



REPORT TO METHODIST CONFERENCE 2014

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THE COMMITTEE JUDGES THAT THE CFB HAS MANAGED THE FUNDS UNDER ITS CONTROL ACCORDING TO 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 and EIRIS reviews of the CFB UK portfolio carbon footprint;
- participation of the CFB in the Church Investors Group (CIG) (page 16); the Institutional Investors Group on Climate Change (IIGCC); the Carbon Disclosure Project (CDP) (page 7); the UN Principles for Responsible Investment (UN-PRI) and the Extractives Industry Transparency Scheme (EITI) (page 18)
- collaboration with the General Board of Pensions and Health Benefits (GBOPHB) of the United Methodist Church

THE CONFERENCE RECEIVES THE REPORT OF THE JOINT ADVISORY COMMITTEE ON THE ETHICS OF INVESTMENT FOR THE YEAR TO 31 MARCH 2014

CHAIRMAN'S FOREWORD



Revd John Howard
Committee Chair

THE IMPACT OF FOSSIL FUELS HAS BEEN UPPERMOST IN OUR MINDS THIS YEAR, AND THE COMMITTEE DEVOTED MUCH OF ITS TIME TO CLIMATE CHANGE

During this period, the Committee took forward two policies, completing work on a Gambling Position Paper and Policy Statement, and an important extension of our work on climate change that has led to a Position Paper and Policy Statement on the electricity generation industry.

THE CFB'S PORTFOLIO CARBON FOOTPRINT IS COMMENDABLY SMALLER THAN THAT OF ITS BENCHMARK

The impact of fossil fuels has been uppermost in our minds this year, and the Committee devoted much of its time to climate change. Whilst the CFB's portfolio carbon footprint is commendably smaller than that of its benchmark, the FTSE All Share Index, we are aware of the need to support moves to a lower carbon economy and share the frustration of many at the slow progress towards international agreement. We are aware of the campaigns for fossil fuel divestment, and the belief of those supporting the campaign that this is necessary in order to meet the targets for reducing emissions set out in the Conference statement Hope in God's Future. Realistically the world will be dependent on fossil fuels for some time to come, but the investment in the transition to a low carbon economy must begin now. This Report shows how much work we have devoted to the subject and the importance we attach to it.

ALTHOUGH CLIMATE CHANGE HAS BEEN THE 'BIG ISSUE' IT IS FAR FROM BEING THE ONLY ISSUE WE HAVE CONSIDERED

Although climate change has been the 'big issue' it is far from being the only issue we have considered. Ethical investment remains complex and challenging which was demonstrated tragically last April by the collapse of the Rana Plaza complex, Bangladesh, killing over 1,000 people. The cause was an unsafe building, which raised the question of how far should companies be held responsible for the structural integrity of buildings they do not own but where their products are made. The scale of the tragedy led to prompt action to develop a legally binding Accord that seeks to ensure building safety in future. This may well save lives and we commend it.



At home, 2013 was the year in which pay justice and growing pay inequality stole the headlines, but it also saw encouraging progress in companies adopting the Living Wage. CFB engaged with more companies than ever before, making it a core strand

of its work on investment ethics. JACEI also welcomed the CFB Council asking for advice in relation to the high interest lending sector given the profile of pay day loan companies and the hardship they can engender. We will progress this work during 2014.



We have long viewed collaboration with other Church investors as a key strength of the CFB approach to ethical investment, and welcomed further ecumenical activity during the year. The CFB and other CIG members routinely collaborate at company engagement meetings, which send a powerful message to companies of the seriousness of our combined approach. Extending this internationally is now a key focus for the CIG. Reaching out to overseas church investors continued through a pioneering two-day conference held over the summer. JACEI meetings continue to benefit from the participation of colleagues from the Church of England, the United Reformed Church and the Methodist Church in Ireland.

**EXTRACTIVE
INDUSTRIES
CONTINUE TO
EXERCISE MUCH
ATTENTION**

Investment in extractive industries continues to exercise much attention, and regular engagement meetings were held with all the major holdings in the CFB portfolio. In addition CFB staff travelled to China to visit some of Royal Dutch Shell's operations, and have been involved in an ecumenical process assisting the mining industry to reflect on how it can develop a more sustainable business that contributes to the common good.

**WE COMMEND
THIS REPORT TO
CONFERENCE**

We commend this report to Conference as evidence of the breadth and depth of issues regularly considered by JACEI and as part of the CFB's commitment to invest ethically in accordance with Methodist teaching. We are always delighted to receive comments and feedback on the report itself, and on the work undertaken. I thank my colleagues who serve on JACEI for their time, commitment and contribution, and the staff of the CFB and the Joint Public Issues Team (JPIT) who serve us so well.

GAMBLING POSITION PAPER AND POLICY

THE NEW GAMBLING POLICY REFLECTS RECENT CHANGES IN THE WAY PEOPLE ACCESS AND PARTICIPATE IN GAMBLING

A Position Paper on investment in Gambling related companies was agreed and a Policy Statement was drafted. These reflect recent changes in the way people access and participate in gambling, they recognise that concern has grown in respect of the impact on children, and the approach the CFB takes to engagement with companies where exposure to gambling is growing.

The Policy Statement was approved by the CFB Council. Both the Position Paper and Policy Statement are available at:

CFBMETHODISTCHURCH.ORG.UK/ETHICS



POLICY

Investment in Gambling Related Companies:

- The CFB will avoid investment in companies whose main business activity is gambling and gaming.
- The CFB will avoid businesses materially involved in the management of licensed gambling premises including casinos and betting shops. It will also avoid licensed operators of gambling venues including racecourses and dog-tracks.
- The CFB will avoid companies whose principal business is online betting platforms, the facilitation of online betting or the provision of specialist services (e.g. software) to the gambling industry.
- The CFB will avoid investment in companies whose principal activity or business is the manufacture of gaming machines.
- The CFB will avoid investment in companies whose principal activity or business is spread betting.
- Given the increasing concern about the impact of problem gambling on individuals, families and wider society there is a clear need for the CFB to engage proactively with companies that have some exposure to gambling such as the hospitality industry or those in the media.
- In the case of companies whose business is not principally involved in gambling but where exposure may be growing, there will need to be increased engagement around advertising, marketing, and the appetite to promote responsible gambling. If a company with growing exposure declines to engage with the CFB on these issues, disinvestment will remain an option.
- Businesses that facilitate or enable youth gambling will not be considered suitable for investment. These may include amusement arcade operators or where gambling activities are easily accessible to children.
- Engagement is the principal tool for monitoring companies where exposure to gambling is modest. The CFB will seek dialogue with companies on responsible gambling policies and practices including promotion and marketing, and the controls in place to prevent inappropriate targeting at children or other vulnerable groups.
- Companies involved in the promotion of 'soft' forms of gambling such as lotteries and bingo, may be suitable for investment, but would be subject to engagement to understand their approach to marketing, promotion and advertising and their support for responsible gambling initiatives, which would include research, education and treatment for problem gambling.

