global temperature rise well below 2 degrees, there would be a recommendation that the Church divest from such a company by Conference 2020.

JACEI continues to share the deep concern the Church has over the impact of climate change.

Last year saw Poland hosting the COP24 climate talks. These technical talks saw delegates approve the 'Rulebook' for bringing into force the Paris Agreement from 2020, and the framework for every country reporting progress from 2024. There was less agreement on how to recognise the IPCC (Inter-Governmental Panel on Climate Change) warnings of the need to work towards a 1.5<sup>o</sup> scenario. The rules for introducing country-by-country market mechanisms, a key part of the Paris architecture, were not agreed and will be taken up at the COP25 talks in Chile towards the end of 2019.

## Climate policy

The CFB was among the first faith investors to publish a Policy on Climate Change (2009). It commits the CFB to manage its portfolios to take account of climate change, reduce carbon intensity, and to engage with companies on the issue.

On JACEI's advice, the CFB has adopted additional climate change policies in two discrete areas:

- climate policy – electricity generation;
- climate policy – implications for different fuels

Companies are assessed against these policies to determine whether they are suitable for investment. As a result, a

number of companies have been excluded from investment, with extensive engagement undertaken with other companies to encourage a more far-sighted response.

Work is underway looking at the carbon impact of two further sectors: Construction and Agriculture. The latter, including forestry and other land use, accounts for around a quarter of global GHG emissions and is therefore a significant contributor to climate impact (as well as being a resource for absorbing carbon dioxide). Buildings account for around 6% of global emissions, and designing with climate in mind is therefore an important part of long-term emissions reduction.

## CFB methodology

CFB has scoped and developed a methodology for assessing companies in the extractives sector and has worked extensively during the year to present draft *résumés* for JACEI to review. The CFB methodology expects to examine companies against five strategic areas:

- the current asset mix
- capital expenditure on exploration and production
- climate strategy and governance
- positive transition steps
- decreasing absolute emissions

The *résumés* will set out the metrics used to assess each company including sources for the information used and what constitutes a rating of 'good', 'moderate' or 'poor'. Each of the five areas will be scored using a 'traffic light' system depending on the outcome of the analysis.

The level of detail being examined is such that preparation has consumed much of the CFB's available ethical resource in the past year. For example, the first paper 'asset mix' will *inter alia* explore

- oil, gas, thermal coal production levels
- future production and reserves
- production within the two degree budget
- company policies, statements and alignment

In the first instance, four European oil majors are being examined across this five-part strategic framework:

- BP
- Equinor (Statoil)
- Royal Dutch Shell
- Total SA

The results of the work and recommendations will be presented to Conference in 2020.

## CFB portfolio carbon intensity

The CFB is a signatory to the **Montréal Pledge**, an initiative that encourages investors to measure, disclose and reduce the carbon footprint of their portfolios. The CFB has prepared a carbon footprint measure of its UK portfolio for many years,

and the footprint remains marginally lower than that of the FTSE All Share Index. The CFB has now achieved a decade of carbon intensity being lower than the Index:

Emissions have reduced from **6.63 kg** per unit in 2009 to **4.84kg** per unit in 2018. The gap between the carbon footprints of the CFB UK Equity Fund and the FTSE All Share Index has continued to narrow reflecting improvements overall in decarbonising the Index.

	CFB total emissions (tCO <sub>2</sub> -e)	CFB units in issue	Emissions per unit (kg per unit)
2009	175,960	26,559,227	6.63
2010	142,982	24,976,490	5.72
2011	149,212	22,182,723	6.73
2012	112,914	20,749,796	5.44
2013	115,598	21,066,622	5.48
2014	127,192	19,406,209	6.55
2015	123,819	20,027,588	6.18
2016	114,243	21,096,008	5.42
2017	94,630	19,921,015	4.75
<b>2018</b>	<b>96,317</b>	<b>19,909,197</b>	<b>4.84</b>

The 2018 results indicate that the carbon intensity of the Fund increased by 1.8% over one year, but has decreased by 3.4% over the past nine years.

### Transition Pathway Initiative (TPI)

The CFB is a founding member of the **Transition Pathway Initiative (TPI)**, a collaborative effort of some 30 global investors with \$10.7 trillion in assets under management

TPI evaluates and tracks:

- the quality of company management of greenhouse gas (GHG) emissions and of risks and opportunities related to the low-carbon transition;
- how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement;
- the results of this analysis through a publicly-available tool hosted by its academic partners, the Grantham Research Institute on Climate Change and the London School of Economics

CFB takes part in steering group meetings and conference calls and utilises TPI research. CFB attended the TPI Summit in July which included the Archbishop of Canterbury, the Chairman of Shell and the Chief Executive of Anglo American among the speakers and delegates.

TPI currently covers less than 50% of emissions relating to listed companies and has set itself an ambitious target to increase its coverage from 250 to 700 global enterprises, which would account for ~80% of the carbon emissions of global listed companies.

### BP shareholder resolution

CFB has co-filed a shareholder resolution at **BP** co-ordinated by Climate Action 100+. The resolution, which is supported by the BP Board, calls on the company to include within its Strategic Report a description of how its strategy aligns with the Paris Agreement. In particular;

- how the company evaluates each capital expenditure to be in alignment with a well below 2<sup>0</sup> scenario and efforts to limit the temperature increase to 1.5<sup>0</sup>
- to set out its principal metrics and targets over the short, medium and long term
- provide a progress report annually against the above

The Resolution mandates detailed action by BP to align its forward looking investment strategy with a well below 2<sup>0</sup> world. This includes anticipated levels of investment in E&P projects, targets to promote GHG reduction, the estimated carbon intensity of its products and progress on reducing carbon intensity and any linkage between the above framework and executive remuneration. The resolution will be debated at the Group's Annual General Meeting in May. A second Resolution on climate change filed by Dutch NGO *Follow This* will also be debated at the AGM.

