

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

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Chair's Report

This year, the main concentration of time and resource has been on one particular issue; climate change. The 2017 Methodist Conference requested JACEI (through the Methodist Council) to examine the pace of change in the extractives sector, and actively to consider disinvestment criteria and timescales required to disinvest from oil and gas companies whose business plans were not aligned with the Paris Agreement on climate change.

JACEI dedicates considerable time at every meeting to climate change; however this has increased considerably in 2017/2018 in order to escalate the work so as to respond to the Conference request. To that end, an additional meeting was held in February 2018 to review progress to date and to agree the next stage of analysis. I wish to thank my colleagues at the Central Finance Board of the Methodist Church (CFB) for their enormous efforts at a time when resources were already hard pressed. The Conference is directed to the supplementary report we have published this year (*Climate change and fossil fuels: an update*) which provides more detail on our work and advice on climate change investment matters.

The intense focus means, necessarily, that there has been less time for other matters. This is disappointing and a consequence of the focused effort needed to respond in detail to the case for climate disinvestment based on examining a large number of scenarios and then applying them to a portfolio of extractive stocks. This attention to the supply of fossil fuels diverted resources from assessing companies which demand their intense use and which are therefore responsible for significant carbon emissions.

Despite this focus, JACEI is proud to have concluded some important work during the year in other areas. The CFB became the first faith investor to adopt a policy on farm animal welfare, and I commend both the Position Paper and Policy Statement to readers. A revised and completely updated Corporate Governance Policy was approved, replacing a suite of older policies on voting and governance. For the first time, the process whereby companies are screened for inclusion in CFB portfolios, and the basis on which engagement may take place, was set down in a high-level Screening and Engagement Policy.

Work is now well advanced on a Position Paper and Policy Statement on Tax, which I know will be of great interest to the wider Church as it continues to press for tax justice.

Engagement with business to address concerns and raise standards is at the heart of how the CFB manages money on behalf of the Church. Owing to the concentration of time on

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

climate, some areas of engagement have had to be reduced. Nevertheless, the Report outlines some areas of new or continuing engagement that have taken place, such as water risk (on behalf of the Church Investors Group), human rights in Burma/Myanmar, child labour in the overseas granite industry and on fair trade.

The CFB joined a new initiative focused on UK workplace practices as society's concerns around vulnerable, low-paid work intensified. Elsewhere, collaboratively, we joined global investors in supporting efforts to reduce the use of antibiotics in the food chain, to engage with supermarkets on modern slavery closer to home, and continued our long-term dialogue with infant formula companies.

There is much in this report that we trust will continue to enthuse and encourage the Conference. 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 commitment to this important work.

Executive Summary

Climate change summary

The Committee has committed considerable time in responding to the 2017 Conference Memorials and amended response via the Notice of Motion, including agreeing an assessment methodology and implementation timeline. A report of our detailed work in response to this is contained in a supplementary report (*Climate change and fossil fuels: an update*). During 2017/2018 JACEI reviewed and oversaw several CFB climate initiatives including the annual portfolio footprint exercise, engagement with the G7 and G20, engagement with companies such as Carnival and Total and a review of key carbon transition literature.

Policy development

Approved and amended policies

The Committee recommended ethical investment policies on Farm Animal Welfare and Corporate Governance during the year which were approved by CFB Council and subsequently published on the website. JACEI also recommended a high-level Screening and Engagement Policy which was approved by CFB Council. The Policy on Military Exposure was amended and approved.

Policy development

Work commenced during the year on two new ethical investment policies: Tax and Fixed Income Investments. These will be progressed during 2018.

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

Other ethical investment work

Mining and Faith Reflections Initiative (MFRI)

The Committee supports the CFB's continued engagement with the Mining and Faith Reflections Initiative, together with connexional representatives, which brings together senior church leaders and mining executives in dialogue. A mini-day of reflection was held in 2017.

Extractive industries

The Committee reviewed CFB activity which included meetings with several major oil and mining companies on their environmental and social performance. CFB engaged with Centrica in respect of its minority interest in a fracking concession.

Nestlé and breast milk substitutes

The Committee noted the CFB was the only investor to be invited to a ground-breaking conference with infant nutrition NGOs to look at how Nestlé supports the first 1,000 days of life. The Committee has maintained its strong support of the FTSE4Good process and continues to review CFB dialogue with Nestlé and other infant nutrition companies.

Food, nutrition and farm animal welfare

The Committee welcomed engagement by CFB on a range of issues including management of farm animal related risk, antibiotic resistance in the livestock production sector and fair trade issues.

Environment

The Committee welcomed CFB scoping the issue of plastic production and waste as an emerging issue of concern.

Employment and labour

The Committee welcomed CFB joining a new collaborative initiative, the Workplace Disclosure Initiative (WDI) and noted continuing efforts to work with Share Action in support of the Living Wage.

Water risk

The Committee reviews collaborative engagement with global companies on water risk, which CFB has led for the second year on behalf of the Church Investors Group (CIG).

Human rights

The Committee reviewed significant engagement with companies over a number of human rights related issues, including cobalt mining, modern slavery in supermarket car washes, sourcing of granite overseas in the construction industry, and human rights in Burma/ Myanmar. JACEI advised that there was no longer an ethical bar to investment in Total SA as the company has transformed its approach to human rights over the past two decades.