ELECTRICITY GENERATION POSITION PAPER AND POLICY

THE POLICY ENCOURAGES DISCLOSURE AND EMISSIONS REDUCTION BY ENERGY COMPANIES, AND SUGGESTS THAT INVESTMENT IN UNABATED COAL PLANT WOULD ENTAIL EMISSIONS AT A LEVEL INCONSISTENT WITH MEETING THE 2050 REDUCTION TARGET

During the year, a Position Paper on the implications of climate change for the electricity generation industry was agreed and a Policy Statement was drafted. These develop thinking set out in the CFB Climate Change Policy that supports the goal of reducing the UK's greenhouse gas emissions by 80% (from 1990 levels) by 2050 in order to avoid the worst impacts of climate change. The electricity generation industry is the largest single contributor to UK greenhouse gas emissions, with the Committee on Climate Change suggesting the emission intensity of individual plant will need to fall by 89% by 2030 to meet the 2050 target.

The Policy Statement was approved by the CFB Council. Both the Position Paper and Policy Statement are available at:

CFBMETHODISTCHURCH.ORG.UK/ETHICS



POLICY

Climate Change: Implications for the Electricity Generation Industry:

- To reflect the Methodist Church's teaching and positions on climate change within our investments in the electricity generation industry.
- To encourage all companies within the electricity generation industry to disclose their overall levels of emissions and their emissions intensity.
- To encourage all companies within the electricity generation industry to limit and reduce the greenhouse gas emissions and intensity resulting from their own processes, their supply chains and the use of their products.
- To encourage all companies within the electricity generation industry to invest in new plant in such a way that it is consistent with the need to reduce greenhouse gas emissions in developed markets by 80% by 2050.
- To evaluate companies within the industry based on the quality of disclosure of their emissions and emissions intensity, the levels of their emissions and emissions intensity and the implications of their investment plans for future emissions reductions.
- To recognise that investment plans that would entail the building of new unabated coal-fired power stations in developed markets would entail emissions that would make the meeting of emissions reduction targets very difficult, and that such investment plans would be inconsistent with the teaching of the Methodist Church.
- To recognise the importance of avoiding increases in fuel poverty and inequality and include companies' responses to these and other possible unintended consequences in the evaluation.
- To recognise that investment plans in emerging markets should be evaluated differently from those in developed markets, noting that the majority of emissions reductions need to occur in developed markets.

FOSSIL FUEL DIVESTMENT CAMPAIGN

THE COMMITTEE HAS KEPT THE GROWING CAMPAIGN FOR FOSSIL FUEL DIVESTMENT AND THE CFB RESPONSE TO IT UNDER CLOSE REVIEW



It has noted the increasing body of literature on 'stranded assets' and fossil fuel divestment, recognising the contribution this is making to informed debate. Much work had been done collaboratively through the CIG, which has published a Position Statement and a briefing note for church investors, Framing the Debate. The CIG (see page 16) can point to a robust and long-standing engagement with corporate laggards around emissions reduction which has been independently tested by university academics.

The adoption of Hope in God's Future commits the Methodist Church to supporting an 80% cut in the UK's greenhouse gas emissions. So far progress towards this and international targets has been frustratingly slow. Some have argued for a divestment from fossil fuels as a way of reaching the emissions target, though this is neither a position taken by the Methodist Church nor an investment strategy supported by the CFB. The Committee has noted a call on Churches for divestment including:

- A debate at the General Synod of the Church of England calling for its investment policies, including the option to divest, to be aligned with the theological, moral and social priorities of the Church;
- A Motion at the United Church of Christ in the US calling for divestment;
- A decision by the Quakers in Britain to divest from fossil fuels (oil and gas);
- A Policy Statement by the Church of Sweden excluding investment in oil and gas exploration and production.

Whilst we are keen to see public policy support a diverse energy mix in the UK that includes a strong renewable component, the fact is that for the foreseeable future fossil fuels will continue to contribute a major part of the overall UK energy mix. However, as Christians and responsible investors, we seek to demonstrate this by mitigating and lowering the climate change impact in the construction of our portfolios, and by engaging widely with debate. CFB Staff have participated in a variety of events linked to 'stranded assets' and fossil

fuels which has helped inform its view. The Committee endorsed a tailored CFB response that can be made to investors or Church members wishing to understand the CFB's position. To date the CFB has received a handful of such enquiries.

The CFB continues to develop thinking both on climate change generally and on specific aspects of investment that is impacted by it. The publication of an Electricity Generation Policy (see above) is a significant step. In addition the CFB:

- Is a leading member of IIGCC (the Institutional Investors Group on Climate Change) and CDP (the Carbon Disclosure Project);
- Is a collaborative partner with CIG on engagement with companies on their emissions reduction strategies; 53 companies were contacted during 2013;
- Incorporates poor responses to climate change and emissions reduction into its decision making on voting its UK shares, with directors opposed at a number of companies where their climate record appeared weak;
- Commissioned independent carbon footprint analysis for its UK portfolio from Trucost and EIRIS, both of which show a lower energy intensity than for the FTSE All Share Index;
- Co-signed an investor letter to the Chancellor of the Exchequer, facilitated by UKSIF (UK Sustainable Finance & Investment Association), calling for a 2030 decarbonisation target to be incorporated as part of the Energy Bill.

