Report to the Methodist Conference 2011

The Methodist Church
Joint Advisory Committee
on the Ethics of Investment
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All CFB ethical investment policies and position statements are available from [www.cfbmethodistchurch.org.uk/ethics](http://www.cfbmethodistchurch.org.uk/ethics)
Highlights

**Caste Discrimination**
Policy Statement recommended to CFB for approval.
(Page 4)

**Investment in Israel/Palestine**
Policy Statement recommended to CFB for approval.
(Page 4)

**Children – Trafficking & the Leisure Industry**
Engagement with Intercontinental Hotels Group on potential risks from child sex trafficking.
(Page 6)

**Executive Remuneration**
Church Investors Group (CIG) report welcomed as contribution to the debate on levels of executive pay.
(Page 7)

**The UK Stewardship Code**
UK Stewardship Code welcomed and CFB position Statement adopted.
(Page 7)

**Xstrata & Energy**
Following detailed review, insufficient reasons to exclude Xstrata from potential investment on ethical grounds, but energy use paper commissioned
(Page 6)

**BP & Royal Dutch Shell Shareholder Resolutions**
CFB decision to co-file shareholder resolutions at BP and Royal Dutch Shell AGMs
(Page 6)

**Network Rail**
Successful and welcome engagement on safety record and executive bonuses
(Page 7)

**Carbon Disclosure Project (CDP) Engagement**
Successful engagement with leading companies encouraging participation in the CDP process
(Page 6)

**African Barrick Gold, Centamin Egypt, Kenmore Resources, Sporting Bet**
Added to ethically excluded list
(Page 9)
Conclusion

The Committee judges that the CFB has managed the funds under its control 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 list 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;
- role of the CFB in the Church Investors Group (CIG) (page 4); the Institutional Investors Group on Climate Change (IIGCC) (page 9); the Carbon Disclosure Project (CDP) (page 6); the UN Principles for Responsible Investment (UN-PRI) (page 10) and the Extractives Industry Transparency Scheme (EITI);
- collaboration with the General Board of Pensions and Health Benefits (GBOPHB) of the United Methodist Church

Resolution

- The Conference receives the report of the Joint Advisory Committee on the Ethics of Investment.
Responding to the Connexion

The Committee approved two Policy Statements during the year; on Caste Discrimination and on Investment in Israel/Palestine. Position papers on both subjects had been agreed and reported to Conference in the 2010 JACEI Report.

The Committee regularly discussed the issue of executive remuneration, which continued to exercise public debate – particularly in the banking sector – and to note the frequency with which the CFB had voted against company remuneration policies.

The Committee judged the ecumenical approach to voting on UK and European holdings was working well, and that the report on executive remuneration, commissioned by the Church Investors Group, had made a helpful contribution to the debate from the perspective of distributive justice (page 7). Executive Remuneration was agreed as the subject for this year’s short report, given its central role in the Committee’s thinking during the year.

The Committee noted the following Memorials and replies:

On banking
Whilst the Memorial raised important issues, it was noted that the most important ethical issue for a bank was to be sufficiently capitalised to honour its liabilities. It was confirmed, however, that HSBC, the subject of the Memorial, did not lend to companies that manufacture cluster munitions (alleged in the Memorial), an activity prohibited under UK law.

On palm oil
This had asked the Methodist Church to raise awareness of the contribution that palm oil production made to deforestation and to promote sustainable sourcing. Engagement on the subject of sustainable palm oil included conversations with Unilever that suggested it was moving towards sustainable sourcing, and Nestlé, which was committed to do so by 2015.

On Israeli settlements
This was directed at both consumer awareness and investment issues. It was agreed that the Joint Public Issues Team (JPIT) should regularly provide the CFB with a list of any companies to be reviewed against the CFB Policy on Israel/Palestine. It was noted that the President of the Conference had written to nine supermarkets regarding their policies on sourcing products from Israeli Settlements in Palestine. JPIT have obtained assurances from six of them that their responses on this subject could be made public.