### Climate related investment activity

In addition to qualitative work responding to the 2017 Conference Notice of Motion and recommending an approach to CFB Council, JACEI has reviewed and debated a wide range of additional CFB climate-related work and additional material as follows:

- the CFB signed a CDP Investor Action letter which was sent to 1,300 companies encouraging enhanced disclosure particularly around scenarios and emission reduction initiatives;
- the CFB maintained its involvement in the CA100+ initiative which has united over 300 global investors and \$32 trillion in assets under management in calls for companies to align their strategies with the Paris Agreement. CFB took part in several CA100+ calls and investor engagements;
- the CFB signed an investor letter to the *Financial Times* (June) calling on companies to quicken the pace of transition to a low carbon economy;
- the CFB remains a signatory member of the Institutional Investors Group on Climate Change (IIGCC) and attended events and seminars hosted by the Group;
- CFB supported a shareholder resolution at **Royal Dutch Shell** proposed by Dutch NGO, *Follow This*, calling on the company to publish emission reduction targets across Scope I-III. The resolution attracted 5.54% support having been opposed by the Shell Board;
- CFB continued to scope the impact of banks' lending policies on climate change and engaged with five Canadian Banks that are approved deposit lenders (**RBC, Bank of Montréal, Scotia Bank, Toronto Dominion Bank and Canadian Imperial Bank**).

The five banks have engaged constructively with CFB and conclusions drawn are being assessed;

- CFB produced a brief for JACEI on the COP24 climate talks held in Poland;
- CFB produced a brief on biomass and had discussions with **Drax**, formerly Europe's largest coal fired power station which has transitioned to biomass and gas;
- JACEI noted announcements by several banks including Royal Bank of Scotland, Lloyds Banking Group and Standard Chartered, that they would cease providing finance for new coal-fired power stations;
- CFB continued working with the **Church Investors Group** (CIG) to engage with industry laggards based on CDP data on carbon emissions;
- CFB voted against companies that were laggards in reducing carbon emissions and;
- participated in a wide range of industry-led seminars, webinars and meetings to keep abreast of current pan-sector thinking.

## Policy development

JACEI plays an important role in reviewing draft Position Papers and Policy Statements and recommending these for approval to CFB Council.

During the year the Committee:

- Recommended a new Policy on Fixed Income
- Recommended a new Policy on Tobacco;
- Recommended a new Policy on Pooled Investments;

### Policy approved: Fixed Income

CFB ethical investment policies are applied to holdings in fixed income securities as well as to equity holdings. The CFB invests significantly on the Church's behalf in the gilt and sterling corporate bond markets.

No distinction is generally made in terms of the type of security as far as bringing an ethical dimension to bear is concerned. However, it has been recognised that guidelines specific to the fixed income market would be helpful where some differences occur, particularly as they relate to the sovereign gilt market.

The holding of debt raises some ethical questions. While shareholders share in the profits a company makes from its activities, bond owners generally have no say in how a company is run.

Nevertheless, bonds issued by a company or government around which there were significant ethical concerns would not sit well in an ethical portfolio. It follows that the approach to the exclusion of potential investments on ethical grounds should be consistent across equity and corporate bond markets.

The potential level of engagement may differ from that experienced by a shareholder but the attempt should be made when an ethical issue arises. Our past engagement with bond issuers has been productive. Government bonds require a different approach, especially where the issuer is democratically elected, and worthwhile engagement may not always be possible.

### Supranational and corporate bonds

Some of our fixed income portfolios may hold supranational or corporate bonds. The bonds are sterling denominated but can be issued by organisations or companies from other jurisdictions.

Corporate bonds (including Floating Rate Notes) are typically issued by:

- Supranational bodies e.g. the World Bank. These are backed by governments in the international community;
- Sub-sovereign or agency entities e.g. Network Rail and Transport for London, which are generally backed by government; and

- Financial and non financial companies.

All our ethical investment policies and ethical exclusions apply to corporate bonds as well as to equities. We will also engage with issuers not held in equity portfolios.

In the case of corporate bonds, there is relatively little impact of ethical exclusions upon investment returns in practice since alternative bonds can usually be found with the same or very similar characteristics to excluded names and exclusions in total will form a relatively small portion of the relevant benchmark.

While the application of ethics to financial and non financial companies which issue bonds should be straightforward, holding supranational and sub sovereign bonds links portfolios with non-UK governments. This raises some particular issues.

When considering bonds issued by sovereign, sub-sovereign, or agency entities, we will consider the reputation of the relevant country, including assessments of: human rights; corruption; involvement in conflict and development. We will also be mindful of our policies and previous stances where reference is made of specific countries. However, it is extremely unlikely we would be exposed to government issuers which have raised ethical concerns in the past, except via supranational issuers such as the World Bank.

### Green bonds

Green bonds are bonds which are used to raise funds to undertake activities which meet certain environmental criteria. Mainstream companies issue green bonds. We will generally favour purchasing green bonds where we can and where the terms are attractive.

JACEI has recommended the following Policy:

We apply our Christian approach to investing across all asset classes.

There are differences between owning a share and owning a bond. Exclusions from investment on ethical grounds apply across all asset classes but the level of engagement possible as a bond holder may be different, since a bond holder owns debt rather than a share of a company. However, we will endeavour to engage where issues of ethical concern arise.

Supranational, sub-sovereign, and agency bonds present potentially unique challenges since they could be backed by non-UK governments. However, we will also be aware of ethical concerns that might arise.

### Policy approved: Tobacco

Since at least 1972 onwards, tolerance towards exposure to tobacco has been extremely low and has rarely been questioned. Consequently, there has been an untested assumption that if tobacco accounted for 5% or more of profits or sales of any company, it would be excluded from investment on ethical grounds, whilst exposure approaching 5% would be referred to JACEI for advice.