CDP ENGAGEMENT AND 'AIMING FOR A'

THE CFB IS TAKING A LEAD IN THE 'AIMING FOR A' INITIATIVE

The Church Investors Group (CIG) manages a Carbon Disclosure Project (CDP) engagement project on behalf of members. This makes the most efficient use of resources, and avoids duplication. Consequently CFB activity is now concentrated in areas not covered by the CIG engagement programme, as well as taking a lead in the 'Aiming for A' initiative.



The CDP, which represents 722 global investors with combined assets of \$87 trillion, surveys 5,000 of the world's largest companies asking them to report on their climate strategies, energy use and emissions. In 2013, 81% of the largest 500 companies responded and engaged; in the UK 74% of the FTSE350 have responded to the survey request.

The Committee believes climate change presents an acute risk for carbon intensive businesses and CDP offers a robust methodology and mechanism for managing and reducing climate change impact. The Committee noted the introduction of mandatory emissions reporting in the UK and viewed this as an important, complementary step.

For the purposes of CIG's engagement, a 'laggard' is a FTSE 350 company operating in a carbon intensive sector with a performance score (as rated by CDP) of D or below. To achieve a C score, a company must be able to demonstrate positive action on climate change as well as comprehensive disclosure. JACEI commended the progress being made with 72% of companies contacted in 2013 showing a significant improvement either through an enhanced score, or by responding for the first time. Twenty companies contacted achieved at least a C grade, and ten, a B grade including Associated British Foods and First Group. 79% of the FTSE100 is now rated C or above, showing the strong progress that has been made.

Co-ordinated by colleagues at CCLA 'Aiming for A' is a coalition of investors encouraging ten major UK companies

in the utility and extractives sectors to aim for continuous inclusion in the CDP Climate Performance Leadership Index (CPLI) by achieving and retaining an 'A' rating. During the year the CFB was the lead investor for Royal Dutch Shell, and the supporting investor on Centrica. Both companies were rated 'B' in the 2013 survey, and CFB engaged with both companies around disclosure and performance. This work will continue into 2014 and may ultimately lead to filing 'supportive' shareholder resolutions at company AGMs.



CFB is also a signatory to the CDP Water Survey, which represents 550 investors with combined assets of \$57 trillion. JACEI concurs with the CFB view that water stress and scarcity are significant business risks for companies dependent on stable water supplies for their manufacturing or supply chain operations. JACEI supported a new initiative to engage with companies for whom water is, or will become, a key risk, particularly in the utility, food retail and manufacturing sectors.

THE LIVING WAGE

WORKING CLOSELY WITH SHARE ACTION, THE CFB ENGAGED WITH A NUMBER OF COMPANIES ENCOURAGING ADOPTION OF THE LIVING WAGE. RESULTS HAVE BEEN POSITIVE, WITH A NUMBER ACHIEVING, OR WORKING TOWARDS LIVING WAGE STATUS.



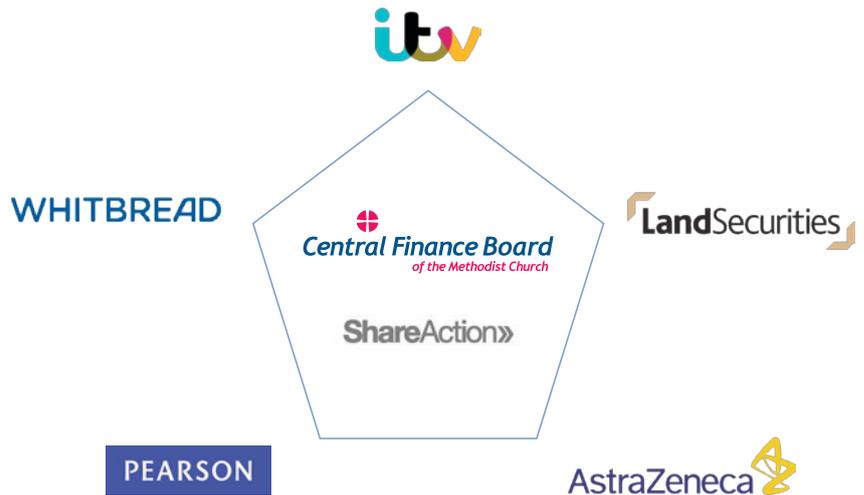
The CFB is an accredited London Living Wage Employer.

2013 saw increased debate around inequality and pay justice. The Committee strongly supports the significant engagement committed by the CFB in 2013 to pay justice and the Living Wage. Working closely with Share Action, the CFB engaged with six companies during the period covered by this report. Overall the results have been gratifying. Pearson and ITV told us that they had completed a process by which the Living Wage had been adopted across their operations. ITV were now seeking ways to extend the benefits to third party contractors and ancillary workers employed on ITV premises. Land Securities had similarly committed to applying the Living Wage to all their directly employed and service partner teams. The Committee recognises this is a bold commitment and commended the efforts of these companies. The CFB was particularly pleased to learn that builders' merchant Wolseley was working to close the gap between its

UK hourly rates and the Living Wage rate. Above inflation rises to hourly paid employees, nationally was helping to deliver on this commitment.

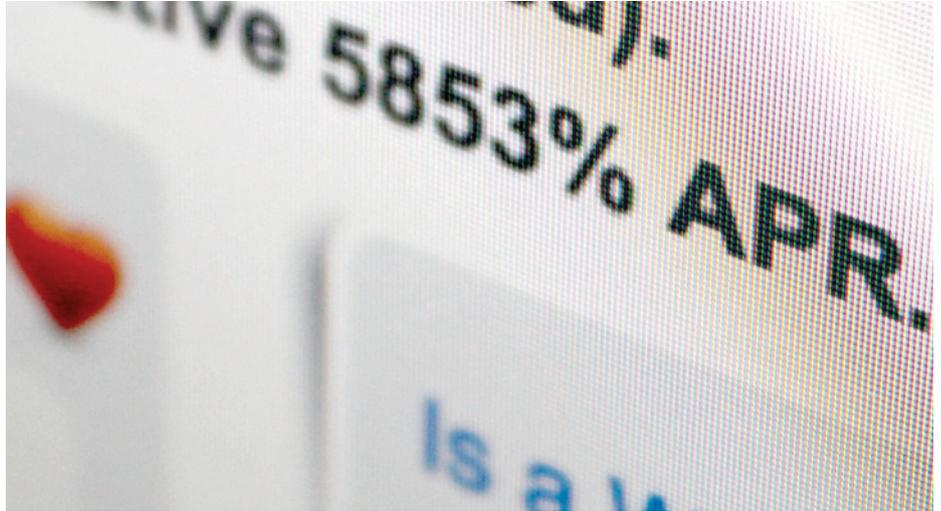
However, there was disappointment that Whitbread, a significant employer through its successful Costa Coffee and Premier Inn brands, felt unable to make a commitment to work towards applying the Living wage. It preferred to emphasise its training, and benefits packages as well as strong growth in the number of jobs created. Although the CFB challenged these arguments, the company believed the introduction of a base line Living Wage would render the company "uncompetitive in the eyes of customers and shareholders."