In recognition of the 50th Anniversary of the CFB, the Chief Executive had been asked to address the 2010 Methodist Conference about the work of the CFB, JACEI and the importance of an ethical approach in managing Methodist investments. The address had raised the Committee’s profile and was well received.
Significant Issues

Caste Discrimination

A draft Policy Statement on Caste Discrimination based on the Position Paper approved by the Committee last year was recommended for approval to the CFB. Subsequently the Policy Statement was approved by the CFB Council, and is available on the CFB website:

Policy

- Dialogue on caste discrimination will be sought with companies with significant investment in India. This issue is likely to affect consideration concerning suitability for investment in instances in which a company is unresponsive on the issue and the dialogue with the company raises concerns over interpretation and implementation of ILO codes in a wider international context.
- In addressing discrimination in the context of India, company policies should make explicit reference to discrimination on the basis of caste rather than relying on broader generic terms.
- Companies will be encouraged to have put in place affirmative action policies to address caste discrimination and ascribe to either the Ambedkar Principles or the Confederation of Indian Industry Affirmative Action Policy that offer an appropriate framework for action.
- Companies should be able to report to shareholders the progress made in enhancing the employment opportunities for people of Scheduled Caste within the context of recruitment and in career development.
- Companies will be encouraged to address discrimination through their social responsibility programmes or in other ways highlighted in the CFB Position Paper on Caste Discrimination.

The Policy will be used by the CFB when engaging with companies with business operations affected by the issue of Caste Discrimination, particularly in India. The Connexional Team monitors companies where this subject is relevant, and the CFB will raise it as necessary during routine engagement meetings.

Information relating to the progress made by HSBC as a signatory of the Confederation of Indian Industry Code of Conduct for Affirmative Action and particularly in relation to financial inclusion was noted. This had been provided by the Revd David Haslam and the Dalit Solidarity Network through their ongoing engagement with HSBC and it was expected that the dialogue on this subject between them and the CFB will continue.

Investment in Israel/Palestine

The Committee spent a significant amount of time discussing issues relating to Israel/Palestine during the year, informed by the 2010 Methodist Conference Report, Justice for Palestine and Israel, and the St Austell Circuit Memorial.

A draft Policy Statement based on the Position Paper Investment in Israel/Palestine was recommended for approval by the CFB. Subsequently the Policy Statement was approved by the CFB Council and placed on the CFB website.

Policy

- The CFB aims not to invest in any company that is directly or materially involved in activities that are in breach of international law, or is complicit in violations of human rights as defined by the United Nations Universal Declaration of Human Rights. This includes the provision of “right to life” services (such as water, gas or electricity) that may be used materially to disadvantage one community in favour of another.
- The CFB seeks to invest in companies that are, or are likely to become, signatories to the UN Global Compact, thereby demonstrating a commitment to align their operations with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.
- The CFB’s strategy for influencing change relies primarily on dialogue and constructive engagement with companies. Engagement is pursued until it becomes clear that a company is not open to dialogue or does not respond positively to the concerns that are raised. If engagement fails, then disinvestment is an option that the CFB will consider.
- There may be circumstances where the concerns are of such significance, e.g. on the sale of military equipment, that regardless of other considerations, disinvestment becomes the only ethical response.
- The focus of CFB engagement will be to understand the nature, extent and impact of any business operations in the affected areas. A decision to disinvest will be predicated on some or all of the following factors:
  - the severity of the concern including:
    - the extent and significance of the activity that has given cause for concern
    - its impact on individuals and communities
    - whether the activity is core, expanding or is time limited
- the record of the company on human rights elsewhere and whether it is otherwise progressive

- the significance of a company’s business in Israel/Palestine within the context of its global operations

- the contribution, either positive or negative, of the company’s operations to the economy within the affected communities

The areas that might lead the CFB to seek constructive engagement with companies include business interests in any of the following:

