Epworth
Investing Faithfully

Quarterly Review

Q2
2024

Summary of financial markets, our market outlook and responsible investment review for the quarter

Risk Warning

The opinions expressed in this note are not intended as investment advice and are based upon Epworth's views and projections at the time of writing. They may change at any time. If you are considering investing in any market, please consult an independent financial adviser or other professional adviser before making an investment decision. The value of investments and the income generated by them can fall at any time. The investment services and products offered by Epworth Investment Management Limited are not suitable for an investor if the possibility of capital losses or reduced income cannot be accepted.

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Review of the Quarter

Economic overview

After resilient but uneven global economic performance in 2023, the first half of this year has seen greater convergence of economic performance across major economies, albeit at more moderate levels of growth. This theme was assisted by fewer inflation surprises, and a lack of further significant deterioration in the various conflict zones across the globe in the second quarter of 2024 to ensure asset markets delivered another period of largely modest growth.

> US economic data is starting to suggest a slowdown however inflation remains stubbornly high.
>
> Matt Jones - Investment Manager

However, just as investor sentiment appears to be more confident that the risks might not materialise, a couple of notable shifts in the underlying trends may be cause for concern. Firstly, US economic data is finally starting to suggest a sustained slowdown in economic momentum is under way, with leading indicators across employment, housing, consumer confidence, retail sales and manufacturing activity suggesting that higher interest rates are becoming a significant headwind. However, annual inflation in the US has remained stubbornly higher than the Federal Reserve is targeting, creating a tricky balance for the central bank to strike to ensure pricing stability returns without destroying economic demand.

Secondly, a huge proportion of the global population has been to the polls in recent months, with shock results seen in significant emerging markets such as India, South Africa and Mexico. In addition, European elections saw the continued rise of prejudice politics re-shaping the EU parliament, threatening to change the course of policy on immigration and net zero, as well as challenge traditional fiscal orthodoxy. Results in France were so significant that it led President Emmanuel Macron to dissolve the national parliament and trigger snap elections, a move that immediately saw French assets sold by international investors in fear that a new government led by extreme parties may lead France in a more difficult economic direction.

Prior to the aforementioned elections, European equity markets had been recovering some of their lost ground against the technology led rally in US equities as European central banks cut interest rates, but election uncertainties saw this fizzle out in June. This was compounded by the poor performance of Joe Biden in the first US presidential debate, which increased bets that Donald Trump will win the US election in November. Trump's views on NATO and his preference for increasing trade tariffs are perceived as negative for non-US equities and currencies, though how much rhetoric he would enact if elected remains unclear.

MODEST GROWTH EXPECTED FOR REMAINDER OF YEAR

INTEREST RATE CUTS ARE ANTICIPATED

WE HAVE INCREASED OUR US EQUITY EXPOSURE AT EXPENSE OF UK

Investment Outlook

We expect economic growth to continue to slow in the US and for upturns in growth elsewhere to fizzle out in the face of tightening government spending to service ballooning national debts. Some interest rate cuts from central banks will help put a floor on investor sentiment as long as inflation continues to slowly return to target, so we expect investment markets to broadly continue modest growth between now and the end of the year.

We remain neutral equities overall, viewing valuations as full but not excessive in the face of the known political and economic risks. We have however increased exposure to US equities at the expense of the UK market. We continue to prefer bonds at current yields given our expectations for interest rate cuts and slowing inflation, and as a hedge on economic risks.

We continue to have a negative view towards property assets in the UK, which will be slower to see benefit from interest rate cuts unless the UK economy significantly outperforms. Within alternatives, we are being more selective on infrastructure assets that have enjoyed rallies recently. We continue to only look at private equity exposure with a technology focus, and remain open to increasing commodity exposure should inflation pressures increase once more.

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Hollywood Bowl - ‘A Split-ting Headache?’

Following on from the exit of Epworth’s successful investment in Ten Entertainment Group, the UK bowling operator that was acquired by another company at a significant premium in December 2023, the question of where to reinvest the proceeds became an important one. After all, there is another large, listed UK bowling operator that could simply be added as an investment.

HBG HOLLYWOOD BOWL GROUP

Hollywood Bowl is the UK’s largest ten-pin bowling operator, with a portfolio of 79 ten-pin bowling centres across the UK and Canada. Like Ten Entertainment, the company specialises in operating large, high quality bowling centres, predominantly located in out-of-town multi-use leisure parks (typically co-located with cinema and casual dining sites) and large retail.

Epworth identified that Hollywood Bowl presented strong growth characteristics, with a solid competitive advantage and room for international expansion, making it appear financially to be an ideal candidate to replace Ten Entertainment in the conviction portfolio. However, closer inspection of the business identified that unlike Ten Entertainment, investment in Hollywood Bowl would not be consistent with Epworth’s stated ethical tolerances.

Why do these seemingly almost identical business models receive such different investment outcomes at Epworth? The issue arises from the fact that consumer service businesses like these that market a budget-friendly experience must rely on revenue diversification to drive profits, and food and drink offerings are a large part of this. Whilst Ten Entertainment focused more heavily on family-friendly deals, Hollywood Bowl has a larger focus on students and corporate deals, which skews the strategy to more aggressive sales of alcohol. This difference is significant enough to mean that whilst Ten Entertainment was consistent with Epworth’s published tolerance of no more than 10% of sales from alcohol distribution, Hollywood Bowl breached this threshold.