CFB continued to engage with pharmaceutical company AstraZeneca on its policy towards a UK Living Wage, and these discussions are ongoing.



HIGH INTEREST LENDERS

**THERE WAS
SIGNIFICANT PUBLIC
DEBATE DURING THE
YEAR ON THE ETHICAL
ISSUES CONNECTED
TO HIGH INTEREST
LENDERS**



There was significant public debate during the year on the ethical issues connected to high street lenders such as pay day loan companies, with the Archbishop of Canterbury making a commitment to harness the church in providing competition in the form of a vibrant credit union sector. The CFB routinely avoids investment in companies that charge what appear to be 'usurious' rates of interest, but has asked JACEI for its considered advice.

As a first step, JACEI decided to review the considerable body of faith-based literature on the subject with a view to scoping the next steps. This work will take place during 2014.

The CFB decided to avoid investment in N Brown, a UK mail order and internet retailer that derives significant profit from its lending activities via credit extended to customers. JACEI endorsed this decision.

TEXTILES SUPPLY CHAIN: BANGLADESH

THE COLLAPSE IN APRIL 2013 OF THE RANA PLAZA BUILDING IN DHAKA, BANGLADESH KILLING OVER 1,000 PEOPLE, AND INJURING 2,500 SHOCKED THE WORLD, AND ONCE AGAIN THREW A SPOTLIGHT ON CONDITIONS OF EMPLOYMENT IN THE BANGLADESHI TEXTILE INDUSTRY.



The subsequent investigation revealed the building was structurally inadequate and unsafe. CFB has engaged regularly with apparel companies on supply chain issues, seeking to ensure worker rights are protected and guaranteed. The structural credibility of buildings has not hitherto featured within corporate audits, but Rana Plaza suggested conditions may be so poor that companies also need to satisfy themselves that buildings are structurally sound.

To that end, the CFB and JACEI welcomed the 'Accord on Fire and Building Safety in Bangladesh' that emerged out of the tragedy. This initiative, led by trade unions, is a legally binding five-year contract between brands, retailers and trades unions providing for independent safety inspections and structural surveys of buildings. Reporting outcomes would be mandatory. European retailers have been quick to welcome and sign the Accord, but US

retailers have instead set up their own factory safety plan which will not be legally underpinned.

PRIMARK®

We met with Associated British Foods (owner of Primark) as one of the primary contractors at Rana Plaza. Primark was the first retailer to offer relief and aid to the in excess of 3,300 people affected; to offer and arrange compensation; and among the first to sign the Accord. Primark's swift and compassionate response was welcomed. JACEI also commended the work Primark had initiated on women's health and education. The complexity of modern supply chains remains a key challenge for companies and we joined our US partner, ICCR, in an initiative designed to encourage US retailers to join the Accord.

TELECOMMUNICATIONS AND PORNOGRAPHY

IN 2012 JACEI REVISED ITS THINKING ON INVESTMENT AND MEDIA REFLECTING THE CHALLENGES POSED BY DIGITAL ACCESS.

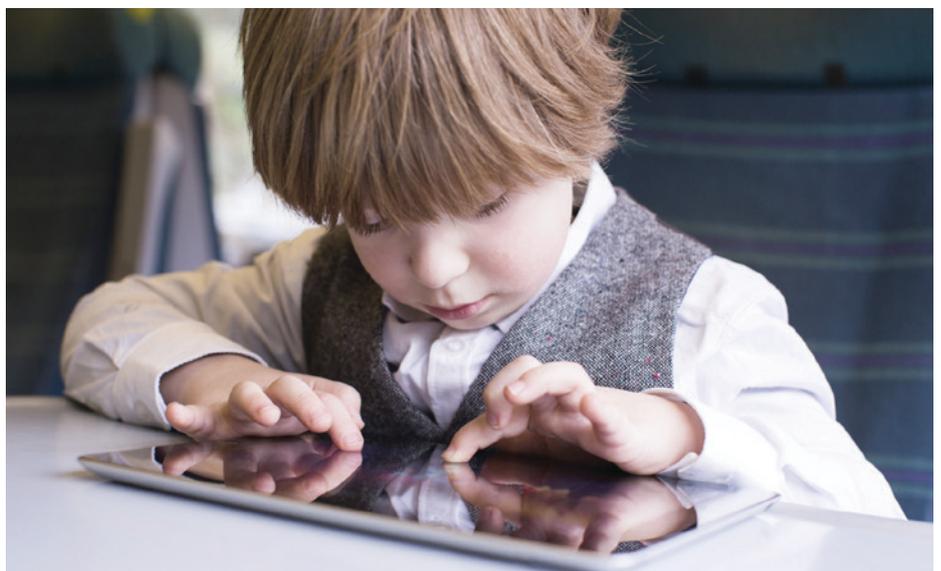
In 2013, using the Policy CFB engaged with two major telecommunications companies around access and protection issues.

BT Group provided considerable reassurance both on illegal and legal content. Whilst all companies are anxious to avoid censorship, BT has devised default user controls which mandate a customer 'opting in' to receive 'adult content'. BT shared CFB concerns on the availability of extreme content that is nevertheless legal, noting that it was for government and society to determine levels of permissibility. 99% of ISPs are using BT's Cleanfeed product, which allows illegal content to be blocked, with the user informed they are trying to access criminal content. The scale of progress means that less than 1% of illegal internet traffic now originates in the UK. Neither BT nor Vodafone have an appetite to launch branded 'adult content'. Vodafone has announced it is to remove all promotional references to 18 rated content from 'Vodafone Live!' a legacy product only available on non-smart devices. Vodafone also provided reassurance that considerable work has been undertaken to protect children, a priority set by the executive management.