- the provision of equipment or services to the military or police in support of operations in the occupied territories

- the supply of equipment or services to the military or police in support of operations in breach of UN resolutions such as the demolition of homes, olive groves and other infrastructure

- the construction of facilities or infrastructure within the Israeli administered areas of the Palestinian occupied territories

- the construction, maintenance or management of transport links between Israel and Israeli settlements in the occupied territories

- contracts for the supply of materials or associated activities related to the construction of the separation barrier/wall

- the manufacture of goods or the supply of produce within Israeli administered areas of the occupied territories and the sale of such items

- appropriate “country of origin” labelling of goods sourced from Palestinian administered areas of the West Bank or Gaza, and implementation of the DEFRA Code of Practice regarding the labelling of settlement originated goods

- the establishment of new business partnerships with Israeli or Palestinian companies without due regard to any possible human rights implications or their impact on conflict

- Companies seeking or maintaining business relationships in Israel and Palestine need to demonstrate that they

  - have addressed human rights concerns when working within the context of conflict

  - are conversant with the adjudication of the Security Council, the UN Human Rights Council and the International Court of Justice on practices or issues that have relevance to their operations or contracts

  - are prepared to engage suppliers in dialogue regarding human rights principles

  - have taken all reasonable measures to ensure that they cannot be held indirectly complicit in human rights abuses when selling through intermediaries to an end user

- The CFB will also seek to influence companies by encouraging them, where appropriate, to develop opportunities that will enhance the prospect of a viable and sustainable Palestinian economy over time e.g. in sourcing Palestinian produce for export and sale

Two European companies that were indirect shareholdings of the CFB through its investment in the Epworth European Fund were subsequently reviewed in the light of the CFB Policy: Veolia and Alstom. These were involved in building and operating a fixed line tramway in the Greater Jerusalem metropolis linking West Jerusalem with Israeli settlements in East Jerusalem and the West Bank, which is alleged to be in breach of international law. Other investors had engaged with Veolia which indicated that the company was seeking to exit from its involvement as the day to day operator, although this still left it with a 5% equity stake in the consortium. Alstom had supplied the trains, but its ongoing involvement was now limited to its 20% equity stake in the consortium.

The Committee advised that before any decision was taken a period of urgent engagement should be undertaken with both companies in order to clarify their strategies in relation to the project. The CFB held a detailed meeting with a senior staff member at Veolia and corresponded with Alstom, in which much new information was obtained. It was evident that both were progressing negotiations to exit their equity stakes in the consortium, and that additionally, Veolia was seeking to withdraw from operational involvement. The Committee welcomed what had been achieved so far, and suggested further contact with Alstom to understand the timetable for withdrawal. The Committee viewed Veolia’s exit strategy positively, and on which basis, the Committee advised it should continue to be acceptable for investment.
Children – Trafficking and the Leisure Industry

The Committee welcomed CFB engagement with Intercontinental Hotels Group concerning a report by the Christian Brothers Investment Services (CBIS), set in the context of the hosting of the World Cup in South Africa, that pointed to sex trafficking being a prevalent challenge for the leisure industry in general, and in emerging markets in particular. CBIS had contacted eight international hotel groups asking for their policies and procedures on human sex trafficking, with a view to understanding how prepared companies are to prevent activity affecting vulnerable groups, particularly children. Whilst the results were broadly positive, the Committee was disappointed that the UK company Intercontinental Hotels Group had not signed up to the UNICEF Tourism Code, which provides guidance and training for staff on the subject. However, the Committee noted the company’s response that commitment to the Global Compact is, in its view, sufficient to address the issue. The Committee noted a CFB report on the company and welcomed the intention to progress engagement further.

Xstrata and Energy

The Committee gave significant time during the year to reviewing extractives companies in general and Xstrata in particular. It was noted that since it was reviewed some years ago, the company had made notable progress in the areas of health and safety, community and resettlement, and carbon emissions. Moreover, the Committee noted that the CFB had had a very positive meeting with the company, which had been keen to engage. Despite reservations, the Committee agreed that on the basis of its strong and improving corporate responsibility credentials, Xstrata met the criteria outlined in the CFB policy on Extractive Industries and should no longer be considered as ethically unsuitable for investment.

