

# 2020 Report

The Methodist Church  
Joint Advisory Committee on the Ethics of Investment

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## Chair's Foreword

The year under review has seen the business sector face increased pressure to take action to tackle climate change. Many companies have responded, often in contrast with slow action by governments. A number of oil and gas companies have committed to new greenhouse gas emissions targets and climate-friendly lobbying practices. There has been movement too on other ethical concerns, many of which are outlined in this report.

The investment sector has also embraced responsible investment to an increased extent. This development has been global, with even the International Monetary Fund, in a quarterly Global Financial Stability Report, highlighting the role of Environmental, Social, and Governance investment criteria. In the UK, changes to pensions regulations mean pension funds now need to be more specific about the financial and non-financial ESG risks they consider in their investment strategy.

It is important however to understand the extent to which business and investment sectors are acting differently in practice. The evidence is mixed. For example, companies have continued to pay excessive levels of remuneration to their executives and company boards and their executive teams are often not sufficiently diverse. There is still a lack of sufficient urgency in tackling climate change, with those companies which demand energy from fossil fuels facing increasing scrutiny. In such circumstances, a Christian voice is vital, rooted in Christian values and driven by a commitment to witness to our hope in God's future.

The year under review ended as Covid 19 spread across the world, requiring entire countries, one after another, to lockdown. The impact on the economy is likely to be significant. There are implications for ethical investors. The crisis has revealed much about different corporate cultures. How companies treat their people, at this time and as we recover, will be an important factor in judging their ethical profile. The scale of the response also shows that when urgent action is required, governments and societies can move quickly. This has implications for tackling global warming: companies and investors would be wise to take note that it is better to act sooner than be forced to take action later. Although it is disappointing that the next United Nations climate change conference, known as COP 26, has been postponed, we can hope that this delay gives governments, business, and finance the opportunity to intensify their efforts.

Once again, this Annual Report to Conference has as its focus our activity advising and reviewing the work of the CFB on climate change. Most of the work in this area has been in response to the Methodist Conference Memorial and Reply on climate change and fossil fuel companies in 2017. We have now provided the CFB with our advice, which is summarised in this report and explained in more detail in a separate report to the 2020 Methodist Conference.

JACEI has concentrated on climate change at each meeting. In order to complete our report, we required two additional meetings this year. We want to express our thanks to the CFB Investment Team, which devoted considerable resources to undertaking the work required and facilitating the work of JACEI, including the provision of secretariat services. The CFB work included assessing 17 fossil fuel companies with up to 25 different metrics, and considerable engagement with companies held in CFB funds. We were encouraged to see the CFB also conduct a range of additional engagement activities on climate change, including collaborations with other investment institutions.

JACEI also reviewed other CFB engagement activities during the year, which have been extensive. We examine the application of policies, the outcome of engagements, and advise on ethical dilemmas. We review the minutes of CFB internal ethical investment meetings and quarterly reports on ethical investment matters.

JACEI continues to welcome the role the CFB plays in supporting the Connexion in the Mining and Faith Reflections Initiative and other ecumenical engagements with mining companies. This work, bringing mining executives, church leaders, and communities together, has great potential. The CFB has been active in many other areas including human rights and human and animal welfare. It has continued to vote at company AGMs, working with other church investors.

Once again, JACEI members have shown themselves to be fully committed to their roles, with intellectual rigour and good humour. JACEI would also like to express particular thanks to the CFB team for the considerable work it has undertaken over the year. It has done this while successfully launching new funds for Epworth Investment Management and adapting to new regulations. In addition, as we were completing the work on climate change and writing this report, the CFB team were managing investment funds during a period of considerable market volatility while moving to working from home as the lockdown began.

This Report to Conference is evidence of the oversight JACEI has brought to bear, in support of the CFB's commitment to invest ethically in accordance with the aims of the Methodist Church.