Vodafone has developed a 'Guardian App' enabling parents to block children from accessing the internet even if they are not a Vodafone customer. The app is available on all Android devices, but unfortunately had been resisted by Apple.



JACEI welcomed this round of engagement as providing strong reassurance in an area of significant challenge and concern. The CFB plans to continue engaging with providers around access safeguards, not least as the wider debate around duty of care towards vulnerable users evolves. The Committee also noted an ECCR briefing on 'Pornography and Children: television, the Internet and mobile phones'.



BUSINESS ETHICS AND TAX JUSTICE

2013 SAW LITTLE LET UP IN THE REVELATIONS OF POOR CORPORATE PRACTICE, WITH REGULATORS HANDING DOWN SIGNIFICANT PENALTIES FOR WRONGDOING



The CFB has been involved with several initiatives that are trying to refocus and reform capitalism. These included the Cardinal Archbishop of Westminster's initiative, 'Blueprint for Better Business', which invited over 200 executives from leading companies to meet with religious leaders, debate the role of business, explore how to rediscover corporate purpose, focus on personal values, and debate how these might best be brought together in the service of society. The CFB firmly believes that the pursuit of profit is important for society but shareholder returns cannot ignore the needs of employees, customers, suppliers and the wider community. The Blueprint builds on a set of core values that affirms business with a sense of purpose. Some of these themes were explored in the ambitious CIG Conference held in June (see page 16).



It was with disappointment JACEI learned of the allegations of poor corporate practice made against GSK

over its operations in China. Following a record \$3bn fine in the US for mis-selling anti-depressants to children, GSK had undertaken a root and branch reform of its sales operation, which we had welcomed. However, in July China accused GSK of using a system of travel agencies to bribe doctors. We welcomed GSK's swift decision to have an independent investigation as well as an internal one. GSK was working with the Chinese authorities, but at the time of writing the situation had not been concluded, although it was noted that, notwithstanding the allegations, near maximum executive bonuses were awarded. CFB will continue to press for the highest standards of transparency and probity from GSK. JACEI noted that similar allegations had been made of other pharmaceutical companies operating in China, and it will monitor developments.

The Committee remained cognisant of the debate around tax justice in light of continuing news reports of little or no tax paid by multinationals operating and making profits in the UK. As resources allow, we expect to commit more time to this subject, however during the year CFB staff attended helpful briefings given by UKSIF and Action Aid. The latter have published a tax primer for investors encouraging engagement around tax policy, tax management and reporting. Legal & General also gave their impressions of the tax debate, noting that companies should obey the law, and provide greater clarity on their tax policy, but that they also have a fiduciary responsibility to ensure tax efficiency.

BREAST MILK SUBSTITUTES (BMS)

THE 2013 CONFERENCE DECLINED A MEMORIAL ON NESTLÉ CALLING FOR A CONSUMER BOYCOTT BASED ON ITS ALLEGED VIOLATIONS OF BMS MARKETING REQUIREMENTS



The response referred to the depth and breadth of engagement that was progressing, but called for effective national legislation to apply the WHO Code in all countries.



CFB investment in Nestlé is closely monitored and reviewed by JACEI, although it was noted that BMS continued to account for only around 1% of Nestlé's business. The Committee supports the FTSE4Good initiative which has established a basis for progress and dialogue between BMS manufacturers, investors and NGOs. Nestlé is so far the only BMS manufacturer to meet the FTSE4Good standard for inclusion in the Index.

The JACEI Secretary sits on the FTSE4Good Expert Committee on BMS, and a senior member of JPIT is invited to attend the annual workshop which reviews progress. 2013 saw Nestlé's in-country processes independently audited in two further countries, Laos and Morocco, with no material findings. Nestlé agreed to the publication of the verification report for the first time and remains committed to the process. Whilst there is still some mistrust, there is now a compelling process for independent review of policies, systems and processes to substantiate inclusion in the FTSE4Good Index. Danone remains close to meeting the criteria for inclusion, and CIG agreed to engage with the company in the hope that the few remaining issues could be resolved and entry to the Index expedited.

HUMAN RIGHTS ENGAGEMENT

THE CFB AGREED A HUMAN RIGHTS AND CONFLICT POLICY IN EARLY 2013. DURING THE PAST YEAR IT WAS USED TO INFORM ON-GOING ENGAGEMENT WITH INTERCONTINENTAL HOTELS GROUP (IHG).

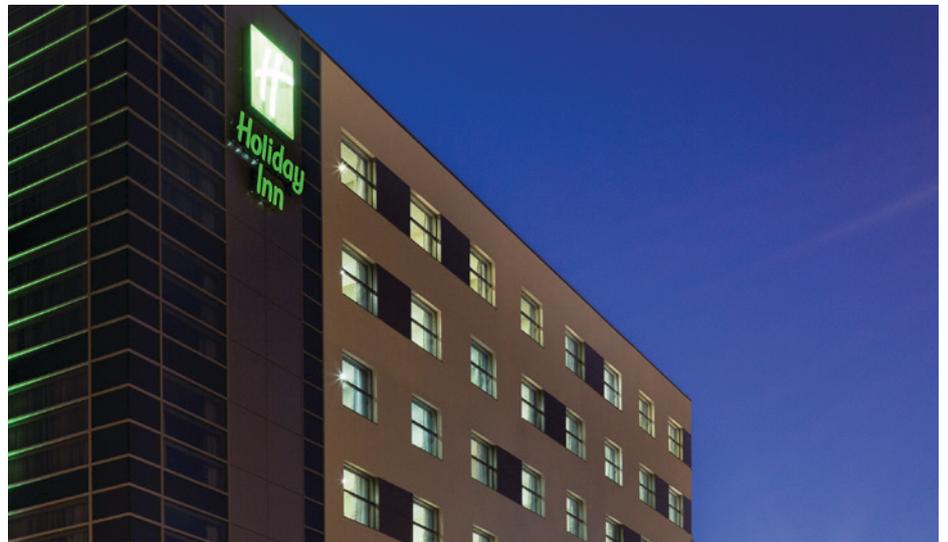


There have been several strands to this engagement based on IHG's sustainability reporting and the lack of detail surrounding human rights risk. As a franchised model, IHG is not the owner-manager of its many branded hotels however it bears the reputational risk.