Smoking is the leading cause of preventable mortality, 1.1. 81,000 deaths per year from tobacco related illness. It is the biggest preventable cause of cancer, and is responsible for 25% of all cancer deaths and three in 20 of all cancer cases. There is no statistical difference in risk between cigarette smoking and other forms such as pipe, cigar or shisha.

Tobacco is the most common and widely observed ethical exclusion among faith investors and other secular ethical investors.

JACEI has recommended the following Policy:

- The CFB will not invest in any company that wholly or mainly manufactures tobacco or tobacco-related products.
- For the purposes of this Policy, this includes finished tobacco products such as cigars, cigarettes, pipes and loose tobacco, filters, tips and bands. The CFB will also seek to avoid investment in any agricultural or commodity related company where tobacco is the main crop.
- Retailers will not normally be excluded from investment unless the contribution tobacco sales make to overall company revenues are significant, or where wholesale tobacco is a material component of sales.
- Although NHS England views e-cigarettes and vaping as carrying a fraction of the risk of conventional tobacco products, and recognises that they can be effective in controlling and alleviating addiction, the CFB will take a precautionary approach by avoiding investment in such products until long-term quantitative and qualitative evidence emerges.
- Where necessary or appropriate, the CFB will engage with retailers on tobacco sales, although it is recognised that UK law applies very strong restrictions on marketing, advertising and branded sales, as well as restricting their sale to minors.

### Policy approved: Pooled Investment Funds

Pooled investment funds, or collective investment schemes, are assets of multiple beneficial owners aggregated into single investment vehicles. Such funds provide access to specific asset classes, thematic investments or strategies that could not otherwise be accessed cost effectively.

Examples of pooled investment funds include; investment trusts; investment companies; mutual funds; real estate investment trusts (REITs); unit trusts; open ended investment companies (OEICs); exchange traded funds (ETFs); private equity funds; venture capital funds; property funds; infrastructure funds; hedge funds; funds of funds; common investment funds (CIFs); charity authorized investment funds (CAIFs); and limited partnerships.

If the CFB invests through pooled investment funds it may result in indirect exposure to business activities and companies that would otherwise be excluded on ethical grounds. The CFB has established pooled investment funds for the use of Methodist organizations, other churches and charities. Consequently, those investing through these funds may have indirect exposure to business activities and companies that they wish to avoid on ethical grounds.

The Biblical and theological reflections of most relevance to pooled investment funds relate to purity, speculation, transparency and solidarity and it is recognized that the credibility, effectiveness and unity of the Church's witness may be damaged by investment in pooled funds with exposure to inappropriate business activities and companies.

JACEI has recommended the following Policy:

Investment in generalist pooled funds should in normal circumstances be avoided on the grounds that they allow exposure to activities the CFB would avoid on ethical grounds, when making direct investments.

However, pooled funds may be used to obtain specialist expertise, for example, geographical specializations; sector specialisations; absolute return strategies; venture capital and other early stage enterprises; and private equity. This may be particularly useful in pursuing positive ethical strategies related to climate change and the environment.

When pooled investment funds are used, they should be:

*Funds with similar ethical policies to those of the CFB;*

*If this option is unavailable, funds with managers pursuing similar investment philosophies to that of the CFB;*

*If neither option is available, low cost tracker pooled funds may be used as the pragmatic solution to achieve a particular strategy recognizing that an appropriate ethical option is not always available;;*

*Funds that have investment policies and strategies that are transparent.*

- When pooled investment funds are used the CFB will explore the possibility (e.g. via a side letter) of ensuring that any investment complies fully or in part, with other CFB ethical investment policies.
- The CFB will seek to influence the manager of any pooled investment fund in which it invests either through an investors' committee or regular engagement where holdings the CFB finds ethically problematic can be discussed.
- Any Pooled Investment Fund that has significant exposure to companies in which direct CFB holdings would be avoided on ethical grounds, will also be avoided. The level of exposure to such excluded companies that would be considered acceptable in a Pooled Investment Fund, will be considered case by case.

case, based on precedent and the advice of the Joint Advisory Committee on the Ethics of Investment (JACEI).

- The CFB will consider prior to investment the extent to which a cost-effective and quick exit on ethical grounds could be made should it be required.
- As the CFB offers pooled investment funds for other churches and charities it is important to consider their ethical policies and how they may be impacted by indirect investments through the CFB pooled investment funds.

## Other ethical investment issues

Whilst we have again focused resources on climate change during the year, there has nevertheless been considerable activity in other important areas across a range of environmental, human rights and business ethics issues.

### Mining & Faith Reflections Initiative (MFRI)

JACEI and CFB have remained engaged and committed to the ecumenical Mining & Faith Reflections Initiative, which brings together mining executives and inter-denominational church leaders to discuss mining and the common good. Conversations on how the initiative should develop continued throughout the year, with the expectation that a further, full Day of Reflection will take place in May 2019.

Testament to the importance of the initiative was the appointment of an administrator/secretariat during the year to coordinate responses. JACEI and CFB see significant value in a faith-led, common approach to mining and joint engagement, and continue to work towards progressing this and supporting the Connexional link with the process.

### Extractive industries

Engagement with extractives companies represents a core part of CFB responsible investment. JACEI reviews engagement with extractives companies as a regular agenda item, and noted during the year that a number of meetings and discussions took place. In particular, the CFB:

- participated in the annual sustainability day at **BHP Billiton** in which further updates were provided by management on the Samarco disaster in Brazil;
- participated in the annual sustainability day hosted by **Anglo American**;
- participated in a sustainability roundtable hosted by **BP**;
- welcomed publication of a revised Modern Slavery Statement by **BHP Billiton** with explicit commitments to avoid child labour;
- noted the catastrophic tailings dam collapse at Brumadinho in Brazil which killed over 300 people, and subsequent calls by investors for independent monitoring of mine safety in the light of two such collapses within two years. The CFB joined an investor group led by the Church of England which called for independent standards for tailings dams and participated in its meeting with mining representatives. The CFB has undertaken to engage with both **Anglo American** and **Rio Tinto** on its management of tailings dams, especially in joint ventures where they may not have operational oversight and control.