**The Revd Dr Stephen Wigley**  
**Chair, JACEI**

# Executive Summary

## Climate change

The main priority of JACEI's work this year was climate change. In particular, we focused on responding to Conference's request to look again at fossil fuel companies in the light of the Paris Agreement to keep the average rise in temperature to "well below 2C". Fifteen oil and gas companies were assessed and the results presented to JACEI meetings. Of these companies, JACEI advised that ten should be excluded from investment on ethical grounds. The ten recommended exclusions included companies held in CFB Epworth portfolios: ARC Resources, BP, and Total. The other companies were: ExxonMobil; EOG Resources; Conoco Phillips; Hess; Gazprom; Chevron; Woodside. Four companies held in CFB Epworth portfolios, Repsol, ENI, Equinor, and Royal Dutch Shell, were judged on the basis of this analysis to have business investment plans consistent with the Paris Agreement or at least well on the way to this. We also welcomed the considerable company engagement on climate change that the CFB was able to undertake.

## Other ethical investment work

### Mining & Faith Reflections Initiative (MFRI)

The CFB has continued to represent the Methodist Church on the steering committee of the Mining & Faith Reflections Initiative, which brings together mining executives and church leaders to discuss mining and the common good.

### Extractive industries

JACEI reviews engagement with extractives companies regularly and we noted during the year that a number of meetings and discussions that took place on a variety of issues of ethical concern.

### Nestlé & Breast Milk Substitutes

JACEI supports the CFB's process of robust dialogue with Nestlé on BMS and other material sustainability issues, which has been applied over many years.

### Health, wellbeing and farm animal welfare

Work continued on a range of issues related to health and wellbeing including engagements through the Access to Medicine Index and the Access to Nutrition Index.

### Environment

JACEI welcomed the engagement undertaken relating to plastic pollution with Ted Baker, and 50 global consumer goods companies through collaboration with As You Sow.

### Employment & labour

CFB continued engagement on the Living Wage with four companies through the year. JACEI noted that the CFB attended the Workforce Disclosure Initiative Conference in June 2019.

### Israel Palestine

Ethical investment issues relating to Israel Palestine were discussed at each JACEI meeting during the year. The CFB Overseas Fund sold its holding in Heidelberg Cement for investment reasons and we do not expect the CFB to purchase shares again before asking us to update our advice.

## Human rights

As members of the Church Investors Group, the CFB participated in the launch of the 'Find It, Fix It, Prevent It' investor initiative which is currently focusing on a selection of companies within the UK hospitality sector. The aim of the initiative is to take a more targeted approach to engaging with companies on modern slavery, based on the assumption that it exists in most supply chains.

## Tax Justice

The CFB met with the Fair Tax Mark to learn more about the approach it takes to encourage companies to become accredited. The Fair Tax Mark certification scheme was launched in February 2014, and seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place.

## CFB voting & executive remuneration

The CFB is part of the CIG proxy voting coalition, which integrates diversity and climate change, among other issues, into its voting decisions. The CFB's quarterly voting summaries are reviewed at JACEI meetings. These summary reports are available on the CFB website, with the full voting report available on request.

## 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. There are significant changes coming to the UK Stewardship Code, which come into place in 2021. The CFB is working to maintain its Tier I signatory status under the new recommendations.

## Principles of Responsible Investment (PRI)

CFB has been a member of the PRI for many years. JACEI commended CFB for again achieving the highest score (A+) for strategy and governance.

## The Church Investors Group (CIG)

The CFB closely collaborates with the ecumenical Church Investors Group, which works to promote ethical investment for the public benefit. The CFB Chief Investment Officer serves as Vice Chair of the CIG.

## 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.

## 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.

## Governance

### Role, function & membership of the committee

The Committee began the process agreed for appointing new members. The current membership and the Standing Order are set out in the Governance section.

## 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 of the CFB;
- company engagement record of the CFB;
- Trucost review of the CFB UK portfolio carbon footprint;
- CFB participation in **the Church Investors Group (CIG)** and collaboration with **Wespath Benefits and Investments** (the United Methodist Church pension, benefits and investment agency);
- CFB participation 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)**; the **Corporate Human Rights Benchmark (CHRB)**; the **Plastic Solutions Investor Alliance**.

## Resolution

The Conference receives the report of the Joint Advisory Committee on the Ethics of Investment for the year to 31 March 2020.

# Climate Change

## Climate change

The main priority of JACEI's work this year was climate change. In particular, we focused on responding to Conference's request to look again at fossil fuel companies in the light of the Paris Agreement to keep the average rise in temperature to "well below 2C". We also welcomed the considerable company engagement on climate change that the CFB was able to undertake.