- In 2012 the issue of trafficking was raised. At that time IHG was not convinced that trafficking posed a risk. JACEI was therefore delighted to learn that as engagement has progressed, the company has become more open to dialogue and has participated in the International Tourism Partnership on Human Trafficking and endorsed the industry statement, one of our key asks;
- signed the Global Compact, another key ask;

- stated it continues to drive human rights policy and approach;
- delivered human rights training across Olympic impacted sites, one of the international coalitions of faith investors key asks.

The company has also developed a fuller human rights policy which is publicly available. We engaged specifically on the IHG proposal to build a hotel-resort in Lhasa, Tibet, noting the acute human rights challenges of working in the territory. IHG appears mindful of the sensitive and complex political and social situation in Tibet but nevertheless feels the investment will bring employment and economic opportunity to an impoverished region via skills and training. IHG proposes to open a skills academy in Lhasa joining 30 other skills academies across Greater China. This development will be kept under close review.



CFB VOTING AND THE UK STEWARDSHIP CODE

THE CFB IS A SIGNATORY TO THE UK STEWARDSHIP CODE, AND DURING THE YEAR THE CFB REVIEWED ITS OWN DISCLOSURE POLICY AND PUBLISHED A REVISED STATEMENT OF COMPLIANCE

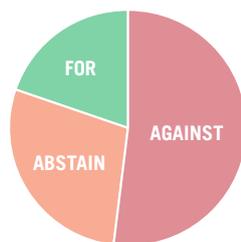
The revised Statement of compliance is available at:

CFBMETHODISTCHURCH.ORG.UK/ETHICS

JACEI reviews the quarterly CFB UK and European voting reports (available at cfbmethodistchurch.org.uk/ethics) at every meeting, placing high importance on the CFB exercising its shareholder stewardship.

Voting is carried out collaboratively with church investor partners with a view to building a critical mass of consistent faith investor opinion in the exercise of proxy voting. The CFB uses the CIG template and employs the proxy voting services of PIRC to carry it out in the UK. During the year CIG tendered for a new overseas proxy voting service provider, which was successfully won by ISS-MSCI.

From 1 October 2013, UK investors received a binding vote on Remuneration Policy for the first time, coupled with an annual advisory vote on the Remuneration Report. Thus the 2014 proxy voting season will see most companies having a forward looking Policy vote (which lasts for three years) and a backward looking vote on last year's pay.



The CFB takes a robust position on excessive or poorly structured executive remuneration packages. During the calendar year 2013, the CFB voted at 146 UK meetings, opposing 72 remuneration reports and recorded abstentions on a further 39 out of a total of 138 UK company remuneration reports.

In deciding how to vote, the CFB considers the quality of disclosure, how stretching performance hurdles

are and the potential for excess. In the 2014 proxy voting season, the CFB will be vigilant to the possibility of banks circumventing the EU cap on bonuses, by the award of 'fixed allowances'. For example, Barclays, HSBC and RBS are looking at boosting pay without breaking the EU threshold. The EU cap provides a maximum 100% salary cap on bonuses, or 200% if approved by shareholders.

Notable examples of companies in which remuneration was opposed included Barclays, Unilever, Compass Group, BG Group, BP, Rio Tinto, GSK, ITV and Burberry. Where remuneration is viewed as especially poor in terms of structure, CFB also opposes the re-election of all members of the Remuneration Committee. Such instances included AstraZeneca, Schroders, Hammerson, Barclays and Jupiter Fund Management.

In June, JACEI noted the publication of the Church of England's new Policy on Executive Remuneration and welcomed the strong biblical and theological underpinning.

Shareholders are given a binding vote to approve Long Term Incentive Plans and during 2013, 18 new schemes put to shareholders were opposed or abstained by the CFB including those at Rio Tinto, Reed Elsevier and Tullow Oil.

In Europe, the main issues leading to votes being cast against Board resolutions were shareholder capital and board balance concerns. Owing to a court ruling, much of the German market was 'share-blocked' during 2013, meaning we were unable to vote our shares; 16 meetings were subject to share blocking in 2013, of which 11 were German. During the year the CFB voted at 230 European meetings, comprising 2,648 resolutions. CFB opposed or abstained in 15% of cases.

THE CHURCH INVESTORS GROUP

THE COMMITTEE CONTINUES TO VIEW CFB COLLABORATION WITH THE ECUMENICAL CIG AS MAKING AN IMPORTANT CONTRIBUTION TO THE IMPACT OF FAITH-BASED INVESTMENT IN THE UK AND IRELAND



2013 saw CIG host its first two-day conference in which 65 delegates from eight countries attended. Notable presentations included: climate change ('Beyond Al Gore: Climate Change, what can Church investors do?'); trafficking and the Olympics; Blueprint for Better Business; Good Banks; political lobbying and tax. Delegates also received a presentation from Anglo American on the challenges facing the South African platinum industry.

In May 2013, CIG delegates made a field trip to Houston, Texas to understand how BP is responding to the Deepwater Horizon accident. Professor John Kay gave the keynote address on his proposals for long-

term investment at the CIG November meeting.

The CIG's growing confidence can be seen in the decision to commission a research series to help church investors think through climate change and how it affects them. Its reach is also extending as it builds international faith alliances on behalf of nearly 50 members with a combined £13bn of assets under management.

Bill Seddon, the Chief Executive of the CFB was elected Chair of CIG from the beginning of 2014, in succession to Richard Nunn who completed his term of office.

REGULAR REPORTING ITEMS

ALCOHOL AND TOBACCO

The Committee remained cognisant of the debate around hospital admissions linked to alcohol abuse, which were reported as having risen by 1% in 2011/12 to over 200,000.

The Committee was disappointed by the UK Government's reversal of its decision to introduce per unit minimum pricing of alcohol in England and Wales.

The UK Government continues to explore the merits of plain tobacco packaging and the Committee noted a further independent review in November to consider evidence from Australia which introduced plain packaging in 2011.