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

CFB voting and executive remuneration

The collaborative CIG voting template is supported by CFB. A robust approach to executive remuneration continues with CFB opposing executive pay proposals where these are deemed excessive. The Committee reviews CFB voting activity and welcomes the increasing emphasis placed on climate change and diversity laggards as part of the collaborative CIG voting policy.

The UK Stewardship Code

CFB has maintained its accreditation as a Tier I signatory to the *UK Stewardship Code* by the Financial Reporting Council.

Principles of Responsible Investment (PRI)

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

Church Investors Group (CIG)

The Committee commends the continued strength of collaborative effort via the 59 member CIG. The CFB Chief Investment Officer was elected Vice-Chair of the CIG during the year.

CFB ethical review

The Committee's responsibility to the 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*. It does this by regularly reviewing CFB performance across a range of reports and reviews which are set out in this Report.

Governance

Role, function and membership of the committee

The Committee's Terms of Reference, and current membership are set out in the attached appendix. Proposals on Standing Orders can be found in the report of the Law and Polity Committee (Item 14).

For more detail on the issues contained within this Summary Report, and other matters considered by JACEI, we recommend referring to the full 2018 Annual Report to Conference, the Supplementary Report on Climate Change along with all Position Papers and CFB Policy Statements. These will be made available on both the CFB website www.cfbmethodistchurch.org.uk and the Methodist Church website www.methodist.org.uk/jacei.

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:

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

- voting record of the CFB;
- ethically excluded lists of UK and European companies;
- monthly ethics meeting minutes of the CFB;
- company engagement record of the CFB;
- Trucost and Vigeo-EIRIS reviews of the CFB UK portfolio carbon footprint;
- participation of the CFB in the Institutional Investors Group on Climate Change (IIGCC); CDP (formerly the Carbon Disclosure Project); the Principles of Responsible Investment (PRI); Access to Medicines Index (ATMI); Access to Nutrition Index (ATNI); Business Benchmark on Farm Animal Welfare (BBFAW); the Workplace Disclosure Initiative (WDI) and the Extractives Industry Transparency Scheme (EITI);
- collaboration with Wespeth Benefits and Investments (the United Methodist Church pension, benefits and investment agency) and participation in the CIG.

***RESOLUTION

18/1. The Conference receives the report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2018.

APPENDIX

Governance: Role, Function and Membership of the Committee

Terms of Reference

The Joint Advisory Committee on the Ethics of Investment (JACEI) was established in 1983 by a Resolution of the Methodist Conference to provide a mechanism for the Methodist Church to tackle ethical dilemmas associated with investment and to report annually to the Conference. Its Terms of Reference, which were last revised in 2001, are as follows:

The Joint Advisory Committee of the Ethics of Investment shall have a Chair appointed by the Methodist Council. The Committee shall have five members appointed by the Central Finance Board of the Methodist Church (CFB) and five members appointed by the Methodist Council.

The function of the Committee shall be:

- *to advise the CFB of ethical considerations relating to investment, it being accepted that the CFB legally has responsibility for making the final decision on the purchase or disposal of any share;*
- *to make public where appropriate any ethical policy of the CFB and in particular any investment decision taken on ethical grounds and any other advice the Committee may provide on ethical matters relating to investment;*
- *to report to the Conference on the workings of the Committee and in particular to comment on the performance of the CFB in managing the funds under its control*

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

according to an ethical stance which is in accordance with the aims of the Methodist Church.

The Committee expects to review and update its Terms of Reference during 2018.

SRI reporting requirements

In July 2000 regulations came into force obliging pension funds to consider their policy, if any, on socially responsible investment (SRI). In April 2005 similar requirements were extended to charities under the SORP guidelines. The UK Stewardship Code, published in July 2010, provides further clarity on reporting by investors. The CFB is investment manager to large pension funds that use the JACEI Conference Report as part of their assessment of CFB compliance with their SRI policies. The report should therefore enable trustee bodies to assess clearly whether the CFB has operated in a way consistent with the aims of the Methodist Church.

The CFB has been a signatory to the **UK Stewardship Code** since its inception in 2012, and its latest Statement of disclosure is available at www.cfbmethodistchurch.org.uk.

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

JACEI agendas

JACEI receives at each meeting:

- the CFB 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 extractive 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;
- significant collaborative engagement work.

The Committee should:

- hold four meetings a year (in 2017/2018 five meetings took place in June, September, December February 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; and

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

- seek 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
- email their comments on position papers or other matters 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.

The Committee revised its way of working during 2017/2018 following a strategy day held in February 2017. In order to maximise its use of time, routine items of business are now reported via a CEO Report to JACEI, which the Committee receives and reviews.

Committee membership

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 the Methodist Council.

Members nominated by the Methodist Council are:

- The Revd Dr Sheryl Anderson (from 1 July 2017)
- 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
- Mr John Sandford
- Mr Terry Wynn

The Revd Dr John Stephens attended as a representative of the Trustees of the Methodist Church in Ireland until 12 March 2018, and is succeeded by Mr David Hopley.

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

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 Ms Sophie Leake.

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

Ms Ashma Ponniah is the JACEI Minutes Secretary.

Mr Neville White is the CFB Ethical Consultant and JACEI Secretary. The Secretary can be contacted at: neville.white@cfbmethodistchurch.org.uk

The Committee has a reciprocal arrangement with the Church of England Ethical Investment Advisory Group (EIAG) whereby representatives of JACEI and the EIAG attend as observers of each other's meetings and exchange minutes.

Mr Adam Matthews (Secretary to the EIAG) and Mr Stephen Barrie 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

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