Given the relative importance of alcohol sales in the success of Hollywood Bowl’s business strategy, we feel it is unlikely Hollywood Bowl would willingly bring their alcohol exposure below our required threshold, rendering it inadmissible as an investment and removing the opportunity to engage with the company regarding other ethical issues.

In contrast, Epworth's investment in Ten Entertainment opened the door to a successful, engagement-focused relationship with the management over many years which enabled frequent discussion of important ethical matters. Subsequent progress included the company agreeing a 100% renewable energy agreement, targeting net zero carbon emissions by 2030, committing to installing solar arrays across their sites and increasing recycling rates by 50%.

This example shows the importance of investors being clear on a business' revenue stream before assessing whether they can invest for positive societal benefit or whether the values of the potential investment stray too far from their ethical values.

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Responsible Investment Review

Nature Action 100

Epworth is a signatory of Nature Action 100; a global investor-led engagement initiative focused on supporting greater corporate ambition and action to reverse nature and biodiversity loss. Epworth, along with other institutional investors, is engaging directly with Johnson and Johnson, Anglo American, and The Home Depot.

Nature Action has six investor expectations of companies:

- Ambition: Publicly commit to minimize contributions to key drivers of nature loss and to conserve and restore ecosystems at the operational level and throughout the value chain by 2030.
- Assessment: Assess and publicly disclose nature-related dependencies, impacts, risks, and opportunities at the operational level and throughout the value chain.
- Targets: Set time-bound, context-specific, science-based targets informed by risk assessments on nature-related dependencies, impacts, risks, and opportunities. Disclose annual progress against targets.
- Implementation: Develop a company-wide plan on how to achieve targets. The design and implementation of the plan should prioritise rights-based approaches and be developed in collaboration with Indigenous Peoples and local communities when they are affected. Disclose annual progress against the plan.
- Governance: Establish Board oversight and disclose management's role in assessing and managing nature-related dependencies, impacts, risks, and opportunities.

Responsible Investment Review

- Engagement: Engage with external parties including actors throughout the value chain, trade associations, policy makers, and other stakeholders to create an enabling environment for implementing the plan and achieving targets.

Utilising these investor expectations, the engagement group, including Epworth, began discussions with Johnson & Johnson. We started the conversation around assessment and supplier standards that the company implements, and noted where these dovetail with the biodiversity expectations of investors. Johnson & Johnson were keen to stress their long history of biodiversity efforts, particularly around water management and we look forward to continuing our engagement with the company.

Climate Action 100

During the quarter, Epworth undertook an assessment of our engagement with Climate Action 100+. Epworth has engaged with multinational mining company Anglo American since the initiative started back in 2017. Our original goals for the engagement were to:

1. Have the company decarbonise its asset mix in response to the climate crisis.

2. Better understand the company's approach to phasing out thermal coal and encourage the company to make a responsible exit from the sector.

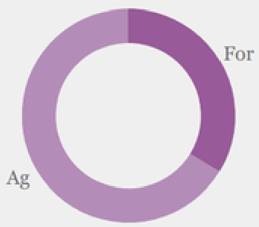
3. Push the company to set ambitious, long-term targets to cut scope 1, 2 & 3 emissions in line with the temperature goals of the Paris Agreement.

We believe the company has made excellent strides in the last 7 years across these objectives, although we recognise there is always more to do when it comes to climate. However, we have taken the decision to step down as co-leads for Anglo American.

Epworth Voting Summary - Q2 2024

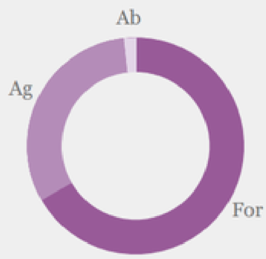
Remuneration reports

For	67
Against	132
Abstain	0



Executive pay scheme

For	76
Against	36
Abstain	2

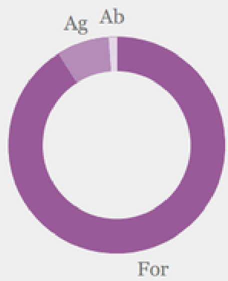


Auditors appointment

For	148
Against	2
Abstain	0

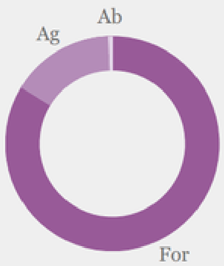
Other

For	1125
Against	97
Abstain	15



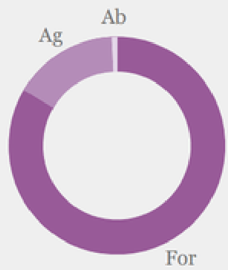
Directors

For	1346
Against	252
Abstain	9



Total votes

For	2762
Against	519
Abstain	26
Total	3307
Meetings	174



Epworth Investment Management adheres to the principle that one of the privileges of owning shares in a company is the right to vote on issues submitted to a shareholder vote. Voting is carried out at all UK and global company meetings, in which Epworth invests, in line with a collaborative Church Investors Group (CIG) policy which is reviewed annually. The voting template is implemented by the CIG's service provider, ISS (Institutional Shareholder Services). The latest policy for voting can be found on the Epworth website. The above charts detail the number of votes we have participated in during the last quarter as well as how we have voted.

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