



**ANNUAL REPORT  
2015**

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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); the Institutional Investors Group on Climate Change (IIGCC); the Carbon Disclosure Project (CDP); the UN Principles for Responsible Investment (UN-PRI) and the Extractives Industry Transparency Scheme (EITI)
- 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 2015**

# CHAIRMAN'S FOREWORD



Revd John Howard  
Committee Chair

## THERE HAS BEEN WIDE DEBATE IN THE CHURCH AND SOCIETY AS A WHOLE ON RESPONSIBLE AND APPROPRIATE RESPONSES TO THE CHALLENGE OF ATMOSPHERIC CLIMATE CHANGE

I am delighted to submit our Annual Report on the ethical dilemmas associated with investment during the 2014/15 reporting year.

Once again there has been wide debate in the church and society as a whole on responsible and appropriate responses to the challenge of atmospheric climate change.

At every meeting of The Joint Advisory Committee on the Ethics of Investment (JACEI), climate change is a major agenda item. In 2014 the CFB Policy on Electricity Generation was applied resulting in two companies being excluded from investment, and a further two identified for focused engagement. We have further developed our thinking on the ethical implications of different fuel sources. This resulted in a Position Paper that will inform a CFB Policy Statement that should be ready later this year.

In reaching our conclusions, we have reflected on theological papers considering the ethics of investing in fossil fuels, closely followed the progress of the fossil fuel divestment campaign, and reviewed the announcements by various bodies of their plans to divest.

**THE CFB CONTINUES TO BELIEVE ENGAGEMENT IS BEARING FRUITFUL CHANGE**

The CFB continues to believe engagement is bearing fruitful change. A significant escalation this year saw the CFB and others co-filing shareholder resolutions at the BP and Shell AGMs in relation to their emissions reporting and portfolio resilience to climate change, both of which have been recommended by the respective Boards of BP and Shell for adoption.

Inevitably given the debate around fossil fuel divestment, climate change has dominated our agenda once again.

Hopefully, this report gives a broad flavour of the range of other ethical issues and dilemmas JACEI has had before it. There is an increasing willingness to work ecumenically on key ethical challenges and we warmly embrace partnership initiatives that seek to deliver stronger ethical business.



The CIG now has over 50 members, and represents combined assets of more than £15bn. This is a huge achievement, and 2015 will see us working even closer as we realise a long-held aspiration of having a single proxy voting template for the UK churches. We committed to a new investor initiative in addition to the wide number already supported. The Business Benchmark on Farm Animal Welfare (BBFAW) addresses an ethical

issue that has so far not been on the radars of most responsible investors. The CFB provided the Foreword to the 2014 BBFAW Report.

## **PAY JUSTICE HAS CATALYSED POLITICAL DEBATE**

Pay justice has catalysed political debate, and no doubt will continue to do so in the run up to the 2015 UK General Election. We continue to support CFB engagement efforts to encourage companies to move towards Living Wage accreditation. There has been notable success, with over 1,000 UK employers having adopted or working towards adoption thereby significantly improving the life chances of the lowest paid in our society. Following several years of intense company engagement, the CFB will conduct a review of its work in this area and make recommendations for next steps.



The breadth of the issues covered in this report attest to the complexities of modern responsible investment. Work has been conducted on human rights abuses in the tea industry, and how airlines are monitoring and responding to the pernicious challenge of people trafficking. Work on water risk has been extended, and

## **THE BREADTH OF THE ISSUES COVERED IN THIS REPORT ATTEST TO THE COMPLEXITIES OF MODERN RESPONSIBLE INVESTMENT**

we remain engaged with sensitive subjects such as Israel/Palestine and Breast Milk Substitutes (BMS). The CFB is strongly represented on the FTSE4Good BMS process. Business ethics, tax, caste discrimination, high-interest lending and of course excessive executive pay have all demanded our time and attention.

We commend this report to 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 Church thinking. We are always delighted to receive comments and feedback on the report itself, and on the work undertaken. I extend warm thanks to my colleagues who serve on JACEI for their time, commitment and contribution as well as the staff of the CFB and the Joint Public Issues Team (JPIT) who serve us and the Church so well.

# CLIMATE CHANGE & FOSSIL FUELS

## CLIMATE CHANGE HAS BEEN THE MOST SIGNIFICANT ISSUE ON OUR AGENDA, WITH CONSIDERABLE TIME DEVOTED TO IT OVER THE PAST YEAR

JACEI sought to respond positively to five Memorials relating to fossil fuels submitted to the Methodist Conference in 2014. It was noted that the CFB had undertaken significant work in developing and implementing an Electricity Generation policy (see below); had made a significant contribution to investor collaboration via the *Aiming for A* coalition; was committed to further engagement on assessing the climate change impact of differing fuel sources; and that positive investment in clean energy was an active part of its strategy, including reviewing periodically opportunities for investing in Green Bonds. The CFB continues to measure the carbon footprint of its UK portfolio, which remains lower than the relevant Index although the gap between the two has narrowed.



JACEI also notes that the CFB has:

- worked collaboratively with the Church Investors Group in engaging with industry laggards;
- co-filed shareholder resolutions at the **BP** and **Shell** 2015 AGMs;
- incorporated poor responses relating to climate change and emissions reduction into its UK voting decision making process. Directors were opposed at a number of companies where climate change response appeared weak;
- contributed to thinking via its membership of IIGCC and signed the 2014 IIGCC Investor Statement
- signed the UNPRI led *Montreal Pledge* initiative whereby signatories agree to measure and disclose the carbon footprint of their portfolios.

The CFB has established a process to co-ordinate its work on climate change that seeks to:

- co-ordinate all research and engagement;
- keep abreast of fossil fuel divestment campaign developments;
- respond to correspondence from clients and Methodists on the CFB's position; and
- allocate staff resource in attending key external meetings on climate change.