ARMAMENTS

The Committee noted CFB engagement with French company Zodiac Aerospace, a manufacturer of specialist components to the aerospace industry. Reassurance was provided that the company had no exposure to cluster munitions and it did not appear to breach the policy on armaments.

During the year the CFB asked the General Board of Pension and Health Benefits of The United Methodist Church for their views on the defence exposure of General Electric (GE). The General Board confirmed that just under 4% of GE revenues are derived from defence, mostly in the form of aero-engines, and that in their view it is therefore eligible for investment. CFB has no direct holding in GE, but confirmed to the Committee that it is comfortable with the General Board's judgement, but will keep the stock under watch.

CORPORATE GOVERNANCE AND BUSINESS ETHICS

The 2013 proxy voting season did not replicate the so called 'shareholder spring' of 2012 as investors appeared to lose their appetite for confrontation. Consequently there was only muted commentary on executive pay in 2013, and few overt shareholder revolts. The introduction of a binding vote on remuneration policy from October 2013 was welcomed by the Committee, and it noted that this is reflected in changes to the ecumenical voting template.

The Committee noted a strong intervention by the Archbishop of Canterbury in April 2013 calling for the creation of 'local banks' and hinting at the possibility of the need to break up some of the larger banks to create local and regional champions.

The Committee noted growing debate at the squeeze on wages after six years of wage austerity, and the increasing prevalence of low pay in work. It particularly welcomed the increased focus on 'pay justice' that unites the CFB's work on both excessive executive pay and the Living Wage.

During the year the Committee received regular news reports and updates on corporate governance and executive pay, and noted engagement by the CFB (via CIG) with companies such as Barclays.

The Committee also noted CFB oversight of indirectly held property investments managed by Mayfair Capital. CFB had engaged with Mayfair over a prospective tenant, Ultra Electronics, (excluded on defence grounds) which CFB had indicated could not be regarded as a suitable tenant. Mayfair have been asked to give greater prominence to the ethical policy in their reporting to clients.

Business ethics and probity were

seldom out of the news as the regulatory authorities issued penalties for corporate malfeasance and poor practice. During the year, JACEI noted several companies caught up in regulatory scandals including SSE. The power generator was fined £10.5m by OFGEM for misselling abuses over a three-year period. JACEI welcomed the swift response made by SSE to apologise and remediate. Doorstep sales were terminated and senior management restructured. Moreover, these responses were welcomed by the regulator.

ENVIRONMENT

During 2013 CIG maintained contact with BP as it continued to rebuild confidence following the Deepwater Horizon tragedy in the Gulf of Mexico. The Committee noted that CIG delegates travelled to Houston, Texas in May 2013 to meet senior operational personnel and to understand how BP is standardising its practices globally. BP has implemented many of the Bly recommendations following Deepwater Horizon, all of which are to be completed by the end of 2016. JACEI continues to support the commitment of resources to engage with BP as part of an investor coalition working for an improved safety regime and improved shareholder communications.

CFB leads CIG engagement with Royal Dutch Shell on a range of operational issues, and this continued during the year. A senior member of CFB staff joined an investor group hosted by Shell in China, which afforded the opportunity to see at first hand another challenging environment where Shell operates. The CFB also participated in a sustainability day for responsible investors where the Group results on environment and safety were presented. In a challenging year for Shell financially, JACEI noted the curtailment of Shell's plans to explore

REGULAR REPORTING ITEMS

in the Arctic and to review its onshore work in Nigeria.

Prior to the Rio Tinto AGM in April, the Committee noted a CFB meeting with activists from the USA and Mongolia who were in London to engage with investors about the company's operations. JACEI noted that Rio Tinto had sold its interest in the controversial Eagle Mine project in Michigan which had previously formed one area of engagement. CFB continues to meet regularly with Anglo American and noted the company's withdrawal from the Pebble Mine project in Bristol Bay, Alaska. The proposed mine is situated close to the State's premier fresh salmon fishing areas, with consequent fears for the fresh water environment. Rio Tinto continues to have an interest in the project. CFB joined other investors attending sustainability seminars hosted by Rio Tinto and Anglo American. At the former, staff attending particularly focused on an accident at the joint venture Grasberg copper mine in Indonesia where a tunnel collapse has led to 28 fatalities.

Prior to the BHP Billiton AGM, the CFB and Church of England met with activists from Colombia and Indonesia, who raised serious issues of concern; they were urged by CFB to engage more proactively with the company.

CFB takes part in conference calls arranged by the Extractives Industry Transparency Initiative, and JACEI noted the strong progress being made in attracting candidate countries to the initiative.

GAMBLING

As noted above, a new CFB policy on gambling was agreed during the year. Please see page 4 for more information.

MEDICAL AND FOOD SAFETY ISSUES

CFB is a signatory to the Access to Medicines Index and noted with some concern the decline in AstraZeneca's ranking in the Index from seven to sixteen out of the twenty companies surveyed. AstraZeneca told us that they believed "this disappointing ranking was in part due to the AtMI's continued focus on disease areas that are traditionally associated with developing countries, particularly infectious diseases such as HIV/AIDS and malaria. These are areas that AstraZeneca has not typically invested in". We have challenged the company on this point given its previous positive position, and the engagement is ongoing.

In addition to allegations of bribery made against GSK (see page 12), allegations were also made by the Chinese authorities over Danone's sales practices. These alleged that their representatives bribed doctors and nurses with a view to the company's formula being recommended.

HUMAN RIGHTS

Much engagement work undertaken by CFB has a business and human rights context. Meetings and teleconferences with the Anglo-Swiss mining and trading conglomerate Glencore-Xstrata intensified during the year following the completion of its mega-merger. This presented a challenge as, on completion, the CFB became a holder in the new entity due to its previous holding in Xstrata, whilst Glencore had not been considered ethically suitable. The effective 'takeover' of Xstrata operations raised concerns as it became apparent that Glencore's processes and performance lagged those of Xstrata, and that time would be needed to bring them up to standard. JACEI has been supportive of the need for CFB to conduct a rigorous due diligence process that would review performance over a

period of time to determine if the 'direction of travel' is positive. A final decision on whether the stock should be deemed acceptable for investment is pending the outcome of this process.