However, the Committee was particularly concerned over the contribution of coal in the Xstrata portfolio and whether this sat comfortably with the CFB environmental and climate change policies. It was noted that although coal use contributed significantly to global greenhouse gas emissions, its use remained the primary source of power for a large proportion of the world. It was therefore agreed that further work on energy industries in general and power generation in particular was necessary. This should review the supply chain from mining to end use and include related issues such as waste disposal and remediation of land. This work is in hand.

Carbon Disclosure Project (CDP) Engagement

The Committee regularly reviewed continuing engagement with companies failing to participate in the annual CDP survey as part of the CFB Climate Change policy work. During the year, a new engagement strategy for companies not participating in the CDP was adopted, whereby persistent laggards failing to respond to engagement would be referred, after a time, to the Committee for further review.

Companies targeted for engagement during the year were those with material climate change impacts from their business operations: Smith & Nephew, Halfords, Spirent, Cookson, Halma, Charter International, Restaurant Group and Taylor Wimpey. They were urged to take part in the 2011, survey and to provide more clarity on their approaches to climate change mitigation. Smith & Nephew responded positively and intends participating in the next survey, whilst Halma is also taking steps that will allow it to complete the disclosure requirements in 2011. Disappointingly, Cookson once again declined to take part citing cost and resource reasons. The Committee welcomed progress, and encouraged the CFB to continue in its efforts.

The Committee also welcomed CFB involvement with the CDP Water Disclosure Project, which had completed its second year. The results, thus far, were modest, but the Committee noted it was CFB’s intention to commence engagement around water following the next survey results when trends might be better analysed.

Oil Sands: BP & Royal Dutch Shell Shareholder Resolutions

The Committee reviewed a detailed note on the main ethical issues connected with oil sands and their extraction. Fair Pensions collaborated with investors, including CFB, to co-file shareholder resolutions at the AGMs of BP and Royal Dutch Shell (Shell) concerning emissions relating to oil sands, and the assumptions made on their economic viability.

The CFB chose to co-file because the primary purpose of the resolutions was to bring into the public domain more information on the risks involved. Leading up to the AGMs, intense engagement ensued with both companies. Shell published information previously unavailable and responded positively and in depth to the issues raised. Therefore it was felt Shell had fulfilled many of the requirements of the Resolution and thus the CFB abstained on the Shell resolution. However, it voted for the BP resolution as although BP did publish a ‘cost of carbon’ figure, it had been less forthcoming overall with investors in the lead up to the AGM.

The Committee noted that at the BP AGM, 15% of votes were cast in favour of the resolution or were withheld by shareholders; at the Shell AGM 11% either supported or abstained. Both represented significant levels of shareholder support for the resolution proposals.

The Committee congratulated the CFB on the positive outcome and welcomed its efforts to draw attention, through co-filing the resolutions, to the risks attendant on both businesses arising from carbon intensive operations such as oil sands.
Network Rail

The Committee noted engagement with the ‘not for profit’ UK rail infrastructure company, Network Rail, resulting from the CFB holdings in bonds issued by the company. The Committee particularly commended the initiative as it was unusual for responsible investors to engage in relation to fixed interest holdings. Concerns had emerged due to an increase in contractor fatalities and it was noted that the Regulator had suggested that Network Rail’s safety regime betrayed “significant weaknesses”. The Regulator had also expressed concerns at the level of executive bonuses. The CFB had written to Network Rail to raise these issues and had received a very full reply in which continuing rigour over safety was stressed. Bonuses had been reduced, and the Chairman referenced the CIG report on executive remuneration (below) suggesting that the ratio of top to bottom earnings was “well below” the 75 to 1 mentioned in the report. The Committee welcomed the response.