# ELECTRICITY GENERATION INDUSTRY

## CO<sub>2</sub> EMISSIONS AT UK AND EUROPEAN ELECTRIC UTILITY COMPANIES WERE EVALUATED

The CFB Policy Statement, *Climate Change: Implications for the Electricity Generation Industry* is available at:

[CFBMETHODISTCHURCH.ORG.UK/ETHICS](http://CFBMETHODISTCHURCH.ORG.UK/ETHICS)



centrica

RWE



e.on



In our 2014 Report to Conference we reported the publication of the CFB Policy Statement, *Climate Change: Implications for the Electricity Generation Industry*. This seeks to ensure that CFB investments in the electricity generation industry reflect the Methodist Church's position on climate change. It also encourages companies within the sector to disclose their overall levels of emissions and their emissions intensity.

Following publication of the Policy detailed evaluation indicated that three UK and two European electric utility companies required further consideration. **Centrica** had set targets that involved increased emissions, but had relatively low carbon intensity; Centrica formed part of the CFB's 'Aiming for A' engagement strategy and it was concluded that no extra work was required. On the other hand, **SSE**, despite ambitious targets to reduce intensity, scored poorly overall and the CFB decided to escalate engagement.

**Drax**, Europe's largest coal-fired power station scored particularly poorly and whilst not a CFB holding, it was concluded that the new policy indicated that it should be excluded from possible investment on climate change grounds.

The problematic European utilities were both German. **RWE** was the worst performer in a universe of 13 UK and European utility stocks owing to its high exposure to 'dirty coal'. CFB decided to disinvest from RWE given its very high carbon intensity. **E.ON** scored well, but there were concerns over whether its ambitious emission reduction targets were achievable given their plans for new coal fired capacity. The CFB engaged with the company and received a very constructive response, which was felt sufficiently positive to allow for continued engagement rather than divestment. Subsequently, E.ON announced plans to spin off its coal assets in order to focus on 'renewables'.

# ETHICAL IMPLICATIONS FOR DIFFERENT FUEL SOURCES

## OUR THINKING ON THE ETHICAL IMPLICATIONS OF DIFFERENT FUEL SOURCES WAS DEVELOPED INTO A POSITION PAPER

The CFB Position Paper and Policy Statement, *Climate change - Implications for Different Fuels* are available at:

[CFBMETHODISTCHURCH.ORG.UK/ETHICS](http://CFBMETHODISTCHURCH.ORG.UK/ETHICS)

Following work to develop thinking and policy on electricity generation, the CFB has worked on the next leg of its climate change policy: ethical issues linked to different fuel types. A Position Paper has now been finalised and JACEI hopes to be able to recommend a Policy Statement for approval by the CFB later this year.

The Position Paper considers the theological context for, and the policies adopted by other churches, before going on to look at the climate change impact arising from fuels including coal, gas, biofuels, nuclear and renewables. It was concluded that ethical acceptability should be dependent on how consistent a company's current operations and future investment plans are with a target to reduce UK emissions by 80% by 2050.

During the past year, JACEI reflected on theological papers considering the ethics of investing in fossil fuels, including Operation Noah's *Bright Now* campaign. We also noted statements on divestment from a range of faith and secular bodies including:

- the World Council of Churches
- Uniting Church of Australia
- Rockefeller Fund
- University of Glasgow
- Church of Sweden
- United Methodist Church General Board of Pensions

The CFB and JACEI have responded to correspondence from Methodist circuits, ministers and members, stressing the commitment and resource that the CFB has allocated to detailed research in order to reach credible and balanced investment positions.



# CARBON DISCLOSURE PROJECT (CDP) ENGAGEMENT

## JACEI WORKED COLLABORATIVELY ON CARBON REDUCTION ENGAGEMENT WITH THE CHURCH INVESTORS GROUP



The Church Investors Group (CIG) manages an engagement project on behalf of members linked to the results of the Carbon Disclosure Project's (CDP) annual survey.

CDP, which represents 767 global investors with combined assets of \$92 trillion, surveys 5,000 of the world's largest companies asking them to report on their climate strategies, energy use and emissions. In 2014, 71% of the FTSE350 (248) responded to the survey request.

CDP offers a robust methodology and mechanism for managing and reducing climate change impact and provides the basis for CIG engagement with 'laggards' in carbon intensive sectors and integrating climate change into active proxy voting. An independent assessment commissioned annually from the University of Edinburgh to assess the effectiveness of CIG engagement concluded with 95% confidence that the measured improvement was due to CIG engagement.

To avoid classification as a FTSE 350 Index 'laggard', a company must be able to demonstrate positive action on climate change as well as comprehensive disclosure. Of the companies contacted in 2014, 58% showed a significant improvement either through an enhanced score, or by responding to CDP for the first time. JACEI commends the progress being made by this intense engagement.

In addition the CFB corresponded with two companies that did not form part of the survey request (or CIG engagement) but had responded voluntarily. JACEI was heartened that **Thomas Cook Group** had developed strong leadership in the travel and tourism sector, whilst **Morgan Sindall** had achieved a very creditable score in the construction sector.

# 'AIMING FOR A' & SHAREHOLDER RESOLUTIONS

## SUPPORTING THE 'AIMING FOR A' INITIATIVE THE CFB CO-FILED SHAREHOLDER RESOLUTIONS AT THE BP AND SHELL AGMS



'Aiming for A' is a £160bn 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. JACEI commended **Centrica** for achieving the top rating in 2014. **Shell** achieved the same score as in 2013.

The investor coalition sees filing supportive shareholder resolutions as an integral part of encouraging companies to improve their carbon emissions performance. **BP** and **Shell** were chosen for the first of these because they have the highest carbon footprints in the FTSE100. As a member of the coalition, the CFB co-filed the resolutions, which the Boards of both companies recommend that shareholders support. This represents a considerable achievement, not only demonstrating the seriousness

with which these companies now take climate change issues, but also the value of extensive long term constructive engagement.