The CFB is a supporter of the Extractives Industries Transparency Initiative (**EITI**) and strongly supports corporate tax transparency. Over 90 global investors with assets of \$19 trillion signed the original Investor Statement on Transparency in the Extractives Sector, including the CFB. There are now 51 implementing countries, with \$2.3 trillion of revenues disclosed in EITI reports; just five countries have

been deemed to be making inadequate progress, have had their deadline extended or have been suspended.

### Business ethics

We reviewed investment in **Danske Bank** following revelations of money laundering through its Estonian subsidiary. CFB concluded such was the failure in business ethics standards at the Bank that it should divest, and suspend the Bank from its approved Deposit Fund lender list.

The tragedy of small-arms misuse in the United States continues to make dispiriting headlines. The Gun Violence Archive recorded 56,952 gun related incidents in the US causing the deaths of over 14,000 people, of these 340 were defined as 'mass shootings'. The Parkland High School Florida mass shooting in which 19 students were killed led us to seek clarification from Wespath on their approach to investing in small arms manufacturers, and whether they tracked corporate donations to the NRA (National Rifle Association).

Whilst manufacturers themselves are excluded, Wespath (manager of the majority of US investments) told us that tracking corporate support for the NRA is more opaque as there is no obligation to disclose such information. There had been evidence of some corporate distancing from the NRA in light of the Parkland tragedy, but this was not quantifiable. Wespath told us that in addition to a rigorous exclusion policy, their proxy voting guidelines promote transparency relating to corporate involvement in the political process, trade associations and lobbying spend.

### Nestlé & Breast Milk Substitutes (BMS)

Our commitment made to the Methodist Conference to engage with **Nestlé** continued in 2018.

We met with senior Nestlé personnel during the year, bringing together expertise from around the Group to discuss in detail a range of issues. The facilitated workshop from 2017 ('the First 1,000 days') which we had attended as the only investor voice had been ground-breaking. As a result, Nestlé's nutrition model is now centred on holistic approaches to the first 1,000 days of life, including maternal health from conception to the second year. The company states unequivocally its support for natural feeding '*breast milk is the ideal nutrition for babies*'.

We continued to monitor the integration of **RB's** (Reckitt Benckiser) acquisition of Mead Johnson and its BMS business. Mead Johnson had historically scored poorly in the Access to Nutrition Index BMS survey, and so it was particularly commendable that FTSE4Good confirmed in January that the company had made sufficient progress for it to retain its membership of the FTSE4Good Index – the 15<sup>th</sup> consecutive year of inclusion. This was particularly important as it marked the point at which three BMS companies are now included in the Index – Nestlé, Danone and RB, the latter being the first US centric business to be so accredited.

JACEI remains strongly supportive of CFB's long-standing process of robust dialogue with Nestlé on BMS and other material sustainability issues and commends to the

Conference this process of challenge and engagement with Nestlé, especially the comprehensive nature of the approach, together with the independent assessments by ATNI and FTSE4Good.

### Health, wellbeing and farm animal welfare

CFB became a supporter of **FAIRR** (Farm Animal Investment Risk & Return) during the year and participated in its collaborative work on antibiotic resistance. This has been raised as a global threat by the World Health Organisation, as routine infections become increasingly immune to existing antibiotics. One reason has been attributed to the scale of antibiotics used in agriculture. We signed a coalition letter to **Whitbread** on the issue.

The CFB is a supporting signatory to the **Business Benchmark on Farm Animal Welfare** (BBFAW), which ranks companies in the food production, processing and hospitality sectors for their overall approach to managing farm animal related risks in the supply chain. We commended **Cranwick** for its leadership position on farm animal welfare as it was once again ranked Tier I, alongside **M&S**. We wrote asking if it would consider supporting the Global Coalition for Animal Welfare (GCAW), established by 10 leading food producers, including **Unilever** and **Nestlé**. We also sought clarification from the company on its approach to farm audits in monitoring standards. The company gave a very detailed account of its procedures and how standards are enforced in partnership with producers. The company also said it would 'look to support GCAW going forward' which we welcomed.

CFB is a supporting investor of the **Access to Nutrition Index**, which ranks food producers, processors and retailers for their approaches to nutrition. CFB welcomed the opportunity to join the investor engagement group, which we expect to take forward during 2019.

Following investor pressure, including by the CFB, JACEI welcomed an announcement by the **RSPO** (Roundtable on Sustainable Palm Oil) that it had ratified a new standard aimed at substantially strengthening environmental and social protection across the Palm Oil supply chain. This had come after intense pressure that RSPO accreditation was failing to prevent deforestation.

The biennial **Access to Medicine Index** (ATMI) revealed **GSK** to be at the top of the Index rankings for the sixth successive time (2008-2018). It is particularly commendable that GSK improved its margin of differentiation in the Index to 4.01 (out of a possible 5), and now leads the Index in five of the seven technical areas, compared to three in 2016. Access to Medicine remains of commanding importance in terms of health justice for some of the most marginalised in the developing world, and GSK's commitment to building strategies that are applied to both research & development projects as well as products on the market is especially welcome. We wrote to GSK to commend its achievement and long-term commitment.

### Environment

During the year CFB joined a new investor alliance focused on plastic. The **Plastic Solutions Investor Alliance** brings together an international coalition of investors focused on the

recyclability of plastic packaging. CFB also signed the Investor Statement approved by the Alliance.