The UK Stewardship Code

The Financial Reporting Council published The UK Stewardship Code in July 2010 as a response to ongoing concerns at the quality and extent of asset owner engagement in the UK. Through its seven principles, the Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. Disclosure, monitoring, collective engagement and active voting are variously encouraged by the Code. The CFB signalled its support of the Code through a press release issued in November 2010. A fuller Statement, setting out the CFB’s interpretation and response to each principle, was approved by the CFB Council in January 2011 and is available on the CFB website.

Executive Remuneration

The Committee welcomed the study, The Ethics of Executive Remuneration, commissioned by the Church Investors Group which was published in March 2010, and generated significant publicity. The paper was felt to be a very useful addition to the debate which has become a major issue for government and society. Copies of the report were sent to the leaders of the main political parties, UK church leaders and Chairmen of the FTSE 100 companies, and can be obtained from the CIG website at www.churchinvestorsgroup.org.uk.

The principal observation of the report was that investors should be more concerned with helping the poor than restraining the rich and therefore be more vigilant about levels of pay at the bottom of an organisation than those at the top. However, it went on to note that absolute levels of executive pay in the UK were “strikingly high”, and observed that a ratio of greater than 75 times between the highest paid and the average of the bottom 10% could not be justified from the point of view of distributive justice. It further recommended that investors need to hold companies to account where excessive awards are made or where undue levels of risk are incentivised.

The Committee also noted and endorsed the public call by institutional investors for much greater simplicity and transparency in executive pay packages. Through its ecumenical voting policy, the CFB took action to oppose 68 UK remuneration reports in 2010 and to abstain on a further 35 (88% of the total) where either performance, disclosure or the potential for excess were of material concern.

The Church Investors Group (CIG)

The Committee continues to view CFB collaboration with the ecumenical CIG as an important contribution to the impact of faith-based investment in the UK and Ireland. A good example of this was provided by recent engagement between CIG and BP. A detailed and frank meeting was held with an Executive Director of BP on safety issues in the wake of the Deepwater Horizon accident in the Gulf (page 9). Subsequently a common position was agreed that enabled international church investors to engage collectively with the company. The CIG also:

- Organised a Trustees Day with a keynote speech from the Archbishop of Westminster
- Received presentations from First Group and Royal Dutch Shell
- Received presentations from ECCR, PIRC and EIRIS
- Initiated a ‘traffic light’ project to produce a list of aggregated restricted investments for members
- Re-designed the CIG website
- Continued to review and monitor the ecumenical voting policy adopted in 2009

The Committee noted the election of the CFB Chief Executive as the CIG Vice-Chair and the URC representative as the new CIG Chair for a three year term from January 2011.
Regular Reporting Items

Alcohol and Tobacco

The Committee noted moves by the government to restrict below cost pricing for alcohol by introducing a minimum pricing strategy. Whilst this fell short of per unit pricing, it was hoped it would commence a debate around the cost to society in general and personal health in particular, of alcohol excess. The Committee also noted that under government proposals, supermarkets would no longer be able to sell alcohol as a ‘loss leader’. It was noted that among leading retailers, Tesco had taken a strong position on unit price regulation, which the CFB had discussed with the company.

The Committee noted moves by the Coalition government to place restrictions on the display of tobacco products in shops and supermarkets.

Armaments

The Committee considered a CFB note on the engineering company Weir Group which had been excluded owing to its large stake in the Royal Navy’s Devonport Dockyard, and ownership of an ammunition business. Since these stakes had been sold, the company’s military exposure had been reduced to less than 1%. The Committee agreed with the recommendation that the investment restriction on Weir Group should be lifted. The Committee noted the new Defence Policy of the Church of England, which had amended its exclusion thresholds for certain types of military activity.