## Climate policy

Amongst faith-based investors, the CFB led the way on climate change, first considering it almost 20 years ago. On JACEI's advice, the CFB adopted three climate change policies. The first was written in 2009 and committed the CFB to take account of climate change, reduce carbon intensity in its portfolios, and engage with companies to push for change. Subsequent policies focused on electricity generation companies and the ethical implications of different fuels.

These policies have led to a number of companies being excluded from investment, which required some disinvestments, and extensive engagement being undertaken with companies to encourage transition to a low carbon world.

## Methodist Conference Memorial 32 (2017) and Reply

Methodist Conference 2017 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 disinvestment criteria, timescales, and consultation processes required to disinvest 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 disinvest from such a company by Conference 2020.

The CFB developed a methodology for assessing fossil fuel companies, which was received by Conference in 2018. Companies were examined in five different categories:

- current asset mix
- capital expenditure
- climate strategy and governance
- positive transition steps
- decreasing emissions

Within these categories the CFB examined companies with up to 25 different metrics. Fifteen oil and gas companies were assessed and the results presented to JACEI meetings. Of these companies, JACEI advised that ten should be excluded from investment on ethical grounds. The ten recommended exclusions included companies held in CFB Epworth

portfolios: ARC Resources, BP, and Total. The other companies were: ExxonMobil; EOG Resources; Conoco Phillips; Hess; Gazprom; Chevron; Woodside.

Four companies held in CFB Epworth portfolios, Repsol, ENI, Equinor, and Royal Dutch Shell, were judged on the basis of this analysis to have business investment plans consistent with the Paris Agreement or at least well on the way to this. Much depends on these companies following through on their commitments. A fifth company, which rated relatively well but was not held in CFB Epworth funds, was OMV. JACEI has advised the CFB that it should continue its planned engagement with the four companies it holds in its funds. JACEI will review them at each meeting.

## 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 **5.78kg** per unit in 2019. The Trucost analysis suggests that the gap between the carbon footprints of the CFB UK Equity Fund and the UK stock market diverged last year, with that of the CFB UK Equity Fund higher than that of the UK stock market. The results indicate that the carbon intensity of the Fund increased by 19.4% over one year, but decreased by 1.4% over the previous ten years.

	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
2018	96,317	19,909,197	4.84
<b>2019</b>	<b>123,434</b>	<b>21,338,299</b>	<b>5.78</b>

The data for 28 February shows the carbon footprint of the UK equity portfolios rose over the year and is above the market. One reason for this is that the ethical approach excludes the relatively lower carbon intense tobacco sector and is therefore more likely to have a higher weighting in utility companies. In addition, the portfolios hold food production companies involved in the meat industry. Trucost

attributes to their footprint the carbon emissions from the animals in their supply chains. We are reviewing the result nevertheless. It should also be noted that there is no consensus about how a portfolio carbon footprint should be calculated and other methodologies produce different results.

### **Transition Pathway Initiative (TPI)**

The CFB is a founding member of the **Transition Pathway Initiative (TPI)**, a collaborative effort of some 60 global investors with \$18 trillion in assets under management.

TPI evaluates and tracks:

- Management quality: the quality of company management of greenhouse gas (GHG) emissions and of risks and opportunities related to the low-carbon transition;
- Carbon performance: how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement.

TPI benchmarks companies against three different scenarios, including: Paris Pledges; 2 degrees; and below 2 degrees.

In 2019, the CFB participated in steering group meetings and conference calls and utilised 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 under 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.

### **Climate related engagement**

JACEI reviewed and debated a wide range of additional CFB climate-related work and additional material. The CFB:

- Co-filed a shareholder resolution at BP to promote greater transparency with regard to lobbying;
- 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.
- Co-led engagement with Anglo American for CA 100+. It made a statement at the Anglo American AGM asking the company to address issues related to climate change. The CFB led a successful round of engagement with investors to press for greater transparency with regard to lobbying;
- Supported a shareholder resolution at BHP Billiton, calling for its membership of lobbying groups to more clearly reflect the need to support transition to a low carbon economy.
- Excluded Fortis, a Canadian utility company, after assessing it with our electricity generation policy.
- Engaged with banks on climate change, with letters to Unicredit, Barclays, and co-filing a shareholder resolution at Barclays.