The resolutions request that routine annual reporting includes:

- information about operational emissions management
- asset portfolio resilience as measured against internationally recognised energy scenarios
- low carbon research, investment and development strategies
- key performance indicators linked to carbon
- executive incentives linked to emission reduction
- public policy positions

Shell has also announced its intention to provide additional reporting for the 2015 AGM, with "*full reporting in response to the Resolution in 2016*".

# EXTRACTIVES & ECUMENICAL REFLECTIONS PROCESS

## THE ECUMENICAL REFLECTIONS PROCESS IS A MINING INDUSTRY INITIATIVE SEEKING THE HELP OF CHURCHES TO DEVELOP SUSTAINABLE BUSINESS MODELS FOR THE COMMON GOOD

The highlight of the year was the 'Ecumenical Reflections' process, an exciting mining industry initiative that sought input from the churches to develop sustainable business models for the common good. Building on a successful meeting convened by the Vatican Pontifical Council for Justice and Peace in 2013, the CFB was asked to assist in planning an ecumenical day of reflection co-hosted by the President of the Methodist Conference and the Archbishop of Canterbury at Lambeth Palace. The day was attended by Chief Executives of many of the world's largest mining companies, theologians and Church investors.

The day provided an opportunity to explore different perspectives, find common ground and build a shared understanding of what the role of mining could and should be.

As part of the contribution to the day's discussions, representatives of churches, including the CFB and JACEI, were invited to visit mining operations to observe at first hand some of the environmental and community challenges faced by the industry. These included visits to:

- Anglo Gold Ashanti – Ghana (gold)
- Anglo American – Chile (copper)
- MMG – Western Australia (base metals)
- Anglo American – South Africa (coal, iron ore and platinum)

The Committee received full reports on all of these visits which have significantly added to the Committee's knowledge and understanding.

As a result of what was considered a beneficial event by all parties, it is anticipated that the initiative will develop further. Theological input is being provided by Dr Esther Reed and JACEI member, Professor David Clough. Tools are being developed to facilitate engagement between mining companies and their local communities. Additional reflection meetings on a regional basis are being planned.

The extractive industries are always a significant aspect of the work of the committee and the commitment of the CFB to engage extensively on the environmental and community issues that emerge is recognised by JACEI. It is therefore a considerable assistance that some extractive companies host sustainability events that provide the opportunity to raise issues and question senior management. In the past year CFB staff and JACEI members attended such days held by: **Rio Tinto; Randgold Resources; Anglo American; Glencore; BP and Royal Dutch Shell.**



# THE LIVING WAGE

## WORKING CLOSELY WITH SHARE ACTION, CFB ONCE AGAIN ENGAGED WITH A NUMBER OF COMPANIES ENCOURAGING ADOPTION OF THE LIVING WAGE

THE CFB IS AN ACCREDITED LONDON LIVING WAGE EMPLOYER



More than 1,000 employers are now accredited by the Living Wage Foundation. The Living Wage has been at the heart of CFB engagement for several years, and we have seen the debate around pay justice become increasingly main-stream.

We work closely with Share Action in deciding the companies with which to engage and the Committee strongly supports the significant engagement effort by the CFB in 2014 on pay justice and the Living Wage. The CFB engaged with 11 companies during the period with a strong record of success. The CFB was also a co-signatory on letters to companies in its UK portfolio organised by Share Action. This provided an additional and effective body of engagement with the issue.

**Smith & Nephew, British Land and Rexam** showed strong support for the Living Wage, with Smith & Nephew informing us they were also seeking accreditation. Other companies such as **National Grid Group** have policies in place to pay appreciably above Living Wage and felt they complied with the spirit of its aims. Conversations with **Lloyds Banking Group**, conducted via the CIG, also bore fruit, with the bank telling us that they are working towards Living Wage status. In the service sector, the challenge is deeper. **Restaurant Group** and **J Sainsbury** acknowledged the economic difficulty in applying the Living Wage on cost grounds, but noted their overall support of staff is often higher than Living Wage levels. J Sainsbury's Chief Executive told us that they *"do not recognise the Living wage because we do not believe there should be two minimum standards*

*of pay"*. This is disappointing, but the retailer noted they are focused on raising National Minimum Wage levels whilst *"balancing the impact on the labour market"*. Despite repeated contact, **Cineworld**, which suffered a Living Wage related pay dispute at its PictureHouse subsidiary, failed to respond to our enquiries and we are pursuing dialogue with them.

JACEI noted **Nestlé UK** had become an accredited Living Wage employer, the first large manufacturer to do so.

The Committee was asked for advice on Commission Based Pay. As part of routine investment research CFB had met with **SafeStyle UK**, a small double glazing and door replacement company whose model was to pay door-step canvassers solely on securing leads for a further visit. Whilst it was noted that the company may be unable to afford to pay the Living Wage, it was reasonable to assume that some canvassers would also earn below the National Minimum Wage (NMW) given they may be unskilled and unqualified.

The Committee recognised the employment opportunities the company may provide in areas of high youth unemployment, but expressed concern that the model did not provide even the most modest level of pay security and concluded that investment in commission based pay companies would be inappropriate. JACEI was careful to note that it believed this model differed signally from companies paying the legal NMW and where staff could 'top up' their income from tips, such as in the hospitality sector.

# NESTLÉ & BREAST MILK SUBSTITUTES (BMS)

## BREAST MILK SUBSTITUTE MANUFACTURERS REMAIN UNDER CLOSE REVIEW



The 2014 Conference passed a Memorial calling on the CFB and JACEI *“to thoroughly review and report upon the current position with regards to our investment [in] Nestlé”*. It also called for a report that includes independent assessments from agencies such as UNICEF and Save the Children. This will be brought to the 2015 Conference by JPIT.