The Committee considered CFB research on the issue of the military exposure of quoted infrastructure funds. In general their military exposure was relatively small and not directly weapons related. However, the John Laing Infrastructure Fund had approximately 20% exposure to defence, mostly via management of the MOD headquarters in Whitehall and thus presented a more complex problem. After some discussion the Committee decided that the Fund could be recommended as being appropriate for investment, as its defence exposure did not breach the CFB defence policy. However a review of services company Interserve was not viewed by the Committee as being appropriate for investment owing to its relatively high exposure to defence sales coupled with its contracts at two nuclear establishments.

Corporate Governance and Business Ethics

The Committee reviewed and noted various reports on executive pay. In the UK, the CFB considers the quality of disclosure, how stretching performance hurdles are, and the potential for excess in coming to a decision.

Following the successful adoption of a common CIG template for voting the CFB UK equity holdings through the PIRC proxy voting service, the Committee welcomed the new ecumenical approach to voting European equities.

The CFB appointed Glass Lewis & Co, an independent proxy voting service, to vote their European shares using a template in common with the three national investment bodies of the Church of England. The Committee noted that the approach taken was to support best practice in each market, tailored to reflect faith investor concerns on executive excess. In those markets where ‘share-blocking’ still prevails, the CFB has decided it will take no action rather than waive its shareholder rights.

Summary quarterly voting reports for the UK and Europe are available on the CFB website.

Supply Chain Issues (including Debt Relief and Fair Trade)

The Committee noted with concern demands made by Serco for a 2.5% cash rebate from its leading suppliers. The company had apparently written to 193 of its largest suppliers demanding reductions or face losing contracts, but had been forced to back down following government intervention. The Committee viewed this as a worrying sign of the economic pressures suppliers may face and was therefore something the CFB should be alive to if more examples emerged.

The CFB met with the Ethical Trading Initiative (ETI) during the year to discuss progress within the retail sector towards the introduction of a Living Wage. The meeting provided a helpful context to future and ongoing engagement with companies, by emphasising the complexities that exist within the supply chain. The trend in ‘fast fashion’ also made the payment of a Living Wage more fraught with the use of ever more intermediaries. Nevertheless, engagement had proved constructive, and the ETI stressed progress was being made. The CFB had met with Fair Pensions to discuss its campaign for FTSE 100 companies to pay a living wage, which the Committee was pleased to endorse. Further work will be progressed during 2011.

CFB staff reported on a meeting with Tesco at which the company had demonstrated a commendable effort to reduce its carbon impact, although it was still to implement a coherent water strategy with targets, (it was noted that Tesco had not participated in the first CDP Water Disclosure Project), but the company had come out well in the main Carbon Disclosure Project survey, and was placing a strong emphasis on sourcing local produce and developing training academies in overseas markets.
Environment

2010 was dominated by the tragedy in the Gulf of Mexico in which 11 people died in the explosion on the Deepwater Horizon oil rig, which was operated on behalf of BP. Before the incident was brought under control an estimated figure of close to 5m barrels of oil were released into the environment with serious social consequences for livelihoods and biodiversity. The Committee followed reports of the subsequent investigations with close interest, and welcomed the CFB’s engagement with the company. CFB staff had attended a detailed seminar on these subjects hosted by BP and led by the company’s Chairman. The CFB had also arranged for a BP Board Executive to meet with a CIG delegation. The accident report made clear that mistakes were made, but that BP could not be held solely responsible. The Committee noted that BP was suspended from the FTSE4Good Index in September and had established a $20bn compensation fund to meet expected liabilities. In a troubled year for BP, it had also agreed to pay a record fine of $50.6m for the Texas City explosion in 2005 in which 15 had been killed and 170 injured.

Following notification of a possible shareholder resolution to be filed by US investors at the 2011 AGM, the CFB worked closely with other investors in engaging extensively with BP such that sufficient assurances were obtained from the company so as to allow the proposal to be withdrawn.

The Committee noted that engagement continued with Royal Dutch Shell (Shell), with CFB staff attending meetings on operations in Nigeria. The CFB also met with Living Earth, an NGO, which had established a strong working partnership with the local communities and Shell. The Committee judged that it could be a very useful contact-partner for the CFB in engagement.

