

The **Methodist** Church 



Ethical Investment Report 2008

# INVESTING WITH INTEGRITY

Living in a diverse and  
complex world

**Transnational Companies (TNCs)** are frequently blamed for the found at the forefront of improved labour practices, health and safety how do ethics inform our investment decisions?

## How do JACEI and the CFB develop ethical thinking in relation to investment?

The Joint Advisory Committee on the Ethics of Investments (JACEI) seeks to ensure that our investments are consistent with the ethical stance of the Methodist Church. To achieve this JACEI prepares policies for endorsement by the Central Finance Board of the Methodist Church (CFB). Policies now exist in the following areas:

- Alcohol related companies
- Financial intermediaries
- Food industry
- Media
- Companies with a military exposure
- Mining companies and other extractive industries

Further guidelines continue to be developed.

more negative impacts of economic globalisation yet can also be  
y and environmental management. In a diverse and complex world

### **How do the CFB's ethical policies inform investment decisions?**

The investment team of the Central Finance Board (CFB) is directly responsible for assessing company performance on ethics against CFB policies. Scrutiny of existing holdings takes place on a regular basis. In addition, consideration of an investment in a company not previously held by the CFB would include an ethical assessment. If there were significant concerns, the CFB is likely to seek the advice of JACEI prior to an investment decision.

### **How 'ethical' does a company have to be to warrant investment?**

One company may have a particularly strong record in one area, say environmental management, yet have given little attention to human rights, whereas with another company the opposite may be the case. The CFB will not necessarily exclude a company from its portfolio on the basis of poor performance in one or two areas. Instead a range of factors are taken into account. These include the company's endorsement of voluntary standards

and codes, a willingness to disclose information, readiness to enter into dialogue with investors and any evidence of particularly strong performance that might provide examples of best practice. This approach requires a great deal more effort than simply avoiding companies that have attracted criticism in the media.

### **Where does the CFB get its information from?**

The CFB draws on diverse sources for information. It uses the services of specialist monitoring groups such as the Ethical Investment Research Service (EIRIS) and Pensions Investment Research Consultants (PIRC). Media reports and research by non-governmental organisations (NGOs) are also reviewed. In addition there is strong ecumenical collaboration through the work of the Church Investors Group (CIG) and the Ecumenical Council for Corporate Responsibility (ECCR). JACEI meets four times a year and data is collated in advance of each meeting for examination by members of the committee. This enables the committee to offer informed advice on current ethical issues.

## Ethics in practice - development of policy

### Policy on investment in companies with a military exposure

In 2007 after guidance from the JACEI the Central Finance Board adopted a policy on investment in companies with a military exposure. The policy re-states the long held position that the Methodist Church should aim to avoid benefiting financially from the promotion of the arms trade.

It would be possible to set up simple criteria that exclude companies with a significant involvement in defence. However this does not take into account the nature of the involvement, for example, the provision of IT services rather than the manufacture of cluster bombs. Therefore, the new CFB policy provides guidance to enable investment decisions on companies with small military exposure on a case-by-case basis.

## Ethics in practice - two case studies

### Smiths Group and Daimler – Two companies with defence exposure

Smiths Group is a technology company manufacturing a range of high-tech products including high-tech hospital equipment and x-ray scanners for airports. It recently sold its aerospace and defence businesses and this has reduced its military exposure to 11% of overall turnover. The defence contracts include some equipment specifically developed for the military market.

Daimler manufactures cars and heavy lorries. Its defence exposure is much less than that of Smiths Group at only 2.5% through its 24.9% stake in the aerospace company EADS. EADS is a prime contractor in the French M51 missile programme, which will carry nuclear warheads.

JACEI considered both Smiths Group and Daimler in relation to the new policy on investment in companies with a military exposure. Given the nature of the military exposure it judged that Smiths Group could be considered for investment whereas Daimler, in spite of its smaller overall exposure, could not.

### Total and Chevron – Two companies involved in Myanmar/Burma

In 1997 JACEI advised the CFB to sell its holding in Total in view of the company's stated intention to increase exposure in Myanmar/Burma and allegations regarding forced labour in building a gas pipeline. The CFB had discussed this issue with Total and JACEI judged the criticisms to indicate wider concerns over the company's approach to human rights.

In 2007 the CFB out-sourced management of most of its US holdings to the Global Board of Pensions and Health Benefits (GBOPHB) of the United Methodist Church. The GBOPHB hold shares in the oil company Chevron which has an involvement in Myanmar/Burma through its recent takeover of the US oil company, Unocal. JACEI agreed that the nature of Chevron's involvement was different to that of Total's and that as GBOPHB were talking to the company on this issue, Chevron could still be considered an ethically acceptable holding. The committee agreed to keep this under review.

# Range of business over the past year

**The JACEI report to Methodist Conference gives details of other work carried out over the course of the past year including:-**

- Further review of CFB voting policy on executive remuneration
- Approval of a policy on companies with military exposure
- Signing on to the Access to Medicines Index
- Dialogue with the United Methodist Church General Board of Pensions and Health Benefits in relation to CFB's outsourcing of its core US portfolio
- Work in relation to Nestle's review of its 'shared value' concept and further discussion with the company on the International Code of Marketing of Breastmilk Substitutes
- Support for meetings with senior executives of Anglo-American, BP and Shell to discuss a range of environmental and health and safety issues
- Review of reports from the Church Investors Group and encouragement of ecumenical collaboration
- Greater collaboration with the Methodist Church in Ireland

Further details on the above areas of work are available from [www.methodist.org.uk/jacei](http://www.methodist.org.uk/jacei)

Most Methodists benefit in some way from the £1 billion invested by the CFB. The CFB has the challenge of taking seriously demanding legal requirements and its commitment to achieve good financial returns for its clients, whilst also considering ethical factors. For the CFB the ethical dimension is thoroughly interwoven into all its decision-making processes. As the Board's Mission Statement puts it: *We aim to construct investment portfolios which are consistent with the moral stance and teachings of the Christian faith [and] to be a Christian witness in the investment community.*

If you have concerns about where Methodist money might be invested, please feel free to contact the Chair of the Joint Advisory Committee, the Revd John Howard, whose details are given overleaf.

*More information about the Committee's work can be found in its report to the Methodist Conference. The CFB also publishes a full annual report, available from their office.*



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## **Joint Advisory Committee on the Ethics of Investment (JACEI)**

This committee is composed of representatives appointed by the CFB and by the Methodist Council. It meets to advise the CFB on the ethical aspects of its work and monitors its decisions.

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