



Ethical Investment Report 2007

JOURNEYING TOGETHER

USING INVESTMENTS
TO INFLUENCE CHANGE

Social responsibility is an increasingly prominent concern
can make to the value of their brand. This report explores various

Dialogue

The lead given by senior management is vital to the commitment of a company to social responsibility. Institutional investors with an ethical commitment find that the door to the boardroom is more open than ever before. The Central Finance Board of the Methodist Church (CFB) has regular dialogue with directors and senior management in UK-based companies. Meetings are often arranged in conjunction with other UK church-based bodies under the auspices of the Church Investors Group (CIG). Together its members represent investments of over £12 billion.

In this process of dialogue the CFB draws heavily on the JACEI's advice as well as research from specialist groups. This type of dialogue is the normal form of company engagement and offers significant potential for influencing change in corporate behaviour.



British Airways

Following the highly publicised decision of British Airways to take disciplinary action against an employee over the wearing of a small cross, the Church Investors Group (CIG) wrote to the Chief Executive of British Airways on behalf of CIG members. The CIG expressed concerns with regard to company reputation resulting from British Airways handling of this issue and argued for a degree of latitude to be given in such cases. There followed an extensive consultation by British Airways with a number of interested parties including the CIG. These discussions took place against a backdrop of heightened media attention. In February 2007 British Airways introduced a change in its uniform policy that would allow Christians to display their faith through a visible pin, as well as allowing some flexibility to wear a cross on a chain.



Voting

During 2007 the CFB exercised its voting rights for all its UK equity holdings. Votes are cast in accordance with the CFB's overall ethical policy. The two areas of most controversy are executive remuneration and the appointment of auditors. If pay awards are deemed excessive in relation to performance targets or the fees paid to accountancy firms raise the possibility of conflicts of interest, the CFB will vote against resolutions or abstain.

Avoidance and Disinvestment

The CFB avoids investment in companies that have significant involvement in areas such as armaments, alcohol, gaming and tobacco. Together such companies account for close to 10% of the UK market. Investment in a company will also be avoided if there are indications that its commitment to social responsibility is particularly poor and there is little potential to engage in constructive dialogue.

On the advice of JACEI the CFB has disinvested from companies in the past. Such action is seen as a last resort and only taken after extensive dialogue. It is rarely taken in response to the action of a company in one location or on one issue. Once the CFB has disinvested from a company its opportunity to influence is substantially reduced.

ile acknowledge the contribution that responsible practice
tment (JACEI) seeks to influence company behaviour.



Campaign action

From time to time pressure groups or development agencies organise campaigns directed at a company. These may take the form of a consumer boycott or a letter writing campaign.

The concerns outlined by a campaign, when well researched, can also be taken forward by the CFB in dialogue with a company. Senior management appreciate that as an institutional investor the CFB has an interest in the financial health of the companies in which it invests and that its concerns are expressed in this context. Engagement strategies by institutional investors and consumer campaigns can, and do, provide complementary approaches to influencing change.

Nestlé

Some groups continue a boycott of Nestlé due to allegations that the company does not comply with the International Code of Marketing of Breast Milk Substitutes. At the 2006 Methodist Conference it was resolved that once certain conditions were met, investment in Nestlé could provide an appropriate background for engagement with the company on this important issue. Since then members of JACEI have met with the Chairman/Chief Executive of Nestlé and also with other senior staff in the UK and in Switzerland. The committee members impressed on Nestlé the extent of the concern on the marketing of breastmilk substitutes felt by many Methodist people in the UK. JACEI will continue to monitor the performance of Nestlé, meet with senior executives and report to Methodist Conference.

Range of business over the past year

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

- A fact-finding visit to the Middle East and production of a detailed paper "Guidelines for Constructive Corporate Engagement Related to Israel/Palestine"
- Discussion with Nestlé which identified issues of transparency, obesity and child labour as areas for continued engagement as well as infant formula. JACEI acknowledged that the CFB had met the requirements set out by Methodist Conference prior to considering any investment in Nestlé
- The review of a number of mining companies with reference to the policy on investment in the mining sector. One of this number, Anglo-American, was added to the acceptable list.
- The expression of concern about BP's environmental performance in Alaska and welcome of CFB's engagement with the company on this issue
- Support for meetings held with Vodafone to discuss the protection of children as pornographic images become available via new 3G phones.
- Further development of relationships with church-related ethical investment bodies both in the UK and internationally.

Further details on the above areas of work are available from 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 published 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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