JACEI reports annually on its engagement with Nestlé via this Report to Conference, and remains strongly committed to a process of robust dialogue with the company on breast milk substitutes. This process is helped by involvement in the FTSE4Good Expert Committee on Breast Milk Substitutes, and the annual workshop hosted by FTSE4Good. These bring together Nestlé and a range of interested faith and NGO stakeholders. CFB meets at least annually with Nestlé as part of our own ongoing dialogue.

The FTSE4Good process commits companies in the Index to a process of performance and audit that complements the WHO Code. The Expert Committee together with the

independent auditor PwC arranges two ‘in country’ visits every 18 months to test Nestlé’s compliance in support of the Code. The findings and company responses are now published. During 2014 visits to Malaysia and Angola were conducted. A stakeholder workshop on the findings was attended by JPIT and CFB in January. Whilst JACEI is convinced that much has been achieved through this process, it remains a challenge that government support of the WHO Code is patchy, with only 32 ‘higher risk’ countries adopting it in full.

At its own meeting with Nestlé in June, the CFB was able to discuss each contravention of the WHO Code reported by IBFAN, with a response being provided. In addition to issues relating to breast milk substitutes, Nestlé’s health & safety record, (which has been mixed), was reviewed. Improved disclosure around health and safety management was urged, which the company has agreed to look at.

# WATER RISK

## THE CFB ENGAGED WITH A NUMBER OF COMPANIES WHERE WATER REPRESENTS A MATERIAL DIRECT OR SUPPLY CHAIN ISSUE



Investors are increasingly focusing on the risk to business from water scarcity, which unlike carbon emissions, is a local issue. The location of manufacturing or supply chain sourcing may rely on a supply of readily available water that has to be shared with local communities. It has been assessed that two thirds of the world's largest 500 companies face substantive water risk. The CFB continues to extend its work on water, engaging with businesses where water is judged to be a considerable sustainability risk.

Using the CDP Water Disclosure Survey, to which the CFB is a signatory, a programme of engagement with key companies was begun to understand the nature of the risk, and how it is managed. The CFB wrote to the three major food retailers where we judged there to be significant supply chain risk. **Tesco** told us that it reported on water consumption and intensity. In addition it had started work to understand the nature of its risk from scarcity in the supply chain. **J Sainsbury** had made water a specific

target in its 2020 Sustainability Plan and was working with farmers and growers to improve resilience. Though **Wm Morrison** acknowledged water to be a risk, the company disappointingly felt it was not cost effective to conduct detailed further work at present.

Other engagement included: **Royal Dutch Shell**, which is taking a leading role in industry programmes to measure and manage water stress risk; the power generator **SSE**, which although it confirmed it was reviewing its overarching approach to managing water, believes its limited approach was sufficient given it *"did not operate in water stressed environments"*; **Tullow Oil**, which provided a comprehensive response and offered the CFB a follow up meeting to discuss their water strategy.

JACEI noted and commended the progressive water management policies of **Nestlé**, which has committed substantial resource to tackling water risk including the construction of the world's first waterless factory in Mexico.

# HIGH INTEREST LENDERS

## JACEI AFFIRMED THE CFB PRECEDENT TO AVOID INVESTMENT IN COMPANIES WITH SIGNIFICANT EXPOSURE TO HIGH INTEREST LENDING

Although the CFB does not have a written policy on high interest lending, it has historically avoided investment in companies that charge what appear to be 'usurious' rates of interest. At the request of the CFB Council, the Committee considered whether a more explicit policy was needed.

A paper on the body of faith-based literature covering the subject was commissioned. This noted that whilst all the major denominations had spoken out against usurious and predatory lending only the Church of England had developed a detailed policy. Literature published by Church Action on Poverty, the Joint Public Issues Team (JPIT), and the CIG, also helped inform the Committee's thinking.

JACEI concluded that:

- this is an appropriate area to exclude from possible investment
- it is not necessary for the CFB to produce a written policy, but
- it should follow the precedent of previous decisions and
- it should use the Church of England policy for reference.

# GAMBLING

## CONCERN WAS SHOWN AS ITV REVENUES GREW FROM GAMBLING AND GAMBLING RELATED PROGRAMME SPONSORSHIP

JACEI was encouraged that in applying its Gambling Policy, the CFB monitored companies not only in relation to current exposure, but also where that exposure may be growing.

Over the past year there was concern that **ITV** revenues derived from partnerships with gambling platforms and the sponsorship of pre-watershed programming by gambling advertisers both appeared to be growing. The CFB engaged with the company in order to understand its appetite to grow

revenues from gambling. It provided a comprehensive response confirming that: ITV holds no gambling licenses; derives less than 3% of revenues from gambling; and goes beyond legal requirements to ensure all activity is responsible and appropriate. We were also impressed at the rigour applied to ensure any advertising meets ITV's stringent requirements. JACEI concluded that ITV's level of exposure to gambling was acceptable and commended the company's strong compliance focus.

# BUSINESS ETHICS & TAX JUSTICE

## THE CFB AND JACEI ENGAGED WITH GSK REGARDING ITS ONGOING CORRUPTION CHALLENGES IN CHINA

2014 saw continued penalties applied by global regulators in respect of corporate misconduct. The CFB has been involved with several initiatives that are trying to refocus and reform capitalism, and has engaged with companies involved in scandals. We met the Chairman of **GSK** following the company being fined nearly £300m for corruption in China. The company had issued a public apology to the people of China and noted that the illegal practices were in direct breach of its own compliance procedures. The Chairman, Sir Christopher Gent, was at pains to show the company was focused on ensuring such breaches could not re-occur. He also provided an update on over 30 enquiries underway on compliance issues in other jurisdictions such as Jordan, Iraq and Poland. New compensation arrangements were being implemented globally which should prevent low-level corruption linked to commission related activity.