Much of JACEI's focused work on Israel/Palestine is in support of human rights justice. The Chair presented his sabbatical reflections from Israel/Palestine, in which he spoke of some of the distressing challenges he had witnessed. JACEI was also able to draw on the experiences of the EIAG Secretary who had visited the region in January as a guest of the Council of Christians and Jews. Although the CFB holding in Veolia was sold in 2012 on investment grounds, the Committee noted the final exit by Veolia from four controversial bus routes that crossed into illegal settlements. CFB has continued to engage with Alstom regarding the sale of its equity stake in the Jerusalem City Pass Consortium which owns and operates the Jerusalem tramway. JACEI noted a Conference Motion calling for a briefing on the arguments for and against the Boycott, Divestment and Sanctions Movement in relation to Israel/Palestine. In order to provide additional input to the briefing, the Joint Public Issues Team held a consultation to gauge views, including those of the CFB.

Engagement with Irish construction company CRH was concluded during the year. The company had been asked about its human rights policy as regards subsidiary interests in Israel. CRH provided assurances that human rights due diligence is applied across its overseas operations, including joint ventures and subsidiaries, and receives careful assessment in accordance with international standards. The company supports the principles laid down in both the UN Universal Declaration of Human Rights and in core ILO agreements and conventions.

REGULAR REPORTING ITEMS

NETWORKING

The Committee warmly supports the continued development of ecumenical working on ethical investment issues. One practical way this is realised is through reciprocal observer status with the Church of England Ethical Investment Advisory Group (EIAG).

The Committee also welcomed the (then) Chair of the CIG, Mr Richard Nunn, to meetings of JACEI to represent the CIG.

Mr Nunn also attends as an observer on behalf of the Ethical Investment Advisory Group of the United Reformed Church.

The CFB is actively involved in a number of SRI initiatives. JACEI receives regular reports on these:

- **The Institutional Investors Group on Climate Change (IIGCC)** CFB attended several meetings of IIGCC and takes part in its climate risk working group;
- **The Extractives Industry Transparency Initiative (EITI)** CFB took part in many of the investor teleconferences during 2013. JACEI was pleased to record the increase in the number of countries (including the UK and US) seeking to join;
- CFB is a founding signatory to the pioneering **Carbon Disclosure Project (CDP)** and is also part of a wider coalition that encompasses its sister projects on water and forestry. CDP is backed by \$7trillion in assets, and surveys over 5,500 global companies on their carbon impact;
- **UK Sustainable Investment & Finance (UKSIF)** UKSIF is the SRI industry trade body, and staff attend seminars and opportunities for engagement. These included a

briefing on the Law Commission's review of Fiduciary Duty, a specialist briefing on Arctic Risk and a further seminar on tax justice;

- CFB is signatory to the **UN Principles of Responsible Investment (UNPRI)** and JACEI receives reports of UNPRI events and initiatives from time to time;
- The CFB is signatory to the **Access to Nutrition Index (ATNI)** which published its second report during 2013. The Committee noted the increasing debate around diet, wellbeing and health and supports the contribution the Index is making. The second report ranked Danone, Unilever and Nestlé as the top performing companies out of 22 surveyed;
- The CFB UK Equity Fund portfolio carbon footprint is measured annually by **Trucost** and using the **EIRIS** methodology. It was pleasing to record that the portfolio was significantly lower than the FTSE All Share, largely owing to stock selection. The footprint will continue to be measured in 2014.

Other contacts include the **Ecumenical Council for Corporate Responsibility (ECCR)** where a Connexional Team member sits on the Board. CFB met with the new Executive Director of ECCR during the year to discuss his future plans.

The CFB uses the specialist services of EIRIS, PIRC, ISS- MSCI, and Trucost.

The Committee commended the important input on a variety of subjects made by 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 (approximately 8.67% of the Eurofirst 300 ex-UK Index and 12.86% of the FTSE All Share Index, respectively) and minutes of the monthly CFB Ethics Meeting were all noted and reviewed. The ethically adjusted index outperformed the FTSE All Share Index by 3.95% in the year to 28 February 2014, and by 0.89% over three years and by 0.46% over five years.

A significant number of CFB reports and reviews of individual companies were received during the year (some of which are detailed elsewhere in this report) including notes of meetings with Anglo American, Rio Tinto, BHP Billiton, HSBC, AB Foods, Vodafone, BT Group, Shell, Nestlé, Glencore-Xstrata, SSE and BP.

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:

JACEI 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.

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.

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 divestment on ethical grounds.

That the Committee should:

- hold four meetings a year (in 2013/14 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

COMMITTEE CHAIR

Revd John Howard

METHODIST COUNCIL NOMINATED MEMBERS

Prof David Clough
Dr Brian Gennery
Alison Jackson
Chris Moorhouse
Rachel Lampard

CENTRAL FINANCE BOARD NOMINATED MEMBERS

Dr Keith Aldred
Alan Emery
Revd Jennifer Potter
John Reynolds
Bill Seddon

TRUSTEES FOR THE METHODIST CHURCH IN IRELAND REPRESENTATIVE

Revd Winston Graham

MINUTES SECRETARY

Kate McNab

COMMITTEE SECRETARY

Neville White

neville.white@
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ETHICAL INVESTMENT ADVISORY GROUP OF THE UNITED REFORMED CHURCH OBSERVER

Richard Nunn

JACEI EIAG ARRANGEMENT

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. Edward Mason, Secretary to the EIAG, and James Featherby, Chair of the EIAG attend JACEI from time to time in this role, whilst Bill Seddon, Russell Sparkes and Revd John Howard attend meetings of the EIAG.

OTHERS IN ATTENDANCE

In attendance from time to time to facilitate the workings of the Committee were:

Russell Sparkes
Miles Askew
Stephen Beer
Christophe Borysiewicz
Steve Hucklesby
James North
Paul Morrison

ENQUIRIES ABOUT THE COMMITTEE'S WORK ARE ENCOURAGED

TO THE COMMITTEE'S CHAIR

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**ALL CFB ETHICAL INVESTMENT POLICIES
AND POSITION STATEMENTS ARE
AVAILABLE AT**

CFBMETHODISTCHURCH.ORG.UK/ETHICS