- Joined the Powering Past Coal Alliance in 2019, a coalition of national and sub-national governments, businesses and organisation working to advance the transition from unabated coal power generation to clean energy;
- Remained a signatory member of the Institutional Investors Group on Climate Change (IIGCC) and attended events and seminars hosted by the Group;
- Was one of the signatories to a letter sent to all EU heads of state and governments on the 2050 net-zero emissions target, noting support for a net-zero emissions target for the EU and the alignment of all relevant EU legislation to the temperature reduction goals set out in the Paris Agreement. This was coordinated by IIGCC and noted the urgent "need to act" in the face of the climate emergency and how "the costs of inaction will be catastrophic";
- Joined the IIGCC Paris Aligned Investor Initiative which aims to help investors effectively implement their ambitions to reduce carbon emissions and increase investments in climate solutions in line with the Paris goals;
- Continued its work as part of the **Church Investors Group (CIG)** to engage with industry laggards based on CDP data on carbon emissions;
- Voted against companies that were laggards in reducing carbon emissions;

Participated in a wide range of industry-led seminars, webinars and meetings to keep abreast of current pan-sector thinking.

### **Climate Stewardship Fund**

JACEI welcomed plans to launch a new Epworth fund which would seek to avoid investment in any fossil fuel company and which the CFB intended to make available to Methodist organisations.

## Other ethical investment issues

Climate change has been the focus of considerable attention over the year. However, JACEI has also considered a number of other ethical investment matters.

### Mining & Faith Reflections Initiative (MFRI)

JACEI and the CFB support the ecumenical dialogue on mining between the Methodist Church, Church of England, and Catholic Church, the latter principally via the Dicastery for Promoting Integral Human Development. The CFB has continued to represent the Methodist Church on the steering committee of the Mining & Faith Reflections Initiative, which brings together mining executives and church leaders to discuss mining and the common good. The CFB attended a conference on the subject in the Vatican in May 2019, with the Secretary of Conference. The Vatican conference heard from communities and representatives of those affected by mining and facilitated dialogue with mining executives. Participants also attended an audience with the Pope, who spoke in support of the work. A Day of Reflection is planned, most likely in 2021, which the Methodist Church will co-convene. Participation in this initiative has been part of the CFB's mission and has also informed its ethical investment approach.

### Extractive industries

The CFB has long prioritised engagement with extractive industries companies. JACEI reviews engagement with extractives companies regularly and we noted during the year that a number of meetings and discussions took place:

- The tailings dam disaster near Brumadinho in Brazil in 2019 remained very much in the minds of ethical investors. The CFB is part of an investor coalition organised by the Church of England which engages with mining companies about their tailing dams. This initiative has seen letters sent to 727 listed mining companies, to create a global register of tailings storage facilities. This is designed to raise awareness of the tailings facilities that a company owns or operates in order to see which company has responsibility for the facilities, and the scale of the risks that it faces. As of February 2020, 47% of companies contacted had responded, and we were pleased to see that they included 45 of the top 50 mining companies. The CFB continues to be active in this coalition;
- The CFB engaged with BHP Billiton regarding its 2030 emissions reductions targets through CA100+;
- The CFB engaged with BHP Billiton and Anglo American regarding their joint venture project in Cerrejon, Colombia, and concerns over the diversion of the Arroyo Bruno River. The companies responded but we have advised the CFB to continue to monitor the situation and where possible hear further from community representatives.

### Nestlé & Breast Milk Substitutes (BMS)

JACEI supports the CFB's process of robust dialogue with Nestlé on BMS and other material sustainability issues, which has been applied over many years. The CFB continues to challenge Nestle where appropriate and keep aware of independent assessments by ATNI and FTSE4Good. Following many years of regular engagement, JACEI advised the CFB that its annual meetings with Nestle could take place every two years, given the progress made by the company.

The CFB wrote to Reckitt Benckiser to thank the company for its work in bringing Mead Johnson to a standard such that the company could remain in the FTSE4Good index.

### Health, wellbeing and farm animal welfare

The CFB continued to be a supporting investor of the **Access to Nutrition Index**, which ranks food producers, processors and retailers for their approaches to nutrition.

Healthy and adequate nutrition have long been an ethical investment concern of ours. CFB policies on children's issues and on the food industry highlight it as an area for engagement, noting both the challenges of childhood obesity and malnutrition. The CFB joined with an initiative run by ShareAction, called Healthy Markets, which aimed to engage with companies about childhood obesity. ShareAction is working with Access to Nutrition, an initiative with which we are already involved. The CFB signed an investor statement in support of this initiative.