A work plan for engaging with companies on plastic was welcomed by JACEI, with initial focus on single-use plastic and microfibres. The latter are seen as a specific problem arising from synthetic materials found in apparel. New studies indicate that these fibres could be poisoning waterways and leaching into the marine food chain. We engaged with **Tesco**, **Ted Baker** and **AB Foods** (Primark). Tesco has set ambitious and specific targets to eliminate all non-recyclable plastic waste; the company has also trialled 'take-back' hubs in its stores where consumers can return single-use bags and bottles for recycling. Tesco is a member of a cross-industry initiative (Industry Action on Micro-Fibres) which is driving coordinated understanding of the scale of the problem. The initiative includes representatives from the oil, apparel, consumer products and water sectors. Replies are awaited from other retailers.

We engaged with cruise-line company **Carnival**, over what appeared to be unambitious targets to reduce ship-borne waste by just 5% by 2020. The company owns several brands including Cunard and P&O Princess Cruises, which have each initiated different waste reduction strategies for single-use plastic. We sought to understand how the Group sets overarching policy and targets across its many brands, in respect of plastic waste.

As part of our regular and routine engagement with **Nestlé**, we challenged them on the life-cycle model of their bottled water business. Commendably the company has set an ambitious target to make *all* packaging either reusable or recyclable by 2025. In the UK its bottled Buxton branded spring water is already 100% recyclable.

### Employment & labour

Working with **ShareAction**, we continued our work on pay justice by engaging with seven FTSE100 companies to urge accreditation to the Living Wage. Writing to **BT Group**, **IHG**, **Berkeley Group**, **RB**, **SSE**, **Vodafone** and **Persimmon** we also urged universal adoption of the National Living Wage, where applied, rather than as set out in law for only those over 25. Whilst appreciating that the NLW provides a higher rate of pay than National Minimum Wage levels, it is subject to acute and unfair age discrimination.

We challenged **IHG**, which had promised to accredit to the Living Wage as part of its appointment by the Mayor of London as preferred partner to the London Olympics, on its failure to honour this undertaking. We stressed the reputational damage to IHG for its renegeing on the commitment and the importance of making hospitality a rewarding career, based in part on equitable pay. We also challenged **BT Group's** reluctance to accredit due to its belief that applying the Living Wage would take control away from the company in terms of pay policy. We welcomed **Berkeley Group's** strong commitment to fair pay, whilst acknowledging the challenges of the construction sector in having a significant contractor base.

CFB is a founder supporter of the **Workforce Disclosure Initiative (WDI)**, facilitated by *ShareAction*. The initiative calls for improved transparency on how companies manage 'human capital' with the long-term aim of improving the quality of jobs, and is directly linked to UN Sustainable Development Goal #8 'decent work for all'. The second year survey saw 90 global companies respond to the survey. During 2019 CFB expects to work more closely with WDI in supporting collaborative engagement, particularly in urging companies to take part in the survey; we commended **Tesco** for its decision to respond to the 2019 survey following their engagement with WDI.

We wrote to **Compass Group** following allegations that one of its subsidiaries (LSS – Levy UK) which supplied catering and cleaning staff to the All England Lawn Tennis Championships, had paid contracted staff inadequately. Compass confirmed that all contract terms had been rigorously applied with contract staff receiving food and breaks in accordance with legal and contractual requirements. They also confirmed that night-personnel received 'elevated' levels of pay at or above National Living Wage rates. They also cited strong adherence to best practice in employing and supplying workers.

We were disturbed to read reports about the workplace culture at clothing retailer **Ted Baker**, including allegations about the behaviour of the Chief Executive. The company appointed an independent legal firm to investigate the allegations and report to a non executive director. JACEI commended a letter from the CFB to the Ted Baker Chairman, which expressed concern about the reports, asked when he expected the investigation to be completed, and sought assurance that "*where allegations are found to be true, the Board will take swift action including making any necessary changes to the company's culture.*" The company replied giving that assurance and asking for patience while the investigation was completed. The Chief Executive took a voluntary leave of absence from the company and subsequently resigned. The results of the investigation are awaited.

### Israel/Palestine

CFB has a published Position Paper and Policy Statement on investment in Israel Palestine which was thoroughly reviewed and updated in 2016. Israel Palestine was discussed at every JACEI meeting in 2018/19.

During the year CFB continued to engage with the German construction company **Heidelberg Cement** over its operating license at the Nahal Raba Quarry. The company has engaged constructively and at length over time and was committed to managing an economic handover of the quarry to a Palestinian-led operation which it is striving to establish. The company also closed two ready-mix concrete plants formerly operated by Hanson Israel in Area C.

JACEI remains committed to the course of action pursued by CFB, and is monitoring progress closely. JACEI is well aware that such divestments can take time given the situation on the ground, but sees an orderly economic transfer to a Palestinian-controlled entity to be the most beneficial

outcome. JACEI has welcomed Heidelberg's ongoing commitment to this outcome. We subsequently learnt that the company has decided to sell the quarry, and is in talks with a private company to dispose of its interest.

### Water risk

The World Economic Forum Global Risks Report has recognised global water shortage as among the most pressing risks for the world in terms of their impact since 2015. Some 2.8bn people, or 40% of the global population, live with water shortage or water scarcity, whilst two-thirds of the world's population live for at least one month a year with water scarcity.

On behalf of CIG, CFB has led a focused engagement strategy on water for the past two years. The list of target companies was conditioned by those in high impact sectors that had failed to respond to, or scored the lowest ranking in the CDP Water survey. CFB consequently wrote to 19 European companies to encourage improved water data governance, with 16 responding. Four, **Jerónimo Martín, ENI, Novo Nordisk** and **Arcelor Mittal** pointed to an extensive water strategy including participating in future CDP surveys. Some noted that they had qualitative programs for monitoring and reducing water use, whilst others appeared not to view water as a long-term risk to their business. CFB subsequently noted that **Jerónimo Martín** had failed to respond to the 2019 survey as they had indicated, and further engagement will ensue to understand the reasons for their change of mind. .