JACEI remained alive to the importance of the debate around tax with continuing reports of little or no corporation tax being paid by some multinationals operating in the UK. The Committee received a discussion



paper by JPIT on taxation and ethical investment, which scoped possible areas for further work. JACEI also noted a helpful briefing from the Institute of Business Ethics (IBE) on tax avoidance that examined tax as a social responsibility, public attitudes to tax and the inclusion of tax within corporate Codes of Ethics.

The Methodist Tax Justice Network pamphlet *Investigating our Investments* was also reviewed. JACEI encouraged further deliberation on tax justice by the Church Investors Group.

The Committee commended **SSE** for becoming the first FTSE100 Company to win a '*Fair Tax*' mark for its transparency in tax disclosure.

# FARM ANIMAL WELFARE

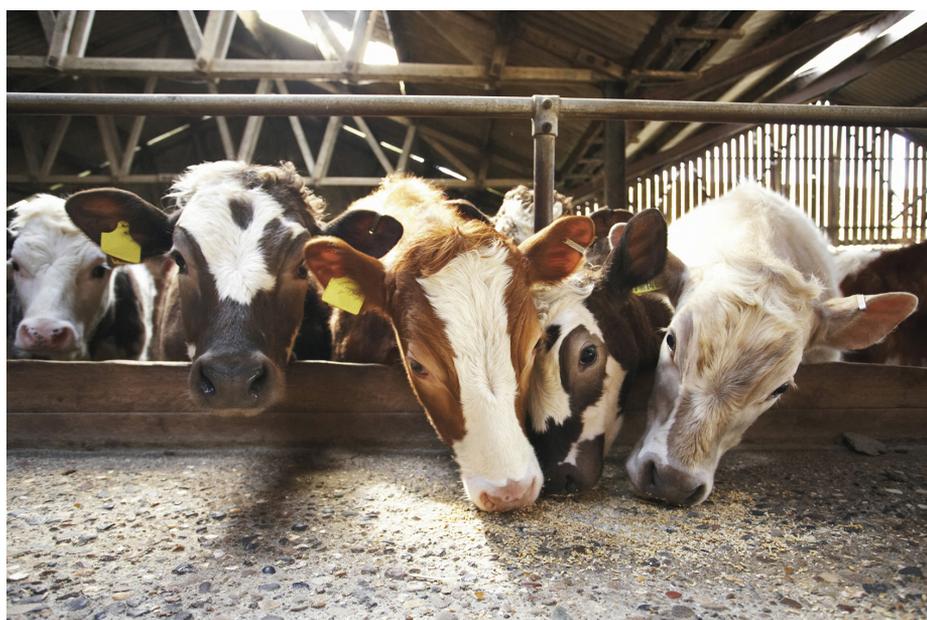
## JACEI WELCOMED CFB SUPPORT FOR A NEW INITIATIVE FOCUSED ON RAISING BUSINESS STANDARDS IN THE TREATMENT AND WELFARE OF FARM ANIMALS IN THE FOOD PRODUCTION, PROCESSING AND RETAIL SECTORS

CFB has become a supporting investor of a new initiative, the Business Benchmark on Farm Animal Welfare (BBFAW). Farm animal welfare has not been an issue of primary focus for responsible investors, although its implications affect many companies in the food retail, production and processing sectors. BBFAW is designed along similar lines to Access to Medicines in benchmarking key companies and measuring their performance across a range of metrics.

Launched in 2012, the second report in 2013 assessed 70 companies; 70% acknowledge animal welfare as a business issue, 56% had a public policy but only 39% disclosed how

it is managed. Overall performance continues to be fairly immature with only two companies, including **M&S**, achieving Tier 1 Leadership status. **J Sainsbury** and **Unilever** were ranked in Tier 2, but **Whitbread** and **AB Foods** were Tier 6, the lowest ranking.

The CFB was delighted to be asked to write the Foreword to the 2014 Benchmark Report (published February 2015), as part of its support. CFB expects to engage with companies based on individual performance by targeting laggards. This was welcomed by the Committee which also received a presentation by BBFAW on the initiative.



# HUMAN RIGHTS ENGAGEMENT

## THE CFB ENGAGED WITH UNILEVER AND AB FOODS OVER SYSTEMATIC HUMAN RIGHTS ABUSES ON TEA PLANTATIONS IN INDIA



The CFB was alarmed by reports, published in *The Observer*, of systemic human rights abuses on tea plantations in Assam, India that made allegations of trafficking, sexual abuse and endemic poverty. In response the CFB holdings wrote to **Unilever** and **AB Foods** that have a combined 36% share of the UK tea market.

Unilever confirmed it did not own any tea estates in Assam and had very little influence over wages. It viewed poverty as a real challenge for responsible business, but was committed to 100% sustainable

sourcing by 2020. This has involved considerable resource to improve conditions on plantations from which it sources tea. AB Foods, which owns **Twining Tea**, was equally candid around the challenges they face. It has developed relationships with a few selective tea estates going back over a century, and believes it understands the conditions very well. It had not seen evidence of trafficking, but is alive to issues of housing, poor wages and lack of advancement for tea workers that it is working to address. Both companies proved very receptive to our enquiries.

## THE CFB ENGAGED WITH SEVERAL AIRLINES ON HOW COMPLICITY IN TRAFFICKING CAN BE AVOIDED



Faith investors have viewed trafficking to be a business risk for some-time, engaging with hospitality companies around the 2010 World Cup, and the 2012 Olympics.