Randgold Resources, a small gold mining company with operations principally in Mali, had welcomed engagement with the CFB over its environmental and human rights management. The company was growing quickly and the CFB had been impressed at the quality of its corporate responsibility given its size. The Committee advised, on the basis of strong health, safety, community and environmental management that there should be no ethical bar to investment. However, the Committee agreed that African Barrick Gold did not meet the best in class criteria for environmental management and should be excluded. The CFB also reported on in depth sustainability meetings with Anglo-American and Rio Tinto.

The Committee welcomed two other initiatives: the CFB became a signatory to the Global Investor Statement on Climate Change, promoted by the Institutional Investor Group on Climate Change (IIGCC), and supported an UKSIF sponsored investor letter to the Prime Minister in support of an adequately funded and effective Green Investment Bank.

Gambling

The CFB excludes companies principally involved in betting and gambling. The Committee intends to commission more detailed work on gambling when resources allow. The CFB regularly monitors the small exposure to gambling at BSkyB via its online platform. The Committee commended the ecumenical work of the Church to persuade the Government to take action to help reduce the number of ‘problem’ gamblers.

Medical and Food Safety Issues

The Committee noted ongoing engagement with Nestlé and Danone. Specific questions were put to Danone during the year in the wake of its acquisition of NUMICO. The combined Group derives 20% of sales from breast milk substitutes and follow-on product lines; a much higher proportion of turnover than Nestlé (around 1%). The main issues raised were disagreement about the extent of implementation of the WHO code and alleged breaches in specific areas. It was noted that there appeared to be no significant difference in the implementation of the WHO code between the two companies, but that Nestlé seemed to have better systems for auditing the implementation. A regular meeting with Nestlé attended jointly by CFB and JPIT took place in which specific issues affecting breast milk substitutes were raised as well as other sustainability initiatives such as Fair Trade cocoa.

The Committee was briefed on initiatives at FTSE4Good whereby revised criteria to judge the suitability for inclusion in the Index for manufacturers of breast milk substitutes were being developed. Companies assessed as meeting the revised criteria would be subject to an annual verification process by an appointed independent auditor. The CFB had been approached to be part of an independent expert panel of interested parties overseeing the verification process. The Committee also learnt that Nestlé had been assessed by the FTSE4Good Expert Committee on Breast Milk Substitutes to have met the revised criteria, and would therefore enter the Index in March 2011.

During the year, research into the health implications of long-term mobile phone use was reviewed. A large scale scientific study in 13 countries following 13,000 users concluded that there was no increased risk of developing tumours. Indications that the heaviest users could be at risk were discounted as within the margin for error. The Committee welcomed news that a European study would track 250,000 users in five countries over 30 years. This would present the strongest body of long-term evidence anywhere in the world.
Human Rights

The Committee noted that after much delay, the UN Human Rights Council is likely to adopt the new human rights and business framework proposed by John Ruggie. The Committee kept a watch on developments, noting that human rights risk assessment lay at the heart of the proposals which were being trialled by Anglo American among others.

The Committee noted the ongoing challenges faced by Vedanta Resources over its human rights record in India, following the Environment Ministry declaring its bauxite mining project in Orissa as falling foul of environmental best practice. The local communities had opposed development of the mine as severely compromising their way of life. Vedanta is excluded by the CFB on human rights and environmental grounds.

The Committee noted conversations with the investment management company First State, who manage the majority of the CFB Overseas Fund’s investments in the Pacific, regarding possible investment in the Foxconn Group where factories in China had been linked to a wave of worker suicides. Upon investigation it was confirmed that the CFB had no exposure to the company around which there are strong concerns about human rights and labour standards.

CFB staff reported on a follow-up meeting with the oil services company Petrofac. They were encouraged by the company’s positive response to engagement in relation to human rights and the Carbon Disclosure Project. The CFB Security Services policy was sent to the company.