Positively, the majority of respondents viewed water as a material risk and were managing it effectively; only one company – UK housebuilder **Persimmon**, appeared to have no internal measures on water use.

Responses will be assessed and published on the CIG website.

### Human rights

Modern Slavery and the propensity for human trafficking are among the most iniquitous of human injustices. The UK Government has estimated that up to 13,000 people are currently 'enslaved' and that even with improved referral processes, the UK Anti-Slavery Commissioner estimates just 1% of victims are likely to see their enslaver brought to justice. JACEI has long supported CFB activity that focuses on company responses to monitoring and reporting Modern Slavery. A review of the 2015 Modern Slavery Act sponsored by the Home Affairs Select Committee in July was an opportunity for all stakeholders to understand how the Act is performing against its intention of eliminating Modern Slavery.

CIG submitted a response to the Review on behalf of members in which it highlighted:

- the disparity between company reporting about the extent of modern slavery in their supply chains and research by civil society and academics. CIG would like to see a greater amount of more thorough supply chain due diligence by companies along with increased transparency when problems are found.

- that collaborative action by companies provides the best examples of real progress being made in supply chains. Government has a role to help foster this collaboration.
- the need for a centralised repository for slavery and human trafficking statements and a strong Independent Anti-Slavery Commissioner.

CFB engages routinely with companies where Modern Slavery may be a prevalent business risk, and raised it with **Watkin Jones** a UK construction and development company.

CFB is a supporting investor of the **Corporate Human Rights Benchmark (CHRB)**. Now in its second year, the CHRB benchmarks corporate responses to human rights by 101 businesses across three sectors; agricultural produce, apparel and extractives. The relative poor performance of companies continues to show how much there is to do if companies are to eliminate potential human rights violations from their supply chains. The best performing extractives companies **Rio Tinto** and **BHP Billiton** achieved a score of over 70% placing them as leaders across 41 extractives companies selected. **BP** achieved just 48% and **Total** 46%. The 30 apparel companies assessed had similarly mixed results, with **AB Foods** scoring 26% and **Next** 38%.

CFB continued to engage with tea producers following renewed allegations of abuses on Indian tea estates. In talks with Traidcraft, we learnt that in its view conditions were again deteriorating. Engagement with Twining (**AB Foods**) told us it had introduced a new tool for evaluating human rights risk focused on identifying primary needs such as health, nutrition, education and the rights of children. In Assam, partnered with UNESCO, the company has reached 34,000 girls on 63 tea gardens with nutrition, empowerment and protection training. Adolescents are encouraged to attend school. Hygiene and latrine sanitation have also been a strong focus. **Unilever**, since previous engagement, has joined the Ethical Tea Partnership with a focus on housing quality and sanitation. Unilever recognizes there is an ongoing challenge around wages, but the company is expecting to work towards a certification process whereby minimum standards are accepted and imposed.

Engagement has continued following recommendations made by Traidcraft for companies to disclose which tea estates they work with and source from. Commendably, Twining discloses this, and we therefore wrote to Unilever urging the same degree of transparency.

JACEI has previously recommended the exclusion of companies involved in extracting phosphate or potash from the disputed Western Sahara. CFB was therefore pleased to learn, following engagement, that **Nutrien** had ceased contracting to source phosphate rock from Western Sahara, and would have no exposure by the close of 2018. As a result the investment exclusion was lifted.

It is through extended, complex supply chains that companies are most exposed on the potential for human rights violations. During the year engagement continued with **Vodafone** regarding allegations of human rights abuses in the cobalt supply chain. Cobalt is a key component in rechargeable

lithium-ion batteries that power electronic devices such as smartphones, and will be crucial in escalating electric car use. However more than 50% of the world's supply of cobalt comes from the DRC, where up to 20% is mined from artisanal sources where child labour is endemic. Vodafone has a comprehensive conflict minerals policy but notes it does not source Cobalt. Nevertheless it conducts audits via the Responsible Minerals Initiative to ensure smelters are conflict minerals free.

Following on from engagement in 2017 on granite sourcing (see JACEI Report 2017/18), CFB is planning to scope potential engagement with companies in the construction sector encouraging them to work with the Gangmasters and Labour Abuse Association (GLAA). This is in response to reports of systemic abuses within construction and the consequent GLAA Construction Protocol being drawn up setting out nine agreement points for the industry to follow. Whilst attracting good support from across industry, with the likes of **British Land** and **Morgan Sindall** signatories, there are obvious omissions and engagement will focus on non-signatories to garner their approach to labour abuses.

### CFB voting & executive remuneration

The CFB's quarterly voting summaries are reviewed at each JACEI meeting. These summary reports are available on the CFB website, with the full voting report available on request.

Voting is carried out at all UK and European company meetings as part of a collaborative CIG voting policy which JACEI reviews annually. The voting template is implemented by the CIG's service provider, ISS (Institutional Shareholder Services).

It has long been a CFB aspiration to build a strong faith coalition of like-minded voters, and 2018 represented the fourth year of operation in which a critical mass of faith investors could be applied to proxy voting. In particular Methodist and Church of England ballots are now well-aligned.

In 2018 CFB voted at 93 meetings in the UK, comprising 1,537 resolutions. We opposed or abstained 258 or 17% of proposals. Remuneration accounted for 30% of all action taken and the re-election of directors 56%. The increase in opposition to Board appointments is explained by our fully integrating diversity into the UK voting template. CFB votes against the re-election of Nomination Committee directors where insufficient progress has been made; FTSE100 companies that have not achieved a minimum of 25% women on Boards face automatic opposition.

The CFB continues to be rigorous in opposing excessive executive remuneration. During calendar year 2018, out of 96 UK remuneration reports and policies voted, the CFB opposed 83 or 86%. Of 18 long-term incentive plans (LTIPs) put to shareholder vote, CFB opposed 12, or 66%.