In early 2014, JACEI received a briefing on the risk from trafficking in the airline industry. According to the UN, over 2.5m people are victims of trafficking annually, many of whom are trafficked internationally by air. A number of US airlines are known to have developed a very clear response

to this risk, and we wanted to see how UK carriers have responded. Unfortunately none had articulated a public policy position on trafficking and we therefore wrote to **easyJet**, **Ryan Air** and **IAG** (parent of BA and Iberia) to understand their position. Both easyJet and Ryan Air provided considerable detail on training, the prevention of organised crime and child protection. Ryan Air suggested it goes far beyond legal requirements and its immigration department has been commended by the Irish and UK Governments for its anti-trafficking work. The Chief Executive of easyJet also acknowledged trafficking to be a *“real and serious problem”*, going onto outline the work the airline does in training and prevention. These were both commendable responses, which JACEI welcomed. Disappointingly, despite repeated approaches IAG has so far failed to respond.

## THE CFB WAS PART OF AN INVESTOR COALITION ON CONFLICT MINERALS DUE DILIGENCE

CFB joined a coalition of investors in signing a letter to EU policymakers with a view to encouraging a single response to the issue of conflict minerals. The US SEC reporting requirements provide a model for companies conducting due diligence in relation to the supply chain of conflict minerals. The letter warned against adopting a different regime and encouraged the EU to harmonise reporting by adopting a broadly similar framework to the US.



# CFB VOTING & STEWARDSHIP

## SIGNIFICANT STEPS WERE TAKEN TOWARDS REALISING THE AMBITION FOR UK CHURCHES TO OPERATE A SINGLE VOTING TEMPLATE

JACEI reviews the quarterly CFB UK and European voting summary reports at every meeting, placing high importance on the CFB exercising its shareholder stewardship.

The CFB votes at all UK and European company meetings with voting carried out collaboratively with our church investor partners, based on an agreed template. It has been an aim of CIG to build a strong critical mass of collaborative and consistent faith investor opinion in the exercise of proxy voting on a global basis. This entails voting consistently across company proposals using one agreed template. During 2014 work was undertaken to make this a reality and from 1 April 2015 the national investment bodies of the Church of England, the CFB and other partner church investors will use one service provider (ISS) to vote all ballots on a consistent basis. We believe this is a significant moment in giving the churches a stronger voice in the exercise of our policies on executive pay.

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. The 2014 proxy voting season therefore saw most companies putting to shareholder vote a forward looking Policy vote (which lasts for three years) and a backward looking vote on the previous year's remuneration report.

The CFB takes a robust position on excessive or poorly structured executive remuneration packages. In deciding how to vote, the CFB considers the quality of disclosure, how stretching performance hurdles are and the potential for excess. During the calendar year 2014, the CFB voted at 148 UK meetings, opposing 96 remuneration reports and policies, and recorded abstentions on a further 21 out of a total of 128 UK company remuneration reports (91%).

One area in which we took a strong position in the 2014 proxy voting season was bank remuneration. Under European Union rules, banks became restricted to awarding bonuses of up to 100% salary, or 200% with shareholder approval. All the UK banks chose to circumvent the EU bonus cap by introducing 'fixed allowances' which increased fixed pay against which bonuses were measured. This practice seems wholly inappropriate and consequently the CFB voted against bank remuneration policies as well as specific votes to approve bonuses of 200% salary.

Notable examples of companies in which remuneration was opposed included **Britvic, BP, Rio Tinto, AstraZeneca, Hammerson, Centrica, Standard Life, Shell, BT Group, National Grid, Tate & Lyle, M&S, J Sainsbury, Severn Trent and Vodafone**. Where remuneration is viewed as especially poor in terms of structure, the CFB opposed the re-election of all members of the Remuneration Committee. Such instances included **Spectris, Rexam, Ted Baker, Hargreaves Lansdown and Wolseley**.

The CFB wrote to the Chairman of **Burberry** to register our strong opposition to the remuneration package awarded to the new Chief Executive. Whilst recognising the competitive landscape in which Burberry operates, the package appeared unduly excessive. In particular, it was felt that there was no obvious justification for paying an 'allowance' of £440,000 in addition to a generous basic salary of £1.1m. We were also concerned about the award of discretionary performance shares with a face value of £7m. The Remuneration Report was voted down in a rare shareholder revolt, but the binding Policy vote was passed. Burberry offered CFB a meeting to discuss remuneration and we will take this up before the 2015 AGM.

We also strongly opposed a proposal at BG Group to award the new Chief Executive a package that fell outside the Policy approved by shareholders in May 2014, and which could have been worth £30m in the first year. Owing to widespread shareholder opposition, BG withdrew the proposal, although we continue to view the overall package to be excessive.

Shareholders are given a binding vote to approve Long Term Incentive Plans. During 2014, 40 new or amended schemes were opposed or abstained by the CFB including those at **BP, Shell, Legal & General, Standard Life, WPP, ITV and RBS**. In Europe, the main issues leading to CFB votes against Board resolutions were shareholder capital and board balance concerns. We vote at all European meetings except where these are share-blocked. During the year the CFB voted at 239 European meetings, comprising 3,650 resolutions. CFB opposed or abstained in 17% of cases.

CFB UK and European voting summary reports available at:

[CFBMETHODISTCHURCH.ORG.UK/ETHICS](http://CFBMETHODISTCHURCH.ORG.UK/ETHICS)

# THE CHURCH INVESTORS GROUP (CIG)

## CIG IS MAKING AN IMPORTANT CONTRIBUTION TO THE IMPACT OF FAITH-BASED INVESTMENT IN THE UK AND IRELAND

The CFB Stewardship Code Statement is available at:

[CFBMETHODISTCHURCH.ORG.UK/ETHICS/STEWARDSHIP-CODE.HTML](http://CFBMETHODISTCHURCH.ORG.UK/ETHICS/STEWARDSHIP-CODE.HTML)



JACEI welcomes and commends the continuing strengthening of ecumenical work via the CIG. It was set up in 1973 and has now grown to an impressive 54 members with combined assets of over £15bn. The CIG is making an important contribution to the impact of faith-based investment in the UK and Ireland via its collaborative voting and engagement work, whilst continuing to develop international partnerships to develop a global voice for Church investors.