In 2019, the Access to Medicine Index (ATMI) began an engagement programme, which has been engaging with 19 listed pharmaceutical companies on both access to medicine and the third Sustainable Development Goal, which focuses on healthy lives and promoting wellbeing for all ages. The purpose was to encourage companies to continue their efforts to improve access to medicines in low and middle income countries. The CFB continued to join other investors in engaging with GlaxoSmithKline (GSK). GSK ranked top of the index in 2018, the last iteration of the ATMI, and a good discussion was had between investors and GSK representatives around the opportunities and complexities the company faces.

The CFB became a supporter of **FAIRR** (Farm Animal Investment Risk & Return) in 2018. In collaboration with FAIRR, it joined other investors engaging with Whitbread regarding antibiotic use in its supply chain. Although Whitbread has now sold its Costa Coffee division, it still owns other restaurants and food outlets. Investors asked questions about the development of targets and a timeline for implementation to encourage suppliers to report the quantity and type of antibiotics used in different species of animal. There was also a detailed discussion about the audits that take place with regard to animal welfare. Whitbread was forthcoming on the subject and we look for progress during the year.

The CFB remained 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. It was part of the Global Investor Collaboration on Farm Animal Welfare in 2019. This engagement letter saw 37 companies provide formal response, with many providing detailed updates or explanations of their approach to managing Farm Animal Welfare risks and opportunities.

## Environment

Alongside other investors, the CFB engaged with the Marine Stewardship Council to encourage it to reference 'ghost gear' in its sustainable fisheries standard. 'Ghost gear' is old fishing gear that can be lost or abandoned in the ocean, significantly contributing to the level of plastic pollution.

JACEI has welcomed the ongoing engagement by the CFB with companies on the issue of plastic pollution. It contacted Ted Baker about the use of plastic micro fibres used in the clothing industry, which can end up in oceans. In its response, **Ted Baker** highlighted its commitment to using sustainable fibres where possible and it noted that natural fibres can also have negative impacts from the use of natural resources such as water. The CFB co-signed a letter to 50 global consumer goods companies organised by As You Sow, an American NGO, through the Plastic Solutions Investor Alliance, encouraging them to complete a survey on plastic packaging, to allow an assessment of their approaches.

## Employment & labour

As part of its work with ShareAction, the CFB engaged with Reckitt Benckiser and Intercontinental Hotels Group in June to encourage both companies to become Living Wage accredited. Reckitt Benckiser has since become a UK Living Wage employer, accredited in January 2020. The CFB also encouraged DS Smith and Segro, to adopt the National Living Wage was encouraged. Segro replied, outlining the challenges for them as a company in becoming accredited. JACEI looks forward to a response from DS Smith in due course.

JACEI noted that the CFB attended a Workforce Disclosure Initiative (WDI) conference in June 2019 in London, which the WDI presented the findings of its most recent report on company disclosures. Sessions discussed effective workforce management and disclosure, good practice, and emerging trends. The WDI promotes transparency and understanding of policies and practices that govern workers, with the aim to improve job quality.

## Israel Palestine

Ethical investment issues relating to Israel Palestine were on the agenda of every JACEI meeting during the year. The CFB Overseas Fund sold its holding in Heidelberg Cement for investment reasons and we do not expect the CFB to purchase shares again before asking us to update our advice.

The CFB policy on Israel Palestine, as advised by JACEI, reflects the Methodist Church's stated position on the subject.

As with all issues, we continue to pay close attention to Resolutions and Statements of Methodist Conference and other policy statements by the Methodist Church. Should the position change, we will adjust our advice to the CFB accordingly.

## Human rights

As members of the Church Investors Group, the CFB participated in the launch of the 'Find It, Fix It, Prevent It' investor initiative which is currently focusing on a selection of companies within the UK hospitality sector. The aim of the initiative is to take a more targeted approach to engaging with companies on modern slavery, based on the assumption that it exists in most supply chains. The CFB has signed up to the initiative's investor statement and has expressed interest in leading the engagement with Compass Group plc.