The CFB also opposed or voted to abstain the re-election of 145 directors, accounting for 21% of those seeking election (13% in 2017) for Board independence or other reasons including poor diversity (see above).

We wrote to the company secretary at **Eco Animal Health** regarding irregular corporate governance. Although as an AIM listed company, it is not required to comply with all Corporate Governance Code provisions, we were concerned by the Chief Executive's membership of the Remuneration Committee. We also urged the company to put remuneration to a shareholder vote. We were subsequently informed that the CEO had withdrawn from the Committee which we welcomed.

In Europe, where fewer markets empower shareholders to vote on remuneration, the main issues leading to CFB votes against board resolutions were shareholder capital and board balance concerns. In 2018, the CFB voted on 3,785 resolutions at 235 European meetings; 21% of these were opposed or abstained by the CFB (22% in 2017). Of 1,533 director appointments for re-election, CFB opposed 286 or 18%. CFB continues to oppose executive pay in markets where this is put to a shareholder vote, and in 2018 of 557 remuneration proposals, CFB opposed 58%,

CFB has a policy of not waiving its shareholder rights in markets that are share-blocked and which require investors to cease trading in order to exercise their ballots. Outlawed within the EU, the practice occurs mainly in Norway and Switzerland, and in 2018 CFB did not vote at 10 meetings that were share-blocked.

### **The UK Stewardship Code**

The CFB has been a signatory to the **UK Stewardship Code** since its inception in 2012. The CFB continued to be rated a Tier I signatory, which JACEI commended. The CFB Council has approved the 2019 Statement, which is available online.

### **Principles of Responsible Investment (PRI)**

The PRI is the largest global signatory organisation promoting responsible investment, with over 2,250 asset owner and asset manager signatories, representing US\$70 trillion of assets under management. PRI facilitates the opportunity to collaborate with like-minded global investors and to participate in expert-led events on material issues, including climate change.

The CFB has been an 'asset owner' member of PRI for many years, and part of the responsibility of membership is to complete a detailed survey on process, management, and performance. JACEI commended the CFB for again achieving the highest A+ ranking for strategy and governance in 2017, which places it in the top 10% of reporting signatories.

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

The CFB closely collaborates with the ecumenical Church Investors Group, whose objectives are:

- to encourage the formulation of investment policies based on Christian ethical principles;
- to assist each other in putting such policies into practice;
- to encourage responsible business practices through engagement with company managements; and

- to share information and views on ethical matters related to investment.

JACEI welcomes and commends the continued strengthening of the ecumenical work through CIG. In 2018 CIG membership grew considerably to 69 representing combined assets of £21bn (£17bn in 2017). Its membership is drawn in the main from the UK and Irish churches, but is also increasingly international with a network of supporting international partners. CIG supports its members by hosting two meetings a year (including the international conference in June), and by leading strategic engagements on carbon, water, modern slavery and tax.

In October, CIG made a submission to the House of Commons Home Affairs Committee enquiry into the progress made since the Modern Slavery Act became law in the UK. CIG has undertaken collective engagement on behalf of its members since 2016 and having learnt from this engagement, decided to provide written evidence to the committee in a joint submission drafted in collaboration with CCLA (see Page 13).

In 2018 CIG hosted its sixth two-day international conference which attracted delegates from over 30 denominations. The Conference subject was *Stranded Humans* with keynote speeches on inequality and social justice from His Eminence Cardinal Turkson and the Bishop of Oxford.

The CIG Steering Group is drawn from a wide representation of the membership including CFB Chief Investment Officer, Stephen Beer, who is the CIG Vice-Chair.

### **Communication**

CFB Position Papers and Policy Statement are published online. Our quarterly responsible investment activity reports, and summary UK and European voting reports are also published on the CFB and Epworth Investment Management websites.

### **The CFB ethical review**

As part of its regular oversight JACEI scrutinises:

- the CFB summary voting records (UK and Europe);
- the list of ethically excluded UK and European companies (approximately 6% of the Eurofirst 300ex-UK Index, and 13.4% of the FTSE All Share Index, respectively as at 31 December 2018); and
- minutes of the monthly CFB Ethics Meetings (11) were all noted and reviewed.

The long-term impact of ethical exclusions on CFB investment returns is considered to be broadly negligible.

The CFB's proprietary ethically adjusted benchmark index to 31 December 2018, relative to the FTSE All Share Index, outperformed by 2.6% over 1 year, by 0.1% pa over 3 years, and was neutral (0.0%) over 10 years.

The CFB and its wholly-owned subsidiary, Epworth Investment Management, are actively involved in a number of Responsible Investment initiatives and partnerships.

JACEI receives regular reports on the following:

- CFB is a founder member of **the Institutional Investors Group on Climate Change (IIGCC)**, (see page 7) which now has nearly 169 members from 11 countries representing €23 trillion in assets. CFB is part of its corporate working group, is a signatory to the IIGCC Investor Statement on Climate Change and other signatory-based public policy initiatives and participated in several expert IIGCC briefings as well as attending the AGM.
- The CFB is a founding member of the **Transition Pathway Initiative (TPI)** (see page 7), a collaborative effort of some 30 global investors with \$10.7 trillion in assets under management. TPI evaluates and tracks the quality of company management of greenhouse gas emission (GHG) and of risks and opportunities related to a low-carbon transition;
- The CFB maintained its involvement in the **CA100+** (Climate Action 100+ see page 7) initiative which has united over 300 global investors and \$32 trillion in assets under management in calls for companies to align their strategies with the Paris Agreement. CFB participated CA100+ calls and investor engagements;
- CFB is a founding signatory to **CDP** (formerly the Carbon Disclosure Project), and is also part of a wider coalition that encompasses sister projects on water and forestry. CDP combines its surveys on carbon, water and forestry to present a holistic view of company performance in these environmentally crucial areas. CDP is backed by 650 global investors with combined assets of \$87 trillion;
- CFB is signatory to the **Access to Nutrition Index (ATNI)**, which is supported by 60 investors with \$7 trillion of AUM;
- CFB is a signatory to the **Access to Medicines Index (ATMI)** which is supported by 82 investors with \$11trillion of AUM (see Page 13);
- CFB is a supporting investor of the **Business Benchmark on Farm Animal Welfare (BBFAW)** (see Page 13) and signatory to the Global Investor Statement on Farm

Animal Welfare. BBFAW is supported by 23 investors with \$2.5 trillion of AUM.

