

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

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Chair's Report

1. 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 14th such survey for 2019 shows the unprecedented urgency of climate-related risk. For the first time, environmental challenges 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 first and second 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).
2. This report is again dominated by our extensive work of reviewing the Central Finance Board of the Methodist Church (CFB) analysis on climate change. The 2017 Conference requested JACEI (through the Methodist Council) to examine the pace of change in the extractives sector, 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 the Conference in 2020 with our conclusions based on a considerable body of work produced by the CFB.
3. Each meeting of JACEI dedicates a significant amount of time to climate change, the pace of which has intensified in 2018/2019. 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.
4. As I reported last year, this 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.
5. 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 the Committee maintain its due diligence by engaging constructively with companies operating in Israel and the Occupied Territories.
6. 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 and Return) by joining their collaborative engagement on antibiotic resistance.
7. 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.
8. JACEI meets four times a year and debates 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 the Conference on the way ethical investment is closely undertaken.

9. 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.
10. During the year we welcomed a new member; the Revd 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.
11. We are always delighted to receive comments and feedback on the Report itself, and on the work undertaken.

Executive Summary

12. Climate change

The Committee has allocated considerable time and resource as part of its commitment to the Conference to agree an assessment methodology and implementation timeline. The methodology was endorsed by the 2018 Conference and a suite of internal research reports have been prepared. During 2018/2019 JACEI reviewed and oversaw several CFB climate initiatives including the annual portfolio footprint exercise, participation in the Transition Pathway Initiative (TPI), Climate Action 100+ (CA100+), Institutional Investors Group on Climate Change (IIGCC) and Carbon Disclosure Project (CDP) initiatives, engagement with Canadian Banks on their financing of oil sands, and co-filing a shareholder resolution on climate change at BP.

Policy development

13. Approved and amended policies

The Committee 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 CFB and Epworth Investment Management websites.

Other ethical investment work

14. Mining and Faith Reflections Initiative (MFRI)

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

15. Extractive industries

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

16. Business ethics

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

17. Nestlé and breast milk substitutes (BMS)

The Committee 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.

18. 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.

19. Environment

Work on plastic continued with CFB drawing up a plastics work plan, joining an investor coalition and engaging with apparel retailers on microfibres.

20. Employment and 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.

21. 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.

22. 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).

23. 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.

24. CFB voting and 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. The CFB ethical review

JACEI'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 regularly reviews CFB performance across a range of reports and reviews.

30. 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 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).

31. 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)**.

32. 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, the Committee reviewed and updated its Terms of Reference. As part of this process, and in light of advice offered by the Secretary of the Conference, it is proposed that, given the significant role the Committee plays in the oversight of Methodist resources, the Committee should be established by Standing Order. The Secretary further observed that at present there is no formal requirement for the Committee to report to the Conference. Consequently, the Conference is invited to adopt a Standing Order, contained within the report of the Law and Polity Committee to the Conference, which sets out the membership of the Committee and clarifies reporting responsibilities.

*****RESOLUTION**

- 6/1. The Conference received the Report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2019.**

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.

Members nominated by the Methodist Council are:

- The Revd 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

- The Revd 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 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

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