Media

The Committee noted as part of the work involving Intercontinental Hotels Group (page 6) that research indicated revenues derived from in-room pornographic film services are declining with the advent of laptops and personal Internet access.

The Committee noted that WH Smith had refused to classify semi-pornographic magazines such as Zoo and Nuts as pornography by restricting them to upper shelves. The company insisted it has a responsible policy towards the visibility of such magazines whereby they would be placed at a minimum height of 1.2m equivalent to shoulder height of an average adult. The Committee noted however, that pornographic magazines were not usually sold at High Street locations but restricted to sale at stations and airports.

Networking

The CFB reported that it had had contact with overseas church bodies including the General Board of Pension and Health Benefits of the United Methodist Church (GBOPHB), the Uniting Church of Australia, the Mennonite Church in Canada, the Methodist Church in New Zealand, Everence and the Christian Brothers. Mr Zellner of the GBOPHB attended the September meeting of JACEI. The CFB was actively involved in: the Church Investors Group (CIG), the Institutional Investors Group on Climate Change (IIGCC), the Carbon (and Water) Disclosure Project (CDP), the UN Principles for Responsible Investment (UNPRI), the Extractive Industries Transparency Initiative (EITI), and the EIRIS Foundation (Trustee Board member).

Other contacts included the Ecumenical Council for Corporate Responsibility (ECCR) where a Connexional Team member sits on the Board, and UKSIF (UK Sustainable Investment & Finance). It also used the specialist services of EIRIS, PIRC, Glass Lewis & Co. and Trucost.

The Committee commended the important input on a variety of subjects from the Connexional Team at Methodist Church House.

The CFB Ethical Review

The CFB voting records (UK and European), ethical overview of UK sectors, list of ethically excluded European and UK companies (approx 5.6% of the Eurofirst 300 ex-UK Index and 12% of the FTSE All Share Index, respectively) and minutes of the monthly CFB ethics meeting were all noted. The ethically adjusted index outperformed the FTSE All Share Index by 0.2% in the year to 28 February 2011, and similarly outperformed by the same amount (per annum) over a three year period. However, over a five year period it underperformed by 0.5% per annum.

A significant number of CFB reports and reviews of individual companies were received during the year including notes of meetings with Anglo American, Rio Tinto, Barclays, Tesco, Petrofac, Randgold Resources and Nestlé.

The Committee was pleased to note that the annual assessment report on the CFB from the UN PRI scored it in the first quartile on an aggregate basis against the six Principles of Responsible Investment. More information can be obtained at www.unpri.org.

The Committee noted that the CFB had met with the Secretary General of UN PRI to discuss the future work plans of the organisation and the introduction of a mandatory fee for participating signatories.
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.

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 disinvestment on ethical grounds.

That the Committee should:

- hold four meetings a year (in 2010/11 these took place in June, September, November 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 was the Chair of the Committee. Members nominated by the Methodist Council were: Professor David Clough, Dr Brian Gennery, Ms Alison Jackson, Mr Chris Moorhouse, Ms Rachel Lampard.

Nominated by the Central Finance Board (CFB) were: Dr Keith Aldred, Mr Alan Emery, Sir Michael Partridge, Mr Bill Seddon and Mr Peter Thompson (until September 2010). Mr Roger Smith (from September 2010).

The Revd Winston Graham represented the Trustees of the Methodist Church in Ireland.

In attendance to facilitate the workings of the Committee were: Mr Russell Sparkes, Mr Miles Askew, Mr Stephen Beer, Mr Christophe Borysiewicz, Mr Stephen Hucklesey and Ms Kate McNab and Mr Neville White. During the year Mr White replaced Mr Sparkes as the Committee Secretary.

The Committee agreed that a member of the Ethical Investment Advisory Group of the URC could attend as an observer and Mr Frank Kantor was invited to attend from time to time in this role.

(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).