- CFB works with **FAIRR (Farm Animal Investment Risk and Return)** (see Page 13) which is supported by \$11.1 trillion of AUM, and signed its investor statement on antibiotic resistance;
- CFB is a supporting investor of the **Workforce Disclosure Initiative (WDI)** (see Page 13), which has attracted support from 113 investors with \$13 trillion of AUM;
- CFB is an investor signatory to the **Extractives Industries Transparency Initiative (EITI)** which is supported by 90 investors, (see Page 13);
- CFB is a supporting investor of the **Corporate Human Rights Benchmark (CHRB)**, (see Page 12) and a signatory to the UN Guiding Principles Reporting Framework Investor Statement which attracted 87 investor supporters with \$5.3 trillion of AUM;
- CFB joined the **Plastic Solutions Investor Alliance** in 2018 (see Page 14), and signed the accompanying Investor Statement. This is now supported by 25 global investors with \$1 trillion AUM;
- CFB is a member of the **Ecumenical Council for Corporate Responsibility (ECCR)**, where a Connexional team member sits on the Board;
- Epworth Investment Management is a member of **UK Sustainable Investment & Finance (UKSIF)**.

The CFB use the specialist services of:

- Sustainalytics (ESG company research)
- ISS (UK and European proxy voting)
- Trucost (UK portfolio carbon footprint)

JACEI commends and welcomes the valuable input on a variety of subjects made by the Methodist Connexional Team and the Joint Public Issues Team (JPIT). Team members attend every JACEI meeting. [www.jointpublicissues.org.uk](http://www.jointpublicissues.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.

During 2018, JACEI completely refreshed and updated its Terms of Reference.

### 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. Historically this position has 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;*
- *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 Committee agreed a revised Standing Order relating to JACEI during the year, subject to endorsement by Methodist Conference (2019).

*(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 July 2000 regulations came into force obliging pension funds to consider their policy, if any, on socially responsible investment (SRI, now routinely referred to as 'responsible investment'). 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.

In November 2016 the Law Commission was asked to look at how far pension funds may or should consider issues of social impact when making investment decisions. The Commission was asked:

- To provide an accessible account of the law governing how far pension fund investment policy may or should consider issues of social impact;
- To provide an accessible account of the law governing the forms which may be used by social enterprises;
- To consider whether there are legal or regulatory barriers to using pension funds for social impact (including investment in social enterprises).

The Law Commission concluded:

- That the law is flexible enough to allow some social investment by pension funds.
- The barriers to social investment by pension funds that were identified were, in most cases, structural and behavioural rather than legal or regulatory.

In September 2018 the UK Department for Work and Pensions announced that it will legislate to clarify and strengthen 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 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 Ltd., 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](http://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 that at each meeting, where possible, the agenda shall comprise:

- One or two major items for debate either previously agreed by the Committee, requested by the CFB or in response to events;
- A work-plan of ethical investment Position Papers and Policy Statements to be brought before the Committee over an agreed timeframe;
- A CEO report of regular reporting items, CFB engagement, company responses, collaborative engagement and networking;

- A report from the CFB on its 'ethical performance' which shall include the quarterly voting record; quarterly client RI Report; and the list of UK and European exclusions.

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.

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 (see conduct of business below).

### **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 shall have 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 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 the CEO Report, 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 four meetings; in 2018/19 four meetings took place in June, September, December and March;
- ✓ 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.

Committee members are empowered to:

- contact the Secretary between meetings about issues of concern to them and to
- e-mail their comments on position papers or other matters to the Secretary if unable to attend a particular meeting.

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

Routine items of business are now received via a CFB CEO Report to JACEI, which the Committee reviews at each meeting.

## Committee membership

In keeping with the Committee's Terms of Reference, the Chair initiated a process of Committee refreshment during 2018. The CFB and Methodist Council will lead a Nominations process over the period 2019-21 that will lead to a natural rotation of members appointed by both bodies.

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, nominated from among the membership of the District Chairs, and appointed by Methodist Council.

The Rev Anne Ellis joined the Committee in March 2018 as a representative of the CFB.

Members nominated by the Methodist Council are:

- Rev Dr Sheryl Anderson
- Professor 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
- Mr Alan Emery
- Rev Anne Ellis (from 1 March 2018)
- 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.

In attendance from time to time to facilitate the workings of the Committee were: Mr David Palmer, Mr Christophe Borysiewicz, Mr Miles Askew, Mr Matthew Jones, Mr Matthew Richards, Mr Steve Hucklesby and Mrs Sophie Forrest.

The Special Advisor to the CFB, Mr Bill Seddon, also attends.

Ms Ashma Ponniah is JACEI Minutes Secretary.

Mr Neville White is the CFB Ethics Consultant and JACEI Secretary (to 31<sup>st</sup> March 2019).

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) attended JACEI meetings in this capacity during the year. Mr Stephen Beer 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](mailto:jaceichair@methodistchurch.org.uk).*

The CFB may be contacted through Mr Christophe Borysiewicz at 9 Bonhill Street, London EC2A 4PE. Telephone: 020 7 496 3630 or email [christophe.borysiewicz@cfbmethodistchurch.org.uk](mailto:christophe.borysiewicz@cfbmethodistchurch.org.uk).