2014 saw CIG host its second two-day international conference which attracted 80 delegates and eminent speakers on climate change, business ethics, modern slavery, and impact investment. Lord Deben (John Gummer) gave the keynote address. Through its partnership with the St Paul's Institute, CIG was able to host over 1,100 delegates to a

presentation at St Paul's Cathedral in October given by Christina Figueres (pictured), Executive Secretary to the UN Framework Convention on Climate Change.

David Hertzell of the Law Commission gave the keynote address on the Commission's response to the review of Fiduciary Duty at the CIG November 2014 meeting.

Bill Seddon, the Chief Executive of the CFB serves as CIG Chair, with a Steering Group drawn from the Church of England, the URC, the Roman Catholic Church, the Baptist Union, and the Joseph Rowntree Trust.

The CFB is a signatory to the UK Stewardship Code, and its Statement on meeting the Code's seven principles is published on the website. Council approves the Statement annually and the 2015 edition is now available.

# REGULAR REPORTING ITEMS

## ALCOHOL & TOBACCO

The Committee noted that **McColls Retail** was formerly excluded from potential investment as approximately 60% of sales derive from gambling, alcohol and tobacco sales.

The Committee noted that the UK Government had unexpectedly announced it would move to introduce legislation before the May 2015 General Election to mandate plain packaging of tobacco in England and Wales, with implementation as early as May 2016. The draft proposals are expected to attract legal challenges from the industry. Although Australia is alone in introducing plain packaging, Ireland, New Zealand and France have hinted they will follow suit.

## ARMAMENTS

JACEI noted news reports that **BT Group** was alleged to have supplied high-speed fiber-optic cable to aid drone strikes. BT categorically denied the allegations stating that it was a general purpose network and not specifically designed or adapted for military use.

## CORPORATE GOVERNANCE & BUSINESS ETHICS

The 2014 proxy voting season was the first in which investors exercised a binding vote on remuneration policy. In the event, these new powers did not lead to any major shareholder revolts, although several companies, such as at AstraZeneca (40%) and Burberry (over 50%), experienced sizeable votes against the non-binding remuneration report.

During the year the Committee received regular news reports and updates on corporate governance and executive pay including research that suggested experience was more

important in creating effective Boards than improving diversity alone. CFB took action at several companies, voting against Nomination Committee chairs, where diversity was viewed as poor and not improving.

The repercussions of the financial crisis, the behaviour of some bankers and the consequences for society were seldom out of the news. 2014 continued to see regulatory penalties handed down to numerous institutions for misconduct and malfeasance. JACEI in particular noted the fine of \$3.4bn given to five banks related to foreign exchange rigging.

## ENVIRONMENT

During 2014 CIG maintained contact with **BP** which continues to face significant penalties in the US following the 2012 Deepwater Horizon tragedy in the Gulf of Mexico. JACEI noted that the company had been charged with gross negligence by the US Department of Justice and for exhibiting a 'culture of corporate recklessness'.

The CFB committed resource to an ongoing dialogue with **Glencore** and had a one to one meeting with the company as well as attending its first sustainability day. Since the merger with Xstrata, which the CFB held, JACEI has supported engagement with the company with a view to encouraging the combined entity to adopt and embed market leading health, safety and environmental practices. We believe this is bearing fruit, and have extended the engagement period in order to monitor and assess progress. During 2014 a new Code of Conduct and nine policy documents were released, whilst the Board reiterated its commitment to improvements in safety. JACEI was also encouraged that Glencore had been admitted to the International Council on Mining and Metals (ICMM)

following an exacting assessment process. During 2015 JACEI will review progress and reflect on whether engagement has been sufficiently positive to recommend Glencore as an appropriate holding for CFB.

CFB staff attended a range of meetings hosted by extractives companies where environmental performance is discussed. During 2014 these included **Rio Tinto**, **Anglo American** and **Randgold Resources**.

## MEDICAL & FOOD SAFETY ISSUES

CFB is a signatory to the Access to Medicines Index and reviewed the 2014 results. It was gratifying to see **GSK** continue to perform strongly in its commitment to making vital medicines available at cost in the developing world. The Index is dominated by six high performing companies, but it is a concern that **AstraZeneca** once again continued to lag its peers, rising only one position to be ranked 15 out of 20 global pharmaceutical groups. CFB plans to engage further with AstraZeneca during 2015 to understand its position.

## HUMAN RIGHTS

JACEI welcomed a Conference memorial on Dalits. CFB is alone among faith investors in having developed a dedicated policy on caste discrimination and this continues to inform discussions with relevant companies. The Memorial in part called on JACEI to promote the Ambedkar Principles, and it is pleased to continue to do this. Caste discrimination formed part of our discussions with Assam tea producers noted on Page 16.

Much of JACEI's work on Israel/Palestine is in support of human rights justice. The CFB had further discussions with the French water,

# REGULAR REPORTING ITEMS

waste and energy company **Veolia**, as it re-entered the Index against which the European portfolio is tracked. It was agreed that further dialogue on a range of issues was required before CFB could invest. The company had already divested much of its transport operations into a joint venture in which it has no operation involvement and therefore no direct transport operations in Israel/Palestine. Veolia also announced its intention to sell all its remaining businesses in Israel (water, waste and energy). Confirmation of its completion was still awaited at the end of March 2015.

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. The sale was completed during 2014.