A CIG report has also been published outlining the engagement work on this issue that has been undertaken over the last 2 years. Letters have been written to a total of 265 companies to encourage greater awareness and action around ending modern slavery. The engagements encouraged companies to develop better policies, processes, and procedures for identifying and then addressing Modern Slavery. One of the main causes of modern slavery is debt bondage, and companies were pressed to adopt the 'Employer Pays Principle'. This is a provision which prohibits employers from charging recruitment fees. In addition, there were attempts to increase awareness of Modern Slavery amongst stakeholders and call for increased global legislation and regulation aimed specifically at tackling Modern Slavery.

The CFB supported an investor response to a UK government consultation, on Transparency in supply chains. The response called for mandatory reporting to be expanded from the private to the public sector, noting that Modern Slavery is a risk in all organisations. It recommended improved reporting on the outcomes of actions companies take. Separately, the CFB engaged with Watkin Jones and The Renewables Infrastructure Group about their policies and approach towards combatting Modern Slavery.

The CFB is a supporting investor of the **Corporate Human Rights Benchmark (CHRB)**. The benchmark added a new sector in 2019: IT manufacturing. The benchmark shows how much there is for companies to eliminate potential human rights violations from their supply chains.

The CFB has been engaging with tea producers for some time, recognising the abuses that can take place within the sector. We wrote to Unilever to ask for greater transparency on the estates from which it sources tea and requesting this to be disclosed publically. We were pleased to receive a response from Unilever, which confirmed that the company will now publish on its website the tea estates from which it sources its UK and Ireland tea.

## Tax Justice

The CFB met with Fair Tax Mark to learn more about the approach it takes to encourage companies to become accredited. The Fair Tax Mark certification scheme was

launched in February 2014, and seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place.

CFB engaged with **MJ Gleeson**, a UK house builder, to raise awareness of the scheme. We were encouraged to find that the CEO was already looking at the Fair Tax Mark, and wanted to explore what it would take to become certificated. We look forward to hearing more on this in the future.

### **CFB voting & executive remuneration**

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

Voting is carried out at all UK, European and global 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).

In 2019 the CFB voted at 82 meetings in the UK, comprising 1355 resolutions. We opposed or abstained at 188 or 14% of proposals. Votes against directors accounted for 48% of all action taken, followed by remuneration at 39%. 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 Epworth UK Equity Fund votes in line with the CFB UK Equity Fund.

The CFB continues to be rigorous in opposing excessive executive remuneration. During calendar year 2019, out of 84 UK remuneration reports and policies voted, the CFB opposed 58, or 69%.

The CFB also opposed or voted to abstain on the re-election of 91 directors, accounting for 15% of those seeking election for Board independence or other reasons including poor diversity (see above).

In Europe, where fewer markets empower shareholders to vote on remuneration, the main issues leading to CFB votes against board resolutions were concerns about shareholder capital and balanced representation on boards. In 2019, the CFB voted on 3,689 resolutions at 235 European meetings; 18% of these were opposed or abstained by the CFB (21% in 2017). Of 1,358 director appointments for re-election, the CFB opposed 193 or 14%. The CFB continues to oppose executive pay in markets where this is put to a shareholder vote, and in 2019 of 405 remuneration proposals, CFB opposed 47%.

Following the launch of the Epworth Global Equity Fund for Charities at the end of April 2019 that Fund voted at 32 meetings, which amounted to 260 resolutions. Of the 140 votes on directors, the CFB opposed or abstained on 13%.

The 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 2019 CFB did not vote at 16 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. There are significant changes coming to the UK Stewardship Code, which come into place in 2021. The CFB is working to maintain its Tier I signatory status under the new recommendations.

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

The PRI is the largest global signatory organisation promoting responsible investment, with over 2,500 asset owner, asset manager, and service provider signatories, in 2019 representing over US\$80 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 once again achieving the highest A+ ranking for strategy and governance in 2019.

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

The CFB closely collaborates with the ecumenical Church Investors Group, which works to promote ethical investment for the public benefit:

- by encouraging the formulation of investment policies based on Christian ethical principles and to assist each other in putting such policies into practice;
- by encouraging responsible business practices through engagement with company managements;
- by sharing information and views on ethical matters related to investment.

JACEI welcomes and commends the continued strengthening of the ecumenical work through CIG. In 2019 CIG membership grew to 70 representing combined assets of over £21bn. 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 an international conference), and by leading strategic engagements on carbon, modern slavery and tax.

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 Statements are published on its website. CFB quarterly responsible investment reports, and summaries of UK, European and Global voting reports are also published online.

## The CFB ethical review

As part of its regular oversight JACEI scrutinises:

- the CFB summary voting records (UK, Europe and Global);
- the list of ethically excluded UK, European and Global companies (approximately 6% of the FTSE Developed Ex UK Index, 13.1% of the FTSE All Share Index, and approx. 11.7% of the FTSE All World, respectively as at 31 January 2020); and
- minutes of the monthly CFB Ethics Meetings (8) 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 2019, relative to the FTSE All Share Index, outperformed by 0.02% over 1 year, by 0.64% pa over 3 years, and by 0.17% pa 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:

- The CFB is a founder member of **the Institutional Investors Group on Climate Change (IIGCC)**, (see page 7) which now has 200+ members from 15 countries representing €30 trillion in assets. CFB is part of its corporate working group, the resolution sub group 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 60 global investors with \$18 trillion in assets under management and advice. 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, as well as evaluates how companies planned or future carbon performance compares to the Paris Agreement;
- The CFB maintained its involvement in the **CA100+** (Climate Action 100+ see page 7) initiative which has united over 450 global investors and \$40 trillion in assets under management in calls for companies to align their strategies with the Paris Agreement. CFB participated CA100+ calls and investor engagements;

- The 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;
- The CFB is signatory to the **Access to Nutrition Index (ATNI)**, which is supported by 60 investors with \$7 trillion of Assets Under Management (AUM) (see page 8);
- The CFB is a signatory to the **Access to Medicines Index (ATMI)** which is supported by 90 investors with \$14 trillion of AUM (see Page 8);
- The CFB is a supporting investor of the **Business Benchmark on Farm Animal Welfare (BBFAW)** (see Page 9) and signatory to the Global Investor Statement on Farm Animal Welfare. BBFAW is supported by 29 investors with \$2.3 trillion of AUM.
- The CFB works with **FAIRR (Farm Animal Investment Risk and Return)** (see Page 8) which is supported by \$10.1 trillion of AUM, and signed its investor statement on antibiotic resistance;
- The CFB is a supporting investor of the **Workforce Disclosure Initiative (WDI)** (see Page 9), which has attracted support from 137 investors with \$15 trillion of AUM;
- The CFB is a supporting investor of the **Corporate Human Rights Benchmark (CHRB)**, (see Page 9) and a signatory to the UN Guiding Principles Reporting Framework Investor Statement which attracted 88 investor supporters with \$5.3 trillion of AUM;
- The CFB joined the **Plastic Solutions Investor Alliance** in 2018 (see Page 9), and signed the accompanying Investor Statement. This is now supported by 40 global investors;
- 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 (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.

### 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. This position has to date 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 following Standing Order relating to JACEI was approved 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 September 2018 the UK Department for Work and Pensions announced that it will legislate to clarify and strengthen pension 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 Limited, 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 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.

### **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 has 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 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 five meetings; in 2019/20 five meetings took place in June, September, December, February, and March, with an additional meetings in April 2020 to finalise Conference reports;
- ✓ 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.

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

### **Committee membership**

The Committee began the process agreed for appointing new members, in coordination with the CFB and Methodist Council. This will lead to a natural rotation of members appointed by both bodies over the period 2019-21.

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

Members appointed by the Methodist Council are:

- Rev Dr Sheryl Anderson
- Professor Brian Gennery
- Ms Alison Jackson
- Ms Rachel Lampard
- Mr Chris Moorhouse

Members appointed by the Central Finance Board (CFB) are:

- Dr Keith Aldred
- Mr Stephen Beer
- Mr Alan Emery
- Rev Anne Ellis
- 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.

Mr Richard Nunn, Chair of the United Reformed Church Ministers' Pension Trust Ltd attends JACEI as an observer.

In attendance from time to time to facilitate the workings of the Committee were: Mr David Palmer, Mr Miles Askew, Mr

Harold Evans, Mr Matthew Jones, Mr Steve Hucklesby and Ms Sophie Forrest.

Ms Ashma Ponniah and Ms Janice Curd have acted as JACEI Minutes Secretary.

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 until September 2019) attended JACEI meetings in this capacity during the year, and Ms Anna MacDonald, attended from September 2019 as the new secretary to the EIAG. Mr Stephen Beer attended meetings of the EIAG.

*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) .