JACEI noted a briefing document prepared by JPIT in light of the 2013 Conference request for a report on “*the arguments for and against the Boycott Divestment sanctions Movement (BDS)*”. This followed an online consultation that attracted over 2,500 responses. The Methodist Conference requested a two year moratorium on further Memorials or Notices of Motion requiring further work in order to encourage a period of prayerful reflection. JACEI also received a geo-political briefing on the current situation in Israel/Palestine, in which JPIT observed increasing tension and violence.

JACEI also received reports of three companies held in the CFB’s European portfolio as having potential links with Israel/Palestine. Of these **Volvo** and **Heidelberg Cement** presented the greatest concern. Volvo was alleged to be supplying vehicles that could be used for the illegal detainment of people, whilst Heidelberg owns and operates four cement plants in the West Bank quarrying Palestinian resources for use in the Israeli

construction industry. Whilst CFB exposure is very small, and the operations themselves represented a very small part of overall revenues, it was agreed CFB should engage to establish the facts. This work continues.

JACEI noted news reports that **G4S** was being investigated by a UK Government funded body over the supply of security equipment to the West bank and Israel. G4S remains an ethically excluded stock.

One year on from the **Rana Plaza** tragedy in Bangladesh, CFB was part of an investor coalition of 134 institutional investors led by ICCR (Interfaith Center on Corporate Responsibility) that released a Statement pointing to progress that had been achieved under the Bangladesh Accord on Fire and Building Safety but conceding that corporate financial aid was falling short. JACEI noted that 160 companies from 20 countries had joined the Accord representing 1,500 supplier factories. Challenges in managing complex supply chains remain a key part of CFB engagement with companies in the retail sector.

## MEDIA ETHICS & PORNOGRAPHY

The Committee noted that two Internet Service Providers had announced they planned to force content filters on consumers. **Talk Talk** will require consumers to activate net filters in order to continue viewing adult content. **BSkyB** has similarly moved to block all content unless customers ‘opt out’ of its default filters. The Sky filter is designed to block all content deemed unsuitable for children under 13. CFB has long engaged with media companies to cease marketing adult content and has pressed for default

filters that customers need to turn off in order to view pornographic or violent content. This move therefore marks a substantial shift in attitude and policy that JACEI welcomed.

## NETWORKING

The Committee warmly supports the continued development of ecumenical working on ethical investment issues and in 2014 these relationships drew ever closer. One practical way this is realised is through reciprocal observer status with the Church of England Ethical Investment Advisory Group (EIAG). CFB also attended the Church of England EIAG away-day.

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; it is signatory to the IIGCC Investor Statement on Climate Change
- 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 767 global investors with \$92trillion in assets. CDP has integrated its surveys on carbon, water and forestry to build a holistic view of company performance.
- **UK Sustainable Investment & Finance (UKSIF)**; UKSIF is the SRI industry trade body in the UK, and staff attend seminars and opportunities for engagement as appropriate;

# REGULAR REPORTING ITEMS

- CFB is signatory to the **UN Principles of Responsible Investment** (UNPRI) and JACEI receives reports of UNPRI events and initiatives from time to time as well as the PRI report on CFB performance against its Principles;
- The CFB is signatory to the **Access to Nutrition Index** (ATNI), whose next report will be published in 2015. The Committee noted the increasing debate around diet, wellbeing and health and supports the contribution the Index is making;
- CFB has become a supporting investor of the **Business Benchmark on Farm Animal Welfare** (BBFAW) which is outlined in more detail on Page 15;
- 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 nearly 10% lower than the FTSE All Share Index, although the gap between the two has narrowed.

The Committee receives regular newsletters and reports each month from;

- ECCR
- IIGCC
- EIRIS
- Wespeth (General Board of Pension and Health Benefits of The United Methodist Church)
- UNPRI

CFB is a member of the **Ecumenical Council for Corporate Responsibility** (ECCR) where a Connexional Team member sits on the Board.

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

The Committee commended the valuable input on a variety of subjects made by the Connexional Team, with Connexional Team members attending every JACEI meeting.

## THE CFB ETHICAL REVIEW

The CFB voting records (UK and European), ethical overview of UK sectors, the list of ethically excluded European and UK companies (approximately 8.9% of the Eurofirst 300 ex-UK Index and 13.8% of the FTSE All Share Index, respectively) and minutes of the monthly CFB Ethics Meeting were all noted and reviewed.

The CFB's proprietary ethically adjusted index under performed the FTSE All Share Index by 0.8% in the year to 28 February 2015, but out performed by 0.8% over three years and by 0.1% 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, Glencore, AB Foods, BP, Shell, Nestlé, Centrica** and **Randgold Resources**.

# ROLE AND FUNCTION OF THE COMMITTEE

## TERMS OF REFERENCE

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

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

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

## 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 2014/15 these took place in June, September, December 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

(Appointed Chair for a second six-year term concluding in 2018)

## METHODIST COUNCIL NOMINATED MEMBERS

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

(There were no changes to the Committee's membership during the year)

## 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@  
cfbmethodistchurch.org.uk

## 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. James Featherby, EIAG Chair, Edward Mason, Secretary of the EIAG (until December 2014) and Adam Matthews, (Secretary of the EIAG, from January 2015), attended JACEI meetings during the year.

Revd John Howard , Bill Seddon and Stephen Beer attend meetings of the EIAG.

## OTHERS IN ATTENDANCE

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

Stephen Beer  
Christophe Borysiewicz  
Steve Hucklesby

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

**ENQUIRIES ABOUT  
THE COMMITTEE'S  
WORK ARE  
ENCOURAGED**

**TO THE COMMITTEE'S CHAIR**

Revd John Howard  
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**TO THE CENTRAL FINANCE  
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**ALL CFB ETHICAL INVESTMENT POLICIES  
AND POSITION STATEMENTS ARE  
AVAILABLE AT**

**[CFBMETHODISTCHURCH.ORG.UK/ETHICS](http://CFBMETHODISTCHURCH.ORG.UK/ETHICS)**